

Thorntons strategic analysis assignment

[Business](#), [Marketing](#)



Introduction Thorntons is the largest, independent chocolate and confectionery company in the United Kingdom, founded by Joseph William Thornton, in Sheffield. It is a public company with both retail and manufacturing business. The company grew up from a cabin shop in 1911 over the years. His intention was to offer the best sweet shop in the town and later on after hundred years now it is the best and largest chocolate company in U. K. Today , the company is based in Derbyshire , with 4000employers and 378 of its own shops and cafes with a further 222 franchises and making a turnover of ? 08 million[from peter thornton: My life in a family business; Chap #1]. Thorntons is vertically integrated company and believe in Product Differentiation. The basic activity of the comapny is manufacturing, retailing and distribution of quality confectionery products and other sweet foods. Branded products of Thorntons are Continental, Diabetics, Thornton's Special Toffee, Eden by Thornton, Thornton Classics, Origins and Dessert Gallery . Vast range of products include Celebration Cake and Bakery, Chilled Desserts, Ice Cream, Luxury Biscuits, Christmas puddings and Toffee Cream Liqueur.

Also they do party favours, corporate gifts, seasonal cards, gift ideas and flower arrangements. Macro Environmental factors and Competitive Strategies Adopted By Thorntons To analyse the macro-environment of Thorntons, we have to consider the macroeconomic factors which affect a business in different ways along with the improved industry structure to overcome the issues and to meet the competencies of market in order to fulfil requirements of staying as the largest confectioner U. K. Political Inflation and Tax Rates

Tax rates are increased over the year which really affect business . Company also paid a one-off deferred Tax charge of 2 million GBP or 25.1 % of PBT as it is applicable by abiding the finance act 2008 The inflation in GBP has great impact on the organisational profits. Health Issues Raised by Govt. Thorntons is concern also with the growing Govt and consumer concerns over the increased levels of obesity and diabetics. It is must for thornton's to alter brand image by developing new healthier products satisfying the issues raised by government .

For this Thorntons has always been considering health issues of their customers and they have offered a number of products like dairy-free chocolates and chocolates for the diabetics as well. The company states in its annual report of 2009 “ Thornton Park are regularly independently audited against exacting requirements of the British Retail Consortium's Global Standard for food Safety and recently retained its highest Grade A status” Economical The whole world is suffering from the economic downturn and recession but thorntons generated a healthy revenue out of their business due to some strategies adopted earlier.

Cost Control Methods Different cost control measures and focused management of balance sheets were adopted to survive in such a difficult environment. Number of techniques used to clear the stock during Pre-Christmas trading period to reduce the annual debt. Investment in Future Thorntons continued to invest in production, research and product range in order to secure the future. They also made substantial investments in their

EPOS (Electronic point of sale) system and in manufacturing. Since the year end, the Company has agreed new committed bank facilities for three years.

So the is on its way to make profitable business out of this environment.

Christmas, Easter Sales and Promotional Sales The Company offers attractive sales on events to their customers and different promotional sales throughout the year. Introducing New Flavours Also company launched Different products “ Choc Block” and a range of chocolate boxes to refresh the Christmas and spring season ranges by introducing new ice cream flavours, which attracted the customers. Social Thorntons believing steps in corporate social responsibility of a business and taking steps for it.

Charity Company raised staff in excess of ? 35000 for children with leukemia, which is the elected charity for 2009. Also they raised funds of ? 22, 000 for Barnardo’s! Abusing Child Labours Company is amongst the protestants against the illegal, abusive or enforced child labour. Ethical Values Thorntons is a member of WCF (World Cocoa Foundation) which is striving for good cocoa farming. They also visit their suppliers to make sure the high standards of raw material. Techonological IT Projects Company realised the need for IT and business integration.

In 2005Thorntons began implementing Oracle E-business Suite application across its business, including Oracle Workflow to manage its end-to-end manufacturing and purchasing processes. They did projects in 2007 including payroll data collection , roll-out of retail monitoring systems and Introducing chip and pin system. Online Sales The company experienced a large growth in sales as the website was relaunched to offer better improved

services to the customers. (<http://www.computerworlduk.com/management/it-business/it-organisation/news/index.fm?newsid=5173>)

Environmental Recently consumers are more concerned about where their products actually come from and what to do after used? due to increased awareness of environmental protection. A big achievement was accomplished in 2009, by reducing the cardboard usage 22% for Easter eggs

Energy Management Thorntons energy and waste management are the big issues. Thorntons is doing possible efforts to become energy efficient. The company has taken many initiatives.

- To purchase any new or to make existing system energy efficient. all their retail stores lightings and fittings replaced by the energy efficient lights
- installed environment friendly air conditioning system all over their sites in advance
- using efficient transportation for their needs.

Waste management They have a waste management contract which has improved segregation and proportion of waste recycled. All the staff is showing positive attitude toward this recycling process.

Packaging Material Packaging is also being considered by Thorntons regarding environment friendly policies.

- recycling the plastics, metals, papers, card boards and office accessories at Thorntons Park
- using materials approved by Forest Stewardship Council ("FSC") for their cartons.

Legal Thorntons has nothing to do much more with legal issues because it's a local company and U. K. based. But as company has long term plan to grow their business globally so then they need to take care of the legal issue of the respective countries in which they aim to grow their business

Market Segmentation Thorntons operates mainly in five major segments according to different customer needs, Which are

- Gifts
- Personal Treats
- Family Share

Children •Diabetics A large variety of confectioneries from kids to corporate gifts with a bundle of flavours can be seen at (www.thorntons.co.uk) which fascinates the customers. People do shop online and in the stores as well. The company is based on the product innovation , providing improved in-store environment and customer service as their major focus and working on the cost management to lead the competitive market of confectioneries. To me every chocolate lover is their market depending on personal requirement. [http://www.thorntons.co.uk/ThorntonsSite/pages/cm/cm.asp?CCPage= Customer_Services_Product_Information&cookie%5Ftest= 1](http://www.thorntons.co.uk/ThorntonsSite/pages/cm/cm.asp?CCPage=Customer_Services_Product_Information&cookie%5Ftest=1)
<http://www.confectionerynews.com/The-Big-Picture/Thorntons-sees-expansion-as-route-to-success> RESOURCES AND CAPABILITIES Strategic Assets and Competitive Advantages Raw Materials Thorntons import their raw from all over the globe to provide their customer best quality. Cocoa is sourced from equatorial regions of the world and used to manufacture the distinctive blend of Thorntons chocolate. Increasingly, they are working with single origin beans from regions such as Tanzania , Mexico and Java which provides an added challenge for the sourcing team.

Thorntons also source a variety of dairy products, nuts, natural flavours and sweeteners. Company considers an in-depth knowledge of how markets behave, including understanding market fundamentals, future markets and variables that affect crop yields. ? 28. 4 million was spent on raw materials last year, with ? 15. 3 million being spent on liquid chocolate. For packaging team sources a wide range of specially made materials ranging from paper-based cartons and corrugated products to oil-based films and trays.

Chocolate Engineering (Machinery)

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It is very rare in today's retail world to find a company that manufactures the vast majority of the products on its shelves, but that is one of the competitive advantages that Thorntons possesses. Thorntons park has a range of processes of chocolate engineering, including the manufacture of chocolate centres and fillings, moulding and enrobing, spinning to produce eggs and other hollow-shelled products and Thorntons' famous Special Toffee. Company has strategies to improve productivity in operations and recently installed second robotics line, which packs 970 chocolates per minute.

The company factory in Derbyshire produces 18 million chocolates per week and 6 million eggs every Easter. Man Power and Sales Network The company is based in Derbyshire , with 4000 employees and 378 of its own shops and cafes with a further 222 franchises. To provide the best taste to the customers Thorntons Employee the best people called “ Chocolate lovers”. As in the beginning of the business Norman and Stanley , sons of William Thorntons, hired the famous European Chocolatier. Now Keith Hurdman, who has an illustrious career travelling the world and working as “ Master Chocolatier” at Thorntons.

Also the Board has a reputation of Experienced and Competitive Members. They do have Graduate Schemes in order to find out the innovative and young blood who can help them in leading the business environment. Quality Thorntons have an uncompromising approach to quality. Which represents visibility in processes for supplier audits, on-site Quality Control laboratory, on-line quality systems and the extensive range of testing procedures that

they employ during new product development and manufacturing.

(Thorntons graduates) Financial There are three aspects which can be used to analyse a company's financial resources 1-Sales, Revenue -Profitability 3-Gearing Sales, Revenue Thorntons sales increased by 3. 2% by the end of 2009, profit before taxation fell 4. 5% to ? 8. 1 million (including exceptional items) and additionally the company reduced its d the ebtby ? 1. 6 million by the year end. The company has a reputation of making 40% of its sales during the Christmas quarter historically and also reduces its financial dependencies. 6. 1% sales growth of the company was observed in the 2nd half of the financial year due to implementation of cost management initiatives discounting to new stocks and collection of cash before Christmas.

Profitability Profitability of a company can be calculated by simple formula
$$\text{Net Profit Margin} = \frac{\text{Operating Profit}}{\text{Sales Revenue}}$$
 And in the recent year company's operating profit has been decreased 4. 5% to 8. 1 million pounds which was 8. 5million in 2008. Company reports this decrease as a reductions of 25. 8% in pre exceptionals and a write-off of a 0. 5 million bad debt coming from the insolvency of Birthday Franchises. Also a one off deffered tax was charged in last year of 2 million GBP or 25. 1 % of PBT as it is applicable by abiding the finance act 2008. GEARING

The Primary source of of funding is Banking facilities and finance leases. Since the Group has historically been very cash generative. Headroom and banking position of the company is monitored on daily basis and also its capital expenditures has to be approved to meet its policy requirements which defines the required level of authorization. The Company has

negotiated a 52.5 million banking facilities over a period of three years and also has a short term committed overdraft facility of 2.5 million. The company checks its capital on the basis of gearing ratio, which is calculated as net debt divided by total equity.

Gearing ratio of the company is 92.8% Company Structure of Sales

Thorntons plc is a vertically integrated company and generates revenue by 1-direct sales (exchange of products with money) 2-Retail (exchange of

products with services) Retail can be further classified in three categories in case of thorntons here •Own stores •Franchises •Thorntons direct Current

Situation Company is enjoying the profits and looking forward as well to grow their business in global environments (Annual report 2009; Export sales;

page 11). As reported, profit before tax increased by 24.6% to £9. million in first half of financial year 2010, which was £7.3 million in 2009. Dividends

The company board has decided to share it with the investors by increasing the dividend to 62.5% to 1.95p which was 1.20p last year. Share Price Sales

are reported to be decreased by 0.7% during the first 28 weeks of the

financial year while sales of Thorntons branded products increased by 5.5%

Now we will look at different business areas to be more precise about the

current performance. Retail Own Stores Sales at the stores decreased by £1.9

million to £78.8 million which was 80. million pounds in 2009. Like for like

sales decreased by 2.4% due to reduced discounting for the lead up to

Christmas to protect profit margins. But at Christmas seasonal lines

popularity caused the stock to be sold. In which Classic moments, Chocolate

Blocks and Desserts played a great role. The launch of City continental and

Metropolitan gifting lines has generated positive results. Also company

closed 2 stores and open 1 new store and now have 378 of total stores. . Franchise previously 94 stores due to the undergone of Birthdays Ltd into administration in May 2009.

Now the company has been able to open re-open 70 stores including 37 of former Birthdays stores. Now company has a sum of 222 franchises, stores and have plans for at least 26 further openings by the end of this financial year. The company observed a 17. 4% decrease in sale due to loss of Birthdays Ltd. Thorntons Direct Thorntons Direct sales revealed an increase by 11. 5% to ? 5. 9 million as compared to last year. The increased marketing activities and launch of new website caused a positive influence on thorntons direct as result of increase in consumer sales growth.

The Good efforts and strategies of the company has led the company to a positive sales growth. Sales & Operations Commercial Sales Commercial sales growth has been observed 6. 5% increase to 34. 6 million pounds year on year despite the loss of Woolworth business in 2008. Commercial sales growth is 41% if exclude the lower margin private labels. throughout the period, International sales progressed with new orders from the Middle East and in Travel Retail(Duty Fre, e). Company seeks opportunities globally as a global demand of the products. Margins and operating expenses

Company's Gross margins increased by 1. 6% to 50. 8% this year from 49. 2% last year. Discount levels for the promotion of sales were low than last year. All channels reported improvements in gross margins. In this period there were no increase in sales price and increased cost price of raw material and manufacturing were absorbed through product re-modeling and

margins. Financial position At the end of period , net debt was 14. 6 million pounds which includes 7. 4 million pounds of finance leases. Also the company has made commitment of 52. million pounds for banking facilities over the period of next three years . Principal risks and uncertainties The company is claiming same risks as predicted in last report for the second half of financial year. Thorntons is willing to devote more resources in order to minimize the credit risks whether from financial institutions, customers or suppliers. Board changes John Wall left Fine company last , who was working as a finance director of the company. Now Mark Robson is appointed as new Finance Director who has extensive experience in retail and consumer goods areas.

Outlook Company is looking forward to expand business and making good profits with a focus on pricing, customer services, product innovation and cost initiatives . Strategic Choices In case of Thorntons it is very prominent that the company is deeply interested in their current customers also the company is based on product differentiation strategy. Thorntons are focused towards product innovation in order to provide their customers different blends and flavors of chocolates. In Order to identify the strategic choices of the company Ansoff Matrix is a useful tool for us.

Strategy Development Directions framework will describe a more specific and global image of Company's Strategy. Existing Markets New Products (product development): Innovation of a company leads to new products or services and Thorntons realize this. Recently they introduced choc blocks containing different ranges of flavours dark chocolate block bundles,

gourmet chocolates block bundles and complete chocolate block bundles etc. which produced a positive influence. Also they have ginger chocolate flavour and chilli flavours etc. Basically this behavior of a company shows its interest in product development.

Ice cream is the best example commenting our discussion. Also the company has introduced an idea of birthdays presents, to print the picture of your loved one on the Present Box. Wedding package offer chocolate trays , wedding favour and stationery etc. Alphabet truffles is one of the best example from children point of view and dinosaurs and different animal shape chocolates. We can say that this is the Thorntons strategy to stay in competitive business environment. They always attract new consumers to them by introducing new chocolate flavors.

According to the competition in market now company should introduce new types of chocolate sauces and more like toffee sauce, caramel sauce etc for Belgian waffles. Also new ice cream tastes can be introduced to the market by developing new flavors . At cafe Thorntons ice cream shakes are available but chocolate shakes are missing which is quite strange. Different types of chocolates can be used to make the shakes of chocolates. The method is very simple to implement , take the chocolates and milk in a grinder jug and put some ice cream then grind it to make a best chocolate shake.

Also many more flavours to chocolates can be introduced adding more customers to the business. This is not only limited to products but also same phenomena is observed in case of services that the company is providing to their customers like Cafe Thorntons along with their customers. Customers

can have their coffee, cappicuno, milk shakes etc. Once again the differentiation strategy is maintained at cafes as well by offering the customers hand made coffee instead of automated machine made one, introducing different types of Hot Chocolate: Dark; white; flavoured & Chocolate Indulgence.

Basically all these ideas comment on offering new product service to existing market or consumers. After implementing the online system, as the company provides stores at home to their consumers on internet. Also providing the on door delivery of products is new development to the company and provided positive results to the company. Simply there must be more encouraging arrangements for customers to party. Existing Products New Markets (Market Development) Thorntons is the U. K's largest confectionery company and now it is the right time for company to move into new markets.

As the company reported a demand from other markets and shows interest in this. Mike davies stated in 2009 financial report " Export sales have been on radar for some time and we believe now is the right moment to dedicate resources to exploring this opportunity. This is a long term objective and we will carefully evaluate the options and learn from past experience before embarking on a controlled expansion of export sales. " Middleeast Market Trends Middle East is classified as one of the top ten markets for confectionery products all over the world, with a higher chocolate consumption particularly.

The market is valued at \$113 billion and market is grown by 15%(TNS Media Intelligence) due to Saudi Arabia and Qatar experiencing largest growth at around 24% (International Sweets and Confectionery Leaders Eye Middle East 2008 for New Business and Partnership Opportunities,” Eye of Dubai, September 19, 2008, ; <http://www.eyeofdubai.com/v1/news/newsdetail-25778.htm>;). Due to the large population of region, young consumers and traditional role of sweets in Arab culture. The forecasted sales for confectionery market are supposed to be increased by 15-20 % over the decade.

Also if we look at countries individually with in the region , there is a significant market growth. The confectionery market in Saudi Arabia is valued at \$544 million, growing annually by 5%. The Egyptian confectionery market is valued at \$382 million, increasing 2. 5% annually since 2001, and Israel’s confectionery market is estimated to reach \$457 million by 2010, up from \$419 million in 2007. The above mentioned figures in favourable growth trends show that confectionery market is still on rise in region.

As the company is looking forward to new markets as well and the above mentioned analysis of the Middle East industry is showing positive results for confectionery market. The company is also in a good position and enjoying profit so this time may be suitable time to make the Thorntons best in global market as well. Strategic Action As the company’s competitive strategy is based on differentiation and innovation and also company has long term plan for global operations. Recently company has received a confirmation of

heavy amount of money from banks so company can invest it for globally expanding the business outside U.

K. out of which Middle East is suitable because the company is also providing products to them. Environment of the Middle East market is quite competitive and has large potential in it. So to me the better strategies to grow the business in that area can be. 1-Merger 2-Acquisition 3-Own Set up Both have there own pros and cons. Merger Since the compay is planning to get in to new business environment and understand its regulations as well. As it is difficult for a company to directly invest a heavy amount for overseas expansion.

Merger is quite a simple approach for the company in such situation. Deciding on some terms like Quality of product will be maintained. Recipes will be Thorntons etc. Merger can be suitable for the company in many ways like •It does not require cash. •It may be accomplished tax-free for both parties. •Lets the target (in effect, the seller) realize the appreciation potential of the merged entity, instead of being limited to sales proceeds. •It allows the shareholders of smaller entities to own a smaller piece of a larger pie, increasing their overall net worth.. Also It allows the acquirer to avoid many of the costly and time-consuming aspects of asset purchases, such as the assignment of leases and bulk-sales notifications. Acquisitions Acquisition is strengthy approach to thorntons level of trading. As there is no risk involved in company's secrets to be disclosed and no compromise on quality, basically which is the asset to company. Acquisition can be positive also in many more ways •high speed access to resources •avoids barrier to entry

•less reaction from competitor •it can block competitor realitive price earning ratio are effected •asset valuation . It can be done by purchasing any local company there and setting that manufacturing plant to Thorntons standard of manufacturing. Also the Chocolatier will be experts trained at Thorntons park in order to provide their the same taste and quality of the products. Raw materials will be sent from U. K. or directly to the Middle east. Threats The biggest threat for Thorntons in middle east is its competitors, which can be catagorized their as 1-Multinational Manufacturer 2-Local Manufacturer

Multinational Competitors •Cadbury Schweppes Plc with almost 13% share in combined markets of middle east. •Mars Inc with 11. 5% of regional market with a strong presence in Saudi Arabia and UAE market •Wrigley Jr. Company, represents a 9% of market share and now a subsidiary of Mars Inc. Local Competitors •The Dadash Baradar Co. , the company roughly possesses the 10 % market share of Middle East market •Gandour, products are available in over 55 countries across the Middle East and Asia •Strauss-Elite is the leader with 45% in the Israeli confectionery market and 7. % share in regional market. •Nejati Industrial Group contains 4% of Middle Eastern confectionery market Since the demographics changes are a major cause of shifting consumption patterns in Middle East. High population or birth rate resulted in very young population. Nearly 70% of Saudi Arabian are under 30 year and 50% of UAE under16 years(Lindsey Partos, “ Confectioners tap into Middle East youth Market,” Decision News Media SAS, October 27, 2008, < <http://www.confectionerynews.com/The-Big-Picture/Confectioners-tap-into-Middle-East-youth-market>>.

Conclusion As “ Thorntons” is high street brand in confectionery industry and also they are leading the market on the bases of focused differentiation.

According to Strategic Clock Thorntons can adopt two strategies

- Differentiation (Medium Price and high perceived added value)
- Focused Differentiation(High Price and High Perceived added Value)

Since this region has a lot of wealth and population which describes its potential for confectionery market. Thorntons should be very careful about the quality,