BITTER CHOCOLATE

(Illustration: Avi Katz)

SHLOMO MAITAL says Israeli consumers are mad, and rightly so, and will not take crass profiteering any more

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LAST JUNE, A BNEI BRAK CANTOR NAMED Yitzhak Alrov, angered by the exorbitant price of Tnuva cottage cheese, launched a Facebook protest page. The resulting spontaneous boycott led to sharp price cuts and helped spur last summer's social protest movement.

Now comes Act Two. An Israeli living in the US named Yoav Rokach Penn uploaded a receipt from a New Jersey supermarket, Shop Rite, to Facebook showing he paid $0.69 (2.60 shekels) for a 45-gram Pesek Zman ("Time Out" in Hebrew) chocolate bar made by the Israeli food company Strauss. In Israel, the identical product costs more than double (6.29 shekels) in the Mega supermarket chain.

"Bitter chocolate," said a group of Israeli mothers, who organized a protest movement they called "Dear Israel." The day after the protest was announced, Strauss shares fell 3.5 per cent on the Tel Aviv Stock Exchange. This new power of social media may herald a sea change in the relative power of consumers and capitalists.

The fact is, almost everything is more expensive in Israel than abroad. This is because the local economy is less competitive than global markets, because of cartels, monopolies and import duties. Economics students learn that to maximize your profit – if you can – you charge prices inversely proportional to price sensitivity. Abroad, shoppers are more price sensitive than here because they have far more choices and substitutes.

That's why Strauss can charge retailers 3.50 shekels for a Pesek Zman bar that costs Strauss one shekel to make, and retailers can charge up to 6.29 shekels for a bar that

costs them only 3.50 shekels wholesale. Strauss is a recognized chocolate monopoly under Israeli law, with a 63 per cent market share. In 2006 Strauss paid a 5 million shekel fine for preventing retailers from selling competing British Cadbury chocolate. They had gone too far, even for a monopoly.

Seven years ago, I worked with Strauss (through TIM – Technion Institute of Management) on a project to help it become a global giant. "Half our revenue will come from abroad in five years," said company chairperson Ofra Strauss. Frankly, Strauss managers were dubious.

But she made it happen. In 2004, Strauss, then a leader in dairy products, acquired the chocolate and coffee company Elite. By 2010, Strauss-Elite was the sixth largest company in the world in coffee sales. Some 62 per cent of Strauss revenues come from outside Israel. Strauss employs nearly 14,000, about half of them in Israel. This is quite amazing; Strauss began as a dairy founded in the Galilee coastal town of Nahariya in the 1930s by Ofra's grandparents Richard and Hilda Strauss, immigrants from Germany.

I think the bitter chocolate protest raises two key issues. One is the lack of open competition in Israel's economy, an issue addressed by the report of the Concentration Committee, which studied the monopolistic control of Israel's banks and industries by a handful of tycoons.

A second, deeper issue relates to capitalism, and to the way Israeli companies are run. Writing in the daily "Haaretz," Meir Barak, the CEO of Tradenet Capital Markets, a day-trading school, said:"Strauss owes an accounting only to its shareholders and will do everything it can to survive and profit." That's what we once taught managers. And it brought us the 2007-9 global collapse.

That view is obsolete. Today, enlightened capitalists understand that they serve not only their shareholders, but mainly their customers, neighborhoods, countries and workers. And if they overcharge us, their customers, we will fight back. Tnuva, for instance, saw its gross profit margin fall by 30 per cent in 2011. Its shares have lost 2.2 billion shekels (about $580 million) or 30 per cent, in market value, since 2009, partly due to the cottage-cheese protest.

Strauss profits totaled 2 billion shekels ($533 million) in the first nine months of 2011. It spends a quarter of its revenues on sales and marketing, so it can charge premium prices with high profit margins. But Strauss may yet face Tnuva's fate. Its chocolate may prove bitter.

Times have changed. Consumers are mad and are not going to take it any more. Strauss and other Israeli companies need to change in response. They serve their

customers, first and foremost. It is time that fundamental principle of authentic capitalism was understood.

The writer is senior research fellow, S. Neaman Institute, Technion.