Five force analysis

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Rogers Chocolate: Five Force Analysis Feedback A graphic portrayal of the five-forces model for the chocolate industry is shown in below. At the end of the analysis, always state a conclusion: Rivalry Among Competing Premium Chocolate Producers—a Moderately Strong Competitive Force In the discussion of the five competitive forces that follows, we use a + sign to indicate factors acting to strengthen rivalry and a – sign to indicate factors acting to weaken rivalry.

The +/– signs are shown in parentheses. ? The Canadian premium chocolate industry has been growing by about 20% annually while the chocolate industry as a whole has been relatively stagnant or falling. (–) ? The gap between the growth of the premium and lower quality markets has spurred a movement by large, traditionally low quality, manufacturers into the premium market through acquisitions and upmarket launches. (+) ? Product differentiation is moderate among makers of premium chocolates.

While there is some differentiation withrespectto the quality of the chocolate produced, the main differentiating feature is the packaging of the product which helps draw first time users to one premium brand over another. (+) ? Competitors consistently pursue premium placement and packaging changes that make their product more attractive to the consumer. (+) ? With large percentages of annual sales being seasonal, advertising and competitive jockeying for retail sales intensifies during the most profitable periods of the year. (+) ? Switching costs to consumers is low.

While the costs of switching from one brand to another are low, consumers of premium chocolates tend to be brand loyal. (–) ? The industry is mostly regional with only a few large players. (neutral) ? Most competitors have

similar strategies, offering some customization on wholesale and online purchases and maintaining standardized retail operations. (+) Threat of Entry—A Strong Competitive Force ? With the industry currently composed primarily of regional players there are not significant economies of scale in production that would prohibit entry. (+) ?

Significant learning curve effects and lower fixed costs independent of scale, such as favorable long-term leases in retail locations, for incumbents exist that could discourage new entrants. (–) ? Strong brandloyaltyand preferences for existing brands would make it difficult for new entrants to take market share. (–) ? There are high capital requirements in the form of manufacturing facilities, machinery, retail space, and distribution channels to launch large scale operations but low capital requirements for local and some regional operations. (neutral) ?

With the industry growing at 20% annually potential entrants may see room to flourish in an underserved market. (+) ? This high growth has caused large, well known, low quality manufacturers with large resources to begin positioning themselves to enter this market. (+) ? With a large portion of the market consisting of baby boomers, there is potential for market growth for decades to come. (+) Competition from Substitutes—Varies Depending on the Taste Preferences of Consumers ? The primary consumers of premium chocolates appreciate high product quality and have a high level of brand awareness.

Traditional off-the-shelf candy and chocolates do not compare in the minds of these consumers. This leaves very few substitutes that include upscale, premium candies, cakes, and ice creams. (–) ? Switching costs to the few

substitutes are low. (+) ? Average consumers that may purchase premium chocolates on special occasions or as gifts have a wide array of readily available substitutes. The substitutes to these consumers are traditional candy bars, flowers, stuffed animals, hard candy, etc. , etc. (+) ? Substitutes are readily available and are sold at lower price points. (+) ? Switching costs for these consumers are also low. (+)

The Bargaining Power and Leverage of Suppliers—Weak to Moderate for Packaging Inputs; Moderate to Strong for Product Inputs ? Packaging inputs for the industry can be procured from a multitude of suppliers located around the world. (–) ? There are some costs to switching packaging suppliers for industry members but these costs are not so extreme that they prevent switching. (neutral) ? Packaging inputs are readily available from most suppliers. (–) ? Suppliers of packaging inputs are heavily relied upon to deliver inputs on time and in conjunction with production runs. These inputs are also a large portion of overall product costs. +) ? It is not economically viable for industry members to backward integrate into production of packaging inputs. (+) ? It is not likely that suppliers will integrate forward. (–) ? Consumer concerns forhuman rightsand environmentally safe packaging increases the pressure on industry members to procure packaging inputs from what are considered responsible suppliers or to pressure suppliers into producing packaging inputs under set terms and conditions. (neutral) ? Production inputs to the industry, such as cocoa beans, are a commodity but can only be grown in certain climates restricting the number of suppliers. +) ? Switching suppliers of production inputs can be costly if they come from regions or continents other than what the industry member is currently

using. This may require new procurement channels and transportation methods. (+) ? Production inputs can be in short supply or abundant depending on the climate that year. (neutral) ? Production inputs are basically standard across the industry. (–) ? Suppliers provide inputs that account for a large portion of the product cost. (+) ? It is neither feasible nor economically viable for market participants to integrate into the production of these inputs. +) ? It is not likely that suppliers will integrate forward. (–) ? Consumer concerns for human rights increases the pressure on industry members to procure production inputs from what are considered responsible suppliers or to pressure suppliers into producing inputs under set terms and conditions. (neutral) The Bargaining Power and Leverage of Buyers—Weak for Consumers; Moderate for Wholesale Buyers ? Cost of switching brands for retail/online buyers is low, and despite high brand loyalty, many buyers may switch to another brand if they perceive the brand to be equivalent in quality at a lower price. +) ? Number of buyers is large and the individual buyer is a small portion of the total business. (–) ? Retail/Online buyer purchases are infrequent and small. (–) ? Retail/Online buyers can postpone purchases. (+) ? There are equivalent products from competitors available. (+) ? Cost of switching brands for wholesale buyers, such as large retail chains, is low when there are no contracts in place; however, if contracts are in place the switching costs are high. (neutral) ? Wholesale buyers purchase in larger quantities and on a more regular basis. (+) ?

Wholesale buyers can easily compare prices, costs and product quality. (+) ? There is a moderate threat of wholesale buyers, such asfoodretailers, integrating into this industry. (neutral) ? There are equivalent products from

competitors available. (+) ? Wholesale buyers are not able to postpone purchases as easily as individual buyers. (–) Conclusions concerning the overall strength of competitive forces. The overall competitive pressures on the premium chocolates industry are moderate and that industry conditions are favorable to above average profit margins.

However, when considering the threat of new entrants, the growth potential and the resources that some potential entrants control, this industry is likely to see an increase in the number and/or size of industry participants in the near future. This will inevitably result in an increase in the rivalry among industry participants. An increase in supplier power could result if large manufacturers arrange strategic alliances and/or sole provider contracts with suppliers that restrict the inputs available to other industry participants.