Team 1
### Toms Confectionery Group

**“Growing a niche player in a scale game”**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Complications</th>
<th>Question</th>
<th>Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toms needs to profitably grow the top-line of its chocolate confectionary business</td>
<td>Toms is a leader in a declining market with low margins</td>
<td>How can Toms profitably increase its top-line while leveraging its competitive advantages?</td>
<td>Internationalization:</td>
</tr>
<tr>
<td></td>
<td>The international mass and mass-premium segments require unattainable scale</td>
<td></td>
<td>1. Creating Anthon Berg Premium</td>
</tr>
<tr>
<td></td>
<td>Low bargaining power inhibits shelf-space penetration in foreign markets</td>
<td></td>
<td>2. Entering German premium segment via current platform</td>
</tr>
</tbody>
</table>

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**Beat the Elite 28.02.2013**

**Case team**

Emil Sylvest, Copenhagen Business School, Cand.merc.AEF
Nicholas Hjorth, Copenhagen Business School, Cand.merc.AEF
Mads Pedersen, Copenhagen Business School, Cand.merc.FIR
Joachim Satchwell, Copenhagen Business School, B.Sc. International Business
Financial development

- **Situational analysis**
  - Revenues are slowly rebounding while margins deteriorate
  - Meanwhile strategic flexibility is high as financial leverage has been brought down through stable cash flows

- **Possible strategic solutions**
  - Toms is a market leader in a declining Danish market in which the top three players have +50% market share

- **Winning in Germany**
  - Stagnant revenue growth and declining profitability
  - Revenues are slowly rebounding while margins deteriorate
  - Meanwhile strategic flexibility is high as financial leverage has been brought down through stable cash flows

- **Financial impact**
  - 50% of Toms current revenue is created in Denmark, but forecasted to decline by 7% by 2017
  - Net Debt remains strong

**Revenue and EBITDA**

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>1,389</td>
<td>146</td>
</tr>
<tr>
<td>2008</td>
<td>1,344</td>
<td>74</td>
</tr>
<tr>
<td>2009</td>
<td>1,220</td>
<td>104</td>
</tr>
<tr>
<td>2010</td>
<td>1,297</td>
<td>118</td>
</tr>
<tr>
<td>2011</td>
<td>1,396</td>
<td>80</td>
</tr>
</tbody>
</table>

**Net Debt/EBITDA**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Debt/EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2010</td>
</tr>
<tr>
<td>2009</td>
<td>2011</td>
</tr>
</tbody>
</table>

**Sources:** Orbis, Euromonitor Country Report, Denmark 2012
The chocolate confectionery industry is a scale game.

- **Situational analysis**
- **Possible strategic solutions**
- **Winning in Germany**
- **Financial impact**

Toms’ large competitors have significant bargaining advantages for shelf space.

**European confectionery market distribution (2011)**

- **Top 4 players in Europe (62% of market):**
  - Nestle (12.8bn)
  - Mars (16.8bn)
  - Mondelez (15.5bn)
  - Ferrero (5.6bn)
- **Top 4 share:** 12.6%

**Selected chocolate brands in European supermarkets**

- **Nestle**
- **Mondelez**
- **Ferrero**
- **Mars**

**Market share in Europe Chocolate confectionery market**

- **Toms:** 0.2bn
- **Toms share:** 2.1%

**EBIT margin**

- Mondelez
- Mars
- Nestle
- Ferrero

**European confectionery market distribution (2011)**

1. The largest players in the industry also have the highest level of profitability.
2. Scale economies have significant cost advantages in the confectionery industry.
3. Shelf space is key – small players without bargaining power stand no chance in the mass market.
4. Competitors have extensive product portfolios with high brand value products.
5. Large competitors have product portfolios which can cater to most segments of the markets.
6. Broad portfolios and company size are determinantss for operating profitability.

Sources: Marketline, company annual reports, BCG industry presentation.
...and scale equals shelf space bargaining power in mass-retail.

- Situational analysis
- Possible strategic solutions
- Winning in Germany
- Financial impact

European confectionery market distribution (2011)

- Only 14% of sales are through non-store-based channels

Est. sales through store-based channels per brand (2011)

- The top 4 players (Nestle, Mondelez, Mars and Ferrero) have a majority share of shelf space within chocolate confectionery in mass-retailers
- Scale creates bargaining power in the mass retail sales channels

- 86% of sales in the confectionery chocolate industry is through store-based retail channels
- “...customers – mainly retailers – demand products with high turnover...” – CEO, Jesper Møller

Due to its size Toms can not compete in mass-retail at the European level

Sources: Marketline
Toms’ margins under pressure – focus on premium market

The premium market offers higher margins and is growing as opposed to the mass market.

In order to succeed, Toms needs to promote a premium brand by leveraging the Anthon Berg portfolio to become more exclusive in foreign markets. Toms needs to acquire access to efficient distribution networks through M&A activity.

**Rationale**

- **Market**
  - **Premium**
    - Avg. gross-margin: 53%
    - Avg. EBITDA-margin: 31%
  - **Mass market**
    - Avg. gross-margin: 17%
    - Avg. EBITDA-margin: 5%

- **Segment is growing**
  - Value EURm: 2.163, 2.228, 2.293, 2.360, 2.429, 2.575, 2.730, 2.893
  - % of total chocolate consumption: 4.5%, 4.1%, 4.8%, 5.2%, 4.7%, 5.1%, 5.3%, 5.6%
  - CAGR: 6%

- **In order to succeed**
  - Toms is under pressure from retailers and competitors
  - The premium segment offers higher margins
  - **The premium brand segment is growing in Western Europe**
  - Consumers are willing to trade up within fast moving consumer goods – affordable luxury

**Sources**:
- Case material, Euromonitor, MarketLine, Icon Group International
- Note: avg. margin is calculated from 8 Danish and international peers (Toms, Mars, Mondelez, Ferrero, Nestle, Lindt, Summerbird, Valrhona)
- CAGR assumption for segment growth is from case material

**The Anthon Berg brand has international recognition and a Nordic brand profile**

- Internationally, the brand must be located in the premium brand category as opposed to mass premium as in Denmark. Toms needs to leverage the international brand status gained through the strong market position in the traveling segment supported by new marketing initiatives
- Toms has the quality for a premium market promotion
- The premium market is a fragmented craft industry with single or few small scale production facilities
- Toms needs to actively pursue ways to enter international markets by acquiring distribution channels
Toms’ home market is in decline – Enter German premium market

The German market is an attractive market for a Toms premium chocolate offering. The biggest challenge is gaining distribution foothold. Utilize available network and insights and a combination of innovative marketing and premium channels that support the premium brand strategy.

Rationale
- The German market has the highest consumption % of premium chocolate in Europe
- The largest market in Europe
- Offers attractive retail opportunities for premium brand chocolate offerings

Sources: Case material, Euromonitor, MarketLine, Icon Group International

In order to succeed
- Toms must develop a winning marketing strategy and leverage distribution network and insight from Hanseatische Chocolade GmbH

Toms has acquired Hanseatische Chocolade GmbH to gain distribution networks in chocolate specialist stores and key insights into the premium market.

✓ Though valuable networks have been established, serious distribution challenges must be addressed. The distribution strategy must tie in seamlessly with the premium brand strategy.
✗ Toms Danish brand strategy is not suited for the premium offering in Germany.

<table>
<thead>
<tr>
<th>Market</th>
<th>Premium-% of total consumption</th>
<th>% retail via speciality stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>7%</td>
<td>3%</td>
</tr>
<tr>
<td>Norway</td>
<td>7%</td>
<td>2%</td>
</tr>
<tr>
<td>Germany</td>
<td>9%</td>
<td>13%</td>
</tr>
<tr>
<td>Sweden</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>UK</td>
<td>6%</td>
<td>17%</td>
</tr>
</tbody>
</table>

The German market is entering the highest consumption % of premium chocolate in Europe, which is the largest market in Europe and offers attractive retail opportunities for premium brand chocolate offerings.
Toms will pursue a three-pronged strategy with the specialty retailer segment as the backbone and flagship and shop-in-shop acting in part as marketing channel.

**Distribution strategy**

- As distribution is critical for entry, Toms will pursue a three-pronged strategy catering to their premium offering.
- Additionally, the impact of national trade fairs must not be understated in Germany.
- Further, Toms will leverage Hanseatische’s network on the specialty retailer level.
- The way Anthon Berg Premium is distributed has immense influence on the perceived brand value of the product.

- Toms will open flagship stores similar to Danish A XOCO shops in Berlin and Frankfurt.
- In addition to being a shop, the flagship will showcase some parts of the manufacturing process and explain the bean-to-finished product philosophy.
- Create an experience and a connection between the consumer - brand spillover to Anthon Berg.
- Explicitly state A XOCO is an integrated part of Anthon Berg – even more so than in Denmark.

- Key benefits include “educated” and professional sales personnel who are active brand ambassadors.
- The opening of these flagship stores will be accompanied by campaigns in the print media, mainly magazines and billboards.

- Whereas the above channels carry a lot of marketing functionality, the specialty retailer segment is the backbone of the strategy.
- These stores will be the strategy’s “cash cow” in the longer term, thus successful and significant market penetration is a prerequisite.
- In the long term, specialty retailers would ideally demand Toms’ Anthon Berg Premium in response to growing consumer awareness and preference.
Executing a premium branding strategy in Germany (2/2)

• Situational analysis
  • Possible strategic solutions
  • Winning in Germany
  • Financial impact

Toms’ should expand its current product portfolio with a new brand: Anthon Berg premium

• New brand portfolio

Tayloring high-end Anthon Berg brand

• Anthon Berg Premium will offer a more exquisite consumer experience through:
  • New packaging
  • A strong focus on conveying the traceability and quality products
  • Organic and FairTrade
  • Only minor changes to existing Anthon Berg products, in order to reap SKU-level profitability
  • Online sales

Positioning of the product offering

Segmented branding strategy:

In DK: Anthon Berg maintains current branding strategy: “You can never be too generous”

In Germany: Anthon Berg Premium is launched to cater to “premium”-segment through the slogan “Geben zum Leben?”
Financial impact

- Situational analysis
- Possible strategic solutions
- Winning in Germany
- Financial impact

Cost input fluctuations must be managed through Toms already-in-place hedging strategy

The base case creates a revenue growth of 1.1% and EBITDA growth of 9.6% 2012-2017 CAGR

- A flat case is assumed for developed markets excluding Germany (following Euromonitor estimates, if available)
- CAGR (2013E-2017E) for Denmark is -1%, Sweden 0%, Travel retail 2%, Exports 3%, BRIC 9-10%
- Overall sales growth: 0.3%

| Source: Company annual Reports, Capital IQ, Euromonitor, case material |

Note: Based on peer analysis (cf. slide 5) we use a 17% EBITDA margin for sales from new products
We apply a 5% EBITDA margin for sales of existing products (3 yr historical rate)

Revenue projections

EBITDA projections

Germany penetration case 1 & 2

- Case 1 Base case Total market share in Germany in 2017 = 1.1%
- Case 2 optimistic case Revenues of new products will match that of existing in 2017. Market share = 1.7% within total chocolate confectionery
- A flat case is assumed for developed markets excluding Germany

Sales in Denmark
Sales in Sweden
Sales from Travel Retail
Sales Exports
Sales from BRIC


Sales in Denmark
Sales in Sweden
Sales from Travel Retail
Sales Exports
Sales from BRIC

Wrap-up

- **Internationalizing Toms through:**
  - Launching Anthon Berg Premium...
  - ...in promising premium markets

- **Leverage access to German specialty retailers via subsidiary**
  - Launch flagship and shop-in-shop stores in Hamburg, Berlin, Frankfurt and Munich
  - Participate in regional German trade shows

- **Top line growth within premium segment of CAGR 1.1% and EBITDA of 8.8%**
  - Strategically differentiates a core Toms product from international cost leaders in mass/mass-premium segment
Team 2
Reaping the Fruits of Generous Gift Giving in the Chinese B2B Market

CBS Case Competition
Beat the Elite

Thomas Brorsen
(M.Sc. In Finance and Accounting)
Julie Due Jensen
(M.Sc. In Management of Innovation and Business Development)
Emil Plagborg-Møller
(M.Sc. in Applied Economics and Finance)
Louise Brink Thomsen
(M.Sc. In International Business Studies)

All team members study at The Copenhagen Business School
Executive Summary: Toms should grow in China through the B2B gift market

Situation
- Toms is the leader in the Danish chocolate confectionary market, with a market share of 30%
- Respectively 50%, 15% and 15% of sales are in Denmark, Sweden and Germany
- Toms holds strong brands within the mass and mass-premium segments

Complication
- Toms is only present on mature, low growth, markets
- Within the mass market of confectionary Toms is experiencing much pressure from international competitors
- Toms does not have the critical size to be cost effective in the mass market

Critical question
- How does Toms leverage its capabilities and strong brands to grow profitably?

Recommendation
- Toms should leverage its Danish Anthon Berg brand to grow in China through the B2B gift market

Implication
- Annual revenue of 155 DKKm within 6 years
- Initiative NPV of 50.9 DKKm
- Options for further expansion
Situation: Toms is currently present in markets with low growth and high price pressure

The market share of Toms in their primary market has been stable and is not expected to grow...

...and sales in all segments of current accessible markets are expected to stagnate

- Toms should not expect any growth from current markets
  - Market share has been stable and is not expected to grow due to high pressure from international competitors
  - Revenues are expected to fall due to price pressures from international competitors
  - In time the margin of Toms will be put under pressure due to lack of scale relative to international competitors
- Current markets should be seen as a cash cow for Toms
Growth: Toms should focus on the Mass-Premium segment and enter new markets

The capabilities of Toms show best fit with the mass-premium segment...

<table>
<thead>
<tr>
<th></th>
<th>Mass</th>
<th>Mass-Premium</th>
<th>Premium</th>
<th>Ultra Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market size</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scale importance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand perception</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Toms’ fit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

...but international competitors are also heavily present within this segment, limiting differentiation possibilities...

<table>
<thead>
<tr>
<th></th>
<th>Toms</th>
<th>Competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size / Power</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tradition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production adaptability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustainability</td>
<td></td>
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</tr>
</tbody>
</table>

For Toms to leverage its product capabilities within the mass premium market it must find a way to leverage its strong Danish brands in new markets since Toms ability to compete on cost and marketing power is limited
Toms can leverage its Anthon Berg brand in the mass-premium segment internationally.

Emerging markets are large and have a high growth...

Unattractive due to political instability

Market analyses indicate China and Brazil as candidates for Toms’ mass premium segment products

...high perception of Denmark as a cultural and product brand

Note: Lower value indicates higher rank, data for Ukraine was not available – analyses based on data for Russia

Source: Simon Anholt Nation Brands Index

Source: Euromonitor

Situation | Recommendation | Implementation | Financial Impact and Risks | Future
---|---|---|---|---
Entering China: Aligning entry strategy with competitive advantages and national confectionery trends

Toms should focus on chocolate confectionery ...

"Chinese consumers are increasingly choosing to give chocolate confectionery over sugar confectionery at traditional gift giving occasions (Euromonitor) – currently the market for business gifts in China is estimated at DKKb 240 (China Gift industry research institute, Chinese National bureau of statistics)

... unfortunately the big players are already covering the B2C mass premium chocolate market in China...

... instead Toms should focus on a B2B niche market to reap the fruits of their competitive advantages ...

"This [chocolate gift market] opens up this category to premium packaging types tailored to better presentation of the product ... (Euromonitor)

Opportunity to establish a strong brand through Danish brand, packaging design, and Danish chocolate quality

"Consumers expect high standards in packaging for gifts

Toms can take advantage of their sustainability focus

"The Chinese government is attempting to create a conservation-minded society by taking steps to regulate the cost of product packaging (Euromonitor)

Toms should enter the B2B chocolate gift market

Market Share

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ferrero</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Nestlé</td>
<td>20%</td>
<td>30%</td>
</tr>
<tr>
<td>Mars</td>
<td>40%</td>
<td>20%</td>
</tr>
<tr>
<td>Cadbury</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Euromonitor

February 2013
Implementation: Co-development provides a tool for strengthening the Danish brand value

Co-development of packaging
Toms should identify an appropriate Danish design manufacturer to design the packaging for the chocolate that enforces the Danish brand in combination with the Anthon Berg brand logo.

Co-development of chocolate
Toms should once a year involve a Danish chef to participate in the development of new flavors, combinations etc. Different “themes” should be chosen each year to increase and evolve the brand value of the product; e.g. “Nordic gastronomic chocolate”, “Danish molecular chocolate”, “Danish healthy Chocolate”, etc.

Launch strategy
- Sales representatives should contact target companies directly
- Create awareness about the products through online platform
- New Products are initially presented at “Hong Kong Gifts & Premium Fair” (world’s largest gift event and key to entering the market in China)
Potential Risk Scenarios

<table>
<thead>
<tr>
<th>Risk</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium brands enter the B2B gift market and put pressure on Toms business</td>
<td>Toms should create first mover advantages through offering services that complement their product.</td>
</tr>
<tr>
<td>The market is not ready for Toms solution</td>
<td>The initial investments are rather low since there will be no new factories nor radical R&amp;D to initiate the project</td>
</tr>
<tr>
<td>Legislation and Health regulations restrict Toms gift business</td>
<td>The risk of health reforms and sugar prohibitions in company gifts are also potential risks in any other chocolate market in the world, and the risk is not perceived to be higher in China</td>
</tr>
<tr>
<td>Chinese manufacturers copy the products, the brand and the business model and gain market share</td>
<td>Trademark ownership in China of the Anthon Berg brand has a mitigating effect</td>
</tr>
</tbody>
</table>
Impact: Highly profitable with low upfront investment and future expansion real options

Assumptions

<table>
<thead>
<tr>
<th>NPV</th>
<th>WACC</th>
<th>Sales in terminal period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>50</td>
</tr>
<tr>
<td>4%</td>
<td>109</td>
<td>203</td>
</tr>
<tr>
<td>6%</td>
<td>42</td>
<td>84</td>
</tr>
<tr>
<td>8%</td>
<td>20</td>
<td>45</td>
</tr>
<tr>
<td>10%</td>
<td>9</td>
<td>25</td>
</tr>
<tr>
<td>12%</td>
<td>2</td>
<td>14</td>
</tr>
<tr>
<td>14%</td>
<td>-2</td>
<td>7</td>
</tr>
<tr>
<td>16%</td>
<td>-5</td>
<td>2</td>
</tr>
</tbody>
</table>

Conservative assumptions:
- WACC of 10%
- Initial investment of 30 DKKm
- Perpetual growth rate of 2%
- ½% of total business gift market is chocolate
- Toms can reach a market share of 10% within 6 years

Estimated NPV: DKKm 50.9
IRR: 21.0%
+Option for further expansion
A growth strategy with expansion opportunities

Initial goal with the strategy is to obtain economic growth through Chinese market entry and growth in a profitable manner.

The strategy ensures low-risk market entry in China for Toms, with great growth potential within the B2B chocolate gift market.

Furthermore, the strategy can be seen as a pilot project for testing whether Toms has a strategic fit on other B2B markets beyond China and eventually also on the B2C market segment.
Team 3
Expanding domestic chocolate market
- The DeLight of living healthy!
Introducing a new healthier chocolate opens up new possibilities for increased sales in existing markets!

**Challenge**
- Ensuring growth while keeping profitability high
- Keeping sustainable and renowned profile

**Obstacle**
- Existing markets are mature with fierce competition
- There is an increased threat of regulatory actions against unhealthy products

**Strategy**
- Launch new innovative healthy product to access underdeveloped market niche!
- Streamline operations to gain economies of scale

**Action**
- Launch sugar free diet chocolate in the premium price segment
- Secure cocoa supply and reduce product portfolio

**Result**
- Increase revenue by 10 to 15%
- Increase profits by 14 to 21 million DKK

**Summary**
- Trends
- Strategy
- Implementation
- Moving forward
Focus on Toms core competence to move with the changing market and gain market share!

Mature markets with strong competitors

Market is moving towards novelty chocolate and premium brands

Toms can use its core competence to successfully handle the changing market conditions!

- Strong domestic brand
- Premium products
- New market segments to move into

Chocolate preference is very nationalized

Sharp increase in obesity and diabetes rates all across the developed world

Source: Sciencedirect.com, Euromonitor
Launching a sugar free chocolate give the best opportunities for long term profitability!

<table>
<thead>
<tr>
<th>Action</th>
<th>Profitability</th>
<th>Feasibility</th>
<th>Alignment</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing and launching a sugar free chocolate.</td>
<td>★★☆☆☆</td>
<td>★☆☆☆☆</td>
<td>★☆☆☆☆</td>
<td>★☆☆☆☆</td>
</tr>
<tr>
<td>Expand into overcrowded European markets.</td>
<td>★☆☆☆☆</td>
<td>★☆☆☆☆</td>
<td>★☆☆☆☆</td>
<td>★☆☆☆☆</td>
</tr>
<tr>
<td>Expand within the luxury segments in China &amp; Brazil.</td>
<td>★☆☆☆☆</td>
<td>★☆☆☆☆</td>
<td>★☆☆☆☆</td>
<td>★☆☆☆☆</td>
</tr>
<tr>
<td>Open up a direct channel to end customer through a digital shop.</td>
<td>★☆☆☆☆</td>
<td>★☆☆☆☆</td>
<td>★☆☆☆☆</td>
<td>★☆☆☆☆</td>
</tr>
</tbody>
</table>

Toms strong brands on existing markets as well as dedication to quality products make launching a sugar free chocolate the best alternative for high profit with low risk!

Launching a healthy diet product is in line with Toms fair-trade strategy of being a company that takes social responsibility!
Toms DeLight, the new choice for the health concerned customer!

Demographic
- **Health conscious**
- **Overweight**
- **Diabetic**

Customer experience
- Want to be healthy, but also enjoy the small moments in life.
- Want to lose weight while still being able to enjoy a treat.
- Want the experience of chocolate

Product
- **Toms DeLight** – Delightful taste, thinner waist

Promotion
- Aimed campaigned through **health and fitness magazines**
- Word-to-mouth campaign through **social media** such as Facebook and Twitter. Leverage Toms current strong digital presence

Place
- Hypermarkets, Supermarkets, Discounters, Convenience, Department Stores.

Price
- In line with other premium segment products.

Summary → Trends → Strategy → Implementation → Moving forward
New product line leads to a 10-15% increase of revenues, and increased profits of 14 to 21 million DKK per year!

Revenue increase:
15.3%
21.4 million DKK profit per year*
Reach break-even early mid 2015**

Because of the uncertainty in projections we present three different scenarios. In the calculations a initial investment for development and marketing campaign is included.

Worst Case Scenario
Revenue increase: 10.2%
14.2 million DKK profit per year*
Reach break-even early 2016**

Expected Scenario
Revenue increase: 12.8%
17.8 million DKK profit per year*
Reach break-even mid 2015**

Best Case Scenario
Revenue increase: 15.3%
21.4 million DKK profit per year*
Reach break-even early 2015**

* The profit margin on the new product is estimated to be 10%
** The point where the profits from increased revenue will break-even with the initial investment of 50 million DKK*** for marketing and development
*** The initial investment can be financed through cash from the companies cash and cash equivalents.

Source: http://www.oecd.org/health/healthataglanceeurope.htm
Secure supply chain by vertical integration and reduce cost by streamlining current market portfolio!

Toms are facing **two major issues** in the future that need to be dealt with now!
- Increased demand of cocoa beans threaten supply
- Poor economies of scale

We suggest 2 different strategies to deal with these problems:

**Strategy**
- Secure cocoa supply*
- Streamline production

**Action**
- Start cocoa subsidiary in Ghana
- • Stop producing less profitable products
  • Standardize packages
  • Move mass production to one plant and premium production to another

**Benefits**
- • Gain control over supply chain
- • Secure quality and future supply of cacao beans
- • Secure fair-trade
- • Reduce packing costs
- • Reduce cost of reconfiguration downtime

---

**Summary**

Trends

Strategy

Implementation

Moving forward
Projected to launch before Christmas this year, full market penetration by 2015!

<table>
<thead>
<tr>
<th>Action</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop sugar free diet chocolate.</td>
<td></td>
<td></td>
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<tr>
<td>Launch full scale media plan.</td>
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<tr>
<td>Launch taskforces to evaluate current products and package design.</td>
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<tr>
<td>Implement new product portfolio and redesigned packages.</td>
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<tr>
<td>Find suitable partners in Ghana.</td>
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<tr>
<td>Launch first joint investments in Ghana.</td>
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</tbody>
</table>

Summary
- Now: Launch sugar free chocolate
- Break even sugar free chocolate
- Vertical integration complete
- Full market penetration sugar free chocolate

Trends
- Strategy
- Implementation
- Moving forward
A more mature diet product market reduce the challenge of launching the new sugar free diet chocolate!

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Likeliness</th>
<th>Impact</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased demand for cocoa beans lead to drastically increased prices.</td>
<td>![Lightning bolt]</td>
<td>![Lightning bolts]</td>
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<tr>
<td>Regulatory changes such as tax on sugar comes into effect.</td>
<td>![Lightning bolt]</td>
<td>![Lightning bolt]</td>
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<tr>
<td>Loss of bargaining position with retailers.</td>
<td>![Lightning bolt]</td>
<td>![Lightning bolts]</td>
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<tr>
<td>Failure to develop sugar free diet chocolate.</td>
<td>![Lightning bolt]</td>
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<tr>
<td>Failure to properly launch market campaign for diet chocolate.</td>
<td>![Lightning bolt]</td>
<td>![Lightning bolts]</td>
<td>![Lightning bolts]</td>
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</tbody>
</table>

Toms launched a sugar free chocolate once before and it failed to gain traction, there is a risk that this will happen again. However, we believe that it will be successful this time because:

- Market is more developed for no sugar diet products
- The company is ready to take this step

Important to regularly evaluate the progress of the launch and be ready to abort if found not profitable.
Once market have stabilized, expand to new markets!

Once current market for sugar free chocolate have stabilized, expand the new sugar free chocolate to Norway, Poland and United Kingdom. These are the markets with highest profit for lowest risk.

Use brand recognition gained from sugar free diet chocolate to expand rest of product portfolio to these countries.
Team 4
Steer towards higher margins
Beat the Elite, CBS Case Competition
March 2013

Rolf Trolstrup Nørregaard Andersen, CBS, M.Sc. Finance & Strategic Management
Jakob Skytte, CBS, M.Sc. Finance & Strategic Management
Awais Shafique, CBS, M.Sc. Applied Economics & Finance
Rasmus Ditlevsen, CBS, M.Sc. Finance & Accounting
Toms should focus on becoming a niche player within the high end confectionary segment in order to fend off potential takeovers.

By focusing on the premium segment and utilizing the strong value chain in the marketing strategy, Toms will by 2020 be able to develop a strong niche position and thereby legitimize its existence as an independent entity.

Why should Toms focus on the high-end confectionary business?

Given the consolidation of the confectionary industry, a company can either pursue a strategy of being the big fish who is eating the others or a company can decide to swim in another sea.

We recommend Toms to find another sea (niche market) to swim in and thereby fend off potential takeovers.
Toms is highly exposed to a low growth market (~3% 2010-14) and threatened by increasing consolidation in the industry

**Markets**

- Sugar confectionary
- Chocolate confectionary
- Premium confectionary

<table>
<thead>
<tr>
<th>Sugar confectionary</th>
<th>Chocolate confectionary</th>
<th>Premium confectionary</th>
</tr>
</thead>
<tbody>
<tr>
<td>+2.9%</td>
<td>+2.7%</td>
<td>+12.8%</td>
</tr>
</tbody>
</table>

**Growth**

- Future growth are to be found outside of Toms current key markets, indicating that new markets has to be explored in order to fulfill higher growth targets

**Consolidation**

- Given the consolidation within the industry and the size of Toms business, Toms must differentiate and find a niche area to operate within in order not to be acquired by financial- or strategic buyers

Focus on growing niche product markets in high-growth geographic markets

**Introduction**

Situation

Complication

Recommendation

Implementation
Toms is currently positioned in low-growth markets and heavily exposed to low-margin product with an intensive mass / mass-premium product portfolio

- The Danish chocolate confectionary market (retail value in DKKm) is expected by Euromonitor to grow by a negative CAGR of -1.3% from 2012-17. This is a flat, staggering market with a high amount of mass-market sales and highly intense customer groups (e.g. Dansk Supermarked and Coop Danmark)

- Main markets such as Western Europe (32% of global chocolate sales) and North America (20%) are constituting high CAGR from 2012-17. E.g. USA will according to Euromonitor experience a CAGR of 8.7%, UK a CAGR of 13.1%, Russia a CAGR of 10.8%, Brazil a CAGR of 17.2% and finally China a CAGR of 32.4%

- In addition to being a low-growth market, especially Denmark has resorted to taxation and regulation to mitigate the problem. By slowly steering the revenue stream away from Denmark, Toms will be able to free up capital to invest

- By divesting the Sugar Confectionary product portfolio and steer focus towards high-end Chocolate Confectionary products, Toms will not only increase the overall margin – they will also free up capital for further investments

- By 2020, the goal is to be exposed to only chocolate confectionary and premium – with emphasize on mainly premium high-end niche products

**Introduction**

**Situation**

**Complication**

**Recommendation**

**Implementation**
By divesting mass-market brands, investing in high-end brands, while controlling, leveraging and marketing the value chain, Toms will by 2020 be able to develop a strong niche position.

By focusing on the premium segment and utilizing the strong value chain in the marketing strategy, Toms will by 2020 be able to develop a strong niche position and thereby legitimize its existence as an independent entity.
Major industrial players in the market are ideal divestment candidates, and there are interesting potential takeover targets with synergies and fair trading multiples

**Divest...**

**Potentials buyer of Toms mass market business**

- **Potential**: Ferrero Rocher, Nestle, Mars Incorporated
- **Rationale**:
  - Free up capital for investment into future sustainable business
  - Ensure Toms focus on the premium segment
  - “It can be a challenge to be considered a premium brand when you have a broad product offering”
  - Given the increased focus on health, Toms should cater to the premium segment

**Demographics**

- Emerging markets like the Chinese demonstrate a growing taste for western luxuries
- Consumers are driven by health & wellness and environmental & social conscience

**... to invest**

**Potential takeover targets**

- **Potential targets**
  - Strong position within the luxury market
  - Small player that can be shaped to fit the Toms strategy
  - Financial viable (up to 1 billion in buy price)

**Demographics**

- Emerging markets like the Chinese demonstrate a growing taste for western luxuries
- With the rise in middle classes in emerging markets, more consumers has disposable income to spend on confectionaries

**Potential targets**

- Acquire an established premium brand that can be levered to strengthen Toms portfolio of premium chocolate
By leveraging on the vertical integration and showing this through increasing marketing efforts, Toms will be capable of converting the 10% higher cost on cocoa beans into profit.
By divesting mass market brands, Revenue stream and EBITDA margins are expected to grow within 2 years and going forward

- Divestments of mass market business will result in a lower topline initially, but from year 2 investments in premium segment starts to be reflected in the numbers
- EBITDA margin is expected to increase due to focus on higher margin business
  - Higher marketing costs are offset by higher market power which allows premium pricing

Recommended niche strategy will result in an EBITDA of DKK 101m in 2015
# Implementation and risk

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<tbody>
<tr>
<td>Product line extension</td>
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<td>Divest</td>
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<td>Invest</td>
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<tr>
<td>Value chain focus</td>
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<td>Marketing effort</td>
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</tbody>
</table>

## Risks associated with recommendation

<table>
<thead>
<tr>
<th>Risk Description</th>
<th>Degree of risk</th>
<th>How to mitigate risk</th>
<th>Toms mitigating risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic risk</td>
<td></td>
<td>Diversified product offering</td>
<td>✓</td>
</tr>
<tr>
<td>Macro economic factors</td>
<td></td>
<td>Diversified geographical markets</td>
<td>✓</td>
</tr>
<tr>
<td>Increasing consolidation</td>
<td></td>
<td>Build strong niche position</td>
<td>✓</td>
</tr>
<tr>
<td>Fluctuating cocoa bean ASP</td>
<td></td>
<td>Hedging</td>
<td>✓</td>
</tr>
<tr>
<td>Regulatory factors</td>
<td></td>
<td>Participate in interest groups</td>
<td>✗</td>
</tr>
<tr>
<td>M&amp;A Risk</td>
<td></td>
<td>Hire financial advisor</td>
<td>✓</td>
</tr>
<tr>
<td>Implementation Risk</td>
<td></td>
<td>Detailed implementation plan</td>
<td>✓</td>
</tr>
</tbody>
</table>

## Introduction

**Situation**

**Complication**

**Recommendation**

**Implementation**
By focusing on the premium segment and utilizing the strong value chain in the marketing strategy, Toms will by 2020 be able to develop a strong niche position and thereby legitimize its existence as an independent entity.

By conducting the three strategies Divest to Invest, Value Chain Focus and Marketing Effort, Toms will be able to find another sea (niche market) to swim in and thereby fend off potential takeovers.
Team 5
Growing profitably through a travel retail-focus, and long-term customer relations.

PROSPECTORS – mail: oskar.harmsen@post.au.dk
Anne Lundgaard Hansen, Economics and Management, Aarhus University
Thyge Ryom Enggaard, Economics and Management, Aarhus University
Rikke Jessen Schmidt, Economics and Management, Aarhus University
Oskar Harmsen, Economics and Management, Aarhus University
By targeting international high-end travellers, Toms will achieve profitable growth through a 5-year plan.

<table>
<thead>
<tr>
<th>Current Situation</th>
<th>Goals</th>
<th>Complications</th>
</tr>
</thead>
</table>
| • Stagnant homemarket growth  
• Low bargaining power eroding margins  
• High taxation and increasing health concerns. | • Achieve profitable growth outside DK  
• Find or develop new retail channels  
• Continuously emphasize CSR | • Market consolidation has led to tough M&A-conditions  
• Chocolate preferences are static, brand recognition crucial |

Toms should target international travellers, while pioneering online customizable distribution, to create longterm profitable relationships.

Sales is the weakest link in the bean-to-bar-chain, thus providing great opportunities for growth.

**Origin**
- Toms takes pride in CSR activities such as child education and sustainable farming.
- Unique partnerships enables Toms to trace the origin of any batch of cocoa beans.

**Processing**
- In-house processing facilities enables Toms to maintain control and ensure high quality.
- This model do impose high processing costs compared to outsourcing.

**Manufacturing**
- Toms’ manufacturing equipment allows for flexibility, allowing for quick adaption to the newest market trends.

**Sales**
- Retailers possess strong bargaining power, which influences price.
- In recent years, Toms has faced increasing sales and distribution costs.
- Toms holds a significant position in the travel retail market as the 7th largest supplier.

Toms deals with a high cost structure in order to ensure the quality of the final product. However, this value-adding effort is not communicated to the final consumer, which may call in question if Toms utilise their strength to its full potential.

Toms is obliged to find alternative retail channels. Since Toms already has competitive advantage within travel retail, an obvious solution is to develop this approach further.
Toms’ current situation supports organic growth through European high-end consumers

The home market is saturated, and there is a clear need for international expansion...

- Fluctuating cocoa prices necessitate high profit margins...
- The home market is saturated, and there is a clear need for international expansion...

Strong emphasis on M&A activity within the sector, makes external growth a costly affair...

- Reasonably priced M&A – targets are inaccessible
- Toms is a relatively small player internationally, and therefore M&A might not be the best option

Emphasis on internal growth

• Toms has little or no business experience outside Europe
• The Toms brand has low international brand recognition, with the result that international internal growth is difficult

Growth in European markets

Overview Analysis Strategy Implementation
Based on contemporary consumer trends, Toms can profitably design a suitable offering

### Contemporary consumer trends

- Consumers look for experiences rather than products
- Consumers want authenticity and are willing to pay for it
- Consumers are willing to pay for convenience
- Consumers value involvement in the food making Process

Source: Euromonitor Top Ten Consumer Trends 2013

### Strategic implications

**Marketing the bean-to-bar-chain in its entirety.**
- The integrated supply chain is not just about organisational efficiency, but can be leveraged as a unique selling proposition.
- All display stores should have information on Toms CSR.

**Pairing tradition with innovation**
- Toms should continuously associate itself with the traditional values, and the royal title, leveraging the brand value of the Danish monarchy.
- Toms should seek to associate itself with 'The Nordic Kitchen'-movement, and accordingly develop a product line based on Nordic ingredients.

**Pioneer online sales distribution**
- It will be a key competitive advantage to develop an intuitive online platform and the fastest Europe-wide delivery-system.

**Develop custom box ordering**
- Toms will be the first chocolaterie to offer Europe-wide highly customizable deliveries, offering customers total control of their offering.
The target segment should be reached through a 3-step action plan. Firstly, by expanding in travel retail markets

**Step 1: Brand awareness**
- Toms should leverage current advantages in traveller’s retail, and seek to expand this niche, by establishing a large number of brand shops in European airports.
- Marketing focus should be on current brands, Anthon Berg and A XOCO, with opportunities to develop premium Anthon Berg (e.g. Nordic-Kitchen-flavors)
- By targeting airports and airtravel, Toms can more easily reach out to a broad customer base, thus creating the all-important brand awareness. 330 mio. passengers visit the 6 largests airports in Europe every year (2012).
- All chocolates will be sold with material on the unique online opportunities, thereby guiding customers to step 2.

Toms’ current position in the travel retail market can be exploited further by introducing:

**Partnership with airlines and air-alliances:**
- In-flight treatments
- Stands and exposure in airport lounges

**Flagship stores and stands in airports**
- Exclusive stores that tells the consumer the story of Toms’ raw materials, while offering the customer personalised purchases.

**Step 2: Online Relationships**
- Use online resources to build customer relationships.
- We refer to next slide for elaboration on this strategy.

**Step 3: Enter new markets**
- Once preference for the Toms brand has been established through step 1-2, Toms can enter international markets by targeting the premium segment.
- This part of the strategy lies outside the 5-year plan, that we are focusing on in this case.
Customer relationship should be based on a progressive system of increased involvement and loyalty

Climbing the ladder of loyalty...

- When it comes to purchasing chocolate, brand recognition is the factor. The result is that consumers are loyal towards a few brands.

- Toms aim to build long-lasting relationships with its customers, by building a ladder of loyalty, where each step should lead to the next.

### Webshop for purchasing customized products

- Allows customer to conveniently mix their own chocolate boxes with fast delivery times

- Broadens the customer base at lowest cost

### Toms membership

- The customer can choose to sign up for a Toms membership, could get:
  - Storage of personal chocolate preferences to make future purchases more convenient
  - Notifications of upcoming special dates such as Valentine’s Day, a birthday etc.
  - Christmas card promotions

### Webshop and the OPMS process

- Proposes a unique opportunity for Toms to engage customers in the bean-to-bar process, by enabling interactivity between chocolate choices and production processes

---

**Overview**

**Analysis**

**Strategy**

**Implementation** 51
By pioneering customizable production, Toms can obtain hard-to-imitate advantages and secure customer involvement.

Toms should employ a culture of constant focus on reducing the time from order to delivery

- Toms will be the only chocolate confiterie company able to supply custom orders all over Europe.
- Polish packaging-facilities in Lezno will be expanded to work as a distributive hub for the online store.
- Since Danish-made chocolate is already transported to Lezno for packaging, Toms need only to have a suitable inventory to be ready for any custom order from the online store.
- Individual box-selections should be packed and distributed on the day of order.

Polish packaging center will become the distributional hub for all Europe.

Entire Europe can be reached within 3-4 days
Airport stores and online retailing can be ready from 2014, enabling Toms to safely enter into new markets by 2017.

<table>
<thead>
<tr>
<th>Strategic Element</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td>Enhancing Production Facilities</td>
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<td>Online Platform Development</td>
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<td>Strategic Partner Negotiations</td>
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<td>Store and Stand Opening</td>
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<td>Online Store Launch</td>
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<tr>
<td>Key-Market Flagship Stores</td>
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**Significant Strategic Risks**

Due to the incremental nature of the strategy, the overall success requires successful intermediate steps. We have identified four key-risks:

<table>
<thead>
<tr>
<th>Risk</th>
<th>Probability</th>
<th>Impact</th>
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<tbody>
<tr>
<td>Failure to negotiate desirable partnerships</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Failure to guarantee 4-day delivery in Europe</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Insufficient brand awareness for market entry</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Premium segment is less profitable</td>
<td>1</td>
<td>3</td>
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</tbody>
</table>
The strategy provides early positive turnover, which is expected to increase with long term brand recognition.

The cost of renting a airport store space in Kastrup in 2012 is estimated to be 2000 DKK/m\(^2\) + 25% of store revenue. A profit margin of 6% is assumed (the general for Toms in 2011 was just about 2%), under which a feasible revenue is calculated. COGS is derived as 2012 ratio. The travel retail chocolate market is assumed to increase 5% annually. Fixed cost for webpage development and production adjustment are written off during a 10 year timespan.

Strategic fit

- EBIT for the airport activities will constitute only a small share of the total EBIT in Toms.
- This is aligned with the proposed strategy, because the purpose of the airport activity is to create a foundation for future entrants in new European markets, and not necessarily to generate huge profits.
- The fact that the strategy is profitably however, is an important factor in creating profitably growth.
- Toms’ ownership structure (foundation) justifies a long-term perspective.