

# Thorntons plc and the international confectionery industry marketing essay



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Thorntons Plc is one of the United Kingdom's leading manufacturers and retailer of specialist chocolates. It is a British chocolate company established by Joseph William Thornton in 1911, the company remains more than 30 percent owned by the Thornton family. It is a company of nearly £200 million turnover with 400 shops and number of franchise. There are currently 4, 539 employees working with the company. The company had followed a strategy of in-house manufacture and retailing largely through the company's own shops and to a lesser extent through franchising. In 2001, the company also began rolling out a line of products to be sold through the supermarket channel. Thornton's product not only focuses on chocolates, fudge, and toffee but also include other candies and ice creams flavours. This commitment to quality has gained the company a strong reputation throughout the United Kingdom and made it one of the country's most popular brands. And this followed by the takeover of Cadbury by the US company Kraft which led to Thorntons being the largest independent chocolate and confectionery company in the United Kingdom. The tag line of the company: " The Art of Chocolatier" is proving its meaning. The stores offer premium and hand-crafted boxed chocolates, hampers, gift boxes, corporate gifts, and seasonal candies.

The environmental factors which affect the running and the strategy from outside and which are not in control of the company are known as Macro-environmental factors. These are factors which are often beyond the control or influence of a business, and that's why it is important to be aware of them to deal with in the strategy of the organization. PESTEL analysis is a way of examining or analysing the macro-environmental factors in which a company

operates. This will identify and evaluate Thornton's strategic development from set up to the present time.

**POLITICAL:** At the moment there is no major political problem for Thornton's because England is its home market and the confectionery and chocolate manufacturing is not an industry which causes much political problems.

**ECONOMICAL:** Mail order response provided an economic response to seasonal pattern of demand. Thornton's saw a fall and downturn in the French market as it could not cope with the French favourite chocolate company. In the year 2003-2004 Thornton's saw that they were not able to meet the desired profits.

**SOCIOLOGICAL:** Thornton's sale particularly increased in seasonal time for example in Easter, Christmas, Valentine's Day etc. It has a very seasonal demand variation. There was a tremendous labour reduction due to increase in automation.

**TECHNOLOGICAL:** 1998, Thornton's went on a £3 million programme to install EPOS (electronic point of sales). It started the new system of internet, mail order and various other commercial services.

**ENVIRONMENTAL:** The external environmental factors which affect the strategic position and working of the company come under the PEST analysis.

**LEGAL:** As far and till date, Thornton's Plc has not yet involved in any illegal issues which might hamper the reputation and the position of the company.

The Company carry out its business in utmost legal and legitimate manner.  
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The UK chocolate market is the biggest in all European market. People in United Kingdom consume more chocolate than in any other country in Europe. Between 2004 and 2008, sales of chocolate confectionery grew by an estimated 7.2% overall. Growth in the chocolate confectionery sector has been driven by factors such as the success of premium brands since 2004. The small, but established, luxury tier in the chocolate market saw expansion into the mass market in this environment. Brands such as Thornton's and Green & Black's gained wider retail distribution, while options such as organic chocolate and recipes containing explicitly stated and higher cocoa content also gained market share. The chocolate confectionery industry is slow growing, driven primarily by the popularity of premium chocolate. The seasonal and boxed chocolate market is predicted to see growth in 2008. Seasonal and boxed chocolates are fighting back by embracing all the major food trends, including local and national taste. The chocolate industry in UK is competitive with Thornton's fighting for its position. After the takeover of Cadbury by the US company Kraft, Thornton's is the largest independent chocolate and confectionery manufacturing company in UK.

To analyse the industry structure and the market effectiveness Porter's Five Forces is used as a strategic tool. The model of the Five Competitive Forces was developed by Michael E. Porter in his book "Competitive Strategy: Techniques for Analyzing Industries and Competitors" in 1980. These forces determine the intensity of competition and hence the profitability and attractiveness of an industry. The objective of strategy should be to modify these competitive forces in a way that improves the strategic position of the company.

Below is the strategic analysis of Thornton's in the view of Porter's Five Forces.

### **Competitive rivalry:**

Thornton's primarily compete in the boxed chocolate market where they have to compete with brands like Cadbury, Bendicks, Green & Black's, Whitbread etc. Product quality is based on unique product recipes and the use of high quality materials. The chocolate industry is in maturity stage of the life cycle. Within this view Thornton's in-house manufacturing and retailing strategy appears to have a number of benefits in meeting competitive forces.

### **Threat of Entrants:**

Thornton's is the largest UK manufacturer of premium chocolate, a product that involves chocolate enrobing rather than the moulding process required by more mass market chocolates. Where the costs were comparatively higher, they often included discretionary aspects that resulted in enhanced product characteristics for those where there was no concern for the retention of knowledge. Product quality is based on unique product recipes and the use of high quality material. Overall, the threat of entrants is not high but moderate as production cost is high and also entrants needs experience.

### **Threat of Substitutes:**

Rather buying solid or boxed chocolates there are many other substitutes available for the consumers in the chocolate market such as chocolate milk,

rice milk, juices, cakes, ice creams, etc. The threat of substitutes is very high as varieties of substitutes are available in the market.

### **Buyer Power:**

The volume of purchase from the buyers is low. Mostly the purchases is depends upon seasonal events i. e. Christmas, Valentine's Day, Easter and other special occasions. Thornton's has large number of such suppliers as M&S, ASDA and other supermarket stores where Thornton's supply chocolates. Thornton's continually develops the manufacturing aspects of the business where people are often surprised by the amount of hand-finishing involved in the manufacture of Thornton's products. There is not a big threat of backward integration by the buyer.

### **Power of Suppliers:**

Thornton's was able to make use of competitive supply market. Thornton's buys all of their cocoa from two of the world's most respected suppliers Barry Callebaut and Cargill. Though the inputs from supplier is highly differentiated and as switching costs of supplier is high as well, Thornton's was reluctant to enter situations where suppliers might achieve power in the relationship. Because 70 per cent in-house manufacturing and in the area of liquid chocolate, the company was able to follow a buying-in strategy due to the availability of a number of suppliers. Therefore, the power of suppliers is negative.

Coming to the target market and customer of Thornton's, we have seen that Thornton's is a company mainly achieving its sales target through seasonal sales. Through this it is clear that their target of customers in particular and

specific in the particular occasion. The sales for Thornton's are highest in the season of Christmas and Easter. Here the customers are provided with all types of chocolate delicacies which they desire of. Thornton's strategies have always been to attract younger target market customers. With expecting the highest sales in Christmas they have a target to clear off the entire chocolate product forecasted for the sale. Same is the case during the occasion of Valentine's Day when they expect a high sale in the younger target market.

The market target and the customer target keep changing according to the demand by the customers and the changing scenario.

## **RESOURCES AND CAPABILITIES:**

### **RESOURCES:**

The resource and capabilities of the organization help in formulating strategies to achieve a sustainable competitive advantage in its market and industries. There are two fundamental reasons for making the resource and capabilities of the firm the foundation of its strategy. First, internal resource and capabilities provide the basic direction for a firm strategy and second, resource and capabilities are the final source of profit for the firm.

Resources can be internal as well as external. Internal resources being financial, physical, intangible, technological, human resources. External resources would include customers, suppliers, distributors, advisors etc.

## **Tangible Resources:**

Tangible resource refers to the physical assets that an organization possesses and can be categorized as physical resource, financial resource and human resource. For Thornton's physical resources are buildings, machineries, equipments and retail outlets. Thornton's have their own shops to sell their products. Besides that, they have collaborated with other retail outlets such as Marks and Spencer, Tesco and also other supermarkets stores in order to widen and strengthen their market distribution channel. For financial resources, today Thornton's Plc is £200 million+ turnover Company. In August 2009, the company agreed new commitment bank facilities for three years and as a result the company is well placed to continue its long term growth strategy and their strategy remains just as relevant now as it was before the recession and they remain focused on driving the business forward and delivering sustainable growth in earning per share supported by a strong balance sheet. For human resources, Thornton's has more than 4000 well-trained employees to provide appropriate services to their customer from manufacturing end to retail outlets and as a result of this sales increase.

## **Intangible resources:**

Intangible resources comprise intellectual/technological resources and reputation. For Thornton's it include family culture, corporate culture, R&D framework and brand awareness. Everyone involved in the company management level should have more or less same approach towards company's success. Another important intangible resource for Thornton's is corporate culture or the environment in which the company operates. The



Company has a formal process for succession planning to ensure they develop the capability to grow the business in line with our long-term goals. Management performance and development reviews are conducted annually. They also regularly monitor their staff turnover rates and use exit interviews to understand the reasons why staff leave and ensure improvements are made where appropriate. Training is also available to all staff and they aim to develop both individuals and teams in line with their business needs. Moreover, Thornton's has strong brand image among customers mind. It is well known for its in-house manufacturing facilities and its wide chocolate range. Thornton's has strong R&D facilities as well. In 2009, the company launched "Thornton's Moments" and "Chocolate Blocks", which got huge positive response from their customer for their test and quality.

### **CAPABILITIES:**

Capabilities are sort of the competitive advantage which the company has over its competitors. The capabilities of the company should prove to be distinctive from its competitors, only then it has a chance of some competitive advantage over them. We can also say that competitive advantage may be a product, service, cost, resource, capability or supply position advantage which a company's competitors have difficulty countering, matching or overcoming.

For Thornton's, in-house manufacturing is very important because it separates them from their competitors. The ability to monitor the process of the boxed chocolate selection provides them with greater control over the manufacturing process. This has enabled them to protect the recipe of their <https://assignbuster.com/thorntons-plc-and-the-international-confectionery-industry-marketing-essay/>

core products. The use of quality ingredients assured the quality of the boxed chocolate selection. It has enabled them to differentiate themselves from other chocolate producers. Moreover, Thornton's has 379 shops and cafe and 197 franchises throughout the UK. The company owned retail outlets provided a good quality of service by providing personalized messages on icing during special occasions. Thornton's has another important advantage over their competitors of getting proprietary knowledge about chocolate through their retail outlets.

We can list out various competitive advantages for Thornton's which prove them beneficial or somewhere contribute to their core competence.

Product differentiation

Niche markets

Quality

Culture and style

Brand reputation

Services

Some of these competitive advantages prove out to be core competencies for Thornton's. These being:

Experience: Thornton's being in the confectionary manufacturing industry for almost 100 yrs has a competitive advantage over its competitors in sense of experience.

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Quality and reliability: Quality in the ingredients used. Quality in selection of retailers and distributors, they limited the distribution of their products to a few niche retailers . e. g. Waitrose, Selfridges.

Inimitability and product differentiation: Handcrafted products were exclusive to Thornton's. Variety and innovative recipes and flavors in the chocolates. They have unique and attractive gift wrapping befitting the occasion/festival.

## **STRATEGIC ASSETS:**

Strategic assets are the set of factors, tangible or intangible, which the company has been generating and which have become essential to develop a competitive advantage in their market. For Thornton's its resources and capabilities mentioned above can also be called as a strategic asset. But other than the resources and capabilities stated above, the strategic assets which contribute as a competitive advantage for Thornton's are:

Company owned distribution outlets

Exclusive distribution and retailing

Quality and reliability of products

Years of experience

Uniqueness

These strategic assets are the factors both in tangible and intangible ways that contribute to company's competitive advantage as well as core competencies.

### **ORGANISATIONAL KNOWLEDGE:**

Knowledge: It is the awareness, consciousness or familiarity gained by experience of learning. Organisational knowledge: It is the collective and shared experience accumulated through systems, routines and activities of sharing across the organisation. Thornton's have an experience of more than 100 years in the art of chocolate manufacturing business and retailing. They have enough knowledge and are still learning which has helped them to survive in the chocolate industry for such a long period of time and is still going on.

### **STRATEGIC SYNOPSIS:**

Overall, the company's in-house strategy is consistent with the competitive technology and supply context in which the company operates. The specific nature of the manufacturing technology greatly reduces the opportunity for outsourcing from a competitive supply market. The supply alternative is essential to purchase product from other manufacturing companies, a strategy that would erode differentiation. A number of factors have contributed to the success and problems faced by Thornton's Plc. Over the years, the company seems to have lost focus on its original strategy based on product differentiation and spread itself too thin in pursuit of multiple objectives. It is clear that the values on which Thornton's was originally founded were the principal reasons for the company's initial success in UK.

Thornton's succeeded in positioning itself as a chocolate specialist and <https://assignbuster.com/thorntons-plc-and-the-international-confectionery-industry-marketing-essay/>

offered a wide range of products (positioned as “ top of the line” in the competitive boxed-chocolate market and therefore appealing to a certain market segment).

A combination of the quality ingredients that Thornton’s had used and the manufacturing expertise it had developed for its core products were the key reasons for its success. And one of the company’s competitive advantages came from the freshness and consistency of its hand-made products; these two characteristics were essential to Thornton’s initial success in positioning itself as a purveyor of specialty chocolate which was of exceptional quality.

Thornton’s main strategy has always been to deliver sustainable growth and profit by:

Developing new innovative products

Giving the brand greater relevance and a more premium feel

Modernising the instore environment

Expanding the current commercial and direct business

Attracting and retaining the best people

## **STRATEGIC CHOICE FOR THORNTONS:**

### **DIRECTION FOR DEVELOPMENT:**

We know that development directions are the strategic options available to a company in terms of product and market coverage, taking into account the strategic capability and the stakeholder’s expectations. From the above

conclusion as the strategic position of Thornton's we believe that the company needs to develop its strategies to emerge as the best chocolate company in UK and the European markets. For a stable development of company in future the strategic option of developmental directions is used. The best direction of development was developed by Igor Ansoff in the 1960s which is known as the Ansoff Matrix. Let us now develop the strategic options for Thornton's by using the Ansoff matrix and see how much scope does the company has in terms of development.

## **PRODUCTS**

Existing New

Existing DEVELOP CURRENT POSITION

Consolidation

MARKETS Market Penetration

PRODUCT DEVELOPMENT

With existing capabilities

With new capabilities

MARKET DEVELOPMENT

New Market extension

New uses

Geographic extension

## DIVERSIFICATION

With existing capabilities

With new capabilities

**Developing Current Position:** Developing current position would mean that Thornton's can strengthen its current position by consolidation where organisations protect and strengthen their position in current market with current products. Market penetration would mean leading to increase in market share.

**Product Development:** Product development takes place where organisations deliver new product to the existing market with new or existing capabilities.

**Market Development:** Market development takes place where a company launches its existing products in new market.

**Diversification:** Diversification may be termed as where organisations move into new product and market activities.

From the strategic position of Thornton's we have seen that the company holds a market share only in the UK market. Thornton's launched its products in the European countries like France and Belgium but turned out to be a failure as it could not cope with the already existing company's and choice and taste of chocolate for people in there. Thornton's saw a disappointment in Europe. In 1993 Thornton's France saw a huge loss which made the company leave the European markets and continue with the UK.

For Thornton's its core products are boxed chocolates, seasoned products and gift wrapped chocolates which is made from the traditional method which is in use since the company has formed. Thornton's attempt to aim at the premium end of the chocolate sector. So they try to cover every segment of chocolate, but this occurs on a higher quality and image level than for instance Mars who target a broader range of customers. The company saw a fall in European countries as this taste of chocolate was not acceptable by the people there. This is because the in-house manufacturer feels to protect the exclusivity of Thornton's principal recipes. Thornton's is in need of vast diversification and product development.

Within the confectionery market in UK, Thornton's is having competition with some of the world leaders in the chocolate market. Making its stand at the 3rd position in market share with core products like boxed chocolates, Thornton's compete with a 12% market share.

Thornton's have always given greater importance to product development as to compete in the UK market, but has never gone for the actual diversification. The handmade chocolates are one of the core competences of Thornton's chocolates. But this limits only to the seasonal sales and occasion gift wrappings. A normal chocolate box of Thornton's ranges from £5 to £10 in price on the high street where other postal gifts such as flowers and wine cost almost the same. As Thornton's strategy is to develop innovative new products it always targets the growth by the introduction of new products in the markets. Thornton's have previously increased the product innovation and re-launching and repacking the classic range by



adding new flavours of Swiss and Austrian to its chocolates and also introducing the American range of chocolates.

Introducing new products always involves a high volume of research and development and a continuous study of the market position as the organisation starts to learn new competencies and new capabilities. However studies also states that a rapid product development or frequent changes in the product line of the company damages the profits as organisations struggle to get new place and try to learn new competencies with low-share firms.

### **METHOD OF DEVELOPMENT:**

Development is the means by which the strategic development is pursued. Broadly there are three methods of development, first being internal development where strategies are developed by building on and developing organisation's own capabilities. Second method of development is the merger and acquisition where strategies are developed by taking over another company. Third being strategic alliances where two or more organisations share resources and activities to pursue strategies.

A majority of the company's sales are made through company-owned shops. Thornton's owns a lot of company shops on the high street. The main focus of Thornton's always had been retail outlet, though they supply their products to many supermarket stores like Marks & Spencer, ASDA, etc.

Thornton's had made some acquisitions in Europe, but it turned out to be a failure after some time when the costs of holding those company were

exceeding the profits made by Thornton's in European nations. Though the <https://assignbuster.com/thorntons-plc-and-the-international-confectionery-industry-marketing-essay/>

major sales of the company were through company owned shops, Thornton's also used other form distribution including franchising. Thornton's also owned a small chain of greeting cards shop which also didn't do well in the market which led to sale of the greeting card business.

Some major internal changes also took place in the organisation where Thornton's got a new management team with new CEO to look after the management of the company. The new CEO made some important strategic decisions with regard to the company's current strategic position.

## **PORTER'S GENERIC STRATEGY:**

Companies can achieve competitive advantages essentially by differentiating their products and services from those of competitors and through low costs. Firms can target their products by a broad target, thereby covering most of the marketplace, or they can focus on a narrow target in the market (Lynch, 2003). According to Porter, there are three generic strategies that a company can undertake to attain competitive advantage: cost leadership, differentiation, and focus.

Below is the example of how Porter's generic strategy works in respect to Thornton's Plc.

## **SOURCE OF COMPETITIVE ADVANTAGE**

Cost Differentiation

Narrow

SCOPECOST FOCUS

## DIFFERENTIATION FOCUS

### BroadCOST LEADERSHIP

## DIFFERENTIATION

We can place Thornton's Plc in "differentiation focus". In differentiation focus a firm seeks differentiation in the target segments. Thornton's have specific target market for examples corporate sector, different events like festivals, ceremony, gifts, award giving etc. From this target market Thornton's can take the competitive advantages over its competitor through their large number of retail outlets throughout UK. Moreover, Thornton's can take an edge over their competitor for their distinctive in-house chocolate manufacturing facilities. Furthermore, Thornton's have two world's most respectable cocoa supplier who ensure the ethical sourcing of cocoa. As a result, they are well abiding by the law of environmental sustainability and human rights.

## **KEY STRATEGIC CHOICE AND RECOMMENDATION:**

We have seen that Thornton's have adopted many strategies and some of them have proved beneficial for the company growth while some have just contributed to the cost of the company. Various strategic options like the Ansoff Matrix and the Porter's Generic Strategy gives the idea to expand in the area of product and market development. A need for diversification and product differentiation is the need of the hour for Thornton's Plc keeping in mind the various market hurdles and the cost factor. Major internal and external development has also been carried out, where internal development

strategy gave some new focus to the company whereas; the external  
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development of franchising and acquiring of other companies gave little disappointments.

There are several reasons for Thornton's not topping the charts of chocolate industry in UK and adding value as a differentiator. First Thornton's has its own distributions channel, with franchised and company owned shops, an internet sales management and the possibility to deliver the commercial business. The whole retailing process is controlled by the firm and guarantees quality chocolate (Thornton's Plc. 2007). Moreover the new internet presence generates the possibility to buy all products and receive them the next day. But the real surplus value is the option to choose the favourite content of each gift, so it can be modified for every taste. Secondly the excellent service is a unique selling point, even if seasonal peaks decrease the quality of service. It includes also the customisation of products. Hence, the individual packaging is a significant sales argument, too. Thornton does also manufacture the core products like boxed chocolate in-house. Together with the freshness of their goods they want to convey a special impression.

Thornton's is a company into existence for more than 100 years. It knows what decisions affect the stakeholders of the company and how to deal with them. Taking any strategic decisions involves and acceptance and approval of the stakeholders as well. If Thornton's wants to make profit and grow then it must address its questions and where possible, alleviate their fears. If such fears are noticed by the competitors, they might succeed in influencing the more powerful stakeholders of the company. On the other hand, in the output function, the customers, industrial purchasers and retailers have high <https://assignbuster.com/thorntons-plc-and-the-international-confectionery-industry-marketing-essay/>

power but low interest and the stakeholders who have a high interest in the company could affect the strategy of Thornton's. Thornton's has to develop the tools, for example packaging guidelines, and the training programs to make sure that all aspects of their product, packaging, selling skills and other elements of the customer proposition are aligned with their brand values.

In recommendation from the strategic options and choices, we can say that product differentiation and diversification is what should be adopted by the company in order to increase their competitive advantage and also keep intact the interest of the stakeholders. Various costs are yes, mostly involved in adopting these strategies but, Thornton's have to also look for the best way to increase its market share and sales.

### **STRATEGIC ACTION:**

Thornton's have tried every possible way of increasing the profits, market share and matching upto the expectations of customers. It can carry out strategic development by:

Developing Current strategy by: Relaunching the Continental range of chocolates, introducing the scented and champagne bottle chocolates.

Penetrating the Market by: Introducing new snack bar and chocolate on sticks for Easter.

Developing the product by: Introducing ice creams and luxury choc blocks especially the younger customers. And also concentrating on annual sales rather than just festive occasions and gift sales.

Development in market by: supplying their product to supermarkets, franchising their products and entering into the European and American markets.

If we go to see the strengths and weaknesses of Thornton's we might very well identify the best strategic action needed for the company. A detailed SWOT analysis of Thornton's will help us in identifying the same:

## **STRENGTHS:**

Brand

High quality products

Operations in lucrative markets

Quality of service

Uniqueness

## **WEAKNESSES:**

Franchise weakness

In-house manufacturing sometimes is unable to meet demand in seasonal picks

Location

Outlets of shops

Only festive and seasonal sales

**OPPORTUNITIES:**

Developing the market share

More opportunities for automation

Expansion in foreign markets

Internal/organic development

**THREATS:**

Competitors

Own products of supermarkets

Other small and specialist chocolate companies.

By conducting the SWOT analysis of Thornton's we can state that the company can develop internally as well as external with a proper understanding their opportunities and strengths. Thornton's main goals should be to re-establish themselves as the leading chocolate brand in UK and also establish fairly in other European and foreign markets, to increase the market share of the company, to increase the all year round business and sales and reduce the dependency on the seasonal sales. It should continue focusing on brand reputation, developing innovative new products, modernising the instore environment and attracting and retaining the best people.

All these strategic actions and development process and choices will certainly benefit Thornton's in delivering sustainable, long term and profitable growth.