Geographical Expansion of Taza Chocolate

15.992 Strategies for Sustainable Business

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ABSTRACT

In this document, we will outline the issues Taza must consider when contemplating a geographical expansion. We will focus largely on the post-production portions of Taza’s process (Figure 1).

Figure 1: Taza’s supply chain

1. INTRODUCTION

This report aims to:

- Provide Taza Chocolate with an overview of the specialty chocolate market in the UK, The Netherlands, Germany and the US, focusing on the fair trade and organic markets. We focus on the fair trade industry because it is the most comparable to direct trade.

- Analyze consumer perceptions on natural, organic and fair trade products.

- Provide names of distributors Taza Chocolate can work with to enter the UK market, the market with the highest potential for Taza’s chocolate.

- Present our recommendations for Taza’s future expansion.
2. MARKET OVERVIEW

2.1 Organic and Fair Trade Markets

The demand for healthy, ethical and organic food has shown exponential worldwide growth over the last few years. Sales of organic food and drinks in the US and the nine largest European markets increased from $23 billion in 2002 to $40 billion in 2007.\(^1\) Much of that growth came from North America, where US sales of organic food and beverages grew from $1 billion in 1990 to an estimated $23 billion in 2008.\(^2\) However, Europe still out-produces North America, with over 45% of new organic product launches in 2008 vs. 41% in the US.\(^3\) In addition, disposable income per capita has increased for all European countries, suggesting increased possibilities for organic food sales.\(^4\)

Similarly, worldwide consumers spent over €2.3 billion on fair trade certified products in 2007, a 47% increase on the previous year, illustrated in figures from the Fairtrade Labeling Organization International (FLO).\(^5\) According to the organization, the value of sales in the biggest fair trade markets, the UK and US, grew by 72% and 46% respectively.

Moreover, the new trend for ‘upscale’ products reinforcing the link between organic and premium quality overtook ‘natural’ as the leading product tag for new organic products in 2008.\(^6\)

2.2 Specialty Chocolate Industry and Trends

The demand for higher quality dark chocolate has increased as consumers begin to make purchases while considering their health, the environment and ethical labor practices. Compared to other chocolate products,

\(^{3}\) “The Evolution of Organic Food and Drinks: Growth opportunities, NPD and the impact of the economic downturn” Business Insights March 23, 2009
dark chocolate has a relatively healthy image; it is high in antioxidants, lowers blood pressure and LDL cholesterol, and has cardio-protective benefits which are attractive to health-conscious consumers.\textsuperscript{7} Driven by the health and wellness trend, organic and natural products are showing high growth in the confectionery segment. This is particularly noticeable in the organic chocolate market, which is growing by over 50%\textsuperscript{8}.

‘Single-origin’ is another characteristic which is gaining importance as a differentiating factor in the premium market. The origin of ingredients and the chocolate-making process provide the gourmet positioning and sophistication that is attributed to specialty chocolate makers. Manufacturers have also begun to cultivate a higher level of sophistication in their products by highlighting coffee, tea and wine pairings, as well as country of origin and flavor. The objective is to create a sensory experience similar to that of enjoying fine wines and foods.

Ethically-minded consumers are also demanding high quality beans sourced from fair trade-certified producers in developing countries. The higher income received through fair-trade (or direct-trade) practices, combined with positive health benefits and environmental protection derived from organic farming, allows cooperatives to protect both their future and the environment. Additionally, fair trade practices make possible a more direct relationship between buyer and supplier, which is important in producing high quality cocoa and chocolate with high cocoa content; another key selling point for a chocolate’s high quality.

The high growth rates in the organic market, combined with increasing demand for high quality chocolates, has incentivized a growing number of large chocolate companies to begin to promote and manufacture organic, fair trade certified and gourmet chocolates in the mass-market. For example, major mainstream marketers are entering new markets by purchasing specialist manufacturers, as Hershey’s did when it

\footnotesize
\begin{itemize}
    \item \textsuperscript{6} “The Evolution of Organic Food and Drinks: Growth opportunities, NPD and the impact of the economic downturn” Business Insights March 23, 2009
    \item \textsuperscript{7} Ibid
    \item \textsuperscript{8} Ibid
\end{itemize}
purchased Scharffen Berger and Dagoba. Cadbury’s in the UK also recently announced that all of its chocolate will come from fair trade producers. Moreover, supermarkets are creating fine-food boutiques to distinguish their stores and provide places where customers can purchase specialty items. Artisan chocolates, however, are increasingly becoming a niche in the chocolate market, due to their exclusive offerings, handmade production process, and direct linkages with suppliers in the countries of origin.

Chocolates are eaten frequently in several European countries, as shown in Figure 2 – “Chocolate consumption per capita”. Germany and the UK are the highest per capita consumers of chocolate with 11.2kg/capita and 10.3 kg/capita respectively. For comparison, the United States average per capita consumption level is 5.5 kg/capita. This suggests that companies in the United States would be wise to consider Europe when expanding globally.

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Figure 2: Chocolate consumption per capita 2006

Source: International Cocoa Organization (http://www.icco.org/Attachment.aspx?Id=a3r55143)

2.3 Demographics

Dark chocolate is a type of premium chocolate which differentiates itself by being less sugary and more bitter than conventional confectionary chocolate. As such, the adult population represents the primary market for this category. Among the adult population, a few consumer groups stand out: young adults (18-34 years old), the affluent (with household earnings of at least $100,000), women, and Asians. Within these groups, dark chocolate consumers tend to be urban, health-conscious, environmentally-aware and informed customers.10

Typically, consumers who want premium chocolate seek high-quality specialty foods, and they usually find it in gourmet food and gift shops. In particular, consumers are getting more interested in specific attributes. Consumers are becoming well-versed in cocoa content, cocoa bean sourcing, and clean and ethical labels. Thus many confectioners are labeling cocoa percentages on their bars as health- and flavor-conscious customers look to that information as a designation of high quality. Among specialty consumers, the level of quality is even more important than the type of chocolate. Moreover, an early conversion of younger generations is taking place as younger families are increasing their consumption of premium chocolate.  

3. COUNTRY RESEARCH

We have investigated the relevant market environments in European countries, which are said to be more receptive to organic and fair trade products. Within Europe, we have selected three countries which are expected to be highly receptive to organic and fair trade products: Germany, UK, and The Netherlands. In addition, we have investigated the US market and compared it with the three European countries selected.

3.1 Europe

60-70% of the world’s fair trade sales occur in Europe, with the UK, France, Switzerland and Germany having the largest shares of the European fair trade market. However, due to desirable characteristics of The Netherlands which we will elaborate on later in the report, we will focus on its market in lieu of the French and Swiss markets.

The United Kingdom

The British chocolate market has been driven by an increase in premium indulgence products and improved health perceptions about the benefits of dark chocolate. From our research, we found that British shoppers are

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11 BioFach 2009
12 Transfair USA, http://www.fair-trade-gourmet.com/home/
starting to select their chocolate bars as they would a bottle of wine by studying the cocoa content and the origin of the beans.

According to a 6,000 person survey conducted by Barry Callebaut, a Belgian chocolate maker that produces bars for supermarkets, 43% of British people had tried fair trade products (twice as many as in Germany, France and Belgium). Organic chocolate had been purchased by a third of Britons and 34% had tried "origin" chocolate, compared with 22% in 2006. One in 10 said they eat single-country chocolate several times a month. In general, brand was more important than price or promotions in influencing chocolate sales.13

In its fair trade industry, the United Kingdom experienced high growth (Figure 3). A recent YouGov survey commissioned by Marks & Spencer found that 78% of consumers in the UK claimed they would like to know more about the way goods are made, including the conditions in the factories where they are produced, which indicates consumers interest in social standards.14 59% of consumers said they already purchase fair trade products and 18% said they would buy fair trade items if they were more widely available. The fair trade market in the UK is attractive because the UK is home to a high number of fair trade importing organizations, the retail value of the fair trade industry is second only to that of the US, and consumers in the UK consume a large amount of fair trade products as can be seen in Figure 4.

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14 “Marks & Spencer dives into ethical consumer market.” http://www.foodnavigator.com/Financial-Industry/Marks-Spencer-dives-into-ethical-consumer-market
Figure 3: UK Fair Trade Market Size

Source: Fair Trade Foundation, Facts and figures
(http://www.fairtrade.org.uk/what_is_fairtrade/facts_and_figures.aspx)

Figure 4: Country by Country Fair Trade metric comparison 2007

<table>
<thead>
<tr>
<th>Country</th>
<th>Fair Trade Importing Organizations (#)</th>
<th>Fair Trade Shop (#)</th>
<th>Fair Trade Retail Value (Euro M)</th>
<th>Fair Trade consumption Per capita (Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>100</td>
<td>117</td>
<td>704</td>
<td>12</td>
</tr>
<tr>
<td>Germany</td>
<td>29</td>
<td>836</td>
<td>142</td>
<td>2</td>
</tr>
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<td>Holland</td>
<td>24</td>
<td>426</td>
<td>48</td>
<td>3</td>
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<td>France</td>
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<td>300</td>
<td>210</td>
<td>3</td>
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<td>7</td>
<td>300</td>
<td>158</td>
<td>21</td>
</tr>
<tr>
<td>Spain</td>
<td>8</td>
<td>120</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Italy</td>
<td>20</td>
<td>575</td>
<td>39</td>
<td>1</td>
</tr>
<tr>
<td>US</td>
<td>200</td>
<td>280</td>
<td>731</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Fair Trade 2007, Dutch Association of Worldshops
Here is a list of potential competitors for Taza in the UK:

- Montezuma’s (www.montezumas.co.uk)
- Divine Chocolate (www.divinechocolate.com/)
- Green & Blacks (bought by Cadbury’s) (www.greenandblacks.com/)
- Endangered Species Chocolate (www.chocolatebar.com/)
- The Raw Chocolate Company (www.therawchocolatecompany.com)
- Organic Village Ltd (www.organicvillage.org)
- Choc-Affair (www.choc-affair.com)
- Chocaid (www.chocaid.com)
- The Chocolate Alchemist (www.thechocolatealchemist.co.uk)
- Rococo Chocolates (www.rococochocolates.com)
- Malagasy (http://www.malagasy.co.uk)

Potential Taza Competitors in Ireland:

- Blake’s Organic Chocolate (http://www.blakesorganicchocolate.ie/)

**Germany**

Recent consumer trends in the German food and beverage market have been influenced by a number of far-reaching changes in society: an aging population that is fueling the demand for health and wellness and functional food products to prevent or overcome health conditions. The movement for organic food products has achieved mainstream status in Germany, and has enjoyed double-digit growth rates in recent years.

With more than €5.4 billion in sales in 2007, Germany is a front-runner in the production and consumption of organic food products. Recording consistent double-digit growth over the past seven years, Germany has also seen an increasing numbers of organic food supermarkets from 50 in 2000 to 450 in 2007. In addition,
conventional retailers are launching organic private brand labels which are making Germany an even more attractive market.\(^{15}\)

As in the UK, German consumers have strong preferences for fair trade products. However, the dynamics of each market are slightly different. Germany has the highest number of Fair Trade Shops, also known as “Worldshops”. By 2007 there were 836 worldshops, which is by far the highest in the world; in Europe there are a total of 2800 shops.\(^{16}\) Worldshops are specialist shops for selling fair trade products and also provide informative and educational fair trade promotional activities for the public.

Here is a list of potential competitors for Taza in Germany:

- Rapunzel (www.rapunzel.com)

### The Netherlands

The European chocolate industry is known for its size and maturity. While the Netherlands shows the lowest growth in organic sales (Figure 5), it is one of the leading cocoa and chocolate processing / producing countries, and one of the most mature fair trade markets in Europe. The Netherlands has a large network of Worldshops and one of Europe’s biggest fair trade labeling organizations, “Fair Trade Organisatie.” The Fair Trade Organisatie is the largest fair trade importer, accounting for roughly 60% of all sales made by Dutch Worldshops. Max Havelaar, the Dutch labeling organization, played a pioneering role in opening up supermarkets to fair trade products; today there are 3500 fair trade outlets all over the country.\(^{17}\)

\(^{16}\) Fair Trade 2007, Dutch Association of Worldshops  
\(^{17}\) Fair Trade 2007, Dutch Association of Worldshops
Potential Taza Competitors in The Netherlands:

- Choco Mundo B.V. (http://www.chocomundo.nl/)

### 3.2 The United States

The United States is home to a strong fair trade market. 30-40% of the global fair trade market is in the United States\(^\text{18}\). This makes it an attractive location in which to sell fair trade products.

Like many European countries, the United States is also seeing high demand for organic chocolate due to increased consumer awareness about the origins of their food and a desire to indulge. According to Euromonitor, a 49% increase in 2006’s organic chocolate sales positioned it as the highest growing snack in

\(^{18}\) Transfair USA
the US organic market. Leading the growth in the organic snack food category, U.S. organic chocolate and candy bars sales totaled $94 million in 2007, up 45% from 2006. According to the *Nutrition Business Journal*, sales for 2008 were forecasted at over $100 million.

U.S. sales of organic products, both food and non-food, reached $24.6 billion by the end of 2008, growing an impressive 17.1% over 2007 sales despite tough economic times, according to the Organic Trade Association (OTA). Results show organic food sales grew in 2008 by 15.8% to reach $22.9 billion, while organic non-food sales grew by an astounding 39.4% to reach $1.648 billion. As a result, organic food sales now account for approximately 3.5% of all food product sales in the United States. U.S. organic food sales totaled nearly $20 billion in 2007 and $14 billion in 2005, representing approximately 3% of all retail sales of food and beverages. We examined health indices in the US states, and found that Vermont, New Hampshire and Massachusetts have the highest health indices in the country, which may correlate with high interest in organic food products (Figure 6).

The Health Index combines several factors to rate the overall health of a state. This data suggests that Vermont, New Hampshire, Massachusetts and Minnesota are the states most likely to be interested in purchasing organic dark chocolate products.
There have been fair trade cocoa import increases every single year for the past 6 years, which is not the case for some other certified US imports, such as rice (Figure 7). We also see consistent increases in coffee, tea, cocoa and sugar fair trade imports. This suggests that demand will continue to increase in the future.

**Figure 7: Fair Trade Certified US Imports**

![Fair Trade Certified US Imports (pounds)](image)


4. **RECOMMENDATION FOR EXPANSION INTO EUROPE**

Based on the information we have analyzed, we recommend the UK as Taza Chocolate's key market for expansion into Europe. Although the UK market is mature in terms of product development, organic food sales are projected to represent 30% of its total food market by 2010.22 Moreover, the UK is attractive

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because of its chocolate preference (Chocolate consumption per capita), fair trade products preference (Fair trade consumption per capita) and market scale of fair trade (Fair trade retail value) as shown in Figure 8.

**Figure 8: Fair Trade Chocolate Demand**

In addition, since the UK is an English speaking country, Taza would not have to invest heavily to change its packaging or marketing materials, although it would have to invest in marketing to promote its brand. One way to market itself would be through hosting chocolate tastings and participating in events such as Chocolate Week in London. Moreover, we recommend that Taza continues its niche strategy in the artisanal specialty chocolate market.

Sources:
1) International Cocoa Organization, (http://www.icco.org/Attachment.aspx?Id=a3r55143)
2) Dutch Association of Worldshops, “Fair Trade 2007: new facts and figures from an ongoing success story”
Consumers in the UK are selective when purchasing chocolate bars. They consider the cocoa content, place of origin and core values such as sustainable sourcing. As one of the initial markets for fair trade and organic products, the UK market is also receptive to artisanal, organic and ethical chocolate. Due to the strong growth in the fair trade market, peer competitors in the European and US markets have experienced stable performance.

There are low barriers to entry in the UK as market size increases mitigate excessive competition within the market. However, during our research, a VP of Brighton Whole Foods commented that the UK market is saturated. Nonetheless, we believe Taza is a unique brand that consumers would be attracted to given its 3 distinctive characteristics: Organically Farmed, Direct Trade Sourced, and Stone Ground Produced. These factors, as well as place of origin, play important roles in consumer purchasing decisions, as can be seen in Figure 9.

Figure 9: US Customer Information

Source: Alter Eco Fair Trade Study, October 2008

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23 Assumes “flavor” and “fair trade” are appropriate proxies for “stone ground” and “direct trade” when gauging consumer interest.
Taza's Characteristics

Organic Farming - The UK organic market (€2.83 billion) is now the second largest in Europe after Germany (€4.6 billion). Consumer interest in organically produced food is high in many European countries including the UK (Figure 10), and per capita consumption of organic chocolate is increasing (Figure 5). In addition, UK consumers are the second largest consumers of chocolate (Figure 2).

Figure 10: Organic Packaged Food per Capita

![Organic packaged food/capita (USD)](image)

Sources: Trade sources, national statistics, and UN Euromonitor International (www.portal.euromonitor.com)

Direct Trade Sourcing - Direct trade sourcing appeals to consumers who value ethically produced products. Opinions on labor practices vary, but certain statistics can give us insight into consumer interest in direct trade products:

- Fair trade consumption / capita - This metric shows the consumption of fair trade goods, which are different to direct trade goods. However, we assume that whatever incentivizes consumers to purchase fair trade products will also incentivize them to purchase direct trade products. The UK and the US perform best under this metric (Figure 8).

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• Gini Index - The Gini Index is a measure of the inequality in income distribution within a certain area. An area with a perfectly equal income distribution would get a score of 0, while an area with a perfectly unequal income distribution would get a score of 1. Germany and The Netherlands have the lowest Gini indices (Figure 11). While the UK has a higher Gini coefficient, it is a country that has been at the forefront of organic and ethical consumption.

![Gini Index](http://devdata.worldbank.org/wdi2005/Table2_7.htm)

**Figure 11: Gini Index**

Price - GDP/capita gives us a good idea of a typical consumer's ability to afford the premium price of Taza chocolate. As Figure 12 shows, the UK’s GDP/capita is lower than that of The Netherlands. While Taza's price of $7.58 per 3.5oz exceeds the average price in the European market, its unique characteristics should enable it to effectively compete with other brands, as it is within the general price range of the region (Figure 13).
Figure 12: GDP / Capita


Figure 13: Price Comparison

Sources: Taza’s competitors’ websites and promotional materials
We recommend contacting the following distributors when Taza is ready to expand into the UK:

- Tree of Life (http://www.treeoflife.com/) - Tree of Life is the primary grocery distributor of Whole Foods in the UK
- ED&F Man (www.edfman.com) - This company has a trading operation based in London and has a representative office in Singapore to cover the Far Eastern markets
- Green City Whole Foods in Scotland (www.greencity.co.uk)
- Suma (www.suma.co.uk)

5. TAZA’S OPERATIONAL CHALLENGES

Company Sensitive Information

6. RECOMMENDATIONS

Based on our research of various markets and Taza’s operational challenges, we recommend the company remain in the US market in the short term, despite the attractiveness of the UK market.

6.1 Re-examine Priority of Exporting

Based on our research on US consumers, the characteristics they value include flavor, organic, local-origin, and fair trade sourcing, which are some competitive advantages of Taza (Figure 9). This suggests that Taza is well positioned to see substantial growth in the US. Our other findings suggest that the US market is more attractive than the European market. In particular, the US market is:
• **Strong in Fair Trade Consumption** – Although its high Gini index suggests otherwise (Figure 11), fair trade consumption has risen steadily (Figure 7) over the past few years. In addition, the US has a high number of fair trade importing organizations and the retail value of its fair trade market is the highest in the world (Figure 4).

• **Strong in Organic consumption** – Some states, particularly Vermont, New Hampshire and Massachusetts, are expected to be good markets for expansion based on their high health indices and expected interest in organic products. In addition, the current levels of organic food consumption per capita in the US are roughly on par with those of Germany, The Netherlands, and the UK (Figure 10).

• **Price Insensitive** – As shown by the high US GDP per capita (Figure 12), US consumers may be insensitive to minor price fluctuations. Although Taza is one of the most expensive chocolates on the market, it is within the general price range of the industry (Figure 13), and the fluctuation of exchange rates makes an initial expansion in the US instead of Europe more attractive.

6.2 Establish Stable Operational / Financial / Personnel Infrastructure

| Company Sensitive Information |

6.3 Continue to Analyze European Market Opportunities

Although we recommend Taza remain in the US market at this stage, the company should continue to analyze opportunities to enter the European market so that it will be ready to export when its business scale becomes sufficiently large. We recommend that Taza participate in the following events in order to effectively promote opportunities to attract prospective partners in the European market:

• BioFach (Germany) – This is the world’s largest organic trade fair

• The Fancy Food Show (New York City)
• Natural and Organic Products - Europe (London)

In addition, if Taza decides to expand into Europe it should consider how it would impact the carbon footprint of its supply chain. If sales increase, Taza will transport more cocoa by sea from the Dominican Republic, but will then need to fly pallets to Europe, thus increasing its carbon emissions. We encourage Taza to remain aware of the environmental implications of its actions when making sourcing and strategy decisions.

7. CONCLUSION
Through following these recommendations, we expect Taza to be able to most effectively target consumers who are aligned with its “good, clean, fair” ethos: Good to eat, clean for the planet, and fair to farmers.

8. ACKNOWLEDGMENTS
We would like to thank Professor Rick Locke and Taza CEO Alex Whitmore for assisting us throughout this project.