Strategic management and pearson education limited essay sample

Business, Strategy

1. Introduction

The case concerns the growth and development of Thorntons, the UK's largest manufacturer and retailer of specialist chocolates. Throughout its history the company has followed a strategy of in-house manufacture, retailing largely through the company's own shops and, to a lesser extent, through franchising. This policy presents the company with the difficulties of economically meeting seasonal demand variations in the chocolate and gift markets. The case includes the company's attempts at diversification into the US market and Europe and their disappointing conclusion and more recent attempts to widen the product base and markets served.

Following a decline in company profits in the mid 1990s the company appointed a nonfamily member to the position of Chief Executive. A review of the company's activities led the directors to adopt a more retail-led approach to the company's further development that included expansion of the chain of company owned shops, the relocation of shops, product and outlet development.

A further deterioration in profits is followed by the replacement of the Chief Executive and the introduction of a three-year, three-phase, turnaround plan. During the three-year period there is evidence of successive attempts to reposition part of the core product group (boxed chocolates) and to redefine Thorntons and its businesses. The situation invites reflection on the role of planning in guiding the company's strategic development.

2. Position of the case

Despite a series of strategic reviews Thorntons continues to follow a strategy that includes a large element of vertical integration through the ownership of both manufacturing and retailing stages of their business. The Thorntons case study helps to develop an understanding of the implications of a company’s pattern of vertical integration for competitive advantage and the strategic development of the company.

Although the internalization and protection of core activities and their associated knowledge has often been advocated (Quinn, Doorley and Paquette, 1990), capabilities can be developed across organizations and forms of quasi-integration can provide superior speed of market response (Richardson, 1996). The choice of vertical integration strategy has been associated with strategic problems for a number of UK companies including Burtons and more recently the Body Shop.

The Body Shop, faced 293 with deteriorating commercial performance, attempted to focus more effectively on its priorities as a retail organization, combining a move to company-owned shops with the use of outsourcing to access greater external expertise and improve the pace of product development. A company’s pattern of integration has to support the particular form of competitive advantage which it is attempting to develop. Consequently analysis of the case can make use of Porter’s analysis of industry structure, generic strategies as well as the application of resource analysis to the company’s activities.

Other aspects of corporate strategy (the scope of an organization's activities) are also presented through the company's unsuccessful international strategy, involving a diversification into the USA and Europe and by the recent entry into non-confectionery food markets.

The case study also provides an opportunity to consider the role of planning. Since Mintzberg and Waters' seminal article (1985) questioning the contribution of intended (planned) strategy to realized strategy (the strategy a company enacts) there has been a considerable growth in the critical literature concerning the planning process and its role. In the case study Thorntons' experience with the turnaround plan invites reflection upon the role of the planning process and strategic drift as well as the appropriateness of the approach that was adopted to achieve the company's turnaround.

3. Learning objectives

The case is suitable as a general exercise in applying a range of strategic techniques and concepts (including industry analysis, generic strategy analysis, value chain and capability) to examine the strategies that have been followed by the company and to consider the options that are available to the company. The company's more recent experience with a series of three-year plans invites an examination of the role of plans in guiding strategic development and the form of turnaround strategy followed by the company.

Consequently the case can be used to: • • • • develop understanding of the strategic benefits and problems of a pattern of vertical integration based upon manufacturing and retailing develop evaluation of the changing pattern of corporate and business strategy that has been followed by a company provide an exercise in developing strategic options examine the role of planning in guiding strategic planning

Instructor's Manual

4. Teaching process

The case is suitable for final year undergraduate business and management students and MBA students that have developed an understanding of basic strategy concepts and techniques. Use of the case can follow a learning sequence in which: • • students individually read and consider the case prior to the case session students may then be provided with the case questions and form groups to consider all of the questions while specializing in one of the questions in order to develop a brief class presentation each class presentation is followed by a wider class discussion

5. Case questions

The following series of questions provides a logical development for a case session that takes place over a three-hour period. 1. Describe and evaluate Thorntons' pattern of strategic development from: – The company's origin to 2000 – 2000 to 2003, the turnaround phase. 2. Recommend a long term strategy for Thorntons. 3. How appropriate was it for the company to adopt a planned approach to its strategic development during 2000–03?

6. Case analysis

6. 1(a) The pattern of strategic development up to 2003 Vertical integration. From its beginning Thorntons has followed a strategy of vertical integration. In its origin such a response may reflect an inability to access through a market process such factors as distribution; it may also reflect the intent to develop particular aspects of quality.

Whatever the initial reason this approach to sourcing business activities has remained as persistent for Thorntons as the strong family influence upon the company's management. The two factors are probably related. The implications of Thorntons following a strategy of vertical integration are discussed by Jennings (2001). Decisions concerning vertical integration need to be related to the development of competitive advantage. Porter's analysis of industry structure can be applied to Thorntons' competitive situation in its core market, boxed chocolates, to examine the implications of the company's in-house strategy.

Power of Buyers

Thorntons' pattern of distribution, largely through company shops and franchisees, avoids negotiating with large retail chains and consequent reduction in the company's margins. In principle the distribution system also provides access to customer information.

Power of Suppliers

Although largely following a policy of in-house supply Thorntons has outside suppliers for certain aspects of its product/service. In the renting of appropriate sites Thorntons’ strong brand name and public company status assist it in gaining suitable retail locations.

Liquid chocolate is supplied (to Thorntons’ requirements) by a specialist company (the supply company also achieves economies of scale in purchasing cocoa beans that are beyond the buying economies available to Thorntons acting independently). The retention of core product recipes avoids knowledge leakage and forestalls possible forward development by suppliers that might lead to the creation of a competitor.

Threat of Entry

For a large part of its history Thorntons followed a geographical pattern in its expansion that concentrated on the Midlands and North of England to the relative neglect of London and the South. The under-coverage of key areas clearly allows for the development of potential competitors. In the late 1990s Thorntons’ attempt at the rapid expansion of UK outlets can be seen as addressing this issue as well as developing further economies of scale and scope. The movement of shops to key retail locations adds to the effectiveness of the strategy.

A further barrier is provided by the company’s brand name. While the capital costs of replicating Thorntons’ enrobing chocolate plant may be high, suitable products may be sourced by a competitor through import from continental and other overseas manufacturers. Such a competitive development could be initiated by a range of established UK retailers.

In addition continental manufacturers and retailers may find the potential of the UK market attractive. However, for a wide range of products differences in tastes may prove as effective a barrier as they did for Thorntons' venture into Europe. Thorntons must beware of developing a market opportunity for other companies to exploit. In the past their coverage of the UK market has been low, possibly due to the strategy of vertical integration presenting a wide range of demands upon available investment funds.

The Intensity of Rivalry

The company has followed a competitive strategy based upon differentiation, based upon product ingredients and process expertise, the development of a brand name, control of the point of sale and, in recent times, through product innovation, involving repackaging and product range development to the point where innovation became regarded as the most critical competitive tool available to the company. Thorntons is in competition with a range of retailers and manufacturers many of whom are larger than Thorntons. In the boxed chocolate market Thorntons has an 8 per cent market share.

However, the differentiated and specialist nature of Thorntons' product/ service helps to distance the competition presented by companies such as Cadbury and retailers such as the grocery multiples. In the countlines market Thorntons may be unable to justify the level of advertising expenditure available to the leading brands. The following issues are also relevant: • In-house operations provide wider opportunities to achieve differentiation and greater scope for experimentation, for example by control of product presentation in the sales outlet. Integration of manufacturing and retailing, for Thorntons largely through ownership, can in principle provide a rapid response to changes in customer demand and facilitate experimentation with products and service.

However, success in this strategy also requires a sophisticated sales/stock information system. In the 1990s Thorntons' late introduction of EPOS may have resulted in otherwise avoidable losses in the trialing of new products. Ownership of shops may assist diversification, for example into other areas of chocolate product and gifts. The company may benefit from greater feedback of qualitative information from retail operations than when the product is sold indirectly, for example through a multiple grocer. Improved control of product presentation and quality. Market access through control of product market outlets.

The in-house policy also poses certain problems. The seasonal pattern of demand implies either the under use of manufacturing and retailing facilities for a large part of the year or strategies to mitigate that effect, for example: through automation to reduce the use of casual labour and consequent falls in efficiency; the development of every-day products and impulse buys such as countlines; also the relocation of shops and changes in format to achieve a less seasonal pattern in demand. These developments mitigate rather than remove the problem of seasonality. The correct management focus can be difficult to achieve.

Much to its credit Thorntons chose to appoint a Chief Executive with a retail background but that follows a period in which the company may have failed to give retailing the attention it needed. Even when the correct focus is achieved the in-house strategy is intensive in its use of funds. This can result in slowness in introducing essential investments, for example EPOS, and a slow development of market coverage. The overall focus of the organization has until the mid 1990s been directed largely towards the firm's manufacturing function, to the periodic neglect of and underinvestment in the retail outlets.

As part of the manufacturing bias the case contains a clear instance of advertising not being conducted proficiently. The attempt to change the strategic recipe towards being retail-led with an ambitious plan to achieve market coverage was well received by the financial press. The company is strongly cash generative; however, the total of manufacturing and retail investment involved meant that the limits of borrowing were reached. It may well be that the strategy, though a brave attempt to grow the company, was not addressing the issue of its transformation. The complexities and competing investment demands posed by combining extensive manufacturing and retailing operations remain.

Substitutes

The wider gift market brings Thorntons, particularly for the crucial Christmas shopping season, into competition with a range of other high street retailers in the affordable gift market. Competitive advantage. Thorntons' core product, boxed chocolates, has many distinctive features, not all of which may be competitive characteristics; they include the following: • • • • • High quality ingredients, including a higher cocoa content than many of the products of the larger competitors in its market. Unique product recipes. A particularly fresh taste. However, as a result of its ingredients the product has a short shelf life requiring particular control of the manufacture/logistics/retailing chain. A strong brand name. Packaging, a large part of perceived value.

Differentiation of the retail outlet, through control of shop appearance, staff training, the presentation of a wide range of confectionery and the personalization and wrapping of gifts. Choice of location, recently moving outlets to shopping malls and other locations that are convenient for consumers.

Within the confectionery industry product life cycles can be long but there is a need for continuing attention to developing packaging and product characteristics. Product innovation. Developing the product range helped the company to attract a wider range of customers, more males and a younger age profile, while also adding to the relative importance of day-to-day sales. It failed, however, in what was possibly its main purpose, the deseasonalization of the company’s sales; they remain as heavily reliant as before upon the key gift seasons, Christmas, Easter and Valentine’s Day.

Following Porter’s classification of generic strategies Thorntons is a differentiator. Certain of the above characteristics are believed to be an important part of customer value perceptions and act as differentiators. However, the company’s own surveys indicate that product freshness is not among those factors. Superior recipes and ingredients may also be difficult for the general market to perceive. However, customer perceptions can develop (as for example for wine and ice cream) through competitive movements in markets.

Many of the product characteristics are difficult to maintain and appear to have limited the type of outlets that would be suitable for the products’ distribution; some franchisees have been unable to maintain product and service quality. The international strategy. With hindsight the company’s initiatives in Europe and the USA appear curiously naive. The decisions to take these initiatives may have been initiated by the company’s own success in borrowing from traditions in other countries (such as through the visit to Switzerland in the 1950s) and through the acquired European businesses appearing to offer potential synergies, at first in manufacturing and later in branding.

Export can provide a low risk method for developing an understanding of markets in other countries. A strategy based upon the acquisition of companies and their consequent development represents a large investment of capital and requires considerable management attention and expertise to become successful. It can be questioned whether Thorntons had assessed its ability to provide those resources.

Clearly there are national differences between the confectionery markets in various countries. Such differences reflect differing cultures (for example, the French gift market differs from that in the UK), differences in taste and there will also be different competitive behaviour in each country. The lesson from Thorntons' international initiatives is that national differences need to be carefully understood.

Achieving the correct developments may require a considerable amount of management learning, management time and capital. 6. 1(b) 2000–03: the turnaround phase By 2000 Thorntons was not only failing to achieve sales and profit targets but, perhaps even more worryingly, appearing less capable in meeting the seasonal pattern of demand in its core market. Meanwhile financial gearing had reached an historic level (a gearing ratio of 130 per cent). The situation can be seen as sufficiently serious to require a turnaround strategy.

Hofer (1980) defines two broad choices available for achieving a turnaround. An operating turnaround based upon bringing into play readily available opportunities for adding revenue, such as new products that are in the pipeline, costcutting and asset reduction. Alternatively a strategic turnaround may be followed, appropriate when the business has a non-crisis operating position but has lost strategic position through a major decline in sales or weakening of relevant capabilities. In the case study while Thorntons is not meeting its targets for sales growth its sales continue to increase and it is not losing market share. However the frequent inability to cope with seasonal factors in the core market is problematic.

The adopted strategy has elements of both an operating and strategic turnaround. The rationalization of the product range, limitation on capital programmes and shop openings and the economical use of resources associated with the Birthdays Group initiative all imply a focus upon costs and financial resources. While Hofer warns of the difficulty in combining the two approaches to turnaround it appears that Thorntons' approach is to do that. Repositioning is sought through the emphasis upon day-to-day products with the slogan ' there's lots in store for you' and the (partly contradictory) emphasis upon gift giving as the buying motive, aimed at capitalizing upon the growing gift sector.

Further development of positioning is shown by the introduction of the Eden range of boxed chocolates, aimed at a younger customer than that typically addressed in Thorntons' core market. The ventures into ' sweet special food' appear to promise a more radical reorientation (redefinition) of the company in terms of products (adding desserts, cakes, etc.), customers (supermarkets, pubs and restaurants) and supply (licensing), in the search to become ' a branded manufacturer operating through multiple channels'.

By end of year 2003 the results of the turnaround are modest: while gearing has been reduced sales have not achieved a new impetus and the company is largely dependent upon the same product/market situation as in 2000. Profit after tax, at £4. 4m, is at its lowest since 1996. 6. 2 Recommendations for a long term strategy Thorntons primarily competes in the higher quality chocolate market where the product is often purchased as a gift. The market is highly seasonal.

Within the UK market there 300 has been some recent decline in the value of the boxed chocolate market (1999, £713m, 2002, £699m), although the premium part of the market may be growing. Within the boxed chocolate market positions may be developed for particular products (see the Appendix) and innovation is important, in defining ‘ new’ occasions for purchase (informal expression of thanks, ‘ Celebrations’) and devising new products for new markets (Elizabeth Shaw, ‘ Vodka Shots’ chocolates for younger customers) as well as the continuing process of rejuvenating existing product offers.

A discussion of strategic direction requires the identification of core capabilities. For a company that combines both manufacturing and retailing there are difficulties in identifying the core. Thorntons clearly has a core product, the specialist boxed chocolates, the basis of their brand, capable of displaying a number of distinguishing features, requiring particular expertise in manufacture and the basis for developing considerable customer value and possibly substantial margins. The manufacturing excellence could still be exploited if Thorntons owned a far smaller proportion of shops or operated purely on the basis of franchise and commercial sales.

A comparison with Leonidas (see the Appendix) is useful in indicating the geographic spread of outlets, the clear manufacturing focus and possible high economies of scale that are available in the industry by focusing upon high quality manufacture as the main capability. Leonidas also avoids the complications and risks of developing a wider product range by allowing the franchised outlets to source additional products of suitable quality to complement the core product. The case invites the development of a longer term strategy for the company’s development. The core boxed and seasonal markets remain highly attractive and Thorntons retains its competitive features in those markets.

The management focus must remain on those markets. There is probably an opportunity for a more levered strategy, restricting own shops to fewer key locations with greater selling through the conventional outlets that serve the mass market, including supermarkets. The product range. The core products need continuing redevelopment and repackaging. The wider use of product innovation that Thorntons has recently followed has at times proven unprofitable;

however, the success of Eden addressing a younger customer group through a more adventurous definition of the product points to a style of innovation (similar to that of Elizabeth Shaw) that promises development of Thorntons’ core sales. In providing an effective response to changing market demand the most important aspect is not the ownership of assets but rather the integration of the supply chain through shared information concerning demand.

The ownership of shops may not be necessary to the sale of boxed chocolates or can be achieved through a combination of using the distribution provided by other retailers while maintaining a proportion of own 301 shops to act as flagship stores where the customers can appreciate the full range of a specialist, a strategy followed by Games Workshop for highly differentiated models and games. The wider use of retail outlets would remove the problems of capacity usage and periodic queuing associated with distribution through Thorntons owning an extensive chain of shops, and the flagship stores would help to maintain the strength of the brand.

To the extent that Thorntons continues to have its own distribution, the gift nature of many of the purchases made by its customers invites wider examination of what the product should be. There is a natural combination of gift, greetings card and packaging (and possibly delivery) that has been addressed through the internet, mail order and Birthdays ventures. To some extent Thorntons may yet have further potential to provide all of the components that make up a gift. It is reasonable to expect an increase in competition in the UK chocolate confectionery market. The market could attract further competitive interest from supermarkets, the addition of confectionery by companies selling greetings cards and substantial entry into the UK market by companies such as Leonidas.

A strategy based upon the use of wider means of distribution and a manufacturing process focused upon core products may provide the market coverage and resource focus to meet an increasingly competitive market. The company’s recent development into supermarket sales differs from the commercial sales made in the past in that use is being made of the Thorntons brand name. While wider distribution is bringing some revenue this only amounted to £3m in 2002–03 (under 2 per cent of turnover) and the wider use of the brand name poses the danger of diluting its value in the core boxed chocolate market.

Leverage of the Thorntons brand name to a wider range of products and markets may require a brand strength and marketing resources that are not available to the company. The proposed management buyout can be expected to bring greater strategic change than the company has experienced in the past, both through the senior executives holding a substantial proportion of the equity and their freedom of action away from the attention of media and shareholders. 6. 3 Planning The use of a plan to guide Thorntons' strategic development can be justified as follows.

The company's activities are complex and require a high degree of coordination, especially between retail and manufacturing activities. The company's performance problems require the development of a control mechanism covering strategic and financial developments. In addition the financial market may be reassured by the production of a plan for the company. A three year planning horizon appears appropriate in terms of: the type of decisions the company is involved in; the time horizon required to develop relevant technologies; new product development; the leasing of retail sites and their fitting out.

Instructor's Manual

The case does not provide details for the plans' content but the titles of each of the three phases are generic. This may have the benefit of leaving the company open to exploit the business situation as it unfolds but that would be at the cost of the integrative and control aspects of planning. In addition the company's strategic development appears to lack the consistency of development over time associated with a planned approach. Product positioning moves from emphasizing heritage (‘ Chocolate heaven since 1911’) to self-treat (‘ There’s lots in store for you’), to gifting (‘ Every occasion when people want to give a small gift’), to become ‘ the UK’s leading retailer and distributor of sweet special food’.

The benefit of an emergent, rather than planned, approach to development is to facilitate learning through a process of trial and error in a business environment that cannot be anticipated. The environment in which Thorntons is operating (see the Appendix) appears to be one of gradual change, as such plans may be expected to anticipate the developments the company will undertake.

References

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