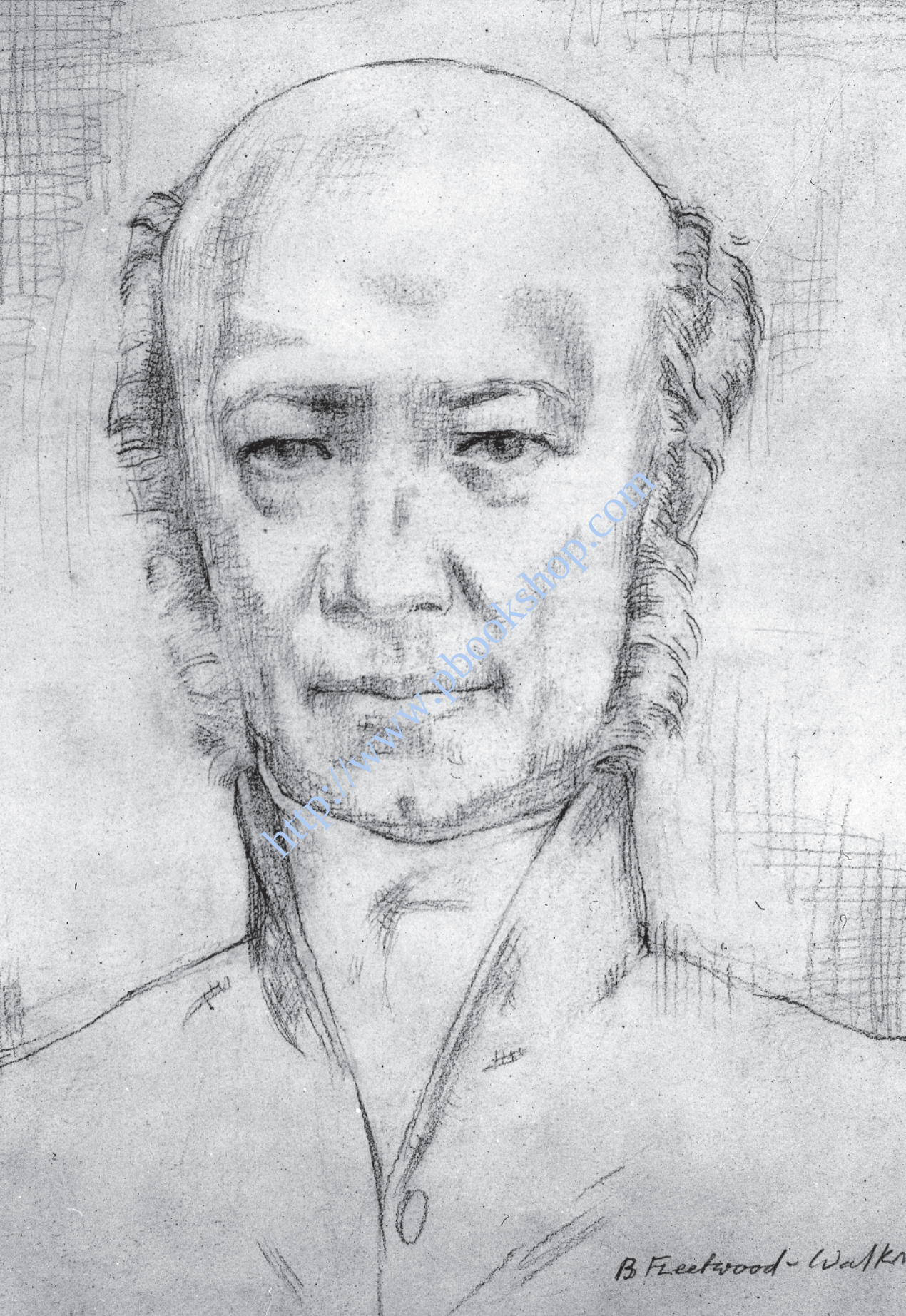
Part I

THE RISE TO PROMINENCE

Chapter 1

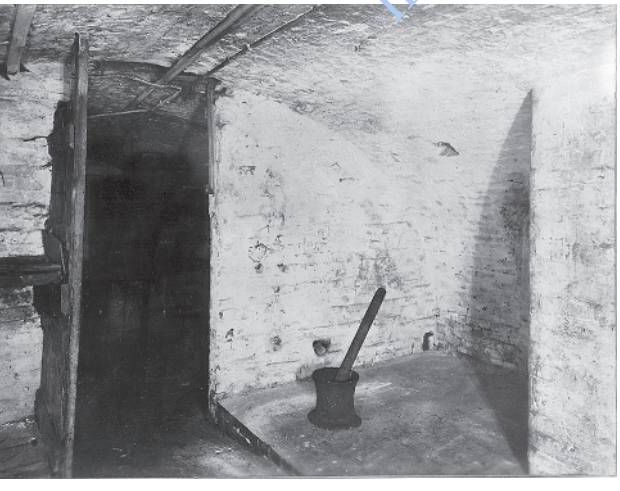
GETTING ESTABLISHED: BACK FROM THE BRINK



In 1831, John Cadbury, a retailer of tea and coffee with a small sideline in cocoa, took a momentous step; one which would eventually lead to the creation of a global brand with sales counted in the billions. He switched to being a manufacturer of cocoa products.

Career Shift

This was not an obvious move for him to make. Cocoa was not in the same league as tea and coffee in terms of sales potential because it was many times more expensive. The Government had slapped on a hefty tax of 2 shillings and three pence duty per pound so, as a consequence, the UK market for cocoa remained miniscule with little more than 100 tons per annum of cocoa beans being imported. Cocoa was not a drink for the masses, but the wealthy elite, of whom Birmingham had more than its fair share.



In the early 19th-century, Birmingham was booming and John's customer base consisted largely of successful men of industry – James Watt, son of the famous inventor, was a customer – people who thought big and acted bigger. John Cadbury cannot have failed to notice that being in the business of making rather than selling had its advantages. Being in retail meant remaining local and small whereas the potential in manufacturing seemed limitless. His confidence in making the switch was bolstered by his success in retailing his own cocoa products, painstakingly ground in a mortar and pestle, versus those bought in from the likes of Fry. Even in his first year, before he had a chance to establish much of a reputation, well over half of the cocoa takings came from the sale of his own cocoa nibs; not a bad start against the more established players.

However, the challenges of being an early manufacturer were daunting, and very different to those in retailing. As a retailer, John would have known most, if not all of his customers personally, where his rhetorical skills would have made many a sale. He was also something of a showman. To get his shop off the ground, an investment in Birmingham's first plate glass window

LIST OF

CHOCOLATES AND COCOAS,

MANUFACTURED BY

JOHN CADBURY, BIRMINGHAM.

CHOCOLATES.

Churchman's Chocolate			2½.
Fine Crown	ditto		2/-
Best Plain	ditto		1/10.
Plain	ditto		1/8
British	ditto		1/3
Grenada	ditto		1/1
Spanish	ditto	four qrs. in each wrapper	
Ditto	ditto	in separate qrs.	7½-
Plain London Chocolate Cakes, loose			
Ditto	ditto	in lbs.	2/-
Compressed Cocoa			11
Soluble Chocolate Powder, in cans			-/10
Best Chocolate, in Powder		ditto	1/8
Chocolate Paste			1/8 & 1/5
Penny Soluble Chocolate, in qrs. lbs. or 7lb. boxes			9-
Broma			1/6.
French Eating Chocolate			2/-

COCOAS.

Soluble Cocoa (loose)	10d-
Ditto, ditto (packed)	11d-
Cocoa Paste	
Granulated Cocoa, in 14lb. boxes	
Improved Cocoa, (packed)	
Ditto ditto (ground)	
Ditto ditto (flaked)	10d-
Rock Cocoa	8d-
Trinidad ditto	
Cocoa Nibs	
Fine Cocoa Nuts (roasted)	

Show Blocks and Tins for Shop Windows.

J. C. rests his claim to the public support on his determination to maintain a character for a thoroughly good and uniform quality.

JOHN CADBURY'S PRICE LIST of 1842.

had drawn crowds from miles around. Birmingham's boom had clearly not yet encompassed much in the line of entertainment options. When John employed a Chinaman to serve behind the counter, it must have seemed like Barnum & Bailey had rolled into town. But as a manufacturer, he was in the business of selling to remote customers at the end of what could be a long and convoluted supply chain. He would need more than plate glass windows and an oriental greeter if he was to succeed.


CADBURY'S

FINE SPANISH CHOCOLATE

Directions for Making.

Put your milk and water on to boil; then scrape the Chocolate fine, from one to two squares to a pint, to suit the palate. When the milk and water boils, *take it off the fire*, throw in the Chocolate, *mill it well*, and serve it up with the froth, which process will not take five minutes. The sugar may be either put in with the Chocolate or added afterwards.

MAKERS TO THE QUEEN.

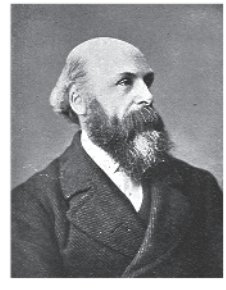
John was to have a major stroke of luck almost immediately when, in 1832, the Government slashed import duties on cocoa. This allowed products to be priced at levels more attainable to the wage-earning classes. As a consequence, the national market was to grow more than five-fold in the next eight years, a growth that John Cadbury was much more able to tap into as a manufacturer than if he had remained a simple shopkeeper. Within another fifteen years the duty would be down to a penny a pound, further fuelling the market and John Cadbury's sales.

Perhaps the buoyant market seduced John into believing that being in the manufacturing business was a walk in the park. In truth, there was little to distinguish his goods from those of many other firms, not to mention the massive Fry company. His earlier price lists consisted mainly of generically named items such as Spanish Chocolate, Rock Cocoa, Trinidad Cocoa and the like, all of which could be expected to appear on the price lists of any reputable cocoa firm. But his product quality was ahead of the rest, which was recognised on February 4th, 1854, when he was awarded Queen Victoria's royal warrant, ahead of any other cocoa manufacturer. He wasted little time in exploiting the opportunity it offered, quickly rolling out a new line called 'Queen's Own chocolate' which complimented his existing 'British Chocolate', featuring the likenesses of Queen Victoria and Prince Albert.

But royal warrants and undifferentiated products were not enough to compete in a crowded marketplace where one company, Fry, had all the benefits of longevity, scale, retailer trust and consumer awareness. When Cadbury first opened an office in London in 1853, Fry already had men calling on the fifty largest cities and towns in the country. It was an unequal struggle. Compounded by John Cadbury having been struck two grievous blows with the death of his second wife, followed by a severe bout of rheumatic fever, the business went into decline. Without his firm hand on the tiller, product quality suffered and sales fell away. Staff levels by 1859 were half those of seven years previously, and the business

had sunk into making a loss. In 1861, John handed over the reins to his sons, Richard and George, and it seemed only a matter of time before the business would be wound up.

To the Brink



Richard Cadbury George Cadbury

Richard and George Cadbury certainly had their work cut out. Such had been the decline in the Cadbury cocoa business that three-quarters of the company turnover was coming from tea and coffee dealing, of which they had little experience. Of the thirty other cocoa manufacturers that the brothers were aware of, Cadbury Bros. was the smallest. They could see others of the thirty already closing their doors, and there was a huge rate of attrition in the retail trade, with many of Cadbury's customers going bust, leaving bills unpaid. Their diminishing numbers of workers could see unsold cocoa stocks piled up in the warehouse, and were expecting to hear the worst any day.

To be thrust into such a dire situation was a severe test for two young men – Richard being twenty-five and George twenty-two. But while business was grim, the brothers had a lifeline. They had each received legacies on the passing of their mother of £5,000 each – a major fortune in those days, being together worth over £600,000 at today's prices. The brothers resolved to invest £4,000 each to see if they could weather the storm, insisting that they would not seek to borrow beyond that sum from their father or anyone else. Sales in 1860 had amounted to £27,800, so the brothers must have been reasonably confident that their combined £8,000 would provide a decent safety net for any losses.

But any possible feelings of complacency were soon swept away as a disastrous year's trading in 1861 made a severe hole in their capital, and 1862 was even worse. Every penny of expense, both business and personal, was scrutinised. George Cadbury stopped his morning paper, and then even went without coffee and tea, despite having a warehouse full of the stuff. Fourteen hour workdays were the norm. Richard declared that if the business ever made a profit of a thousand pounds a year, he would retire a happy man.

In the meantime though, things were kept going by the brothers rapidly expanding their range with a host of new products, hoping that one would find a way through the competitive minefield. The slew of innovations helped to stem the losses. The 1863 deficit had been reduced to one tenth of the previous year, and by 1865 the business was back in profit and growing, albeit not dramatically. But it had been a close run matter. Of the brothers' original investments of £4,000, Richard was down to his last £450, while George had managed to hold onto £1,500. George attributed the difference to his not having yet married, which perhaps infers that Richard's wife had not been subject to the same spending constraints that the brothers' had endured in the workplace.

Differentiate or Die

With the crisis averted at least for the time being, contingency career plans of George decamping to the Himalayas to grow tea and Richard become a draughtsman were put on hold. But, while financial implosion seemed to have been staved off, it was clear that the underlying business problem confronting them had not yet been addressed. They had no product sufficiently different to, or better than, those of the competition. The mighty Fry firm were still outselling Cadbury many times over.

Cocoa at the time was sold to be drunk: mixed with boiling water or on special occasions, milk. The basic problem was that the cocoa bean, once removed of its hard shell, consists of slightly over 50% fat. Notwithstanding the fact that fat doesn't mix well with water or milk, the absolute quantity of fat could cause gastric distress to all but the hardiest of digestive systems. Manufacturers had recognised this brake on demand, and had tried to mitigate it by mixing the cocoa with a range of substances to absorb the fat and/or mask its flavour. As a result, the only real point of difference in the products became who mixed in the least obnoxious ingredients. While Cadbury avoided the worst excesses of the adulterers – brick dust and even red lead were not uncommon additions –

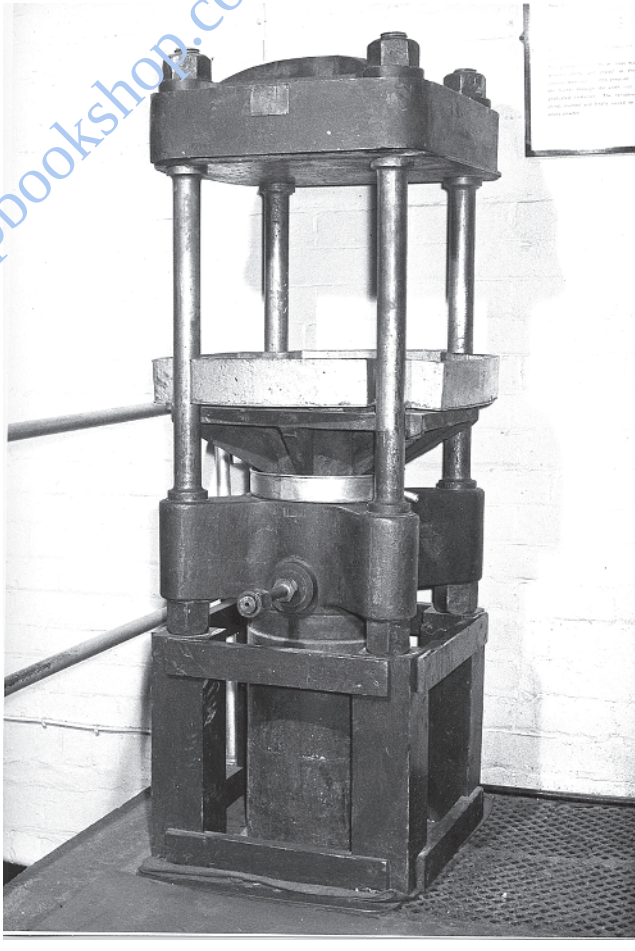
Cadbury's range of cocoas left a lot to be desired. Consisting of only one part in five of cocoa, the rest being potato flour, sago and treacle, it was not something to excite the taste buds.

The breakthrough would not come from an earth-shattering innovation, but from what would become a long-term Cadbury habit of being proud and quick to borrow ideas. George Cadbury in particular was not afraid to latch onto a good idea when he saw one,

'I never looked at the small people, or people who had failed. I fixed my eye on those who had won the greatest success. It was no use studying failure. I wanted to know how men succeeded, and it was their methods I examined and, if I thought them good, applied.'

George didn't fix his eye on Fry as his role model. Although the market leader, they were also keen product adulterers and their cocoa was nothing to write home about. If the Cadbury firm was to thrive, it had to outflank Fry, not emulate them. Looking further afield, George heard about a successful cocoa brand in Europe: van Houten's.

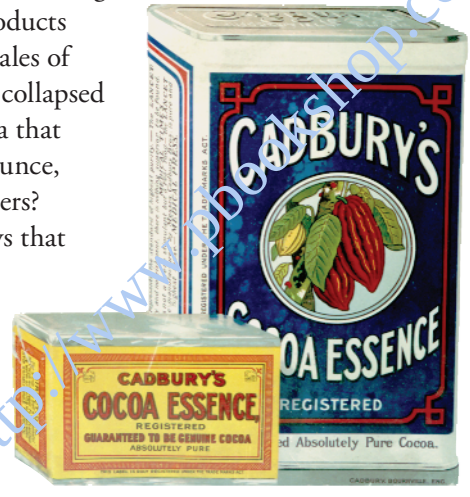
Coenraad Johannes van Houten had opened his first cocoa factory in Amsterdam as early as 1815, and from the start had been experimenting with ways of reducing cocoa's high fat content. Not content with the practice of boiling, skimming and adding fillers, he leveraged the burgeoning engineering knowledge of the Industrial Revolution to invent a hand-operated hydraulic press, which he patented in 1828. The vast pressures generated in the press squeezed out half of the cocoa fat, reducing the fat content from around 53% down to 27%. This dramatically improved the drinking



characteristics of the mixed final product and removed the need to add anything to make the drink more digestible.

George travelled to Holland and did a deal for a press, despite having only sign language and a dictionary with which to negotiate. This was the last throw of the dice for Cadbury Bros., even though their business was now making a small profit. The press was expensive, and would have consumed most of George's remaining capital. It also required mass production to be of benefit, so the need would be to create a level of sustained demand far above any of their existing products. No British manufacturer, including the dominant Fry firm, had gone down this route. There was no tangible evidence that there would be any market at all for such a product. If it failed, Cadbury would have gone under.

The risk of merely substituting sales of a new cocoa for existing products was high. Even worse, what if sales of Cadbury's own adulterated products collapsed and there was no market for a cocoa that would be much more expensive per ounce, as it would not include cheap fillers? There was little evidence in those days that consumers would switch to a more expensive product purely on the grounds of quality when there were far greater risks to life and limb than a cup of cocoa. But George and Richard had no doubt about it being the way forwards, and with the press installed in their Bridge Street factory in 1866, their next new product was to be the salvation of the company and the creation of an empire.



Defining the Market

Cadbury's Cocoa Essence was launched in 1866, but was not an instant success; in fact it was something of a slow seller in its first year, which tested the resolve of the brothers to breaking point. The immediate problem was one of value perception. A product range (along with everyone else's) that contained four-fifths cheap fillers had created a value for money expectation for cocoa. Because the new Cocoa Essence contained none of the additives, all of which were

cheaper than raw cocoa, it was much more expensive per ounce than anything else on the market.

Cadbury's early advertising for Cocoa Essence focused on trying to head off negative value perceptions as much as it did selling the benefits of the new process,

'Cadbury Cocoa Essence (Registered) is three times the strength of the best Homeopathic cocoas ordinarily sold; consequently it is cheaper to use. Having no farinaceous substance or sugar added it does not thicken in the cup. It is guaranteed to consist solely of the extract of the cocoa nut, with the excess of fatty matter removed.'

But little headway was being made. They had yet to find a compelling benefit that would realise the sales potential of a unique and differentiated product.

Moving from Features to Benefits

The answer was to lie in making an issue of the idea of product purity. Having bombarded doctors' offices and the medical press with free samples, Cadbury were able to roll out an advertising campaign in 1867 based on the enduring technique of the medical testimonial,

'Genuine; easily prepared; economical; about three times the strength of the best cocoas ordinarily sold; free from the excess of fatty matter, and recommended by medical men as the most wholesome breakfast beverage.'

"We have carefully examined the samples brought under our notice, and find that they are genuine, and that the Essence of cocoa is just what it is declared to be by Messrs. CADBURY Brothers." ***– Lancet.***

"Cocoa treated thus will, we expect, prove to be one of the most nutritious, digestible and restorative of drinks." ***– British Medical Journal.***

This message, in a variety of forms, would assail the consumer at every turn, and within another year Cadbury had ceased advertising any other of its cocoas. The farm was being bet on Cocoa Essence.

Competitively, it was far from clear that George and Richard Cadbury had not just knocked the final nail into their own coffins. From the perspective of Fry, this looked like the desperate move from a company that had nothing to lose. Even after a few years, there was no compelling case to follow suit. The market for adulterated cocoas did not immediately collapse; in fact, it kept growing. Most of the growth in the market was still coming from adulterated cocoa, driven by the continuing explosion in both population and incomes. In the 1870's, the already large sales of Fry's adulterated cocoas increased by 85%, which would hardly have rung many alarm bells in their Bristol headquarters. They had been market leaders for nearly a century and would have lost no sleep had they known that Cadbury's sales, driven by Cocoa Essence, were to increase by 114% over the same period.

But Fry would soon be jolted from their reverie when Cadbury forced a sea-change in the government's attitude to the adulteration of cocoa.

Although *The Lancet* had announced the creation of a health commission for the analysis of foods way back in 1850, the subject had not really gripped the nation, even after the passing of the British Food and Drug Act in 1860. This act was designed to prevent manufacturers using harmful additives, so did nothing to change opinions or practice on the uses of sago and flour, which could hardly be considered life-threatening. However, the poor administration of that Act led to much more comprehensive measures in 1872 and then 1875 with the Adulteration of Food Acts.

George Cadbury had long been lobbying for more government action on the issue, leading the case for the 'extractors' while being opposed by most of the rest of the industry who could be categorised as the 'mixers'. George's argument was that the addition of flour and starch, while not necessarily harmful, tended to make the prepared cocoa more indigestible. The plausible-sounding counter-argument of the 'mixers' was that the extraction of the cocoa fat – known as cocoa butter – robbed the cocoa of its nourishment. The Government found George Cadbury's argument to be the more compelling, with 'mixed' cocoas falling under the remit of the new Act.

It was not an obvious move for George to have lobbied so hard on

the issue. Cadbury had a unique and meaningfully differentiated product, so it would seem that the longer everyone else continued to make inferior products, the better it would be for Cadbury. But the new Acts would demand the stating on the label of any and all adulterants used, harmful or not. This would give the maximum awareness to Cadbury's selling point, and is a powerful mechanism even today. Be it calories, Recommended Daily Allowances, Genetically Modified ingredients, or allergens, changes in labelling requirements have been shown time and time again to be enormously powerful drivers of changes in consumer behaviours.

Defining the Category

The Act, and George Cadbury's role in its development, generated acres of free publicity for Cadbury's Cocoa Essence, and also prompted a flood of advertisements from Cadbury's competitors, protesting that they only mixed cocoa with the most wholesome of ingredients. But they were now on the back foot; a situation that would get much worse for them when hit by Cadbury's next move, which was the progressive cancelling of their range of adulterated cocoas, even though most were still selling well. In 1878 Cadbury's Homeopathic, Pearl and Breakfast Cocoas were cancelled, soon to be followed by the rest of the range. Such was the initial hit to the Cadbury sales line that the company was prompted to make special payments to their travellers in recompense for the substantial commissions that would be lost.

But the lost sales and extra commissions would soon be repaid many times over. This move by Cadbury to purge their product range of any adulterated lines was to become hugely significant. They did not have to do it; it was not against the law

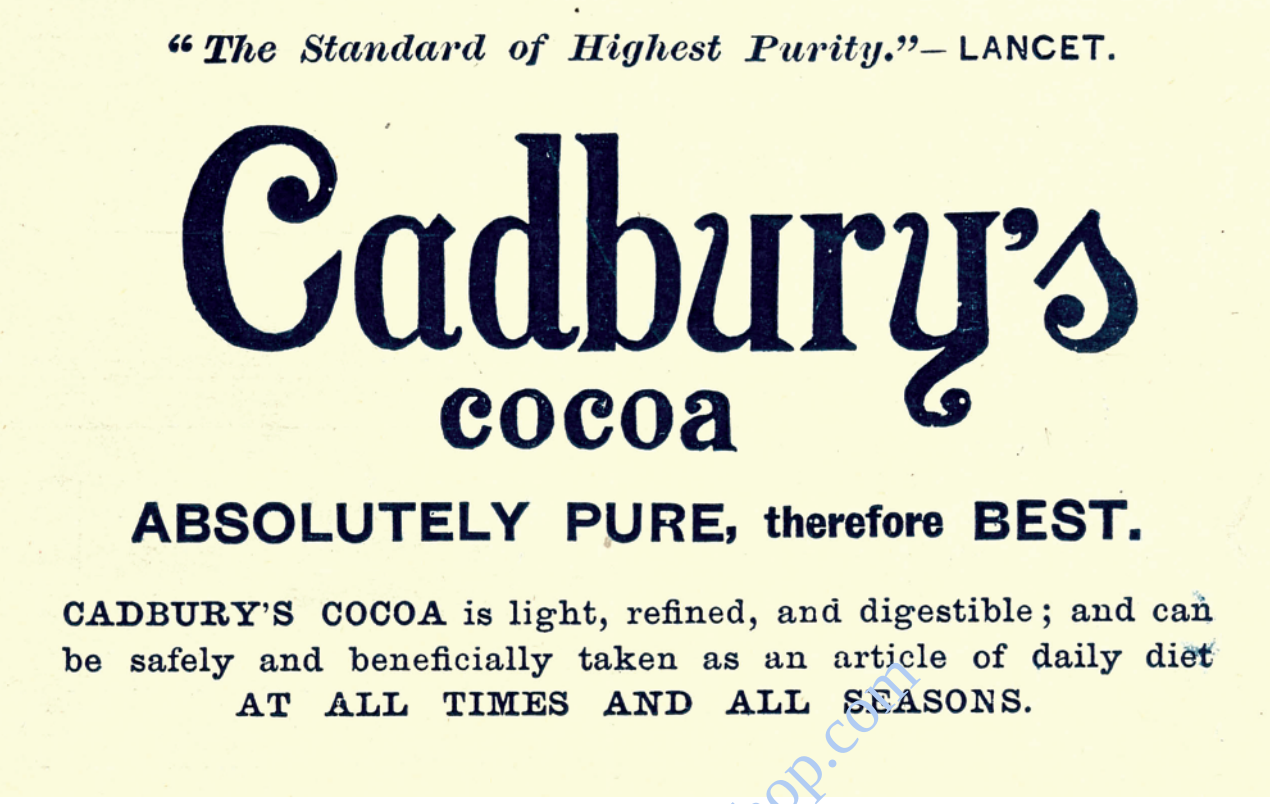
to add wholesome foodstuffs to raw cocoa, as long as they were declared on the label. Nor was there an immediate business case for doing so; they were giving up profitable volume, in fact were handing it straight over to their competitors. Cadbury could easily have kept advertising Cocoa Essence as '*Absolutely Pure, therefore Best*' while still promoting the cheaper cocoas to the lower end of the market. But to have done so would have missed out on the huge benefit that was to come from the move: the building of the Cadbury brand reputation and that it would define how consumers should view the cocoa category.

The outcome of Cadbury's move to cancel their adulterated cocoas was to give a meaning to the Cadbury name. They were saying that the ideals of product purity were so important, they would not sell anything that was anything less than pure. While the Cocoa Essence product brand stood for purity, the Cadbury name would stand for quality, integrity and trust. At the time, very few, if any, manufacturer names stood for anything at all beyond a basic level of quality. In the cocoa category, the name of the market leader, Fry, didn't even stand for that. Driven by an advertising campaign, the scale of which dwarfed those of the competition, Cadbury turned the screw.

With a punch-line that summed everything up succinctly: '*Absolutely Pure, therefore Best*', it was to be a thirty year advertising campaign that would drum into consumers that the cocoa market was all about purity. We have seen in more recent times the benefits that can come by raising the importance in consumers' minds of one's own brand feature into a category-defining benefit. Volkswagen a generation ago almost single-handedly redefined the American car market with their '*Think Small'* campaign. More recently, Volvo triumphed by raising the importance of safety in car-buying decision-making.

Now Cadbury had shifted the debate to the issue of purity, both Fry and Rowntree were forced to launch their own versions, although both waited far too long before doing so. It was not until 1880 that Rowntree brought out Elect Cocoa, but it soon struggled as it could not match the Cadbury product. While Joseph Rowntree searched the continent for a suitable supplier of pressing machinery, in 1883 Fry brought out Fry's Pure Concentrated Cocoa, the recipe for which had been supervised by Albert Fry himself.

Fry finally realised they had a competitor on their hands and replicated every one of the sales tools that Cadbury had used so effectively over the last half-century. Cadbury's royal warrant from Queen Victoria had been matched by an identical one for Fry, and then decisively trumped as Fry signed up every Head of State they could lay their hands on. In addition



to their star signing, the Prince of Wales, Fry could boast royalty from Emperor Napoleon III to the King of Siam and most points in between.

Cadbury's by now ancient *Lancet* quote was matched by one from Fry's own tame medic, a Dr. Andrew Wilson.

*'I have had **Fry's Pure Concentrated Cocoa** again analysed, and as a result I find no **flaw or weakness in my constant claim for it**, that it represents an ABSOLUTELY PURE AND PERFECT FOOD.'*

In other ads they were soon adding the claim that,

'The MEDICAL PRESS, including the "LANCET," "BRITISH MEDICAL JOURNAL," and "MEDICAL ANNUAL," testifies to its ABSOLUTE PURITY.'

Fry were also playing at every turn their many quality awards gained from various exhibitions and fairs across Europe and America; a practice that Cadbury

had ignored. As time went by, the number of medals being trumpeted was to eventually exceed 300.

Over in York, Rowntree had eventually launched their own brand of pressed cocoa in 1886, calling it once again 'Elect.' But by the end of the century, having been constrained from being able to compete effectively with Cadbury's Cocoa due to Joseph Rowntree's antipathy to the concept of advertising, they were having to fight by other means. This involved buying business for the Elect brand by offering discounts to customers well outside the limits fixed between the main manufacturers in their collusive agreements. In eschewing the single biggest driver of mass markets – advertising – Rowntree had been forced to adopt a 'push' model.

But neither Fry nor Rowntree made much headway against Cocoa Essence with which Cadbury had had eighteen years head start. Both the Fry's Pure Concentrated Cocoa and the improved Rowntree Elect Cocoa were at best parity products, so there was no danger that they would damage sales of the much better known Cadbury's Cocoa Essence. Sales of Cadbury's Cocoa Essence had trebled during the 1880's and were to double again in the 1890's.

Cadbury's investment in van Houten's hydraulic press had been a bold move, but one driven by the company's failure to make headway by offering products little different to the multitude already available. Although affordability was still an effective path to growth for the industry as a whole, there was little point in Cadbury being just another also-ran trailing in the wake of Fry. Cadbury, through their cancellation of their adulterated cheaper cocoas, had given their name a brand platform which provided them with insurance against some unforeseen market shift sidelining the Cocoa Essence brand. This distinction was to pay huge dividends when a potentially fatal threat to the Cadbury's Cocoa Essence brand did in fact arise. And it was to be another output of Coenraad's van Houten's inventive mind that was to precipitate the crisis: alkalised cocoa.