# Toms Confectionery Group

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

<table>
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<th>Objective</th>
<th>Complications</th>
<th>Question</th>
<th>Solution</th>
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<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>
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<td>The international mass and mass-premium segments require unattainable scale</td>
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<td>1. Creating Anthon Berg <em>Premium</em></td>
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<td>Low bargaining power inhibits shelf-space penetration in foreign markets</td>
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<td>2. Entering German premium segment via current platform</td>
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**Beat the Elite 28.02.2013**

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Financial development

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

**Revenues are slowly rebounding while margins deteriorate**

Meanwhile strategic flexibility is high as financial leverage has been brought down through stable cash flows

**50% of Toms current revenue is created in Denmark, but forecasted to decline by 7% by 2017**

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

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
  - Mondelez 15.5bn
  - Mars 16.8bn
  - Ferrero 5.6bn

- **Market share in Europe Chocolate confectionery market**
  - Nestle 12.6%
  - Mondelez 12.6%
  - Mars 12.6%
  - Ferrero 12.6%
  - Toms 2.1%

- **EBIT-margin**
  - Mondelez 8.6%
  - Mars 7.8%
  - Nestle 8.3%
  - Ferrero 7.0%
  - Toms 2.1%

**Selected chocolate brands in European supermarkets**

- **Nestle**
  - Crunch
  - KitKat

- **Mondelez**
  - Toblerone
  - Milka
  - Lacta

- **Ferrero**
  - Kinder
  - Nutella

- **Mars**
  - Snickers
  - Maltesers

- **Sources:** Marketline, company annual reports, BCG industry presentation

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

### Higher margins

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<th>Market</th>
<th>Premium</th>
<th>Mass market</th>
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<tr>
<td>Avg. gross-margin</td>
<td>53%</td>
<td>17%</td>
</tr>
<tr>
<td>Avg. EBITDA-margin</td>
<td>31%</td>
<td>5%</td>
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### Segment is growing

- The premium brand segment is growing in Western Europe.
- Consumers are willing to trade up within fast moving consumer goods – affordable luxury.

### Toms needs a premium brand, excellent quality and access to efficient distribution

- 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.

Note: avg. margin is calculated from 8 Danish and international peers (Toms, Mars, Modelez, Ferrero, Nestle, Lindt, Summerbird, Valrhona).

CAGR assumption for segment growth is from case material.

Sources: Case material, Euromonitor, MarketLine, Icon Group International.
Situational analysis  •  Possible strategic solutions  •  Winning in Germany  •  Financial impact

Toms’ home market is in decline – Enter German premium market

The German market is a very 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

Market

- 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

Rationale

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

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

### Flagship

- 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 than in Denmark

### Shop-in-shop

- Open shop-in-shops in Berlin, Frankfurt, Munich, Hamburg
- 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

### Specialty retailer

- 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)

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

### 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

### New brand portfolio

#### Positioning of the product offering

**Mass Segment**
- Mars
- Dairy Milk (Mondelez)
- Private label

**Mass Premium**
- Hershey’s
- Lindt
- Valrhona
- Hachez

**Premium**
- Anthon Berg

**Ultra premium**
- A XOCO

**Ultra premium**
- Valrhona
- Ferrero

**Mass Premium**
- Anthon Berg
- Hachez
- Lindt

Source: BCG case presentation material, Euromonitor Germany report

### 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

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

Base case for Toms group (excl. Germany)

- 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%

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

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)

Source: Company annual reports, Capital IQ, Euromonitor, case material
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