



Strauss –Elite: Global Expansion in the 21 Century

In a conference room at the offices of Strauss-Elite in Ramat Gan, we were introduced to the heart of the organisation by the CEO of the company, Erez Vigoodman. What we were given was a bird's eye view of the entire company as it stood at the end of 2005. It quickly became apparent that the organisation stood poised at a pivotal moment in its long history. In the eight years since the acquisition of Elite in 1997, the company has gone through nothing short of a revolution. Yet despite being transformed from end to end, Strauss-Elite still remains a family-run company with an acute sense of its past and a clear sense of its future. Now, after a long and challenging process of change that has lasted many years, Strauss-Elite looks ready to once again make another bold leap forward.

Introduction

There are few Israelis, no matter what age or background, who are not familiar with the products of Strauss and Elite. From the dairy goods of Strauss to the coffee and chocolate of Elite, these two companies are national institutions that have been around since before the State of Israel was born. In 1997 Elite (and the Yotvata dairy) came under the control of the Strauss family, creating Strauss-Elite, the second largest food company in Israel. The newly merged company owns many of the famous brand names in the Israeli food market.

Strauss-Elite operates in five main categories: dairy, coffee, confectionary, fresh and chilled salads, and salty snacks. In 2005 the company's reached sales of NIS4.18bn, and has a market capitalisation of NIS4.5bn (12/2005). It employs 4,700 workers in Israel, 3,600 outside of Israel, production facilities throughout Israel, and coffee production facilities in Europe and Brazil. It operates in 15 countries in Central and Eastern Europe, Brazil and North America. The success of Strauss-Elite has also created the challenges which it now faces. The food market in Israel is growing at a meager rate of 2-3% a year. The industry is highly concentrated with the top five producers accounting for 55% of the overall market, and two retailers accounting for 53% (9/2005) of the retail market.(Exhibits 1-4)

The domestic market no longer represents a source of sufficient sustainable growth, and if the company is to continue growing at a strong pace and create value for its stakeholders, it must look elsewhere in order to achieve its aims. It must look to the international arena.

Expanding to markets outside the home base is a difficult and risky undertaking for any company. How much more difficult then, when some of your direct competitors have a market value dozens of times your own. Traditional business models of international expansion and market penetration do not apply as well, if at all, when the resources you have at your disposal pale in comparison with those of your competitors. The approach must therefore be adapted to take into consideration the challenges under which Strauss-Elite attempts to meet its objectives.

There are three pillars today to Strauss-Elite's international operations. The first and also the oldest and largest in size is its coffee operations in Europe (Central and Eastern) and South America. The second is Sabra Salads in the United States, and the third Max Brenner (chocolate bars). While the latter two operations are still in the early stages of execution, Strauss-Elite has committed to them as a part of the company's international operations in the immediate future.

At the end of 2004 the company set itself a target of doubling that year's revenue (NIS3.7bn) in the five years up to and including 2009. Given that at the end of 2004 75% of the company's revenue came from the domestic market, and that the revenue from this market is expected to grow at a rate of 3-5% a year, this places the burden upon Strauss-Elite international activities to be the locomotive that drives the entire company forward in the years to come. The strategic dilemma that is facing the company is what will constitute the engine (or engines) of this growth? Should the main focus be on the growing coffee business that to date constitutes the backbone of the company's international activities, will it be from developing its other international businesses Sabra Salads and Max Brenner, or will it come from an entirely different direction? Providing a solution that will accomplish the company's goals while staying true to its vision, mission, and beliefs, is the challenge that lays at the heart of Strauss-Elite's strategic planning today.

Strauss-Elite

Strauss-Elite is today as it always was, family run, and the ideals of the Strauss family who has controlled the company for three generations give the company its sense of itself. This in turn has given the company a sense of determination and direction that goes beyond vision and mission statements, it constitutes the company's very DNA. Without such self-awareness many firms stray from their chosen paths and often become lost and fail. Strauss-Elite is a company that makes businesses, and only rarely and reluctantly sells them. As such it is always looking ahead, thinking ten years into the future, and this enables it to act from the future backwards. It is a company where

personal ties are sacrosanct, and where forging long-lasting and successful partnerships has become a core competency. When entering new markets, production is done locally if possible, thereby creating ties and becoming more intimately involved in the countries where the company does business. Finally, Strauss-Elite is a company that is willing to make bold decisions that push it outside of its comfort zone, but the risks are always calculated and do not jeopardise the entire business.

The food and beverages industry today is being driven by efforts to provide solutions to emerging or predominant trends in patterns of consumption. Strauss-Elite has identified several main trends driving the market today, the four main ones being: people's desire to eat food that is more healthy without sacrificing on taste and convenience; the demand for increased availability of products and services for consumption at anytime, in any place, and which are increasingly tailored to the individual's needs; the increased consumption of food and drinks out of the home; and, the desire to *trade up* on the experience of consuming, that is, seeking affordable luxuries rather than basic commodities. Strauss-Elite continuously analyses emerging trends and strives to develop solutions and business models that best respond to them. This quest is driven by its core values – 'passion and responsibility, daring and caring and the team' – and is guided by its core propose: 'creating wonder out of basics'. This core purpose calls for transformation in every activity the company is engaged in, turning the very basic components into 'wonder' and which culminates with the added value that the consumers receive.

Strauss's acquisition of Elite and Yotvata, together with the international partnerships (PepsiCo, Danone, Unilever) it forged in the late 1990s, and the internal transformation it accomplished has given the company both the means and the know-how to answer the challenges of the modern market.

Historical Background

The history of Strauss is older than, and inextricably linked with, the history of the state of Israel. The company was founded in the 1930s in Israel by Dr. Richard and Hilda Strauss, Jewish immigrants from Germany. The beginnings of the Strauss corporation lay in a cow shed which Dr. Strauss established in 1936 on their small plot of land in the northern Israeli town of Nahariya. The local population was, however, not used to drinking fresh milk, and at first the new enterprise struggled and was overwhelmed with unsold stocks of milk. It was Hilda who on the advise of a friend began to turn the surplus milk into cheese which she then sold. Slowly but surely business began to pick up. In 1939 the family made the fateful decision to move from agriculture to industry, establishing its first dairy.

The 1940s in Israel was a period of national struggle which the Strauss family took an active part in. Though conditions were difficult, the dairy continued to survive, and even began marketing its products in Haifa, the port town in the north of Israel. At the end of this decade Hilda initiated the production and selling of ice cream, an activity which proved very successful. By the beginning of the

1960s, Strauss owned the dairy in Nahariya, an ice factory in Acre (a nearby town), marketing companies in Tel-Aviv, Jerusalem and Be'er Sheva in the south, and employed over 300 workers.

The first and longest-lived strategic alliance with an international partner came in 1969, between Strauss and Danone of France. Under this alliance, Strauss took advantage of the Danone's know-how to produce and sell yoghurts, including the chocolate desserts which were to achieve the status of cultural icon- *Dani* and *Milki*. In 1975, Dr Richard Strauss passed away, and his son Michael who had been involved in the business all his life, became the CEO.

By the end of the 1980s, Strauss had branches throughout Israel, owned a nationwide distribution network, and had sales of NIS493m (1990). A few years later, in 1995, Strauss entered another category that was to prove significant, the chilled salad market under the *Achla* brand.

Strauss's past and present success has come to a large degree because and not despite of the adversity it faced. Throughout its history it has had to cope with competition from Tnuva, the local monopoly in the dairy industry. Having to continuously deal with such a powerful and fierce competitor ensured that Strauss could evolve only through a highly developed competitive ability. An efficient operating model and effective marketing structure were of paramount importance, while constant innovation and differentiation were necessary to guarantee continued success. Strauss quickly positioned itself as a provider of value-added products whose consumption is intended to be an experience that went beyond the mere fulfilment of a basic need.

1995-1998 International partnerships and domestic acquisitions

At the beginning of the 1990s Israel's relation with its Arab neighbours began to change. A dialogue was established, initially in secret, which would eventually lead to the establishment of a peace process. Michael Strauss realised very early on that these political developments would have a massive impact on the Israeli economy in general, and the food industry in particular. Very large and powerful international competitors that had been kept out of the Israeli market by the Arab embargo would now be able to enter the market in search of new opportunities. This development brought with it both opportunities and threats, and companies that did not move to take advantage of the former and minimise the latter would pay a price. Michael led Strauss in search of strategic partnerships with international firms looking to enter the Israeli market. In this search, Strauss not only had the benefit of foresight, but was by its very character a company that more easily meshed with international corporations.

Partnerships

Strauss was particularly concerned about increased competition in the ice cream market. At the time, Strauss' ice cream division was responsible for about 28% of the company's revenues. After long and arduous negotiations which lasted over a year, a deal was finally struck with the Anglo-Dutch food giant, Unilever. Unilever purchased 51% of Strauss's ice cream business, which as a result was spun off as separate entity.

Strauss and Danone have a history of cooperation that dates back to the 1960s. In 1977 Danone purchased 28% of the Strauss Dairy, which Strauss purchased back in 1982 as a result of the Arab embargo on Israel. In 1996, after the easing of the Arab embargo, Danone once again invested in Strauss, this time purchasing 20% of Strauss' dairy for \$60m.

In 1991 a knowledge-sharing deal was struck between Frito-Lay (PepsiCo's salty snack division) and Elite's salty snack division which included the establishment of a new factory. This deal also included an option for Frito-Lay to buy in to Elite. After Strauss took over control of Elite, Frito-Lay decided to exercise its option. Following an arduous negotiation which lasted almost two years, a deal was finally struck in 1999 whereby Frito-Lay became an equal partner in Elite's salty snack division.

Acquisitions

Elite, like Strauss, was another long-established and powerful family-run company in the Israeli food market. It was established in 1933 with its first factory in Ramat Gan, and began to market toffees and its cow (Para) brand of chocolate (although originally under a different brand name) in 1934. In 1938 Elite began to export its chocolate to the United States, England and South Africa. Between 1940-70, Elite continued to grow and expand into numerous other categories, including jams, pickles, tahini, halva, instant coffee (1956), roast and ground coffee (1973), chewing gum and more. Several production facilities were purchased or established in various locations throughout Israel. In 1973 the company's share were listed in the Tel Aviv Stock Exchange, although the controlling share remained in the hands of the founding families. This controlling share was bought out by the Federman family and the M.A.N. Group of England.

After signing peace agreements with the Palestinians and Jordanians in the mid-90s, Israel's place in the international political scene changed drastically for the better. As predicted by Michael, this was accompanied by a substantial shift in the competitive environment. Protective trade barriers were removed, huge multinationals such as Nestlé, Unilever, Danone, Best Foods and Heinz entered the Israeli food industry through strategic partnerships, while premium international brands such as Ferrero, Kraft, Mars, and Kinder among others began to be imported into Israel. Having enjoyed predominance in almost every category it marketed, Elite lacked the competitive nature to cope with

the opening of the markets, and it failed to take steps to prepare itself to that end. Added to this was the losses caused by Elite's efforts to expand to international markets which began in 1992. The company was facing a battle for survival which brought its market capitalisation to an all time low (\$180m) in 1996. At this point the M.A.N. Group decided to sell its stake in Elite. A bidding war ensued in which David Federman struggled to acquire M.A.N.'s stake.

It was as a result of this struggle that Strauss, which had always had a close working relationship with Elite and its founding families, got more closely involved. David Federman approached Michael Strauss to suggest forming a partnership in order to take over control of Elite. The proposal sat well with the belief in Strauss that in the changed competitive environment, size and economies of scale would be more crucial than ever. The strategic partnerships with Unilever and Danone had put at the company's disposal sufficient funds for the acquisition, and in February of 1996 an agreement was struck between the Strauss and Federman family to buy out M.A.N.'s stake in Elite. This gave Strauss 15% of the controlling shares in Elite. The partnership between the two families was, however, ill-fated and despite considerable efforts soon foundered. In July 1997, a little over a year after the deal was struck, Strauss bought out the Federman's stake in Elite for \$66.5m, giving it controlling interest. Although there were misgivings about the price and level of risk involved, the deal not only represented substantial potential in the domestic market, it also gave the company something perhaps equally important: a presence, albeit limited and struggling, in the international marketplace via Elite International's coffee operations.

The second large acquisition of that year was the acquisition of control in Yotvata Dairy in November. The dairy was established in 1962 in Yotvata Kibbutz, in the south of Israel, and in the 1980s began selling its dairy produce throughout the country. Despite initial successes, the dairy was struggling and not sufficiently profitable. In 1997 Tnuva attempted to buy out a controlling stake in Yotvata. The Israeli Antitrust Authority approached Strauss and asked it whether *they* would consider buying control of Yotvata. Despite the difficulties involved in digesting two large acquisitions in one year, the strategic significance of the deal was too important to pass up. Strauss responded with an immediate and resounding positive. It purchased a 50% stake plus a casting vote in the dairy.

1998-2001 Reorganisation

At the beginning of 1998 Strauss was a company three times the size it was at the beginning of 1997. This was a massive growth in scale, and one which presented many challenges. Strauss was no longer a company, but a collection of companies, and for the first time a corporate centre was established to direct operations. During the first stage it was decided to carry out extensive restructuring while the companies were still separate entities. The biggest challenge was how to revive Elite. It was after all still a company in grave difficulty facing numerous threats to its core business.

A new management team was established at Elite Israel headed by Erez Vigoodman. Its mission was to carry out a complete overhaul of Elite's operations from the ground up, and turn it into a company ready to face the future as part of Strauss-Elite.

The ultimate goal was to transform Elite into a company with renewed competitive vigour, an organisation that acted out of a vision and long-term goals, with an emphasis on measures of profitability. In the past Elite had dominated the market and the company's sales organisation was given almost unlimited power in its pursuit of generating sales. In light of the company's declining fortunes and the tougher environment, the marketing divisions were strengthened, and the sales organisation though still powerful was geared more towards giving the business units greater support in achieving their goals. On the product side, a fundamental review was made of all the categories (coffee, chocolate, chewing gum, candies, and salty snacks) to assess their strengths and weaknesses in light of the new competitors in the market. This review formed the basis for comprehensive changes made in each category to make the company's products more relevant and more competitive. Finally, a substantial investment was made in Elite's infrastructure, both in IT systems and logistic centres. By 2000 Elite Israel was on the path to recovery.

Yotvata, like Elite, also underwent a complete makeover. The first stage was to create a basis of trust and understanding between Strauss and the kibbutz. Following this, a rationalisation of the dairy's product portfolio was carried out. Production lines were overhauled and the existing technology improved. Yotvata's products were also incorporated into Strauss's marketing operations. By 2000 the improvements made by Strauss-Elite and the kibbutz had already begun to yield fruit, the company was enjoying increased growth and profitability.

Significant changes also took place at Strauss. In 2001, Michael Strauss retired and passed on leadership of the company to his daughter Ofra who had for some years been prepared for the position. Ofra's assumption of directorship at Strauss-Elite represented the third generation of the family at the head of the company. Erez Vigoodman was appointed as President and CEO of Strauss-Elite, and Giyora Bar Dea was appointed CEO of Elite Israel. By the end of 2001 the company had in place a strategic plan for the years 2002-2004. This plan formed the basis of the next leap forward in the organisation (Exhibit 5).

2002-2004 A Shift in the Operating Model

Despite the substantial reorganisation that had taken place in the four years since 1998, Strauss-Elite was still operating as a group that included both private and public companies which for the most part operated independently of one another. No significant synergies had as yet been realised, nor was the group being guided by a unified vision or set of values. Even Elite International was operating

independently of Elite Israel. This separation was intentionally maintained in order not to jeopardise the core business before the acquired businesses were rehabilitated. The strategic plan formulated in 2001 called for changing the group's operating model in Israel, merging Strauss and Elite, and also changing the operating model of the international operations which, it was envisaged, would represent the main engine of growth for the group going forward. Approval for the merger was received by the company's board in July of 2003 and was formally ratified by the financial authorities and a general assembly of the company's shareholders in February 2004. By 2002 Strauss-Elite had also increased its stake in Elite to 52%.

A unified management team was appointed for the joint operations of Strauss and Elite in Israel. Its task was to oversee the transformation of the group in Israel into one company. The merger plan was carried out on three different levels. The top level was also the first stage, and the objective was to achieve one direction. With the vision, mission, core values and overall strategy used as the guiding principles, the entire organisation was realigned so that every part of it faced in one direction. This was reflected in the renewed organisational structure which was arranged according to strategic business units rather than past company affiliations.

Following this was the treatment of core processes, or those processes that formed the link between the organisation, its customers, and the consumers: marketing and brand management, supply chain, management of traditional channels, and development of emerging channels. Synergies here were derived by ensuring that competencies in these activities were organisation wide and could thus be leveraged more effectively. In the marketing area, the aim was to achieve synergies together with consistency of message and unity of approach. Though both companies were huge players in the domestic food industry, they were positioned far apart from each other, and therefore their coming together gave Strauss-Elite the opportunity to provide a more holistic solution to emerging consumer trends. Strauss-Elite would leverage the abilities of both companies, Strauss providing the health and wellness aspect, Elite providing the indulgence. Brand management was and remains another key area of focus. Today Strauss and Elite have between them 50 brands, which, while allowing for flexibility of positioning, runs the risk of a confused marketing approach which in the end can dilute brand equity. The aim is to create a smaller portfolio of mega-brands with more distinct characteristics in order to enhance the value and reduce the costs of the company's brand management

Finally there was treatment of enabling processes, or those processes which support the core processes. Here the aim was to capitalise on economies of scale in order to reduce overheads and remove overlapping activities. One such example was the linking of IT systems. The savings achieved from all of the above changes were estimated at 2.6% of domestic turnover. This was in fact the first point at which operational efficiency began receiving a lot of attention. (Exhibit 5)

Strauss-Elite's International Activities

Despite basing its operations almost entirely on the domestic market, Strauss had always possessed a strong international mind-set. The language used at the top levels of management had once been German, and today is English. Beginning with the Danone partnership in the 1960s, Strauss had striven to achieve internationally accepted standards of transparency and financial reporting. The shift in planning towards markets outside of Israel did not, therefore, represent a giant leap in the organisational culture. This was not an organisational revolution, it was an organisational evolution.

Strauss-Elite international coffee activities (Exhibits 6-10)



Background:

Elite international in the 90s: Central and Eastern Europe

The background to Strauss-Elite's coffee operations lies with Elite's search for growth outside of Israel in the early 1990s. In 1992 it acquired shares in M.A.N.'s private label coffee operations in Western Europe. Although the private label venture was doomed to fail and created substantial losses for the company, Elite also established branded operations in Poland and Romania. These activities seemed to have greater potential.

Strauss-Elite 1997-2001

When Strauss took control of Elite in 1997 it initially considered getting out of all international coffee operations and focusing on the reorganisation of Elite in Israel. However, based on the success in Poland and signs of potential in Romania, Strauss decided to further analyse the potential in the former communist countries of Central and Eastern Europe. Although competitors such as Sara Lee and Kraft had already established operations in several of these countries, their position was not yet entrenched, and in some countries they were not present at all. The analysis carried out indicated that potential existed within the roast and ground (R&G) coffee market in Central and Eastern Europe. The level of commitment in Romania was stepped up and it quickly became a profitable and growing operation. At this early stage while the company's main attention was on the reorganisation in Israel and the closing of the private label operation in Western Europe, only smaller markets where the risk was limited were examined. At the end of this period Strauss chose a leading global consulting firm to assist in building a strategic plan for the company's future coffee operations. The process led to a deeper understanding of the potential in the R&G coffee market, particularly in developing countries.

The knowledge and experience within the international coffee industry accumulated at the company since the purchase of Elite led it to formulate a precise strategy which was expressed in the mission statement for its coffee activities: *"Become the leading regional player in the branded R&G coffee category, and in related products and services, focusing on emerging markets"*. This mission statement can be broken down into several key elements which together form the strategy and operating model for the company's international coffee activities. First, the aim is to be a regional player. The objective is to be multi-local, aiming at becoming the number one or a strong number two player in each country within any region it enters. Market penetration is accomplished with one main product, local branded R&G coffee. As described in the appendix this is a category characterised by a fragmented competitive environment where size and economies of scale are much less significant. Functions such as product development, marketing and branding, supply chain, sales and distribution, and the development of solutions for emerging channels, are fitted to the local environment and local tastes. Once penetration is achieved with branded R&G, expansion is done into related products such as espresso, cappuccino and chocolate powders. Finally, the focus is on emerging markets, where the greatest potential for the company lies.

Strauss-Elite's competitive advantage based on this strategy comes from its ability to create ties with family-owned companies (a common feature in the R&G market within developing markets); rapidly put in place core process (sales and distribution, supply chain, brand creation, product development); expand into related products; and, its ability to transfer knowledge that is both valuable and relevant to the region in which it operates.

2002 - 2004

The strategic plan created in 2001 for the years 2002-2004 intended that the merger of Strauss and Elite would create a strong home base that could provide the support necessary for the company's international expansion. The first stage was to complete the divesting of the private label operation and exit small markets with limited potential. Next a new geographical-based organisational structure was created in the international coffee operations, with a focus on growth and higher profitability. A decision to fortify Strauss-Elite's position in existing markets before further expansion was made in order to achieve a critical mass and better synergies. Purchases had been made in Serbia and Montenegro that would act as a base for all Ex-Yugoslavia countries. In Poland the MK premium coffee brand was acquired giving better geographical access and a broader product portfolio.

Strauss-Elite's moves in this region have made it the number one R&G player in Central and Eastern Europe followed by Tchibo, Kraft and Sarah Lee. Its main markets are Poland, Romania, Ukraine, Serbia & Montenegro, and Bulgaria. It is also present in some other former Yugoslavia countries and sees further growth opportunities in the Baltic, Russia, and the ex-USSR states, where it has already

created several toeholds (instant coffee in Russia, and various products in Belarus Moldova and Kazakhstan)(Exhibits 18,19). R&G brands are still the main product, but its activities have widened. Some existing brands have been kept where they proved strong, like Doncafe in Serbia and Montenegro which is now wholly owned by Strauss-Elite. The company also sells a variety of related products including instant coffee, cappuccino, espresso (through a joint venture with Lavazza), organic coffee and chocolate powder.

The fragmented competitive environment in developing markets and their growth potential led Strauss-Elite to focus upon them. The method of market penetration was either through outright acquisitions or by creating an operation from scratch, depending on the circumstances in each country. Most of these countries did not have firmly established brands, but they did have a strong coffee-drinking culture. This provided an ideal opportunity to build a brand from the bottom up based on the accumulated knowledge at Strauss-Elite.

Away From Home (AFH)

Away from home is a term used to describe distribution channels where coffee is consumed outside of the home. These channels are HoReCa (hotels, restaurants and cafes), *at work*, *on the go*, and vending machines. The AFH market is growing rapidly, both in developed and developing nations. Estimates for the percentage of coffee consumed away from home ranges from as high as 51% in the United States to 10-15% in many emerging markets. Despite differences caused by cultural factors, the trend is clearly growing. There are five main factors that are driving this trend forward: rising standards of living, smaller families, more single individuals, the increased number of women going to work, and the growth of an entertainment culture (going out to dine, drink, etc.).

Being active in this segment demands developing capabilities, both in the provision of a service, and in that of a product. What is more, the format by which this service is provided must meet the consumers' desire for a more premium experience at prices that are nonetheless reasonable- trading up. The combination of competencies that are required and the nature of the service provided mean that often advantages of size are very limited. Strauss-Elite has already established significant AFH operations in Central and Eastern Europe. Revenue from AFH activity has reached 15% of the company's revenues from coffee.

Brazil

The coffee market analysis done by Strauss-Elite in 1999 highlighted the opportunity in South America, a huge region that consumes a lot of coffee and possesses a very strong R&G coffee culture, but where the market was still very fragmented. This option was narrowed down even further to Brazil, which in volume terms is the second largest consumer of coffee, and accounts for 40% of the

South American market and 6% of total world consumption (Exhibit 10). Although Sara Lee had already entered the Brazilian market in 1999 with the acquisition of three companies that gave it 18% of the market, a lot of potential was still present. This was due in part to the immense size of the country, the large amount of small local players, and a strong sense of regionalism, making it difficult to establish a firm national presence. If anything Sara Lee's presence was welcomed because it bore the costs of breaking new ground and educating the market.

Because of the existence of some strong local brands in Brazil, a different penetration plan was adopted. Growing a brand from the bottom up was not a viable option. There were, however, five local players that could, as partners, provide access to the market. The presence of powerful national retailers provided the marketing infrastructure for the eventual creation of a national brand, but also represented customers with significant negotiating power. The strategy was to enter the market through a joint venture. Once a significantly strong presence was established in one region, another could be tackled. Disparate brands from different regions could gradually be shaped into an effective brand architecture. Sufficient scalability was necessary if the costs were to be justified and sufficient power created in order to deal on equal terms with the retailers. Expansion to other countries in South America is not considered an ideal option until the position in the Brazilian market is satisfactory.

A local coffee company by the name of Santa Clara had been identified as the ideal strategic partner for entering the market and leading the consolidation of the Brazilian coffee market. However, since negotiations with Santa Clara failed to reach an agreement, the original plan was changed and at the end of 2000 Strauss-Elite purchased Cafe Três Coracoes. Três Coracoes is based in the region of Minas Gerais, and manufactures both R&G and cappuccino products. It is one of the country's leading R&G manufacturers, and is ranked first in its home region. It is also the number one brand of cappuccino products in the country. Though this market is still limited, it has made Cafe Três Coracoes a nationally recognised brand, and the strength of the brand can be leveraged in the future. Since the acquisition, operations have expanded out of the home base to Sao Paulo.

At the end of 2005 the partnership with Santa Clara was finally brought to fruition, due in large part to the close relationship built over the preceding five years between the owners of Santa Clara and Strauss-Elite, and to the similarity between the companies' DNA. The merger brought together Três Coracoes and Santa Clara (that had by 2005 grown to \$180m in sales). The merged company, which Strauss-Elite owns 50% of, has a wide product portfolio including R&G coffee, cappuccino, instant coffee, chocolate drinks powder, and will also handle the storing and processing of green coffee. This move has given Strauss-Elite's operations in Brazil a significant boost. The merged company owns 11% of the Brazilian coffee market, second only to Sara Lee, which currently owns 15% of the market (Exhibit 16). This move has also increased Strauss-Elite's geographic reach, particularly in the

strategically important north of the country. Going forward, this capability will be crucial. The country has over 3,000 roasters of different sizes in different areas and the company that will be able to consolidate this fragmented market will, ultimately, lead it.

Strauss-Elite's Joint venture with Santa Clara has also given it access to the knowledge of a company with advanced production facilities and, for the first time, access to the world of green coffee and to some of the best coffee plantations in Brazil, the largest green coffee supplier in the world (accounting for about a third of all world supply (Exhibits 14-16).

Going forward: Global Trends

Despite its age, the coffee industry does not seem to lack dynamism or new opportunities. Trends and fashions are constantly evolving. For example, the drop in coffee prices coupled with the increasing sophistication of consumers has created a surge in demand for espresso. The advent of the home pod system for making espresso has also increased its popularity, and created a new and profitable marketing format, although most of the firms entering this market have done so in partnership with the machine producers in an attempt to lock out third-party vendors. Speciality coffees are also increasing in popularity, and have remained, by their nature, a relatively niche and fragmented market, but one with large margins and significant potential.

Developing markets such as China, Russia and India are at the moment quite risky and expensive to enter, with limited upside, but represent enormous potential for the future. This is due in part to a developing tendency for predominantly tea-drinking nations such as China to consume more and more coffee, which is often considered desirable because it is Westernised. Although the switch is usually from tea to instant coffee, where Nestlé is the big player, the creation of a coffee culture in countries that previously had none sows the seeds for future markets. Latin America in contrast is considered an emerging market with a lot of potential in R&G. Finally, the growth of the AFH sector represents a new channel of distribution which is growing in importance, and where the big players may find it hard to establish control (Exhibits 17-19).

The Next Step: Beyond Coffee

When Strauss gained control over Elite, it had also acquired the first significant step towards expansion outside of Israel. Coffee, however, was only the first step. If expansion was to be diverse, stable and sustainable, Strauss-Elite would have to expand into more categories. The question was how could this be done; at home, Strauss-Elite was a market leader with an impressive market capitalisation of \$950m (12/2005-including international activities). In the international arena, it was facing giant competitors such as Sara Lee, Kraft, Nestlé and Procter & Gamble. Going head-to-head with these behemoths was simply not possible.

Being small however has its advantages, and in order to succeed internationally, Strauss-Elite would have to cash in on these advantages, particularly agility and the ability to engage in a more personnel, family-orientated strain of business. Growth would come not by a traditional model of market penetration and category expansion, but by the identification of unique business concepts as yet undeveloped. The company's strategic planning shifted towards innovative strategies which were still related to its core competencies. Strauss-Elite aimed to be a part or even lead new businesses which to begin with are too small for the large competitors to expand resources on, and that are not easy to imitate. It was this new approach, based on an underlying strategy of innovation that was the driving force behind Sabra Salads in the United States and Max Brenner.

Sabra Salads in the United States



Background

A few years ago in the United States, hummus, along with other Mediterranean chilled salads, was virtually unknown outside of trendy cosmopolitan centres and Mediterranean or Middle Eastern communities. Hummus however possesses the recipe for success; a unique flavour combined with associations of a healthy and vibrant Mediterranean lifestyle that strikes a powerful chord among the fast-food saturated nations of the developed West.

In 2004, the hummus market in the United States was estimated at \$200m. The market is growing at an average rate of 15% per year, with rates as high as 22% on the West Coast. Given that the estimated household penetration rate is as low as 5-10%, there is huge potential. Awareness of the product varies from as high as 55-60% in metropolitan areas, to as low as 5% in rural ones. The market has over 100 different brand names and over 1,000 SKUs (stock keeping unit), but the top five players have a market share of 60%. Most of these companies sell not only hummus, but other Mediterranean salads and products. The number one company is Athenos, which has \$35m in sales of hummus, giving it a 23% market share. It's followed by Tribe, with \$27m in sales representing an 18% market share, and Cedars, which has \$18m of sales, and a 12% market share.

Market opportunity

In 2005 Strauss-Elite was searching for a new platform based on a unique concept with which it could enter the North American market. The hummus and chilled salad market in the United States seemed ideal. Here was an undeveloped market which was growing rapidly, possessed a positive image, and had enormous potential. A market which the big players had not yet entered because of its relatively

small size and logistic issues. This market required that the consumers be educated, and the company that educated them could entrench itself as a market leader. Chilled salads was a category which Strauss-Elite had been in for almost a decade under its own *Achla* brand in Israel. Furthermore, it was felt that the product would also be well suited for the away from home format. By changing the packaging and adjusting the marketing approach, chilled salads could be sold as on the go snacking.

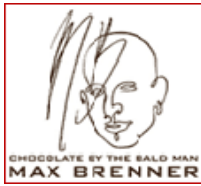
Sabra

A working partnership between Strauss-Elite and Sabra Salads (based in New York) has existed since the year 2000. Sabra markets a range of salads, capitalising heavily on the Mediterranean look and feel. A 10% share of the hummus market placed Sabra as the fifth largest in the market, however it is the fastest growing company in the category. Sales grew from \$9m in 2002, to \$18m in 2004, and are estimated to reach \$28m in 2005. Operating profit stands at 10%. Initially the company had focused on the kosher market, but gradually sales from the general market expanded and outgrew sales to the former. By 2004 Sabra was operating in 35 states, had 1,500 points of sale (two thirds in the general market and a third in the kosher), and employed 150 workers. Within New York it has its own distribution capability. Its customers range from numerous convenience stores, to the larger discount clubs like Costco and Sam's Club, which present an opportunity to boost sales significantly. Sabra has a strong brand, is regarded as a market innovator, and possesses a strong product mix.

Entering the U.S market

In 2005 Strauss-Elite purchased 51% of Sabra Salads for \$8.7m. It now faces the challenge of making Sabra one of the market leaders, and through it educating the market. This is not an easy challenge but the potential is substantial. On the marketing side, Sabra aims to grow the entire category in the United States, and hand-in-hand with this will be the effort to continuously expand the brand's strength through such means as product quality, packaging, product mix, etc.. On the operational side, it will need to develop an efficient operating model which can handle production and distribution on a massive scale. This activity will yield the added and crucial benefit of creating a platform in North America which can be used to introduce other products from the company's portfolio, whether or not related to the Mediterranean concept

Max Brenner



Background

In 2001 Strauss-Elite purchased Max Brenner from Oded Brenner. The company was looking for a premium brand in the chocolate world, and there were few brands more premium or fashionable than Max Brenner. Oded Brenner had spent several years in the U.S. and Europe learning the trade from some of the best chocolatiers in the world, and decided to pioneer a new chocolate culture. His first shop was opened in Ra'anana, a city in the centre of Israel, and became very successful. Soon after, Australian businessmen approached Oded wanting to be a part of his new culture, and he laid out for them his concept of the *chocolate bar*. The idea behind the bar was to place Max Brenner chocolates at the centre of the dining experience. From the dishes it served (e.g., chocolate soup and chocolate pizza) to the look and feel of the bar, every element of the concept was designed to celebrate chocolate. The first bar was opened up in Australia in 1996 and proved very successful. Max Brenner was hailed as the Armani of the chocolate world. Soon more franchises were being granted in Australia and the Far East. Currently, there are 15 Max Brenner chocolate bars, three in Israel, ten in Australia, one in the Philippines and another in Singapore.

The dilemma

Up until 2003, Max Brenner continued much as it had done, with little interference or guidance from the company management. The focus in the company had been on the international coffee business, and how to grow it. However, in 2003, driven by a group of *intrapreneurs*, the fate of Max Brenner was pushed up to the main agenda. The question being debated was whether Max Brenner should be developed as a start up within the company. The bottom line was that the Max Brenner chocolate bar concept was a retail business, Strauss-Elite wasn't, and retail was an entirely different operation that required different competencies. Still, Max Brenner could give Strauss-Elite access to new marketing channels and a powerful brand that could be leveraged upon. It was also a way that the company could move downstream in its activities, more towards the provision of experiences for its consumers.

Despite the substantial organisational and cultural obstacles, it was decided that Max Brenner was a business with a lot of potential that could become a new pillar within Strauss-Elite's portfolio of businesses. Creating a new chocolate culture is a vision that can indeed be regarded as a unique business concept, and its adoption would help change the organisational culture at Strauss-Elite, making it more ready to embrace innovation and seek opportunities further a field if the potential and fit was there.

Developing the concept

The first decision taken was to rein in the controls of the business. Despite several requests for franchises, it was felt that this path would not give Strauss-Elite control over how the business developed. Therefore, beginning in 2003, no further franchises were granted.

Next it was decided that, for the time being, Strauss-Elite would not take on a full partner for the development of the business. A suitable partner at such an early stage would, to be sure, have offered significant advantages. Developing Max Brenner requires completely different capabilities that must be developed in-house or brought in from outside, a process that is both costly and time-consuming. Nonetheless, it was felt that at such an early stage, Strauss-Elite's inexperience did not allow it to form a partnership from a point of advantage, or at the very least equality. A strong partner could take over the development and eventually control of the business. It was therefore decided that a full partnership for the venture would be created only later on if at all, when the concept was more developed, and the company's control more certain.

Max Brenner describes its vision as the *creation of a new chocolate culture*. This vision goes beyond offering the customer a superior tasting product, it is based on offering him a unique emotional experience. In order to realise this vision, it is necessary to control the environment in which the product is consumed. As a result, it was decided that distribution of the product during the first phase would be restricted to the chocolate bars and a few select outlets: the chocolate culture would be built through the chocolate bars.

Max Brenner positioned itself between cafés and fine dining. Its most immediate competition comes from full service coffee shops and casual restaurants. However Max Brenner is able to offer a unique selling proposition, a chance to experience something new which appealed directly to the senses. The chocolate bars offer a premium experience (quality of the product, look and feel of the bar) at a relatively low cost. Moreover, the chocolate bars also double up as shops for the chocolates, which adds not only to the experience, but to the profitability of the model. Based on the existing chocolate bars in Israel, our estimation is that the cost of setting up an average bar is about \$450,000, with annual sales ranging from \$1-3m (depending on size and geographical location), and an operating profit similar to franchises like Starbucks, McDonalds, Krispy Kreme, etc. of about 14-18%.

Finally, it was decided that the brands rebirth in the international market should take place in New York City. This decision did carry with it some risk. Manhattan diners are both sophisticated and discerning, with many high quality options to choose from when spending their money on dining out. To fail in New York would be more visible and therefore harder to recover from. Nevertheless, the potential seemed to outweigh the risks. New York is one of the world's cuisine capitals, and is usually

at the avant garde of new dining trends and fashions. Manhattan will act as a showcase, and if the concept proves successful in the Big Apple, it will provide Strauss-Elite with first mover advantage, and significant leverage off of which the company can expand through North America and into other locations around the world. For the bar in New York it was decided to team up with a local partner that already owned restaurants in the city. This allows Strauss-Elite to reduce the risks of the venture, and increase its chances for success by moving more rapidly through the learning curve. The success of the concept will be judged according to the strength of operational ratios such as table turns, number of customers, shop sales etc.

2005 and beyond

In 2001 a strategic plan had been put forward for the years 2002-2004. It called for changes in the operating model both in Israel and abroad, and required substantial changes in the organisational structure and business processes. By 2004, these goals had been fully accomplished, creating a new platform that provided a strong home base from which the company could support a significant leap in the pace of its international expansion, which the company has established as the main driver of growth for the near future. During 2005 Strauss-Elite designed the next step- a new set of visionary goals for the years 2005-2009. The company has created the necessary organisational infrastructure for the creation of *one company* based on a single set of core values (Exhibit 21) together with the processes and structure that can enable it (Exhibit 22). This next step is based on the quest to capture the potential that lies in joining forces and sharing resources across the entire group.

Based on the above Strauss-Elite has intensified its international activities since the beginning of 2005. In March, the company bought out its partner for coffee activity in Serbia and Montenegro. In August it concluded its acquisition of the MK brand in Poland, and at the end of 2005 it completed the merger in Brazil between Café Três Coracoes and Santa Clara. These moves made Strauss-Elite the leading R&G coffee player in Central and Eastern Europe and the second-largest player in the world's second-largest coffee consumer market – Brazil. During September, Strauss-Elite entered the hummus and chilled salad market in North America through a 51% acquisition of Sabra Salads. 2005 was also the year in which groundwork was laid down for the launch of Max Brenner in the United States, including the transfer of the senior management to New York City. Much of the financing for these activities was raised in February of 2005, when the company issued bonds and warrants at the Tel Aviv Stock Exchange in the total amount of NIS 500m. A further raising of capital will occur this year through the issue of stock in the London Stock Exchange. This is the first time the company's share will be listed outside of Israel.

The major challenge facing the company when looking ahead to the future is to continue its current momentum and accomplish the challenging goals it undertook for the years 2005-2009, while performing the further required breakthroughs and upgrading the business models under which it operates.

The question remains- what further steps are required in order to allow Strauss-Elite to achieve all this?

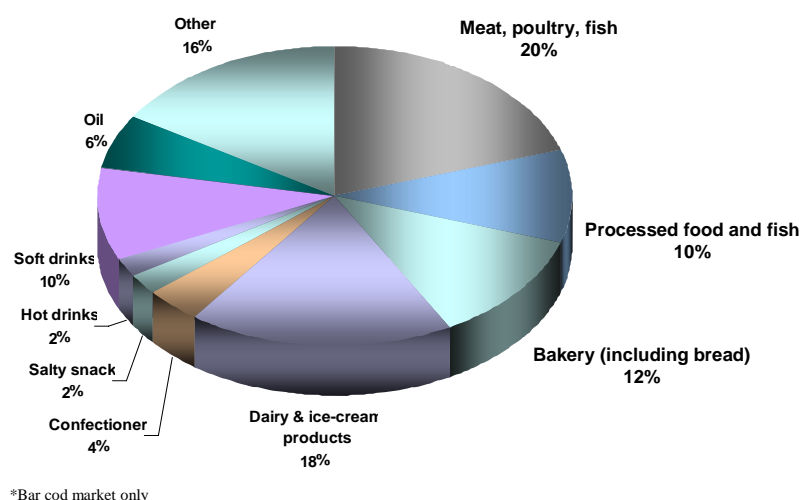
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Appendixes

Exhibit 1: Israeli Food Market

The Israeli food and beverage market is estimated at NIS30bn, or NIS24bn excluding meat, poultry, and fish. Of this NIS24bn, almost NIS5.5bn is accounted for by dairy and ice-cream products. Strauss Elite is active in about a third of the overall market. The largest producer is Tnuva, which accounts for 20% of the market, followed by Strauss Elite with 14% and Osem with 11%. In total, the top five producers account for 55% of the total market. Given the concentrated nature of the market, and the commanding position that Strauss Elite possesses, there seems to be little potential for substantial growth at the expense of competitors. The market itself is estimated to be growing at 1-2% a year.

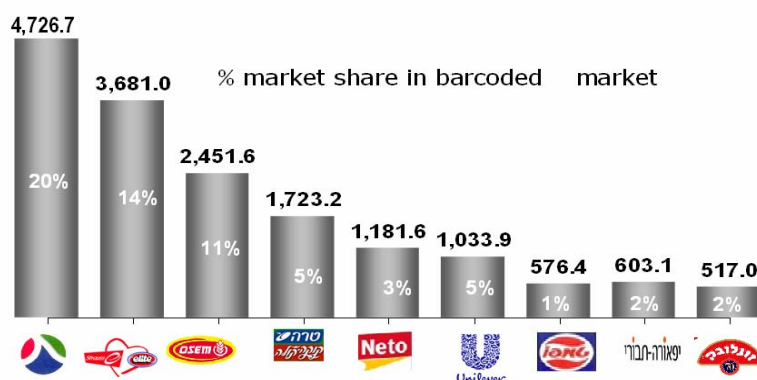
Market size of the Food and Beverages market is estimated at NIS 30 billion*



Source: company data

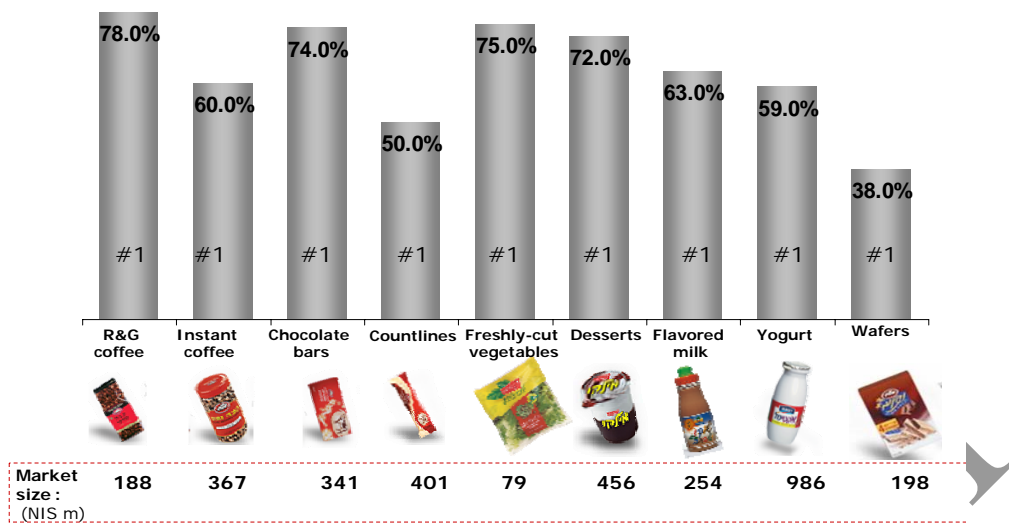
Exhibit 2: Competition Map in the Israeli Food and Beverages NIS 1,000*

The 10 top players in the Israeli food market
Net sales 2004



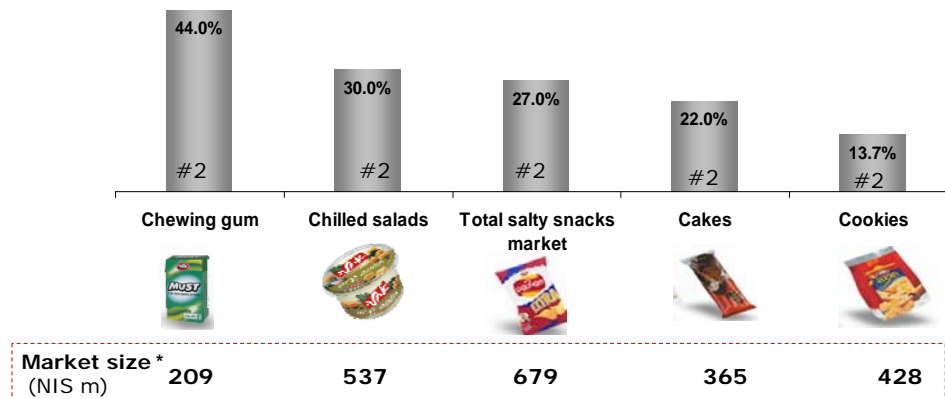
*Bar cod market only
Source: company data

Exhibit 3: Strauss Elite Market Shares in Israel – 2004



Source: Nielsen

*Selling price to consumers, assuming that the Nielsen market coverage is 60-80% of the various categories

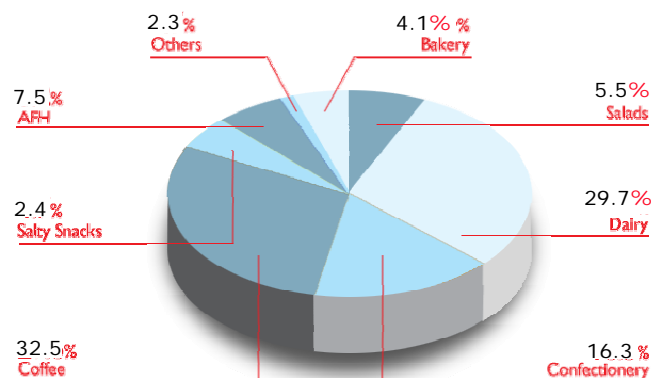


Source: Nielsen

*Selling price to consumers, assuming that the Nielsen market coverage is 60-80% of the various categories

source: company data

Exhibit 4: Strauss Elite Sales by Category -2004

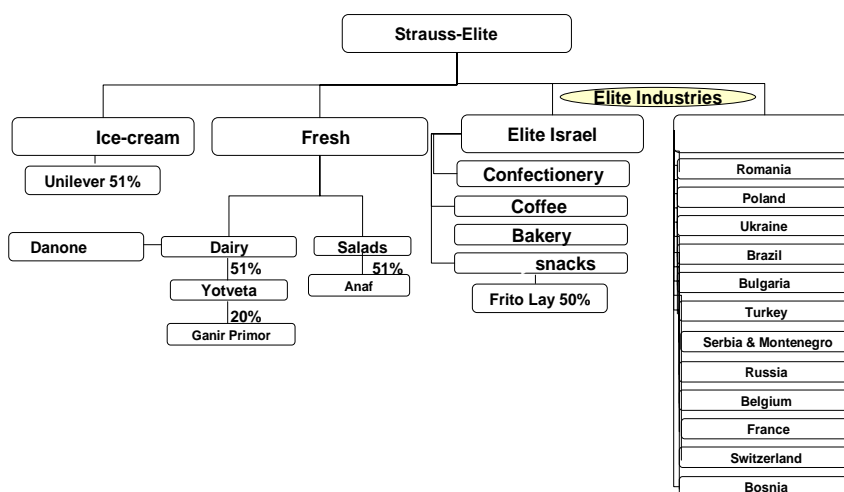


Source: company data

Exhibit 5: Organizational Structure before and after the Merger

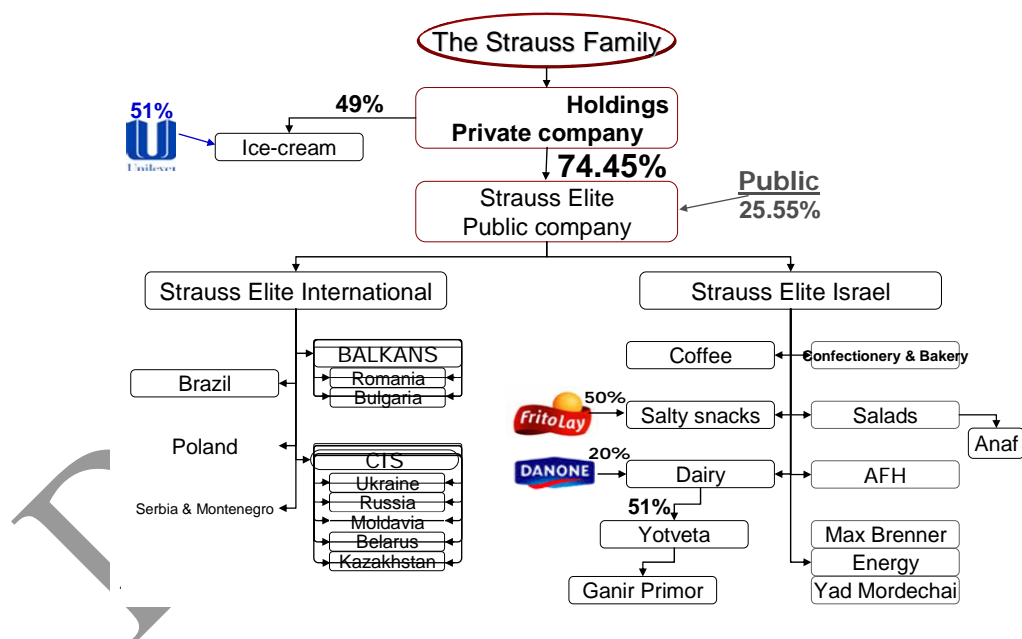
The Strauss Elite Group

Organizational Structure before the merge



The Strauss Elite Group

Organizational Structure after the merge



Source: company data

Exhibit 6: The World Coffee Market

Background

Coffee is one of the world's oldest and most traded commodities, with a market estimated at \$45bn a year. Though there seems to be an almost infinite number of coffee types, and an equal number of ways to prepare coffee, the basic categorisations are few. Two main species of the coffee plant account for most of the world's coffee production. *Coffea arabica* is the older plant and considered by most to produce beans of a superior flavour. It accounts for about three quarters of coffee production. *Coffea canephora* (robusta) is a hardier tree grown in more temperate climates and is generally considered to produce beans of a lower quality.

Supply

The three main coffee-producing countries are Brazil, Vietnam, and Colombia, who between them account for 61% of world production, and 55% of world export (Exhibit 9). More generally speaking, the supply of coffee can be divided into four geographical zones. South America including Brazil, Colombia, Venezuela, Peru and Ecuador are responsible for most of the world's Arabica coffee. Brazil alone produces about a third of the world's coffee supply. Central America from Mexico to Panama produces high quality, hand-picked and washed Arabica. Africa: because water is a rare commodity, the quality of the coffee is generally a mediocre Robusta produced mainly in West Africa (Uganda, Guinea and Ivory Coast). High quality Arabica is still produced in some areas such as Kenya, Tanzania, and Ethiopia, where coffee was said to originate from. Asia: India, Thailand, Indonesia and Vietnam are the main coffee producing countries in this region, supplying mostly Robustas, some of a very high quality. All coffee is produced from the raw coffee traded as commodity called green coffee.

Processing

Here too, two basic categories can be identified: roast and ground (R&G) and instant coffee. The latter goes through an additional industrial process which makes the coffee longer lasting and completely soluble in water, though it is often considered by coffee connoisseurs as an inferior product. R&G coffee is a highly fragmented market and represents 75% of the world market, while instant is highly consolidated and accounts for the remaining 25%. Most coffee-drinking countries have a clear inclination towards drinking either instant or R&G

Marketing

Most of the large producers supply a premium, medium and economy brand. There are also a variety of formats by which the final product can be marketed, these include sale of the actual beans for home grinding, ground coffee vacuum packed in bags, freeze dried in jars, and recently growth in the sale of premium blends in pods for home espresso machines. While the meaning of instant coffee is well

familiar to most consumers it is important to understand that under the name of R&G coffee come various types of products: Turkish coffee, filter coffee, espresso and black coffee.

Distribution

The traditional distribution channels include retail, HoReCa (hotels, restaurants and cafes), and vending machines whether coin operated or free (most prevalent in offices and places of work). As standards of living rise in the developed and developing world, people are beginning to drink their coffee (and eat their food) away from home and on the move. More than half of the coffee consumed in the United States is done so outside of the home. The success of Starbucks (over \$6.3bn in sales) is testimony to the strength of this trend. Indeed the massive proliferation of Starbucks and similar coffee chains has created an entirely new and significant channel of distribution. Today, however, producers and retailers are attempting to reach even further to meet the consumers demand for coffee, wherever they may be. Mobile coffee carts and stands (in such places as railways stations, hospitals, universities etc.) represent yet another and fast-growing channel of distribution called on the go (Exhibit 22).

Competitive Environment (Exhibit 11)

The two main categories of coffee, instant and R&G, are to a large extent distinct worlds with very different competitive environments. Instant coffee which accounts for a quarter of the industry is a global category, highly consolidated and dominated by Nestlé which controls over 52% of the market, with Kraft accounting for a further 19%. Instant coffee requires a much larger investment in technology, and is an industry where economies of scale play a large part in production.

R&G coffee, which includes Turkish (known under different names in different parts of the world), black, filter and espresso is a local category. The main potential today lies in developing markets that possess strong R&G traditions and a highly fragmented competitive environment. R&G is an ethnical product which is prepared and consumed differently in different countries. It generates high customer loyalty both to brand and taste which can vary a lot. The combination of these factors together with the relative simplicity and economy of its production in comparison to instant coffee make R&G a category where the benefits of being a large player are far less significant.

Exhibit 7: Main Competitors in Coffee Market

Nestlé

Headquartered in Vevey, Switzerland, Nestlé was founded in 1866 by Henri Nestlé and is today the world's biggest food and beverage company. Sales at the end of 2004 were CHF87bn, with a net profit of CHF6.7bn. Nestlé employs about 247,000 people worldwide and has production plants or operations in almost every country in the world.

Nestlé's product portfolio includes coffee, beverages, milk products, prepared dishes, pet care and pharmaceutical products, and includes well known brands such as Nescafé, Taster's Choice, Mövenpick and more. Nestlé's marketing focuses on youth, investing heavily on brand awareness, and a "one brand plan". The company has placed an emphasis on product innovation and renovation, launching more premium and super premium products mainly in developed markets while building leadership positioning in emerging markets. Nestlé is the world leader in instant coffee, although it has of late redeveloped activity in the R&G coffee market (under the *Nespresso* brand) after having abandoned in the past most of its R&G activity.

The company's strategy is guided by several fundamental principles. Nestlé's existing products grow through innovation and renovation while maintaining a balance in geographic activities and product lines. Long-term potential is never sacrificed for short-term performance. The company's priority is to bring the best and most relevant products to people, wherever they are, whatever their needs, throughout their lives.

Kraft

Kraft Foods is a global leader in branded foods and beverages with net revenues in 2004 of more than \$32bn (out of which about 13% is derived from coffee) and a net profit of \$2.7bn. The history of Kraft dates back to 1903, when with \$65 in capital, a rented wagon, and a horse named Paddy, J.L., Kraft started purchasing cheese at Chicago's Water Street wholesale market and reselling it to local merchants. Kraft has grown from modest beginnings to become the largest food and beverage company in North America and second largest in the world, marketing many popular brands in more than 155 countries and employing more than 98,000 workers worldwide.

The Kraft brand portfolio is one of the strongest of any packaged goods company with more than 50 brands generating revenues of over \$100m each, and five mega brands with annual revenues of over \$1bn - Kraft cheeses, salad dressings, dinners and other products, Jacobs coffee, Oscar Mayer meats, Philadelphia cream cheese, and Post cereals.

Coffee has been chosen recently as one of its four key competitive arenas alongside confectionary, dairy and pet food. 70% of group's current sales are in the U.S.. The current strategic focus is international growth through pod coffee machines (Tassimo) and penetration into open coffee shops. Its main coffee brands include Jacobs, Carte Noire and Maxwell house. Kraft's coffee activities are global and include both instant and R&G coffee.

Sara Lee

Chicago-based Sara Lee Corporation is a global manufacturer and marketer of high-quality branded products. The corporation posted yearly revenues of \$19.2bn, has operations in 58 countries, and markets its products in nearly 200 nations. Sara Lee Corporation employs 137,000 people worldwide (North America, Europe, Brazil and Australia). Sara Lee's long history began with Nathan Cummings' purchase of the C.D. Kenny Company in 1939, and continues through over 66 years of development becoming one of the world's leading branded consumer packaged goods companies.

Sara Lee provides food and beverages, foodservice, and household and body care products. It operates through five segments: Sara Lee Meats, Sara Lee Bakery, Sara Lee Beverage, Household Products, and Branded Apparel. Sara Lee's coffee strategy is to divest its retail brands in the U.S. (Hills, Chock) and lead the pod market (17% growth in 2004). Coffee revenue are \$3bn, 50% of which derive from the U.S.. Sara Lee's coffee activity is global and includes both instant and R&G products.

In February 2005, the company began executing a bold and ambitious multi-year plan to transform Sara Lee into a company focused on food, beverages, household, and body care businesses around the world. As part of its transformation plan, Sara Lee will dispose of approximately 40% of its activities, including apparel, European packaged meats, U.S. retail coffee, and direct selling businesses.

P&G

Procter & Gamble is headquartered in Cincinnati, Ohio and engages in the manufacture and marketing of branded consumer products worldwide. Established in 1837 by William Procter and James Gamble as a business making and selling soaps and candles, the P&G community consists of nearly 98,000 people working in almost 80 countries worldwide. What began as a small, family-operated soap and candle company now generate revenues of over \$57.7bn annually, and markets approximately 300 branded products in approximately 160 countries.

The company operates in five segments: P&G Beauty, Health Care, Baby Care and Family Care, Fabric Care, Home Care, and Snacks and Coffee. P&G is the global leader in baby care, fabric care, feminine products, and hair care. Coffee, including the Folgers, Millstone and Home-café brands is not one of the company's main areas of strategic focus, but nonetheless accounts for \$3.14bn in

revenues, or 6% of total sales in 2004. This represents an 8% increase over 2003. In North America, P&G's coffee activity focuses mostly on the R&G market.

Tchibo

Tchibo was founded by Max Herz in 1949 in Germany and still remains a family-owned business. It is the world's fifth-largest coffee producer and controls about 30% of the German market. The original mail-order coffee company has grown into a multinational enterprise, active in many more activities beyond traditional coffee retailing. The German coffee maker and café owner once held a controlling interest in Reemtsma, the world's number four cigarette company, but sold it to UK-based Imperial Tobacco. In the 1990s, Tchibo made a leap from being a purely domestic company to becoming an international operating group. Within a few years Tchibo's resolute expansion has made it a market leader in coffee supply in Central and Eastern Europe. International activities today accounts for 17% of the groups earnings. The company's revenue in was 2004 €9.3bn, out of which €3.7bn came from the coffee activity, representing a 14% growth over the previous year. Tchibo is a regional coffee player in the world coffee market, focused on Germany, Switzerland, Central and Eastern Europe.

In addition to selling coffee in the traditional way, the company is focused on its Java division, which sells coffee through a store-within-a-store business model, and lately in Tchibo stand-alone stores. Tchibo also sells within the coffee shops related accessories as well as house wares, clothing, furnishings, and other impulse items. The company owns about 50% of Beiersdorf, maker of Nivea skin products, and generates revenues from additional channels including holidays, insurance and mobile phones.

Lavazza

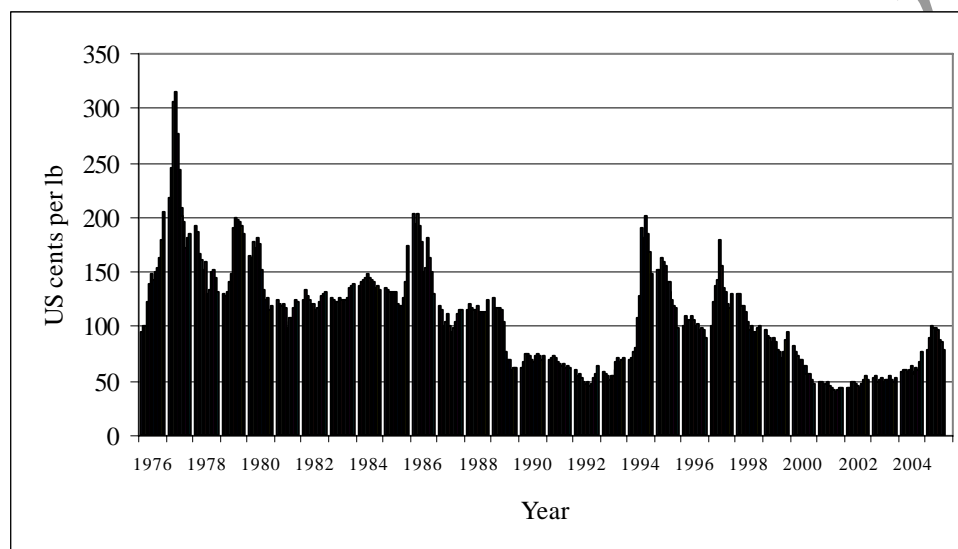
Established in 1895 by Luigi Lavazza, the company is controlled by the fourth generation of Lavazzas. Lavazza has command of its home market in Italy with nearly 75% of coffee drinkers choosing one of its coffees and its major product- Espresso. Lavazza produces coffee for home use, institutional customers, and restaurants under different brands including *Cafe Espresso* and *Qualite Oro*. The company has sales of \$930m and holds 40% of the retail market in Italy, though it has expanded worldwide and has a strong presence in France, Germany, Australia and Poland. The brand is also known in North America and Far East countries, but is relatively weak in these markets. Lavazza is a global coffee company, focused only on espresso.

Segafredo

Massimo Zanetti leads the company his grandfather established as a leading espresso bar supplier. The company custom blends its coffees to suit markets needs. Segafredo owns a Brazilian coffee grower and a commercial espresso machine producer to achieve better control of its coffee product. The company operates roasting plants and franchises its brand to espresso bars in about 35 countries, with

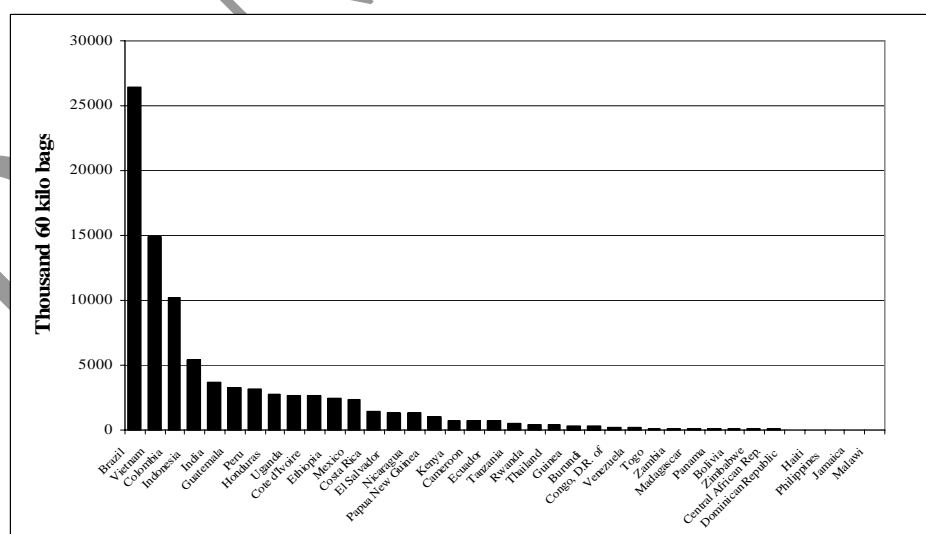
a strong presence in the Dutch, Austrian and Italian markets. The company doesn't compete with the neighbourhood bars it supplies to, but instead limits its brand to retail coffee blends for home users. However, as part of a push to expand, the company has opened espresso bars in Italy. Segafredo's \$400m sales in 2004 were generated from its activities in the R&G market, where it focuses solely on super premium espresso and coffee machines world wide.

Exhibit 8: Monthly Averages of International Coffee Organization Indicator Prices in US Cents per lb



Source: ICO

Exhibit 9: Exports of Exporting Members in 60 Kilo Bags



Source: ICO

Exhibit 10: World Consumption of Green Coffee per capita-2004 estimation

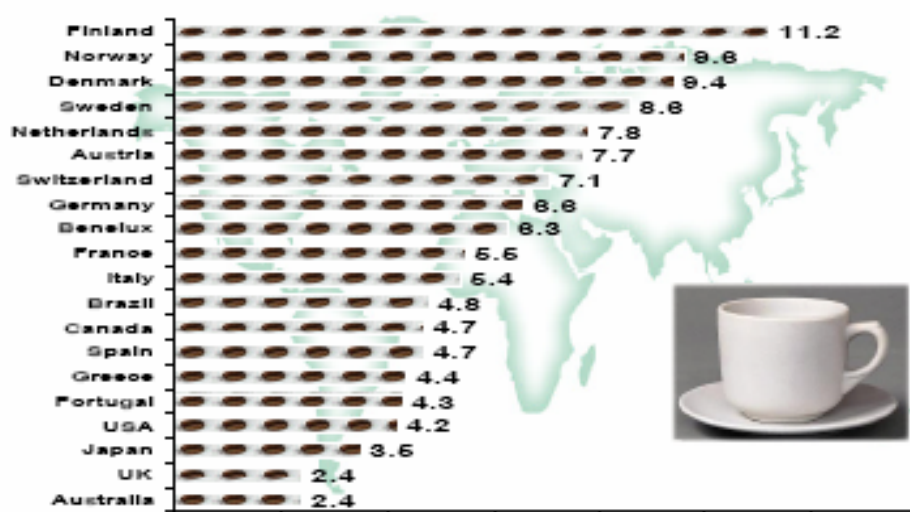
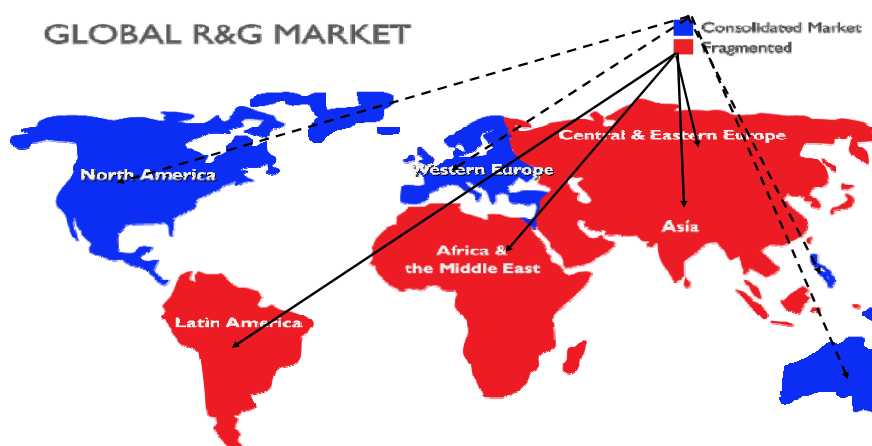


Exhibit 11: Global R&G Market



Source: company data

Exhibit 12: The Competitive Environment of R&G Coffee in Central & Eastern Europe

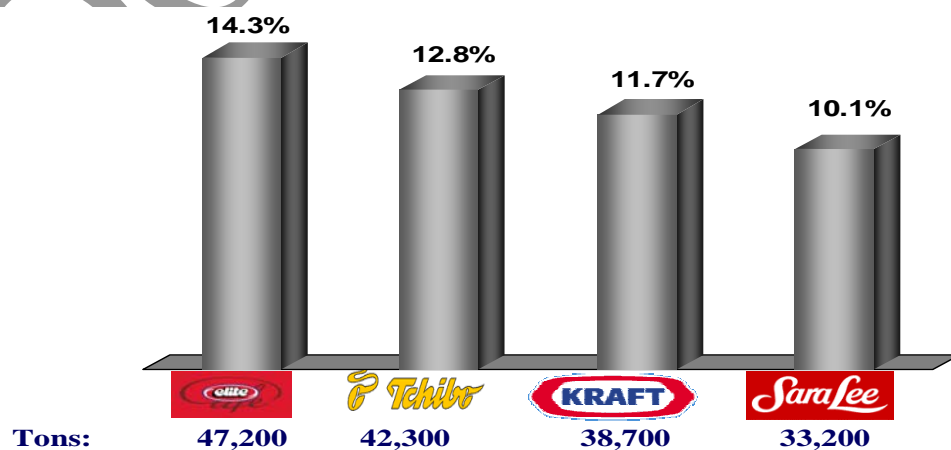
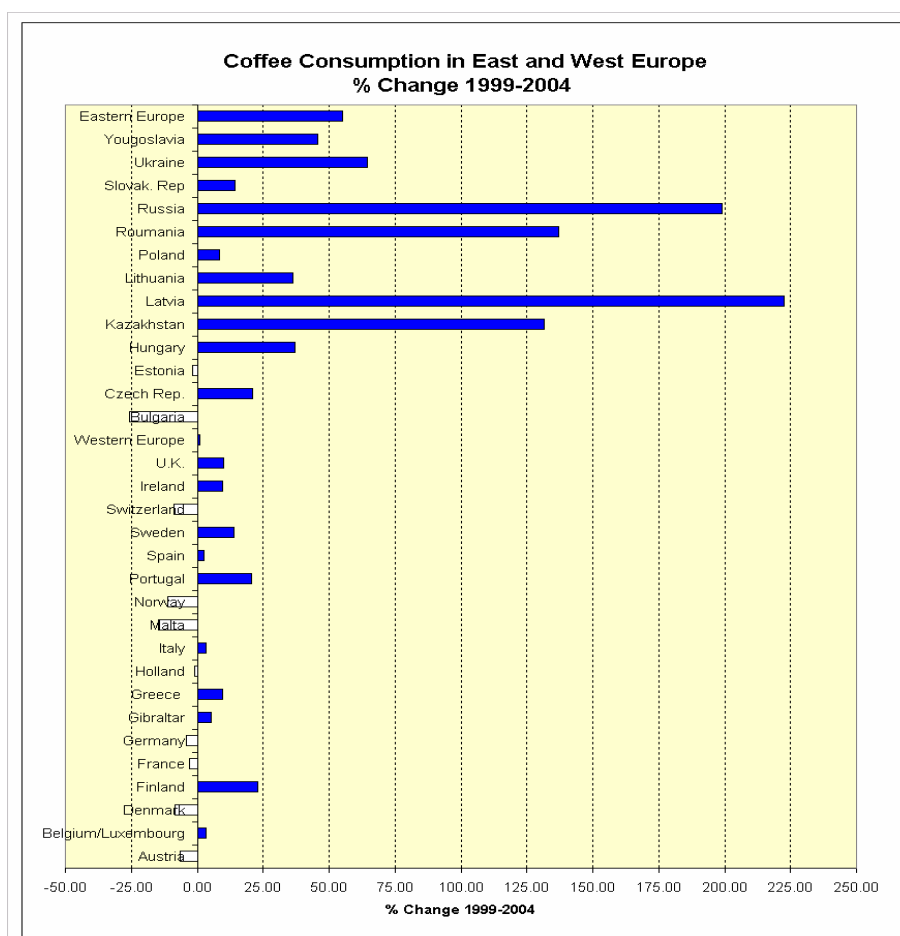
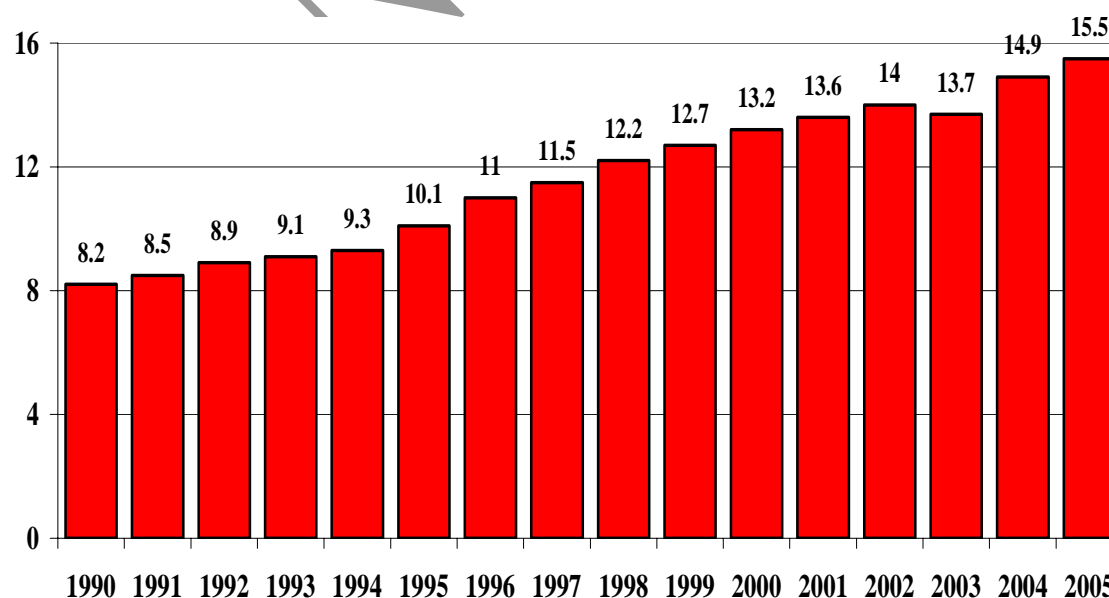


Exhibit 13: Europe Coffee Consumption



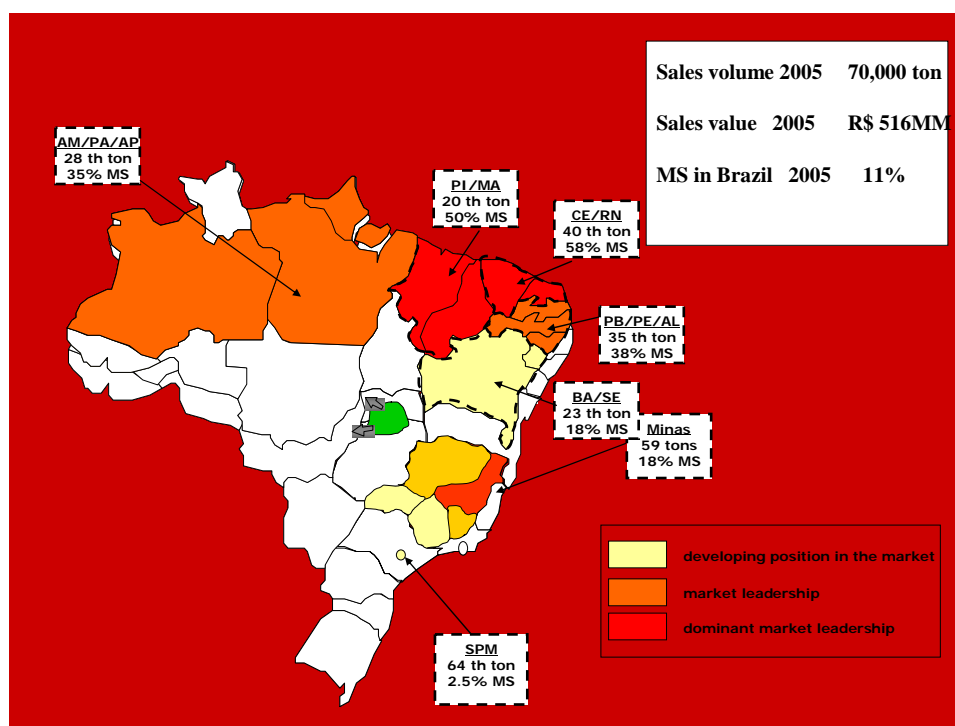
Source: Nestlé

Exhibit 14: Brazil Coffee Domestic Market Consumption in 60 kilo Bags - 1990-2005



Source: ABIC

Exhibit15: Santa Clara Consolidated Position in the Brazilian R&G Coffee Market
After the merger- 2005



Source: company data

Exhibit 16: Brazil – Competitive Market Share, 2005

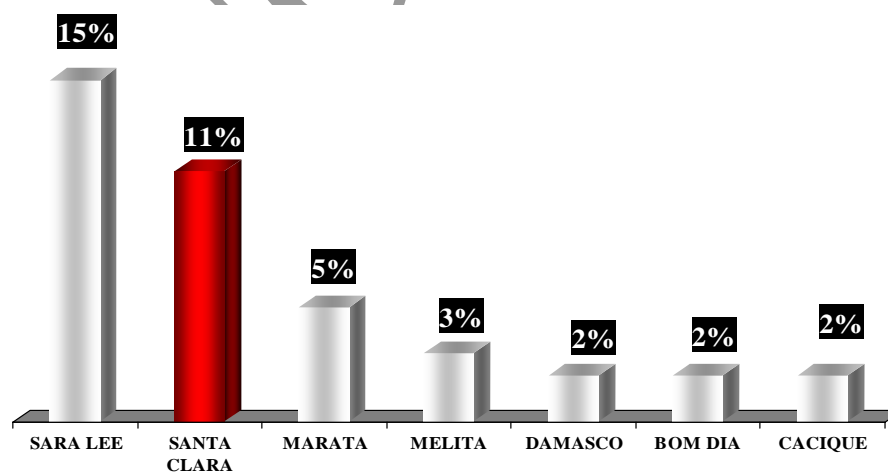
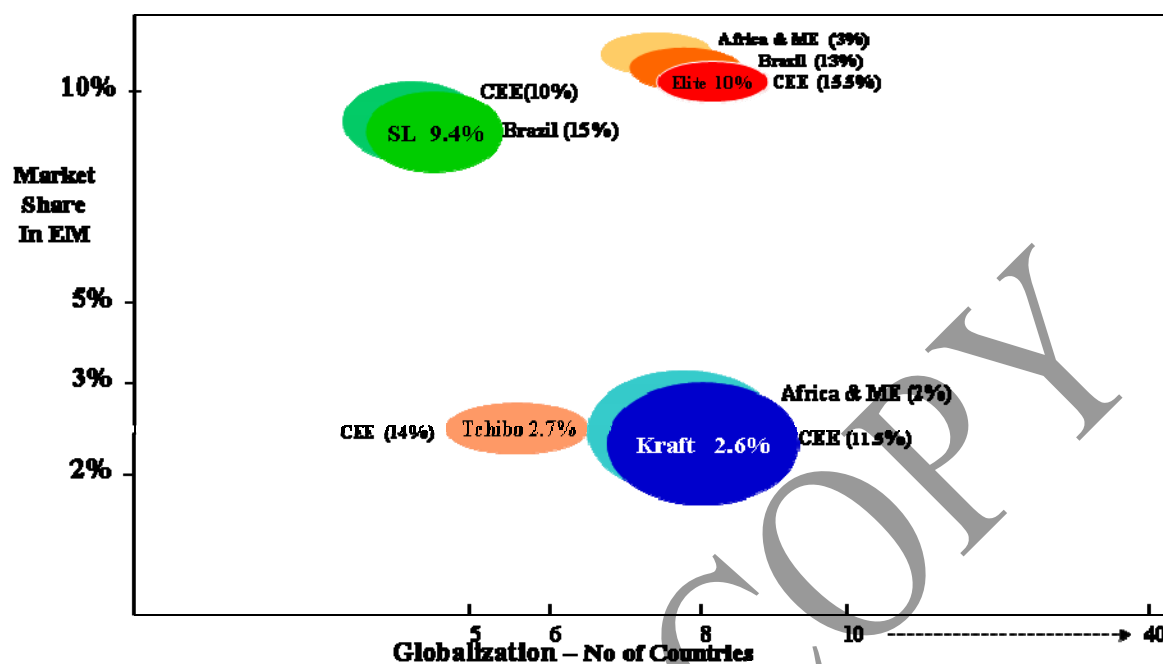


Exhibit 17: R&G Competitive Market Share in Emerging Markets: Ccentral East Europe, South America, Africa & Middle East-2005, Following the completion of processes in Poland and Brazil



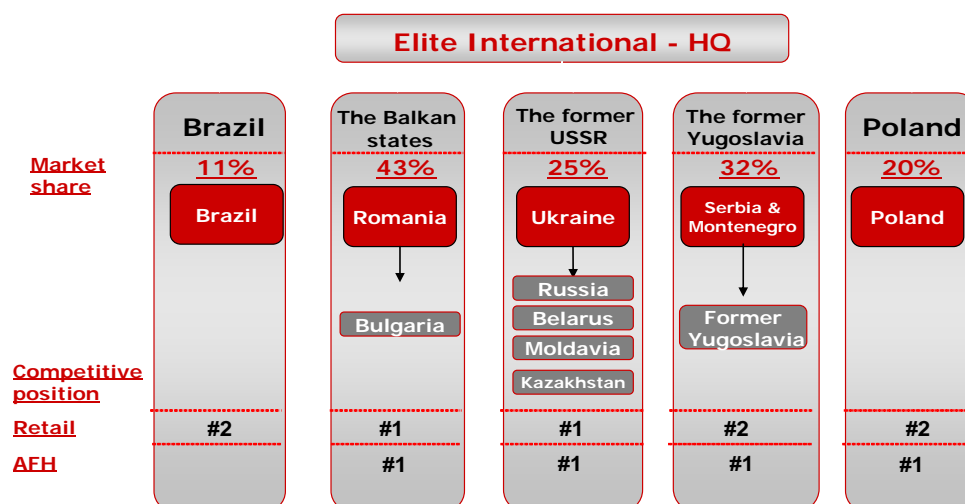
Source: company data

Exhibit 18: Strauss Elite R&G Markets

Country	Population(m)	GDP per capita (\$)	Coffee market size (tons)
Brazil	184.0	2,818	650,000
Poland	38.2	5,480	92,600
Romania	21.6	2,315	34,000
Bulgaria	7.8	2,500	12,500
Ukraine	48.0	830	23,500
Serbia & Montenegro	24.0	2,300	31,000
Rest of former Yugoslavia			37,000

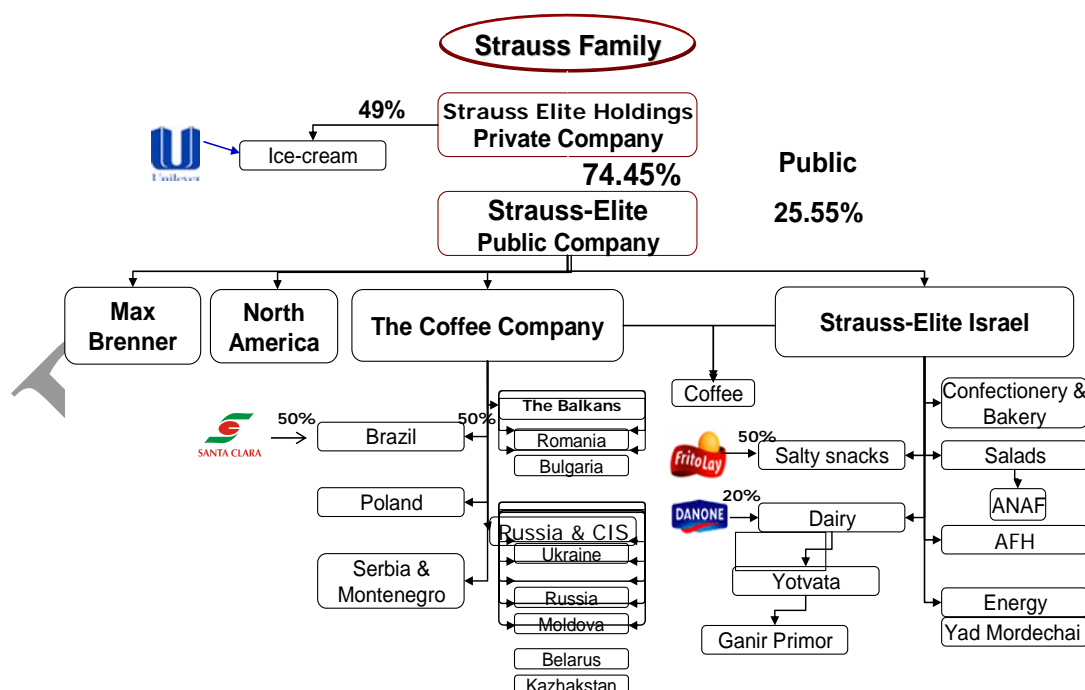
Source: company data

Exhibit 19: Strauss-Elite International Business Structure



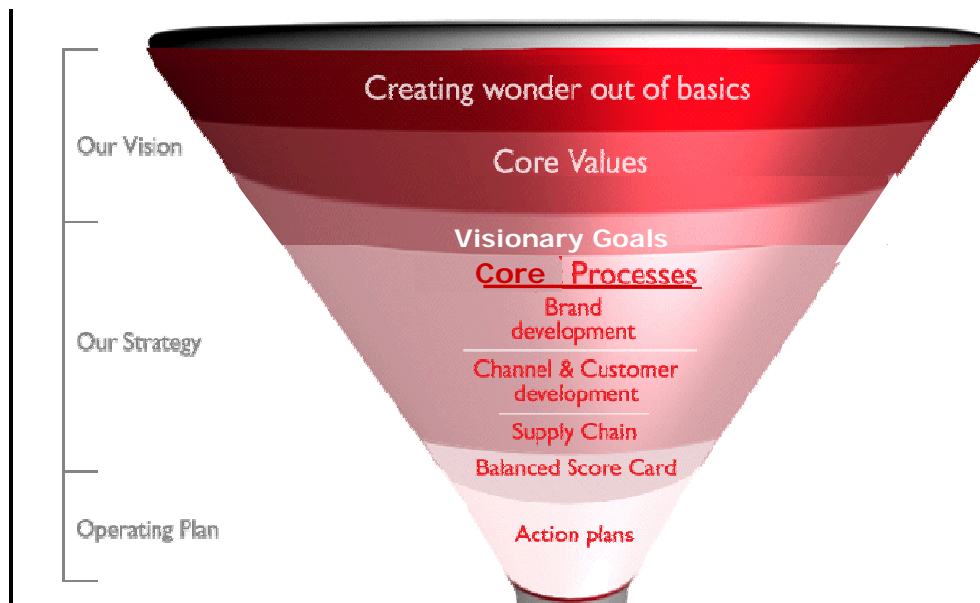
Source: company data

Exhibit 20: New Organizational Structure - 2005



Source: company data

Exhibit 21: One Company, One Vision



Source: company data

Exhibit 22: On The Go Concept



Exhibit 23: Consolidated Statements of Income

Strauss Elite LTD - Pro-forma Consolidated Statements of Income, SHEKEL thousands				
	31/12/2005	31/12/2004	31/12/2003	31/12/2002
Revenues local	2,920,400	2,785,900	2,553,200	2,311,400
International	1,257,400	905,400	706,500	601,900
Total Net Revenues	4,177,800	3,691,300	3,259,700	2,913,300
Cost of sales	2,517,900	2,181,700	1,898,700	
Gross profit	1,659,900	1,509,600	1,361,000	
	39.7%	40.9%	41.8%	
Expenses				
Marketing & Sales	1,019,700	948,100	837,600	
General and administrative	279,700	253,700	291,600	
Total Expenses	1,299,400	1,201,800	1,129,200	
Operating income				
Local	299,900	281,000	254,900	
International	60,600	26,800	-23,100	
Total Operating income	360,500	307,800	231,800	
	8.6%	8.3%	7.1%	
Financing expenses, net*	32,400	18,500	30,100	
Other expenses, net	4,000	3,800	700	
Re Organization expenses		4,600	78,400	
Income before taxes on income	324,100	280,900	122,600	
	7.8%	7.6%	3.8%	
Taxes on income	99,900	99,100	89,000	
Income after taxes on income	224,200	181,800	33,600	
Minority interest in income of subsidiaries, net	36,900	29,200	20,900	
Net income from operation	187,300	152,600	12,700	
	4.5%	4.1%	0.4%	
Discontinue Operation Expenses	0	2,200	59,700	
Net Income	187,300	150,400	-47,000	
EBITDA				
Local	416,500	394,200	374,300	
International	110,500	62,500	14,700	
Total	527,000	457,000	389,000	
*not including 34,200 for Clubmarket bad debt				

Exhibit 24: Strauss Elite LTD - Balance Sheets

Strauss Elite LTD - Balance Sheets Shekel thousands				
	30/09/2005	31/12/2004	31/12/2003*	31/12/2002*
Current assets				
Cash and cash equivalents	102,181	112,870	39,979	29,596
Marketable Securities and Deposits	41,534	56,204	23,828	25,813
Trade Receivables	865,378	672,873	475,792	425,784
Other Receivables and Debit Balances	232,888	180,942	149,056	142,537
Inventory	446,313	368,159	327,129	317,094
	1,688,294	1,391,048	1,015,784	940,824
Investments and Long Term loans				
Investee Companies	27,988	33,941	4,398	4,027
Other investments and Long Term Debit Balances	38,449	35,134	37,901	24,065
Total	66,437	69,075	42,299	28,092
Fixed assets	985,968	946,230	520,220	530,761
Other assets and deferred charges	620,928	281,881	277,311	283,223
Assets Attributed to Discontinued Operations		2,910	9,993	19,645
Total	3,361,627	2,691,144	1,865,607	1,802,545
Current liabilities				
Credit from Banks	255,074	302,388	283,887	130,608
Current Maturities of Long Term Bank Loans	29,057	67,879	104,579	121,288
Trade Payables	418,244	432,771	271,169	235,147
Other Payables and Credit Balances	479,887	335,743	242,976	178,840
Proposed Dividend		150,680		
	1,182,262	1,289,461	902,611	665,883
Long- term liabilities				
Bank loans	142,240	30,644	136,065	154,720
Bonds	467,711			
Deferred taxes, net	89,076	101,588	57,585	59,626
Employee severance benefits, net	32,946	38,831	24,145	25,686
	731,973	171,063	217,795	240,032
Liabilities Attributed to Discontinue Operations	0	3,964	30,824	65,390
Minority interest	215,066	181,655	6,692	7,106
Shareholder's equity	1,232,326	1,045,001	707,685	824,134
Total	3,361,627	2,691,144	1,865,607	1,802,545

*Elite only

Exhibit 25: Shekel /\$, Shekel/Euro Yearly Average Exchange Rates

<u>Year</u>	<u>Shekel /\$</u>	<u>Shekel/Euro</u>
2001	4.2056	3.7644
2002	4.7378	4.4780
2003	4.5483	5.1362
2004	4.4820	5.5694
2005	4.4878	5.5830

Source Bank of Israel

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