

**CBS  
CASE**  
COMPETITION



**Toms**

Tasteful moments - Responsible choices



# Introduction

It was a cold morning in February 2013. Jesper Møller, the CEO of Toms Confectionery Group, was looking down at the frozen fountain in the courtyard by Toms' headquarters outside Copenhagen. Designed in 1962 by the famous Danish architect Arne Jacobsen, the headquarters, like the company, was an iconic piece of Danish history. For decades, Toms had been a Danish household name and local market leader within the confectionery industry. Today, however, it was time to look ahead.

Toms, like most other companies, had gone through the financial crisis with a solid focus on the cost base. However, as a small player in the global confectionery industry, the company could only go so far with cost cutting alone. Instead, Toms needed to make a thorough analysis to capture the opportunities that lay ahead. That morning, Møller had called together his management team to discuss Toms' five-year strategy for the chocolate confectionery business under the following headline:

## How should Toms profitably grow its chocolate confectionery business?

Toms' ambition was to find focused growth as a strong niche player. Until 2012, the Danish market had accounted for almost 60 percent of Toms' revenues. But Denmark is a mature, price-competitive market with heavy excise taxes on confectionery products. Møller and his team feared that the Danish market would become increasingly unattractive for chocolate confectionery manufacturers. Instead, Møller was confident that other attractive opportunities existed.

In the spring of 2012, Toms took a significant step forward by acquiring the German chocolate company Hanseatische Chocolade GmbH. Overnight, Toms added sales of 360 million Danish kroner. However, the management team agreed that this was only the first step in Toms' path.

As Møller and the management team watched the day's first truckload of cocoa beans approach the factory loading dock, they began reflecting on the past, present and future of Toms as a chocolate confectionery company.





# Company overview

## The history of Toms Confectionery Group

Two Danish chemists named H. Trojel and V.H Meyer founded what was to become the Toms Confectionery Group in 1924, when they started producing candy and sweets in humble settings on the island of Amager, just outside Copenhagen. They named the company Tom, an acronym for Trojel Og (and) Meyer. However, the name Tom was easily confused with the Danish word for "empty", which is spelled the same way. Since this turned out to be an unfortunate association for a company that primarily sold its products through vending machines, they decided to change the name slightly to Toms.

The development of the company took off after World War II when local entrepreneur and businessman Victor B. Strand acquired Toms, which at that point was a small-scale local chocolate and confectionery producer. Via a range of mergers and acquisitions in Denmark – most notably those of the chocolate producer Anthon Berg in 1954 and the confectionery company Galle & Jessen in 1971 – Strand built a national

chocolate and confectionery powerhouse. In 1950, Toms was appointed the distinguished title "Purveyor to the royal Danish court", which allowed the company to use the image of the royal crown on its products. In 1961, the company moved into its new headquarters in Ballerup outside Copenhagen and combined the majority of its production under one roof.

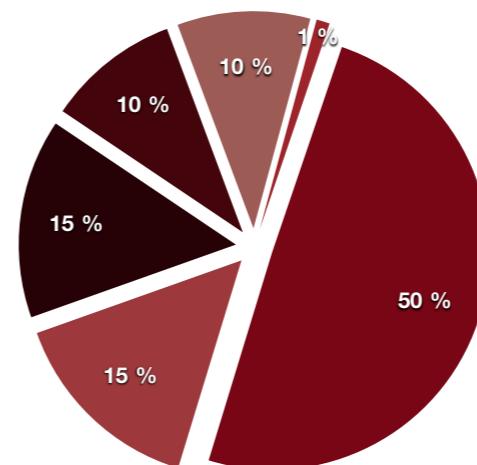
During the 1990s, Toms expanded its operations abroad when it tried to gain access to the UK market by acquiring the candy company Taveners and the chocolate producer Daintree Chocolate. However, the international venture proved unsuccessful, and the UK business was divested soon after Jesper Møller became Toms' CEO in 2006.

Today, Toms is owned entirely by the Gerda & Victor B. Strands foundation, which was established in 1974. The ownership form gives Toms' management considerable freedom to focus on the long-term development of the company.

## Toms today

Toms is engaged in the development, production and sales of high-quality chocolate and sugar confectionery products. The company employs approximately 1,200 people, depending on the season. Toms is organized in a functional structure, with central administration at the company headquarters in Ballerup, Denmark. Most tasks pertaining to the overall strategy are coordinated from the company headquarters, where the majority of the administrative employees reside. Production, on the other hand, is decentralized in five different locations, with each factory specializing in a different area of expertise.

Toms' turnover distribution by market



The Danish market remains Toms' primary market and the company generates approximately half of its total revenue here. With a total market share of approximately 30 percent, Toms is a clear market leader within the chocolate category in Denmark. It carries a significant lead over its closest rival, Mondelez International (the former snack foods division of Kraft), who controls around 15 percent.

On an international scale, however, Toms is a very small player. The company ranks around number 50 among the world's confectionery companies. Despite this limited international presence, Toms holds a relatively strong position in the global travel retail and duty-free segment. Within this niche area, the company holds a market position as approximately number seven when measured in volume.

- 50 % Denmark
- 15 % Sweden
- 15 % Germany
- 10 % Travel retail EU
- 10 % Exports
- 1 % Travel retail Far East Asia and Americas

Note: percentages may not total 100 due to rounding

## Foundation ownership

Rule number one in traditional management literature is that management exists to serve the interests of shareholders. Foundation ownership, at the very least, stretches that rule. Foundations primarily seek to ensure the long-term development of their companies, since foundations have no shareholders and no dividend requirements. Foundation-owned companies rely fully on their management and foundation board members to control the direction of the company. As a result, many of the traditional corporate governance models do not apply to foundation ownership. In addition, foundation-owned companies are entirely protected against hostile takeover attempts.

The prevalence of the foundation ownership form is a unique feature of the Danish business environment. Approximately 20 percent of business activity in Denmark is

carried out by foundation-owned companies. In fact, many of the most prominent Danish companies – Lego, Maersk, Carlsberg, Novo Nordisk and many more – are controlled by foundations.

The sole purpose of Toms' owner, the Gerda & Victor B. Strands foundation, is to ensure the future survival and development of Toms Confectionery Group in a sound and profitable manner. As such, the foundation sets no boundaries on business decisions that live up to this criterion. No members of the Strand family are active in the foundation or company today, and the board consists entirely of business professionals and lawyers. As of 2012, the foundation has a cash base of approximately 200 million Danish kroner and, as a result, the Toms Group as a whole is nearly debt-free.

# Product portfolio

As a result of several mergers and acquisitions, Toms Confectionery Group has built a comprehensive product range and brand portfolio in chocolate and sugar confectionery products. The majority of Toms' revenue comes from its chocolate confectionery products, where its extensive portfolio gives the company exposure to virtually all consumer segments. The diverse portfolio of non-chocolate confectionery products allows Toms to mitigate the seasonal factors that tend to affect manufacturers who exclusively produce chocolate. Since sugary products have a more stable demand, they help to even out earnings across the year.

*Toms has traditionally had a broad product portfolio. If our customers wanted a sole supplier, that could be us. However, the product line has been slimmed recently as customers – mainly retailers – demand products with high turnover.*

- Jesper Møller

Toms Confectionery Group's portfolio of chocolate confectionery products comprises six main brands: Toms, Galle & Jessen, Anthon Berg, A XOCO by Anthon Berg, Feodora, and Hachez. Under the Toms and Galle & Jessen brands, the company markets a series of popular products that may seem peculiar to non-Danes. For instance, the Giant Chocolate Turtle, a chocolate shell filled with caramel and rum crème, has been one of the best-selling products for decades, with more than 58 million turtles sold every year. An even more unusual product line, sold under the Galle & Jessen brand, is a range of thin chocolate slices that Danes enjoy eating on bread. Both the Toms brand and Galle & Jessen have a very broadly defined target group – one that is often denoted as "Familien Danmark" (the Danish family).

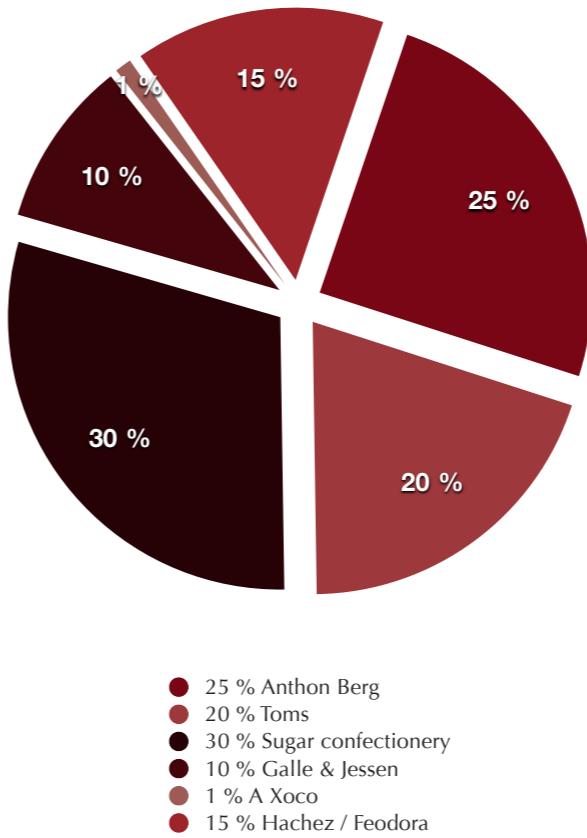


Of the brands in the portfolio, Anthon Berg currently has the most internationally recognized profile. Its range of quality chocolates has long been popular outside the borders of Denmark, especially its signature liqueur-filled chocolate bottles, which have become iconic and synonymous with the brand. To raise Anthon Berg's international potential, Toms has recently invested in positioning the brand under the slogan "You Can Never Be Too Generous". This strategy has been complemented by a range of product launches, for instance a series of new high-quality filled chocolates aimed at the mass-premium segment.

In 2008, Toms launched its ultra-premium brand, A XOCO by Anthon Berg, which is the most high-end chocolate brand in Toms' portfolio. Its handmade gourmet chocolate caters to chocolate aficionados, with its exquisite products including truffle-filled chocolates and cream puffs. A XOCO by Anthon Berg is sold through four elaborate boutiques and an online store, all owned and operated by Toms. As the newest brand in the portfolio, A XOCO by Anthon Berg still contributes less than one percent of the company's revenues.

Feodora and Hachez became the newest additions to Toms Confectionery Group's brand portfolio with the acquisition of Hanseatische Chocolade. Named after Princess Feodora of the royal house of Schleswig-Holstein, the Feodora brand covers a range of quality chocolates and pralines known for their quality and traditional recipes. The Hachez brand is best known for its cocoa-rich chocolates that are based on original recipes from the company's founder, Joseph Hachez. Both brands represent a combination of both traditional and modern values of chocolate making and cater primarily to more mature consumers.

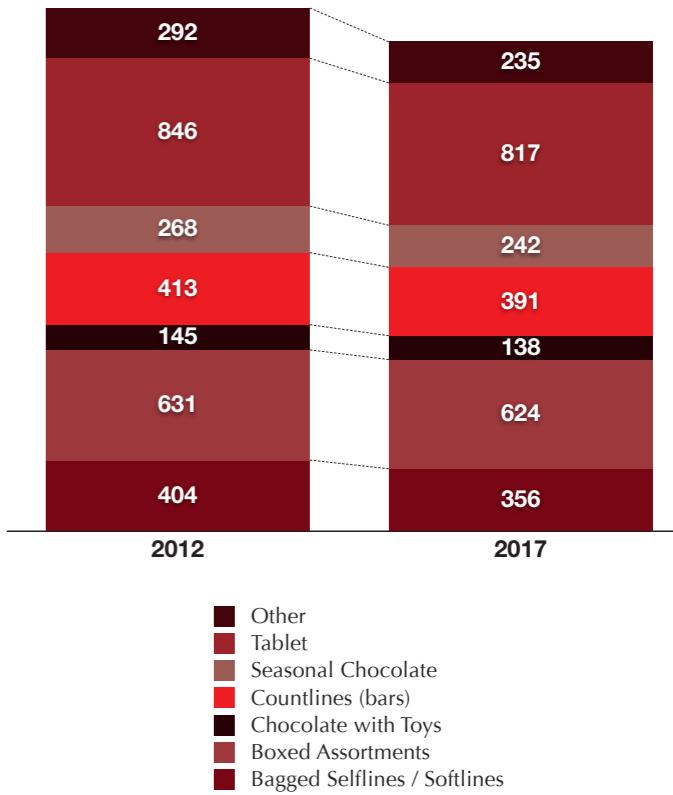
Toms' turnover distribution by brand



- 25 % Anthon Berg
- 20 % Toms
- 30 % Sugar confectionery
- 10 % Galle & Jessen
- 1 % A Xoco
- 15 % Hachez / Feodora

Note: percentages may not total 100 due to rounding

Danish chocolate confectionery market  
Retail value in DKKm



Source: Euromonitor country report: Denmark 2012

The name A XOCO [a sjoko] is derived from xoco atl, which is the Aztec word for "bitter water." This was also an ancient drink consisting of cocoa beans mixed with cold water. Xoco atl was the first known use of cocoa beans as a stimulant.



# Market overview – food for thought

Although growth has slowed since 2008, the global confectionery market has grown steadily by an average of five percent annually in the last 10 years. Today, the market is dominated by a handful of major international players. The top 10 companies control more than 68 percent of the market, and further market consolidation is expected in the coming years, as these dominating players continue to acquire smaller competitors. As an illustrative example, 49 of the 100 largest chocolate manufacturers in 2002 no longer existed as independent companies in 2010. The acquisition trend, in turn, means that suitable acquisition targets are scarce – and priced accordingly.

## Market segments

Today, the chocolate confectionery market spans a wide range of segments. Generally speaking, these segments are characterized by a simple trade-off between volume and price: the more premium the chocolate is, the smaller the target group, and hence the smaller the volume sold. Chocolate consumers can be divided into four main segments: mass, mass-premium, premium and ultra-premium.



### Ultra-premium

Artisan producers or extremely niche-oriented chocolate manufacturers often characterize this segment. It caters to chocolate aficionados, who are willing to pay significant premiums for extraordinary products and a different buying experience. As a result, the primary retail channels are flagship stores and tailor-made boutiques located in high-end areas that attract wealthy customers. A XOCO by Anthon Berg can best be categorized as an ultra-premium brand, although it does not go to the same extremes of niche orientation as other brands in this category.

### Premium

The premium segment has developed considerably during recent years as global chocolate manufacturers have been attracted to its higher gross margins and more affluent customer base. In the premium segment, the notion of chocolate as an affordable luxury product starts to become evident. The primary retail channels are specialist stores and, to a certain extent, branded boutiques and shop-in-shops in malls and retail areas. However, premium chocolate could also become more widespread in supermarkets and grocery stores as luxury buyers proliferate.

### Mass-premium

Value is the keyword within the mass-premium segment, which caters to the ever-growing global middle class. Value-conscious shoppers look for affordable quality, especially in supermarkets and grocery stores. The Anthon Berg brand is a good example of such a mass-premium product, where the focus is on better quality at reasonable prices. The mass-premium segment has morphed out of the mass segment in recent years as consumers are trading up to demand quality chocolate, but are still expecting reasonable prices. Within this segment, consumers pay more attention to cocoa content, taste differentiation and brand identity. To be profitable, manufacturers must therefore find the right balance to deliver value for money.

### Mass

The mass segment spans discount, private label and several branded products. The primary distribution channels are supermarkets and discount stores, where heavy promotion is needed, since the chocolate itself has a commodity-like function. In this segment, the chocolate product named "Yankie Bar" from Toms competes head-to-head with branded bars from Mars, Mondelez International, and other large international chocolate companies. This segment generally has low gross margins, and consumers are highly price sensitive. Profitability is thus ensured via scale and production efficiency.



# Trends in the chocolate confectionery market

## Premiumization

Compared to other consumer-facing industries, the financial crisis has had a relatively soft impact on the chocolate confectionery industry. Despite falling disposable incomes, volatile commodity prices, and ever-increasing competition, the global chocolate retail market value has stayed flat, at a global market value of more than 100 billion US dollars. Some have taken this as a sign that even relatively expensive chocolate has become an affordable luxury that consumers treat themselves to in economic downturns. Consumers are thus more willing to treat themselves to high-end chocolates than more expensive luxury products like jewelry. As a result, the premium segment is expected to drive chocolate confectionery growth in most of the mature Western markets in the coming years. From 2011 to 2015, the retail value in Western Europe is expected to increase by six percent annually.

## Regional champions

The industry's largest players have shown an increased interest in regional premium and ultra-premium brands. Compa-

nies within the premium segments have become particularly attractive as the largest companies, such as Mars and Mondelez International, are seeking growth opportunities outside the traditional mass-market segments. The major players have also turned their attention toward smaller local actors with a strong position within a niche segment. The acquisitive strategies by the larger players have served to push up the trading prices of smaller companies, making it difficult for other companies to bid for available assets. Typically, the acquired companies are marketed separately under their original brand names after the acquisition to avoid affiliation with the acquirer. The acquirer thus uses local niche players to leverage their processes and know-how in their home markets.

## Cultural consumption

Western Europe and the US still constitute the major markets for chocolate manufacturers, as chocolate consumption remains high both in absolute and relative terms. The US, for instance, eats more chocolate by volume than any other country in the world, whilst the mainly European countries have the highest chocolate consumption per capita. Howev-

er, mature markets show relatively sluggish growth rates. As a consequence, the global companies have started to widen their horizon and look toward the emerging economies where chocolate consumption is still low. A major impediment to this strategy is the very culturally specific pattern of consumption that exists in different markets. One may tend to think of chocolate as one market, but in fact there are several major cultural differences in consumption. A thorough appreciation of these differences is important to be successful in new markets, and several resourceful companies have tried in vain to educate consumers in distant markets about the consumption patterns of the companies' home markets.

## Seasonality of consumption

Cultural differences also manifest themselves in the choice of occasions for chocolate consumption. In many countries, chocolate is associated almost exclusively with holidays and other seasonal traditions. Seasonal specialties are thus becoming increasingly important sources of revenue for chocolate manufacturers. Globally, Easter is the largest "chocolate season" with Easter eggs and bunnies as consumer favorites.

In fact, Easter-related product launches rose 45 percent during 2011 alone. However, Easter is not the only important chocolate-related holiday. Christmas has also become a significant season for chocolate producers worldwide, while Chinese New Year and Valentine's Day are growing in importance.

## A chocolate a day

Health concerns are naturally becoming a major factor in chocolate purchasing behavior. Experts anticipate that the increased focus on health-related issues will only become more outspoken in the future as governments try to combat obesity. In response, the emphasis on the health benefits of the darker chocolates in particular has become more prominent. Other manufacturers have started to produce smaller bars, sharing packs and other forms of portion controls as a way to combat obesity and attract health-conscious consumers. As much as 10 percent of all product launches in Europe during 2011 were marketed as vegetarian, while another seven percent were marketed as organic.

# Industry challenges

The chocolate confectionery industry is faced with many of the same challenges as other consumer-facing industries. However, three particular challenges have come to stand out in recent years. They are: cocoa price fluctuations, regulatory pressure, and retail channel penetration.

## The cocoa grind

A recurring challenge for chocolate manufacturers is the volatility of cocoa prices. 2012 was a relatively stable year, with increases in the average cocoa unit price of approximately eight percent. However, this should be seen in the context of 2011, where fluctuations were more significant. As cocoa is the primary production input for chocolate manufacturers, price fluctuations have a major effect on margins and the ability of companies to plan ahead. Toms manages these risks via a hedging strategy, but hedging also comes at a price.

## Regulatory pressure: Taxes make the industry less sweet

As health issues and rising healthcare costs are becoming an increasing concern for governments around the world, some countries have resorted to taxation and regulation to mitigate the problem. Various forms of regulatory initiatives

designed to target unhealthy food products have been widely discussed and implemented in some countries already. As a consequence of targeted taxation, margin pressures have made mass-market confectionery products less attractive for producers. Denmark is one of the frontrunners within this area, having introduced heavy confectionery taxation. With Toms' reliance on the Danish market, the taxation has had a significant impact on the company's margins.

## The retail barrier

The importance of brand recognition in chocolate purchases cannot be understated. The majority of chocolate purchases are made based on brands the consumer knows. The retail stage therefore poses the largest entry barrier in the chocolate industry. A brand name is a defining element of market power for a chocolate manufacturer – and it comes at a cost.

Large investments in product development and marketing are necessary to build and maintain a strong position. Many of the large scale chocolate distribution channels have stringent requirements for their suppliers that include listing fees and marketing spending. In developed markets, traditional retailers such as supermarkets are taking over ever larger shares of food product purchases. In Denmark, the retail market is dominated by only a handful of supermarket chains. Two of those, Dansk Supermarked and Coop Danmark, have the majority of the market share. This gives them immense purchasing power and thus strengthens their ability to influence prices and terms. Since retailer strength and barriers are a factor in many developed markets, it is a variable that smaller chocolate manufacturers must recognize when they enter new markets.

# From bean to bar – an overview of the chocolate supply chain

The key ingredient in chocolate is cocoa. Cocoa beans are grown predominantly in less-developed countries in Western Africa and Indonesia. Before they even reach the harbor docks where they are shipped for processing, cocoa beans have gone through a sequence of steps involving multiple actors from business, government and non-governmental organizations. Hence, the cocoa supply chain is significantly more complex than that of most other commodities. For a company of its size, Toms has taken a very unique approach to managing this complexity. In broad terms, Toms' chocolate supply chain can be divided into four steps: origin, processing, manufacturing, and sales.



## Origin

Cocoa beans are seeds of the theobroma cacao, a tree that derives its name from the Greek words for “food of the gods.” After the cocoa beans are harvested, they go through a series of steps, namely fermenting and drying, that are essential to developing the cocoa flavor. This process takes time and knowledge, and thus acts as a differentiating factor in cocoa bean quality. Nevertheless, most cocoa beans produced worldwide today come from small, simple farms in Western Africa and Indonesia, from which they are gathered by middlemen in increasingly larger batches until they reach the chocolate manufacturer. It is therefore easy to imagine that chocolate manufacturers receive very heterogeneous shipments of cocoa beans. As a result of cocoa batch mixing, the chocolate manufacturer loses transparency regarding the quality of raw materials and, perhaps worse, the circumstances under which the cocoa beans were produced.

Traceability has become the very core principle of Toms' supply chain. Since 2009, Toms has had full traceability on all its cocoa beans from Ghana. To ensure traceability, Toms sources its products from sustainable producers in Ghana through unique partnerships with Armajaro, Source Trust and the Cocoa Research Institute of Ghana. These partnerships allow Toms to trace each individual bag of cocoa beans back to the farmer who produced them. In practice, this requires that Toms' cocoa beans are marked, transported and stored

separately before they are shipped from Ghana to Toms' manufacturing facility in Denmark. Moreover, Toms works with a range of organizations to train farmers in sustainable farming practices and to educate children in the farming communities.

Put differently, traceability is Toms' way of ensuring a total product quality. Toms' goal is to improve the quality of chocolate, whilst improving the everyday lives of its cocoa farmers. This means ensuring long-term sustainability in the communities from which the cocoa beans are sourced. Of course both sustainability and traceability come at a cost. Toms currently pays a premium of approximately 10 percent on its cocoa beans, the majority of which is returned to the local cocoa communities.

## Processing

Unprocessed cocoa beans are transported from Ghana right to Toms' factory doors. This brings the cocoa beans to the next step of the supply chain: processing. Processing covers all the activities that are needed to transform cocoa beans into semi-finished industrial chocolate, also known as couverture. In this step, cocoa beans are roasted to give the final touch of flavor. They are then ground and pressed to extract cocoa butter and powder. Finally, the cocoa ingredients are mixed with other ingredients to make chocolate.

## TRAY 10™ Fermentation

Together with researchers from Copenhagen University and the Cocoa Research Institute of Ghana, Toms has introduced an innovative way to improve the fermentation process. Instead of the traditional and inherently uneven fermentation process under banana leaves, beans are fermented on specially designed trays that are made locally. This method gives the finished chocolate product a much richer flavor. Chocolate made with TRAY 10 fermenting is currently sold under the brands A Xoco by Anthon Berg and Toms Extra



In the chocolate value chain, processing has become a scale business with relatively low margins. Globally, the processing phase is therefore concentrated with a very small group of companies that rely on economies of scale for their competitive advantage. Industrial chocolate producers generally belong in one of two categories: integrated producers or industrial processors. Integrated producers process the industrial chocolate mainly for their own consumer chocolate. This group mainly encompasses the largest branded chocolate manufacturers in the world – those that have the volume to build large processing facilities. The second group, the industrial processors, primarily supplies its production of industrial chocolate to third parties. This group is dominated by three companies: Barry Callebaut (BE), Acher Daniels Midland (US), and Cargill (US). These three companies alone control approximately two thirds of the global cocoa processing market.

Toms' in-house processing facility makes it a member of the first group. However, in-house processing is highly uncommon among confectionery companies of Toms' size. In fact, Toms is one of very few European chocolate manufacturers that have moved the processing phase in-house. For Toms, chocolate processing control can be compared to the work of a chef. To influence the taste of the end product, a chef must

start from scratch with the ingredients. By having control of the processing, Toms can not only cater specifically to the tastes of its customers, but also have significantly greater control of the cocoa origin.

In-house processing, however, comes at a price. There are large fixed costs involved in owning the processing machinery. It is therefore imperative for the processing facility to maintain the throughput volume to keep the machinery in operation. For this reason, the majority of chocolate manufacturers today have outsourced cocoa processing altogether. Most chocolate manufacturers, ranging from mass-market producers to high-end chocolate artisans, buy the majority of their input from large integrated cocoa processors in the form of industrial chocolate. They instead differentiate themselves in the next stage of the chocolate supply chain: manufacturing.

## Manufacturing

In the final stage of chocolate production, industrial chocolate is transformed into the unique chocolate products with which consumers are familiar. Before it is packaged, industrial chocolate is combined with other ingredients, tempered and molded.

The keys to chocolate manufacturing are efficiency and flexibility. Efficiency is more easily attained for the industry's largest players that can gather the volumes to build automated production facilities around just one brand. Toms cannot. Instead, Toms must produce its product series in batches, before reconfiguring its machines to produce the next series. Reconfiguring a machine means manual labor and, more importantly, considerable downtime. Reconfiguring is therefore costly.

Of Toms' five manufacturing facilities, chocolate is only produced in two locations: the factory by the headquarters in Ballerup, Denmark, and the Hanseatische factory in Bremen, Germany. Toms' product assortment covers approximately 1,000 different raw material inputs and 1,000 different packaging designs. Each product requires a unique combination of ingredients. Several retailers also require unique packaging, which adds significant complexity to the mix. Moreover, Toms has approximately 250 product changes every year. Although the majority of these changes are very small, the sheer number of changes speaks to the complexity and pace of the market. Flexibility in production and work shifts allows Toms to quickly respond to new trends and demands from customers. Cost control, however, is still imperative. In an effort to reduce cost, Toms offshored parts of its labor-inten-

sive manufacturing to Poland in the spring of 2012. The Polish facility is responsible for non-automated packaging. This means that chocolate and sugar Confectionery products are manufactured in Denmark and subsequently shipped to Poland for packaging, before they are shipped back to Denmark for redistribution.

In summary, chocolate manufacturing is a balancing act. From a production efficiency perspective, Toms must drive down cost by gathering critical mass to achieve higher volumes per batch. This includes streamlining its product portfolio to minimize the number of machine reconfigurations. From a marketing perspective, however, Toms faces pressure from demand for new packaging, new product launches and delivery flexibility.

**Origin**



**Processing**



**Manufacturing**



**Sales**





## Sales

Toms operates with two main sales channel categories: direct and indirect sales. Direct sales is a relatively new channel for Toms. It covers Toms' four ultra-premium A XOCO by Anthon Berg boutiques, from which Toms sells high-end chocolates directly to consumers. In addition, both A XOCO by Anthon Berg, Feodora and Hachez have individual online stores, where consumers can order their products directly.

Nonetheless, Toms still markets the majority of its products through indirect sales channels. In all indirect channel sales, Toms has outsourced logistics to a third party, but still has varying degrees of involvement in the sales and marketing process. Indirect sales can in turn be grouped into three categories: traditional retail, travel retail, and exports.

Traditional retail is by far the largest volume channel for Toms. It covers department stores, hypermarkets, supermarkets, discounters and convenience stores. These outlets vary significantly in price levels and their assortments, as they tend to attract different customers or represent different purchasing situations. Product characteristics, price range, and the targeted segment are therefore some of the key parameters that should be taken into account when choosing among these retail channels. Toms sells its products through traditional retail channels in Denmark, Germany, and Sweden only. Sales are made directly to retail customers via Toms' local sales teams.

Although travel retail is technically an export channel, it has a relatively distinctive position at Toms for two reasons. First, travel retail products are often tailored and branded as "Travellers Exclusive" and sold either directly to international travel retail stores, or through a range of distributors that specialize in sales to travel retail stores. Second, travel retail channels allow Toms to position and market its products in a more elaborate way. Sales displays can be made more accommodating and inspirational and thereby give Toms products an air of luxury. Toms' Anthon Berg brand, which is especially strong within the travel retail segment, is a good example of such international brand positioning.

Toms exports products to approximately 40 different countries. However, the majority of these countries receive relatively low volumes at a standardized approach. The smaller export markets are all reached through large distributors, where Toms competes with other brands for a place in the assortment. Two markets, USA and Australia, are reached through a slightly different approach. In these markets, Toms uses a "tailor-made" approach, which means that products are made-to-order and sold only to large retail chains for limited periods of the year. This particular approach is naturally limited in scope, as only large orders are feasible and profitable to fulfill. But it is a way for Toms to reach the coveted shelves of some of the world's largest retailers.



# Toms' strategy

## Tasteful moments...

The chocolate industry has moved forward via incremental improvements in chocolate production and incremental innovations in ingredients and packaging. These advancements have proven instrumental in driving market demand in the past several years, and have helped position chocolate as the confectionery industry's affordable luxury product.

*// Broadly speaking, chocolate consumers are conservative. Within markets, preferences and tastes have experienced little variance over time. Since 1948, the only change we made to our best-selling chocolate product, the chocolate turtle, was to double its size. //*

- Jesper Møller

Toms has always taken tremendous pride in its focus on the product. In fact, many of Toms' products are completely distinctive from other products in the chocolate industry. The product focus has made Toms an expert in developing chocolate specifically to the tastes of its predominantly Danish customer base. However, as Toms has begun to focus more internationally, emphasis has been shifted from the product toward the brand. Brands are instrumental for chocolate manufacturers. Brands give access to sales channels, and hence sales volumes, which is key in foreign markets. In addition, a strong brand provides bargaining power with retailers and therefore gives the manufacturer a higher proportion of profits. To market itself to new segments and in new markets, Toms must first establish itself in the minds of consumers. This is easier said than done.

## VISION

To be the leading Nordic confectionery company with an international focus

## MISSION

We work passionately to produce original quality products, and continuously make an effort to create social and environmental improvements across our supply chain. We strive to strengthen our position as a pioneer of the industry to ensure that our brands are always taken into consideration by the consumer.

## ...Responsible choices

Over the last decade, Toms is proud to have become an industry frontrunner in responsible procurement. The company's ability to trace its cocoa beans to their origin is unique among chocolate manufacturers. This strategy has, in itself, become an inherent part of Toms' identity and the company hopes that, in the long run, this will create an edge among conscious consumers.

Toms' main purpose has always been to sell high-quality chocolate. For Toms, this means making the extra effort to ensure the quality of the entire supply chain. On the other hand, Toms' responsible choices can only be made insofar as the company can remain profitable – and traceability does come at a cost. In a world where the words green and social responsibility are used far too often, the message of responsible chocolate is not an easy one to send, especially for a company with a significant presence in mass market chocolate confectionery production. At the end of the day, this means that Toms target segments must be willing to pay a little extra for total quality chocolate.



## Tasteful moments – responsible choices: the story of Toms Ekstra

Perhaps nothing epitomizes Toms' product and supply chain strategy better than the development of the Toms Ekstra chocolate tablet. Toms Ekstra is created from cocoa beans that have been fermented using Toms' special Tray 10 fermentation. Not only does this improve the taste of the final product, it also speeds up the fermentation, thereby saving valuable time for the farmer. The recipe for Toms Ekstra was developed by Toms' expert chocolatier, and refined on every parameter, from roasting, to the choice of ingredients, to the manufacturing itself. The chocolate has been tested on hundreds of Nordic consumers to ensure that the taste is just right for Toms' core markets.

# When the going gets tough

Let there be no doubt: Toms is still a Danish chocolate manufacturer. Its employees, several of whom have spent more than 25 years with the company, live its vision. This makes Toms an expert on Danish consumers and their chocolate tastes. However, times are changing. Although Denmark is a mature, stable market for Toms, it is not an isolated island in the global chocolate confectionery market. Toms faces several pressures in its home market that threaten to have a profound impact on its bottom line.

The acquisition of Hanseatische Chocolade and the opening of the packaging facility in Poland were interconnected steps in Toms' internationalization and growth. The Polish facility gives Toms more flexibility and lowers its production costs. This, in turn, will improve Toms' competitiveness, which is imperative for the company's internationalization. But cost cutting can only take Toms so far. At the current scale and state of production, Toms simply cannot compete with prices internationally. This is where Hanseatische Chocolade comes into the picture. With well-known, exclusive brands such as Feodora and Hachez, Hanseatische is Toms' bridgehead in Europe's second-largest chocolate market, Germany. In addition to the increased scale, Hanseatische also adds new product competencies to the mix. With its expertise in high-end, darker chocolates, the company has strong international ap-

peal that Toms can leverage. With these assets in place, Toms has taken a big step in progressing its internationalization. Now the question is: where to go next?

*"The risk when you try to expand organically is that you overinvest and fail to make a profit. The large companies in our industry have strong cash flows, and can afford to make large initial losses. That is more difficult for us as a smaller player."*

- Jesper Møller

Toms is omnipresent in the Danish chocolate confectionery market, with leading brands in several categories. For most Danes it would be impossible to imagine the chocolate confectionery market without Toms' products. On an international scale, however, Toms does not have the same influence. Both keeping and winning market share is a costly affair. Therefore, Toms must focus its international strategy, both in terms of consumer segments and geographic reach, to avoid getting stuck in the middle.



## Closing statement

As the management team's deliberations came to a close, Jesper Møller gathered his thoughts. It was evident that Toms was facing at least three significant pressures that challenged the profitability of its chocolate business. First, Toms' core confectionery markets had matured and growth rates had slowed significantly. This had increased the importance of scale and cost efficiency, particularly in the mass and mass-premium market segments. Second, the Danish confectionery market was hit by increasing political pressure and taxation that could not be transferred completely to customers. Although taxation was applied to all confectionery companies in the market, it had a disproportional impact on Toms' bottom line due to the company's reliance on the Danish market. Finally, Toms relied on a few large customers for a large share of its sales volume, for which it competed with large, cost-competitive, international brands. This made Toms' relative bargaining power small.

Møller knew that the company had resources available for an actionable, substantiated five-year strategy, but that they were, of course, limited. Toms neither could, nor should, execute a mass market strategy with large-scale TV advertising and supermarket listing fees. In the Danish market, Toms had relied on relatively traditional channels for the majority of its revenues. But to break into new markets, Toms had to look for more innovative channels to communicate with consumers and market its chocolate confectionery products.

Despite the challenges that lay ahead, Møller and the management team were confident. Toms was a company with a strong identity and solid capabilities in the chocolate confectionery market. Now their task was to take Toms' chocolate confectionery business to its true potential.

## Appendix A: Financial statements

### Balance

	2007	2008	2009	2010	2011
<b>million DKK</b>					
Goodwill	54.8	52.4	48.4	44.4	40.5
Development costs	0.3	0.1	-	-	-
<b>Intangible assets</b>	<b>55.1</b>	<b>52.6</b>	<b>48.4</b>	<b>44.4</b>	<b>40.5</b>
Land and buildings	102.6	95.5	89.4	85.2	84.4
Plant and machinery	181.8	259.9	225.3	222.9	195.5
Other fixtures and fittings, tools and equipment	0.1	0.9	0.7	0.4	0.2
Property, plant and equipment in progress and prepayments	42.4	4.0	8.5	1.6	5.1
<b>Property, plant and equipment</b>	<b>327.0</b>	<b>360.3</b>	<b>323.9</b>	<b>310.1</b>	<b>285.3</b>
Other fixed assets	-	-	2.7	2.7	2.7
Investments in associated companies	-	-	-	-	-
<b>Fixed asset investments</b>	<b>-</b>	<b>-</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>
<b>Fixed assets</b>	<b>382.1</b>	<b>412.8</b>	<b>375.1</b>	<b>357.3</b>	<b>328.4</b>
Inventory	242.0	269.5	207.9	237.8	227.2
Trade receivables	207.2	160.6	145.0	181.4	223.2
Corporate tax	-	9.6	5.4	2.5	-
Receivables from group enterprises	-	-	-	-	-
Other receivables	47.7	41.8	16.1	11.5	13.8
Prepayments	-	-	-	0.3	3.8
<b>Receivables</b>	<b>254.9</b>	<b>212.1</b>	<b>166.5</b>	<b>195.7</b>	<b>240.8</b>
Securities	10.7	9.4	8.0	6.0	4.2
Cash and cash equivalents	71.3	114.2	97.4	111.8	164.9
Total current assets	578.9	605.1	479.8	551.3	637.1
<b>Total assets</b>	<b>961.0</b>	<b>1,018.0</b>	<b>855.0</b>	<b>908.6</b>	<b>965.5</b>
<b>million DKK</b>					
Share capital	3.5	3.5	3.5	3.5	3.5
Retained earnings	463.5	469.0	499.3	550.3	556.2
Proposed dividend	15.0	5.0	-	-	-
<b>Equity</b>	<b>482.0</b>	<b>477.5</b>	<b>502.8</b>	<b>553.8</b>	<b>559.7</b>
Deferred tax	40.1	41.9	42.5	43.5	29.4
Other deferred provisions	4.8	4.2	1.8	1.7	1.7
<b>Provisions</b>	<b>44.9</b>	<b>46.1</b>	<b>44.4</b>	<b>45.2</b>	<b>31.1</b>
Bank debt	66.4	42.9	28.6	14.2	-
<b>Long-term debt</b>	<b>66.4</b>	<b>42.9</b>	<b>28.6</b>	<b>14.2</b>	<b>-</b>
Short-term payments of long-term debt	23.6	23.6	14.3	14.3	14.3
Credit institutions	8.0	122.8	31.0	24.1	13.4
Trade payables	139.6	111.5	82.1	93.5	98.4
Corporate tax	5.3	-	-	-	7.8
Other debt	191.2	193.6	151.8	163.4	240.8
<b>Short-term debt</b>	<b>367.7</b>	<b>451.5</b>	<b>279.2</b>	<b>295.3</b>	<b>374.7</b>
<b>Total debt</b>	<b>434.1</b>	<b>494.3</b>	<b>307.8</b>	<b>309.5</b>	<b>374.7</b>
<b>Total liabilities</b>	<b>961.0</b>	<b>1,018.0</b>	<b>855.0</b>	<b>908.5</b>	<b>965.5</b>

### P&L

	2007	2008	2009	2010	2011
<b>million DKK</b>					
Net revenue	1,389.3	1,343.7	1,219.8	1,296.5	1,396.1
Cost of goods sold	(933.4)	(944.9)	(825.5)	(850.2)	(937.4)
<b>Gross profit</b>	<b>455.9</b>	<b>398.8</b>	<b>394.3</b>	<b>446.3</b>	<b>458.7</b>
Sales and distribution costs	(307.5)	(327.7)	(297.5)	(316.0)	(359.3)
Administrative costs	(62.1)	(65.1)	(53.6)	(66.0)	(75.7)
Other operating income	11.1	15.7	0.2	-	5.6
Other operating expenses	-	-	(0.4)	(0.2)	-
<b>EBIT</b>	<b>97.5</b>	<b>21.7</b>	<b>43.4</b>	<b>63.9</b>	<b>29.1</b>
Income from investments in associated companies	-	-	-	-	-
Financial income	3.2	2.9	5.5	6.7	22.4
Financial expenses	(6.5)	(12.6)	(6.5)	(2.5)	(25.8)
<b>Profit before tax</b>	<b>94.2</b>	<b>12.0</b>	<b>42.5</b>	<b>68.1</b>	<b>25.7</b>
Company tax	(19.4)	(0.8)	(12.0)	(16.3)	(4.5)
<b>Profit after tax</b>	<b>75.4</b>	<b>11.3</b>	<b>30.0</b>	<b>51.8</b>	<b>21.2</b>
Income from investments in associated companies	-	-	-	-	-
Financial income	3.2	2.9	5.5	6.7	22.4
Financial expenses	(6.5)	(12.6)	(6.5)	(2.5)	(25.8)
<b>Profit before tax</b>	<b>94.2</b>	<b>12.0</b>	<b>42.5</b>	<b>68.1</b>	<b>25.7</b>
Company tax	(19.4)	(0.8)	(12.0)	(16.3)	(4.5)
<b>Profit after tax</b>	<b>75.4</b>	<b>11.3</b>	<b>30.0</b>	<b>51.8</b>	<b>21.2</b>

### Cash flow statement

	2007	2008	2009	2010	2011
<b>million DKK</b>					
EBIT	97.5	21.8	43.0	63.9	29.1
Net financials	(4.7)	(9.7)	(0.9)	4.2	(3.4)
Depreciation and amortization	48.3	54.7	60.7	54.2	55.1
<b>Total</b>	<b>141.0</b>	<b>66.8</b>	<b>102.8</b>	<b>122.3</b>	<b>80.8</b>
Change in inventory	(24.9)	(27.5)	61.6	(29.9)	10.6
Change in trade receivables	(14.9)	46.6	15.6	(36.4)	(41.8)
Change in other receivables	4.6	5.9	25.7	4.6	(2.2)
Change in prepayments	-	-	-	(0.3)	(3.6)
Change in trade payables	19.9	(28.1)	(29.4)	11.4	4.9
Change in other debt	0.2	2.4	(41.8)	11.4	77.7
Change in value of financial instruments	-	-	-	(2.5)	(20.6)
Change in provisions	1.9	(0.5)	(2.4)	(0.1)	(0.1)
Change in taxes paid	(21.4)	(13.4)	(7.3)	(10.7)	(3.2)
<b>Cash flow from operating activities</b>	<b>106.5</b>	<b>52.1</b>	<b>124.8</b>	<b>70.0</b>	<b>102.5</b>
<b>Cash flow from investing activities</b>	<b>(84.8)</b>	<b>(85.4)</b>	<b>(23.0)</b>	<b>(36.4)</b>	<b>(26.2)</b>
<b>Cash flow from financing activities</b>	<b>(47.3)</b>	<b>(38.6)</b>	<b>(28.6)</b>	<b>(14.3)</b>	<b>(14.3)</b>
<b>Net cash flow for the year</b>	<b>(25.7)</b>	<b>(71.9)</b>	<b>73.2</b>	<b>19.2</b>	<b>62.1</b>

## Appendix B: Market data



### World top 15 chocolate confectionery markets

Country	2012	Forecasted growth
		2012-2017
USA	19,289.3	8.7%
UK	9,672.5	13.1%
Russia	8,699.7	10.8%
Germany	7,604.6	0.4%
Brazil	6,620.6	47.2%
France	5,513.6	1.8%
Japan	4,329.7	-3.5%
Italy	3,349.1	-1.7%
Canada	2,722.1	9.6%
Australia	2,432.1	2.6%
China	1,946.1	32.4%
Ukraine	1,896.1	24.3%
Poland	1,748.4	6.5%
Switzerland	1,655.0	5.8%
Argentina	1,600.7	6.7%

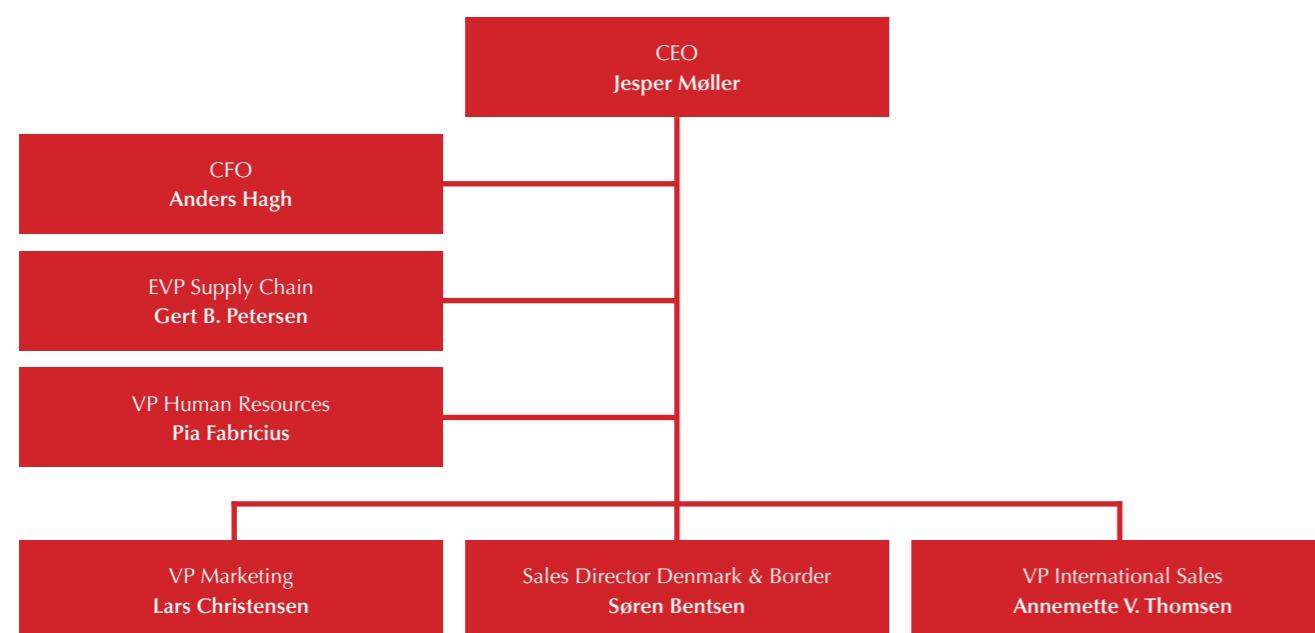
Retail value in USD mio · Source: Euromonitor, 2012

### World top 15 annual chocolate consumption per capita

Country	2011
Ireland	11.2
Germany	11.1
Belgium	11.0
Switzerland	10.7
UK	10.2
Austria	9.4
Norway	8.5
Denmark	7.7
France	6.8
Finland	6.8
Sweden	6.8
USA	5.6</td

## Appendix C:

### Organizational overview and production facilities for Toms Confectionery Group



**HQ in Ballerup (Denmark)**  
Size: 55,000 sqm.  
Output: 15,000 tons  
of chocolate/year  
Employees: 540 (270 of which  
are administrative personnel)



**Helseholmen (Denmark)**  
Size: 21,000 sqm.  
Output: 11,000 tons  
sugar confectionery/year  
Employees: 133 (11 of which  
are administrative personnel)



**Leszno (Poland)**  
Size: 10,000 sqm.  
Output: 3,000 tons  
of chocolate is packed/year  
Employees: 210 (10 of which  
are administrative personnel)



**Bremen (Germany)**  
Size: 10,800 sqm.  
Output: 3,000 tons  
chocolate/year  
Employees: 415 (127 of which  
are administrative personnel)

## Appendix D: Brand portfolio for Toms Confectionery Group

Brand	Dates back to	Target	Tag-line	Positioning	Competitors	Current retail channels	Distribution	Characteristics	Iconic products
A XOCO by Anthon Berg	2008	Connoisseurs	"Danish chocolate gastronomy"	Ultra-premium	Simply Chocolate, Summerbird, Peter Beier	Own stores, Specialty stores, B2B, Webshop	Denmark	Uncompromising quality, hand-made, chocolate gastronomy	Dragées and pralines
Anthon Berg	1884	Grown-up chocolate lovers	"You can never be too generous"	Mass-premium	Lindt, Ferrero Rocher	Hypermarkets, Supermarkets, Discounters, Convenience, Department Stores	Denmark & International	By appointment to the Royal Danish Court	Marzipan Bar, The Golden Box, Liquor-filled bottles
Hachez	1890	Grown-up chocolate lovers	"Bremer Chocolade Manufaktur seit 1890"	Mass-premium	Lindt, Rausch, Niederegger, Heilemann	Hypermarkets, Supermarkets, Discounters, Convenience, Department Stores, Webshop	Germany	Rational brand, quality, fine cocoa beans	Brown leaves of chocolate
Feodora	1910	Grown-up chocolate lovers	"Tradition seit 1910"	Mass-premium	Lindt, Rausch, Niederegger, Heilemann	Hypermarkets, Supermarkets, Discounters, Convenience, Department Stores, Webshop	Germany	Emotional brand, harmony and enjoyment	Superior miniature bars
Toms Ekstra	2010	Women +30 years of age	"Produced in Denmark"	Mass-premium	Lindt, Marabou Premium (from Mondelez Int.)	Hypermarkets, Supermarkets, Discounters, Convenience, Department Stores	Denmark	Use of the Tray 10 fermentation process that ensures its extraordinary taste profile	Dark Chocolate 70%
Toms	1924	Families	None	Mass	Mondelez Int., Nestlé, Mars	Hypermarkets, Supermarkets, Discounters, Convenience	Denmark	Historic chocolate and original products	Chocolate Turtle, Gold Bar, Golden Toffee
Galle & Jessen	1872	Families	None	Mass	Carletti, Private label	Hypermarkets, Supermarkets, Discounters, Convenience	Denmark	By appointment to the Royal Danish Court	Chocolate slices in milk and dark chocolate

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### **Disclaimer**

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**Toms**

Tasteful moments - Responsible choices