Life is sweet

There is something sweet about working for Cadbury no matter how rough the markets are getting. Cadbury is a household name I am proud to work for. Every time I introduce myself to people, it makes them sigh, almost without fail, a smiley "aaah, chocolate!" before they remember to introduce themselves in return.

In 1831, John Cadbury, a tea and coffee retailer, decided to take a small sideline to his business mainline, and we have all tasted the result. Operations grew in Australia, New Zealand, Ireland and South Africa and snapped up the market-leading position when Dairy Milk chocolate was created in 1905. In 1969, Cadbury Group merged with Schweppes and Cadbury Schweppes was listed on the London Stock Exchange. The growth in beverages continued with the acquisition of Dr Pepper/Snapple, helping to make North America a key market for Cadbury.

I joined the company in 2005, but a huge reshaping of Cadbury had begun in 2003 when Cadbury acquired Adams Confectionery, a candy and gum manufacturer, in March of that year for $4.2bn (£2.7m). This made Cadbury the leading worldwide total confectionery company and the world's number two in chewing gum. You may recognise brands such as Halls, Trident and Dentyne, with Halls and Trident both now firmly established as the world's biggest candy and gum brands. Since 2003 Cadbury has undergone a major reorganisation. In 2006 the European beverages business was sold and, in May 2008 the US beverages business, now called Dr Pepper Snapple, was demerged and listed on the New York stock exchange, making Cadbury a largely gum, candy and chocolate player, and the biggest total confectionery company with a public listing.

In the past three years a lot of non-core brands were sold while at the same time strategic bolt-on acquisitions to support Cadbury's development were made in both confectionery and beverages.Before moving to Singapore, I had the pleasure of looking after a great team for liquidity management, funding and risk management in London. True to the changes around us, we reshaped the department and emerged more modern and nimble, in keeping with the needs of the fast-growing global business that Cadbury had become. In fact, this fundamental overhaul of our funding and risk management systems and processes was critical to Cadbury's complex restructuring to a demanding timetable. It was a gruelling but rewarding time, and the experience has helped me to hit the ground running in my new role as treasurer for our regional operations, based in Singapore.

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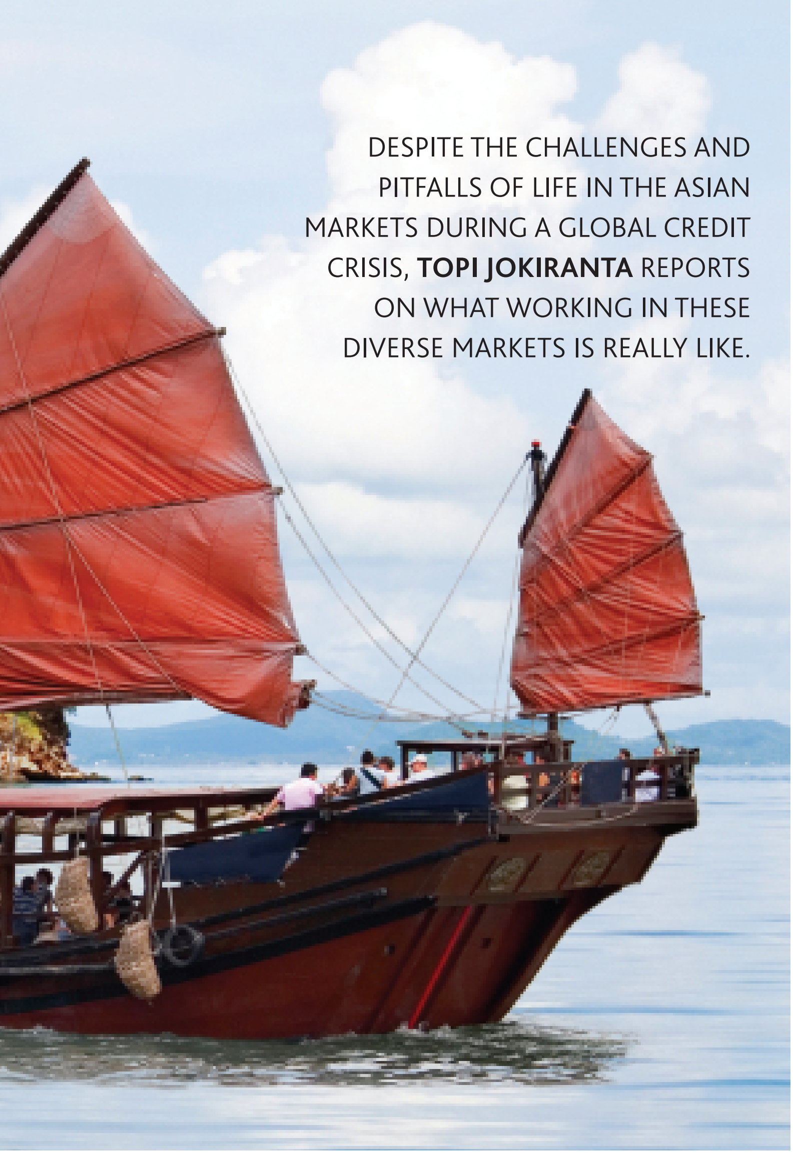
Executive summary

- Cadbury has Asia and Pacific business units that constitute around a quarter of the company's sales worldwide. Operating in a myriad of markets including the developed markets of Australia, New Zealand and Japan, and the emerging markets of India, Pakistan and Malaysia, the company also deals in tougher regions such as Indonesia and China.

LIFE IN SINGAPORE Singapore is Asia for beginners. I say this because, despite travelling in the region before, this is the first time I have lived in Asia and it is very easy to feel at home here. With English widely spoken and one of the four official languages, it is easy to communicate. At the same time, there are a million foreigners here like me who speak their own language equally liberally. I like another feature here: religions co-exist happily and each main religion enjoys bank holidays that benefit everyone. For example, we have had Diwali for the Hindus, Hari Raya Haji for Muslims, the



DESPITE THE CHALLENGES AND PITFALLS OF LIFE IN THE ASIAN MARKETS DURING A GLOBAL CREDIT CRISIS, **TOPI JOKIRANTA** REPORTS ON WHAT WORKING IN THESE DIVERSE MARKETS IS REALLY LIKE.

RISK POLICIES ARE IN PLACE, CORPORATES ARE IN A BETTER SHAPE, GOVERNMENTS AND BANKS ARE WISER AND PEOPLE HAVE BEEN THROUGH TOUGH TIMES, SO IT SEEMS THAT THE EVENTS IN WESTERN EUROPE AND THE US HAVE BEEN MET WITH RELATIVE CALM IN SINGAPORE AND THE REST OF THE REGION.

Buddhists' Vesak and then Christmas for the Christians. So Singapore feels to me like an excellent example of diversity and a multicultural melting pot that makes living in the country such a rich and rewarding experience.

Of course, Singapore is famous for its clean streets and clean living, with fines for many things that many would not even think twice about in London, but I have managed to avoid any trouble. Some of this is quite sensible, such as no eating in the Tube or spitting out gum on the street. Some rules can seem rather bizarre and inflexible to westerners, such as trying to change a topping on your pizza for something you prefer, but the benefits outweigh these small sacrifices to make Singapore a safe, welcoming and easy place to bring up a family.

Singapore is small – only 25km by 45km – so I do occasionally suffer from island fever and a trip to other countries in the region can be refreshing and beneficial. I mostly manage my trips by way of business and you begin to appreciate the vastness and differences across the region on a trip from Melbourne to Jakarta and then out to Bangkok in one go. The cultural environment as well as the feel to the place changes equally quickly.

ASIA AND PACIFIC BUSINESSES Asia and Pacific business units that constitute together about a fourth of Cadbury sales worldwide are as diverse as one would expect. There are developed markets such as Australia, New Zealand and Japan, as well as emerging markets with high growth and momentum like India, Pakistan and Malaysia, and some tougher ones like Indonesia and China. Each of these countries also has unique strengths and challenges. All our categories of gum, candy and chocolate are present across the region and obviously our goal would be to gain leadership in all three in each of the countries in which we operate. Our main competitors include Nestlé, Perfetti van Melle, Ferrero Rocher, Mars-Wrigley and Lotte.

From a treasury angle, Singapore is a natural hub right in the middle of the region. It also has a disciplined and exacting legal system and a healthy dose of fiscal competition, which makes it an excellent long-term base for multinationals such as Cadbury and for the big international banks.

So what now, given that the world economy is slamming on the brakes? No company is completely immune to the economic challenges and we now need to manage our exposure to the big banks and investment funds that would previously have been seen as rock-solid places to invest our cash. So far, the emerging markets in Asia have weathered the downturn relatively well and certainly much better than during the 1997 crisis. Risk policies are in place, corporates are in a better shape, governments and banks are wiser and people have been through tough times, so it seems that the events in Western Europe and the US have been met with, as yet, relative calm in Singapore and the rest of the region. Of course, no region will be completely immune and Asia will feel the impact of the credit crunch, though we expect both our sector and our company to be more resilient than most. And we are certainly benefiting from our safe haven characteristics, with our investors holding steady on their positions and not looking to move their money.

Here are some observations about the countries in which Cadbury operates in the Asia and Pacific business units.

AUSTRALIA AND NEW ZEALAND The largest of our businesses are in Australia and New Zealand. The Australian dollar has fallen dramatically in recent months and we are working closely on our foreign exchange (FX) management. We have solid policies in place and have been able to take recent events with relative calm. During the summer it seemed that cocoa beans would be a better reserve currency than the US dollar, although the hedge fund investors have now pulled out, bringing prices for cocoa down from an all-time high.

Southeast Asia took a hit in 1997 but has reversed its fortunes and is powering ahead. However, buying power in these economies is challenging for all manufacturers at a time when inflation is creeping higher. The paring back of subsidies for sugar in Thailand, petrol and electricity in Malaysia, and fuel in Indonesia, has cut a chunk out of household disposable income since early this year. Thailand has had its fair share of politics, as have Malaysia and Pakistan, but the people are so resilient it keeps amazing me. A statistician would find insignificant correlation between political upheavals and chocolate or chewing gum consumption.

THERE ARE SURPRISINGLY DIVERSE ISSUES THAT ARISE THROUGH SOCIAL FRAMEWORKS, RELIGION AND THE ROLE OF THE STATE.

CHANGES IN JAPAN Japan is a trickier market to understand and predict. Over the past five years I have tried to make an educated guess on which way the Japanese yen will go, and then it does something different. But I am happy to report that Japan seems to have come out of the immediate credit crunch with very little damage. As a result, some of my incoming market briefing emails now come from a Japanese investment house instead of a US investment bank. The culture is paying off for the banks with stronger balance sheets and a shift into more mergers and acquisitions (we did our share a year ago, buying a public company) but there are also changes in political and practical corporate thinking. The Bank of Japan has been forced to cut its key interest rate by 20bps so perhaps this will get people spending some of their savings on candy and gum. However, it is a 40% reduction in one go. The challenge in Japan is that the confectionery market is contracting a bit, although luckily Cadbury is still growing. In Japan we are focused on sugarless products and chewing gum.

INDIA IS TECHNOLOGICALLY ADVANCED India is our prodigy when it comes to growth. Since we first opened a factory there in 1949 the business has resolutely taken off and India commands healthy growth with a manufacturing base and even a cocoa growing industry that we support through the unique Cadbury Cocoa Partnership. Indian desserts are sweet and chocolate goes well with the trend. We are lucky to enjoy huge household brand equity with brands like Bournvita and Dairy Milk, and the cocoa trees are referred to as Cadbury trees! On the other hand tax and treasury are not straightforward. It is a major challenge for liquidity management with many different clearing zones and there are a large number of manual-based payments around. In addition, anything to do with repatriation and FX/commodity risk management is not necessarily straightforward. India is technologically advanced and I share the view of my Indian colleagues that systems are the key to progress and improved fund and risk management. At times implementing these feels like a huge challenge, but it is worth the effort and, for Cadbury, the benefits of straight-through processing are huge.

CHINA AND HONG KONG Our China and Hong Kong businesses, even though I refer to them here as Greater China businesses, are particularly different in nature. Hong Kong is, for Cadbury, an export hub and a national import and distribution business, whereas China is mainly a manufacturing base. Just like India, treasury is challenging here when it comes to local funding, repatriation, FX management or even just running the exports businesses. But China has also progressed hugely in the past couple of years in foreign banking, currency and capital markets. The Chinese regulators are prepared to engage with whoever is running a business to ensure that adjustments in the FX rate, cost of manufacturing and the national market are not unnecessarily disruptive to companies and that there is time for businesses to adjust their setups accordingly.

There are obviously differences when working in different cultures and environments – decision-making, for example. Finding solutions or offering proposals can also be diverse across the region. We are quite familiar with Australian customs but when I was recently voicing a few ideas on treasury development I was told by operations in different countries that, "We will think about it and come back to you," it proved to mean quite different things.

There are also surprising challenges depending on whether you are engaged in face-to-face discussions or in an open group. The things people will talk about (or not, as the case may be) in a less formal environment or tea house (depending on the country you are in) can also be different to the usual talk we would expect in the UK. Surprisingly diverse issues arise through social frameworks, religion and the role of the state.

WHAT ABOUT THE FUTURE? I do not see the challenges for the coming year as very different from those we faced before the credit crunch. We need a large push for tax and treasury to join forces on repatriations and efficient capital structure. Tax authorities these days are far more active than some years ago. The Indian tax office has taken UK models and cultivated them into something quite effective, China has introduced thin capitalisation rules and Australia is looking to audit many more companies. Cash forecasting remains equally tough, but as the liquidity management is a lot easier now, the physical cash side can develop and the focus has turned inwards. Meanwhile, longer-term forecasting seems to be back in vogue now the money taps are dry and cashflow commands a premium. We are also capitalising on the huge leaps that our global relationship banks have taken in forging partnerships or even taking direct stakes in the various jurisdictions.

An outstanding issue is the need for simplification, but there are also new possibilities with regard to consolidating banking businesses into a far more focused group. Even large banks have been at risk, but in Asia, just like in western Europe, it will help to have strong and familiar banking relationships at difficult times.

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