

Consumer analysis on chocolate consumption marketing essay



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The objective of this project is to investigate patterns of chocolate consumption experience. The project will look into different age groups and their consumption habits. The main purpose of this research is to find evidence between age and consumption patterns. And also inspect the extent of chocolate consumption's impact on health.

Introduction:

The tale of chocolate began at the age of Maya and stretched to the modern world. The Spanish were the first to introduce " cacao" in Europe and after that it become one of the most celebrated drink of the elite society in Europe until it was mass produced with the help of modern technology. There are different varieties of chocolate available in the market from different companies such as dark chocolate, white chocolate, milk chocolate, sweet chocolate, candy etc.

In this project will examine inclination of the consumers towards chocolate consumption (in special context of Nestle, Cadbury & Mars chocolates are chosen in the study).

The buying behavior is a fascinating study of human psychology. Consumers were generally thought to act rationally, according to neo-classical economics theory (Howard and sheth 1969) individually maximizing satisfaction of their needs. By contrast, in the modern world, people are more likely to indulge into socio-psychological or emotional or irrational buying motives (Holbrook, and Hirschman 1982). These motives come from the social or psychological interpretation of the product.

There are several arguments and also psychological aspects of ' why' a consumer makes a particular choice. According to Freud, " person's buying decisions are affected by subconscious motives that even the buyer may not fully understand". The most celebrated work on human motivation is done by Abraham Maslow (1943). He suggested a hierarchical order of human needs. According to Maslow, " we seek to satisfy our lower order physiological needs first, before our safety needs, before our belongingness needs, our esteem needs, and finally our need for self actualization". This project will try to find link between human behavior and chocolate consumption. There are past chocolate consumption study which has to some extent examined consumer view, attitudes, and motivations towards chocolate and chocolate consumption as a representative (Belk and Costa, 1998) and social experience (Cova and Pace, 2006).

Chocolate consumption can be also related to health problems as many scientific investigations have pointed out. This project will also try to ask questions on common perception on chocolate consumption and its impact on health.

Chapter 1:

Research aim:

This study aims to investigate in the area of chocolate consumption, by exploring how consumers experience chocolate consumption in various circumstances and contexts. It also will try to examine common perceptions of health associated factors related to chocolate consumption.

Research objective:

The objective of this research is to gain insight in the consumer behavior related to chocolate consumption. This project will try to study existing literature and secondary data and investigate links between consumer behavior theories and the existing data. The further objective is find out perceptions on chocolate consumption and health. As many of the findings and research would suggest close link between them.

Chapter 2:

History of Chocolate:

The story of chocolate begun about 2000 years back in the ancient civilization of Mayan when they discovered the cacao tree (kah KOW) in the tropical rain forests of South-America.

By 1400, the Aztec empire dominated a sizable section of Mesoamerica. They traded with Maya and other people for cacao and sometime traded with cacao seed a form of Aztec money. The ancient Aztecs believed chocolate to be the “ Food of the god”.

The history of chocolate in Europe began after the Spanish conquest of Mexico in 1521. It is believed that Christopher Columbus first European who discovered existence of cacao tree. It is also believed that It was him who brought back some cacao trees from Spain.

(<http://www.sfu.ca/geog351fall03/groups-webpages/gp8/history/history.html>)

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The Spaniards quickly recognized the value attached to cacao and observed Aztec custom of drinking chocolate. Soon after Spanish started to ship back the cacao seeds and started to sweeten the cacao with cinnamon, sugar and other sweeteners.

Xocolatl! or Chocolat or Chocolate as it became known was introduced to Europe by Cortez, later as the time progressed Europeans were able to make the drink more palatable for European taste thus changing the Aztec style of drinking. The first chocolate factories opened in Spain and by the early 17th century chocolate powder - from which the European version of the drink was made and exported to different parts of Europe. Spanish managed to keep their drink secret for almost 100 years before rest of the Europe find out about the drink.

The Spanish kept the source of the drink - the beans - a secret for many years, so successfully in fact, that when English buccaneers boarded what they thought was a Spanish ' Treasure Galleon' in 1579, only to find it loaded with what appeared to be ' dried sheep's droppings', and burnt the whole ship in frustration, if only they had known the value of chocolate.

Within a few years, the Cocoa beverage made from the powder produced in Spain had become popular throughout Europe, in the Spanish Netherlands, Italy, France, and Germany and - in about 1520 - it arrived in England.

The first Chocolate House in England opened in London in 1657 followed rapidly by many others. Like the already well established coffee houses, they were used as clubs where the wealthy and business community met to

smoke a clay pipe of tobacco, conduct business and socialize over a cup of chocolate.

For centuries, chocolate was eaten by the society's upper crust. But by the 19th century mass production of chocolate helped it reach much wider portion of society. First European chocolate factory was set up France 1761 in the town of Bayonne. As demand increased most of the European countries started producing cacao in their colonies in Caribbean, Africa and parts of South East Asia. (Simmons, 1976; Baker, 1891)

1828 marked the "modern era" of chocolate making when Dutch Chocolate maker Conrad J. van Houten patented an inexpensive method for pressing making cacao powder.

Many chocolate companies of today were formed as a family run businesses such as Europe such as Van Houten in the Netherlands in 1815, Menier in France in 1824, Cadbury and Rowntree in England; and Suchard, Nestlé, Lindt and Kohler in Switzerland.

(http://www.chocolate-source.co.uk/history_of_chocolate.htm)

<http://www.sfu.ca/geog351fall03/groups-webpages/gp8/history/timeline.jpg>

<http://www.sfu.ca/geog351fall03/groups-webpages/gp8/history/history.html>

This figure shows the evolution of chocolate from being produced in form of cacao in South America and then eventually in Europe. "In 1894, English chocolate maker Joseph Storrs Fry produced what was arguably the world's first eating chocolate" (Brenner, 1999; Spadaccini, 23rd online edition).

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Some of England's most successful entrepreneurs during the Industrial Revolution belonged to a group of people known as The Society of Friends, or more commonly, the Quakers. Due to their radical beliefs, the Quakers were alienated from many of the mainstream professions of the time including politics, law and medicine. Many of the large Quaker families channeled their energy into business and commerce, and one of the most progressive commodities at the time to invest in was cocoa.

A one man business opened in 1824 by a young Quaker, John Cadbury, in Bull Street Birmingham was to be the foundation of Cadbury Limited, now one of the world's largest producers of chocolate. In 1831 the business was transformed from grocery shop and John Cadbury was manufacturing drinking chocolate and cocoa. This was the start Cadbury's business as it is known today which was later joined by John Cadbury's brother Benjamin and the business become Cadbury brothers in 1847 in Birmingham where they rented their first factory.

This partnership dissolved in 1860 and a year later John Cadbury retired leaving his sons Richard and George, the second Cadbury brothers, to continue the business.

1866 saw a turning point for the company with the introduction of a process for pressing the cocoa butter from the cocoa beans. This not only enabled Cadbury Brothers to produce pure cocoa essence, but the plentiful supply of cocoa butter remaining was also used to make new kinds of eating chocolate.

Business prospered from this time and Cadbury Brothers outgrew the Bridge Street factory, moving in 1879 to a 'greenfield' site some miles from the centre of Birmingham which came to be called Bournville. The opening of the Cadbury 'factory in a garden' also heralded a new era in industrial relations and employee welfare with joint consultation being just one of the initiatives introduced by the pioneering Cadbury brothers.

In 1899 the business became a private limited company - Cadbury Brothers Limited. Progress since the start of the century through the inter-war years onwards has been rapid. Chocolate has moved from being a luxury item to being well within the financial reach of everyone.

The story behind many of today's chocolate manufacturers begins with a Quaker family - the Cadburys, the Frys, the Rowntrees and the Terrys - all chose cocoa as the basis for their family businesses. Their aim was to persuade the poor to give up alcohol in favor of the healthier chocolate drink. Because of the persecution the Quakers faced in England thousands migrated to America and settled in the colony of Pennsylvania founded in 1682 by William Penn. By 1864 seven thousand Quakers had settled their including one Milton Hershey and by 1900 the Hershey chocolate factory was up and running. (www.cadbury.co.uk)

The UK confectionary market:

This project took help from published Mintel UK confectionary market, 2011 report as it is one of the most reliable sources of information.

Mars

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Background

Mars UK is a division of Mars Incorporated, a family-owned US based business with annual revenue of over \$30 billion. The company acquired Wm Wrigley Jr in 2008, extending its food and drink portfolio in the UK to cover chocolate and sugar confectionery and gum, ice cream and petcare.(www.mars.co.uk)

The company's key brands in the UK chocolate confectionery market are Galaxy, Maltesers, Mars, Snickers, and Twix.

Kraft Foods UK

Background

Kraft Foods is a US-based multinational confectionery, food and beverage conglomerate which supplies biscuits, cheese, grocery, chocolate, coffee, gum and candy. It has its presence over 50 countries worldwide.

The company strengthened its leading position in the chocolate confectionery market when it acquired Cadbury Plc in January 2010 for £11.5 billion and in doing so, acquiring the likes of Dairy Milk, Roses and Twirl, as well as inheriting the premium organic brand, Green & Black's.

In March 2012, the company announced its plans to remain at the forefront of NPD by investing £17 million into research and development in the UK.

Kraft also launched Green & Black's an exclusive chocolate bar in support of Breast Cancer alertness month. The new Raisin & Hazelnut bar in a pink

package came with the Breast Cancer ribbon and the charity organisation's logo. The company unveiled the limited edition bar in October 2011 and contributed £20, 000 to help Breakthrough Breast Cancer in its research work. (www. greenandblacks. com), (www. cadbury. co. uk), (www. kraftfoodscompany. com)

Nestlé

Background

Nestle UK Ltd is a division of the Swiss nutrition, health and wellness company Nestlé SA. The UK business operates 15 manufacturing units and has three major subdivisions - food and beverage, confectionery, and Nestlé Nutrition. The brand claims that it is planning to invest £500 million into the UK market from 2012-14.

The company manufactures and markets a wide range of products in various markets such as Pure Life (bottled water), Cheerios (breakfast cereals), KitKat (chocolate confectionery), Nescafé (coffee), Herta & Maggi (family meals), Carnation (evaporated & condensed milk) and Nesquik (flavoured milk).(www. nestle. co. uk)

Market Share of Different companies and future:

According to the Manufacturers' shares in the UK chocolate confectionery market, by value, 2011 Kraft, Mars and Nestlé hold three quarters of the market share (Source: Mintel)

These are top three companies which hold account for 76% of sales via their wide portfolio of brands. This market is considerably more dependent on the fortunes of its top three companies than the sugar equivalent. (Mintel's Sugar Confectionery - UK, November 2011 report).

According to the same report Cadbury Dairy milk and Mars Galaxy is reckoned to be the two most popular brands in UK market. Both of them occupying almost 20 percent of the market share (Appendix: Table) although there is a significant percent of change in Dairy Milk's fortune.

UK Leading brands purchased in the UK chocolate market, 2008-10,
Chocolate Confectionery - UK - April 2011 - Market Share

According to Euro-monitor Chocolate is still the UK market leader with accounting 31% of the value sale..

Euromonitor International (2011) Chocolate confectionery data spreadsheet (Euromonitor International Limited, London) 2010 data for total size of global retail chocolate confectionery market, using fixed 2010 exchange rates, in current prices 2009 data for company share of global market

Reports from Mintel also suggests that despite Dairy Milk being the only brand in top ten its presence is felt through in the chocolate confectionery market through a strong promotion and this brand which is comfortably the market leader, with 12% of total chocolate confectionery sales. Kraft's takeover of Cadbury in 2010 significantly boosted the company's presence in the UK chocolate confectionery market, up from around 5% to its current

status as leader with a third of the total market share. (Intel Chocolate Confectionary Report 2011)

According to this report Mars is the second largest company in the chocolate confectionery market having a market share of 27%. The company achieved reasonably strong sales growth of 7% in 2011, despite this its largest brand, Galaxy, and flagship Mars bar brand both saw sales fall in 2011. Galaxy's performance is mostly surprising as the brand has in fact carried out many activities which should promote growth such as a significant advertising spending, however Galaxy sales dipped by 3% although it is worth noting that this comes on the back of a particularly strong performance in 2010.

It also states that Nestlé holds a prominent share in the market as the third company which has a notable existence in the chocolate confectionery market. and holds a 16% share through a portfolio of well-established brands such as KitKat, Aero and Quality Street. Although the company has four brands inside the top 15 in the market, it currently lacks a marquee chocolate brand of same level as Cadbury Dairy Milk or Mars' Galaxy.

According to the Intel report since 2006, the chocolate confectionery market has grown by 21%, with stable growth of 4-6%. The UK's fondness for chocolate has meant that it has been largely unaffected by the post-recession landscape, with sales reaching £3.98 billion in 2011.

The growth has increased on the back of inflation, with rising retail prices helping to drive value sales but suppressing volume sales, despite regular promotions.

However rising prices pose a possible threat, leading to 49% of consumers claiming that they may slash back in this scenario.

But considerable support for brands such as Kraft and Mars is likely to keep users engaged with the market, while the own-labels are now making concerted efforts to grow their small share (7%) of sales. The market is forecast to continue rising at between 5% and 6% in the coming years, reaching £5. 25 billion by 2016.

The chocolate confectionery market continues to achieve steady growth.

UK retail value sales of chocolate confectionery at current and constant prices, 2006-16

£m

Annual % change

Index

£m at 2011 prices

Annual % change

Index

2006

3, 133

Na

79

4, 123

na

104

2007

3, 274

+4. 5

82

4, 119

-0. 1

104

2008

3, 419

+4. 4

86

3, 938

-4. 4

99

2009

3, 575

+4. 6

90

3, 910

-0. 7

98

2010

3, 772

+5. 5

95

4, 000

+2. 3

101

2011 (est)

3, 976

+5.4

100

3,976

-0.6

100

2012 (fore)

4,205

+5.8

106

4,075

+2.5

115

2013 (fore)

4,451

+5.9

112

4,123

+1.2

123

2014 (fore)

4,711

+5.8

118

4,200

+1.9

128

2015 (fore)

4,968

+5.5

125

4,248

+1.1

135

2016 (fore)

5, 245

+5. 6

132

4, 309

+1. 4

141

Source: Mintel

Mintel has confirmed that the chocolate confectionery market has established itself to be one of the small numbers of recession-proof food and drink markets with consumer not cutting chocolate out of their diets despite stress on many household budgets. In recent years, yearly growth in the market has lingered at around the 5% mark, a trend expected to continue in the years up to 2016. In 2011, the market reached £3, 976 billion, a 21% increase over a five-year period. Apart from 2012 which may benefit from a halo effect around the London Olympics and European Championships growth is predicted to only be around 1% at 2011 prices, highlighting the continued impact of inflation.

This report also forecasted that the market is expected to continue benefiting from its desirable position as a standard and inexpensive treat eaten by nine in ten (89%) of the UK's population, with four in five (81%) weekly users. However, there is a danger that rising prices with static or

decreasing bar sizes will deter users, with 49% admitting that they would cut back if prices kept on rising. The increasing cost of the bars also cover the fact that, in terms of volume sales, the market size in fact declined somewhat in 2011, despite the frequency of a soaring number of promotions. In fact, growing prices are inescapable for chocolate manufacturers as they have to deal with rising commodity prices in recent years. However, a positive harvest in 2011 perhaps opens the door for companies to shine their value credentials by tackling rising prices head on, something which there is a strong consumer demand to see.

Mintel report has mentioned a word of caution for ' the big three' brands (Kraft (Cadbury), Mars and Nestlé) which account for three quarters of sales, a growing number of niche brands, particularly at the premium tier, and a fight back from own-label options, look set to increase competition in the coming years.

Forecast

Forecast of UK retail value sales of chocolate confectionery, 2006-16
(Mintel)

Source: Mintel

Forecast methodology:

Mintel has created this estimate based on an sophisticated statistical technique known as ' multivariate time series auto-regression' using the statistical software package SPSS.

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The model, based on past market size data taken from Mintel's own market size database and complemented by macro- and socio-economic data sourced from trustworthy organisations (eg Office for National Statistics, HM Treasury, Bank of England), searches for relationships between actual market sizes and a selection of key economic and demographic factors (independent variables) in order to recognize those determinants having the most influence on the market.

Chapter 3: Literature review

Introduction:

In this section of the project buying behavior will be explored with the help of theory and examples. Many of free market economists and policy makers believe of customer centric approach who will purchase according to their choice. (Consumer behavior, Ray Wright, Thompson Learning 2006).

Chocolate is a very popular consumer product bought for many different occasions and reason. There is thus some truth in a popular remark like, 'Nine out of 10 people like chocolate. The tenth person always lies,' or "Chocolate makes everyone smile-even bankers" (Doherty and Tranchell, 2007).

Buying behavior of consumers:

The consumer decision-making process is significant in determining buying behavior. In order to offer an efficient service, it is important to categorize consumer segments, taking into account the benefits which the consumer seeks. Consumers seek benefits or solutions, not products (Rowley, 1997).

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The main reason behind consumer's search is indecision. Consumer information search has been the focus of many articles studying consumer behavior during the last 30 years (Bettman, 1979). Perceptions of food quality and safety are likely to be influenced by psychological and cultural factors rather than physiological product experiences alone. Many quantitative and qualitative researches have attended to issues connected with cultural determinants of food choice (Shepherd and Raats, 2007). It is quite evident from such studies that while analyzing factors that influence food choice, it is important to consider consumer's cultural background (Overby et al., 2004; and Hoogland et al., 2005). It is believed that people from different cultural backgrounds have different perceptions and experiences related to food (Lennernas et al., 1997). Hence it can be noticed that some consumers are more oriented towards food quality, whereas for others food safety is a concern.

Consumer behavior is also affected by the socioeconomic conditions of the markets namely, income, mobility, media access (Tse et al., 1989). It has been observed that per capita income and disposable income indicates the amount of resources consumers allocate to consumer goods (Johansson and Moinpour, 1977).

According to Maslow, " we seek to satisfy our lower order physiological needs first, before our safety needs, before our belongingness needs, our esteem needs, and finally our need for self actualization". The hierarchy is shown in the figure below:

Let us simplify the pyramid of need a little bit more: physical, social and self.

The physical needs relates to the basic and psychological needs of person.

Basic need means a person buys food when he is hungry, buys house for his shelter and so on. Buying house is also falls into safety needs.

Psychologically a person feels comfortable, when he/she has a house, of his/her own. What is a social need? Social need is driven by person's status, self-esteem, prestige, family belongingness." From luxury items to particular brands, the decision to purchase a particular product is frequently based on deeper psychological influences, oftentimes influencing brand loyalty according to psycho-social interpretation of product value" (Fine, L. M. : Business Horizons 2010). It is very difficult to generalize the need motivation theory, because geographically people are different from each other. For example, ' as the heroes of Hollywood movies amply show the typical Anglo-Saxon cultural values, which puts individuality and self-actualization above all else, but that is not universally so. In Japan and German speaking countries people are mostly highly motivated by need for personal security and conformity, while in France, Portugal, Spain, other Latin American and Asian countries people mostly motivated by the need of security'.(Gert Hofstede, Cultural Consequences (London: Sage 1984))

The theory of planned behavior (Azjen, 1991) argues that our intentional behavior is not always similar as our actual behavior, and sometimes how our attitude towards the behavior, subjective norm and perception about the behavior control our actual behavior. For example, alcohol consumption is different in different countries, depending up on the psychological perception

about alcohol drinking. Here we also consider others opinion and the impact of drinking alcohol on our family and children.

Consumers can act on beliefs. Belief can be defined as quick response; we will give about a matter. They are held with limited conviction and do not support the facts most of the times. Attitudes in comparison are held with greater degree of conviction for longer period; it is much likely to influence buying behavior. For example, when we see new advertisement about a product, say new shoe from Adidas. We believe that shoe would to good and comfortable to wear. Beliefs are based on more of emotional aspects on the contrary to attitudes. Attitude evaluates the product, based on the usage of the product. Now the attitude towards the Adidas can be positive or negative. May be there is no change in design or maybe it is not that comfortable to wear. So here attitude would be negative. Value is another very important factor influencing behavior. People's value grows from the childhood. The social and regional atmosphere, ethnicity, culture and sub-culture, religion all contribute to value creation in a person.

Consumers often are influenced by their parents and friends. It may have a positive or negative influence on the buying. For example, a young man loves sports bike, well his father and uncle used ride one, and his friends also do. But after a serious accident of his uncle riding a sports bike made his father against him buying a one for himself. But he may or may not buy a sports bike after all. He may feel that his freedom is blocked, partially or fully and motivated to go against it.

Social grade, status or lifestyle is based mainly on the income of a household. It can influence buying pattern. For example, champagne is more of a high cost drink. It was found in a survey that large proportions (44%) of champagne drinkers are professional and managerial class. By contrast, 22% working class people and only 14% who are unemployed drinks champagne. So there is a marked decrease in champagne consumption as we move down the socio-economic scale. (Source; Mintel 2008b)

' How' customers buy: From company's prospective any communicating message, while at the time of purchase or other point can have direct impact on consumer behavior. For example, most of the food commercials are shown at the time of our breakfast or dinner. So marketers are giving specific message at a particular point. " Although there are variety of models of consumer buying behavior, the consumer product proposition acquisition model is perhaps the simplest to understand, stressing how the consumer goes through six key stages in product acquisition process including motive development, information gathering, product evaluation, product selection, acquisition and re-evaluation".(Baines, Fill, Page pg 113)

The consumer proposition acquisition process or buying process consists of six stages. Explained in the figure below:

Motive Development

Information Gathering

Proposition Evaluation

Proposition Selection

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Acquisition/Purchase

Re-evaluation

The consumer proposition acquisition process (Baines, Fill, Page pg 83)

Motive development: the model begins with when we decide to purchase or we need to acquire the product. It begins with our understanding that some problem needs to be solved. For example, a young male consumer decides to gift a box of chocolate to his wife. He might have bought Cadbury dairy milk or he might opt for premium brands such as Throntons or Godiva.

Information gathering: the next stage of process will require us to look for alternative ways to solve our problem. Our search for a solution to solve problem may be active or passive, in other words, ' we are open to ways of solving our problem but we are not actively looking for information to help us '(Howard and Sheth, 1969) Search for the information may be internal; when we think we already know the problem and identified the products that will solve them. Or, external where we don't know enough about our problem and seek supplementary information to help us to decide. Now buyer access to information, feedback, and peer reviews has increased; this has increased through social networking sites and internet. With so much to choose from, customers' have increasing become intolerant about products or services. The consumer has the right to choose and this continues to impact buying behavior and consumer loyalty. So by the right communication about the product with its added features, companies can build a sustainable relationship with the consumer.

Proposition evaluation: once we feel that we have sufficient information and we now can make a decision, we evaluate the proposition. These evaluations can be rational (e. g. based on cost) or irrational (e. g. based on emotional desire). For example, the young man buying a box of chocolate exemplifies his emotional desire to please his partner.

Proposition selection: in major cases, the proposition we eventually select is the one we believe is fitting our needs best beforehand. However we might change on a particular proposition from where we buy it. For example, the man buying the box of chocolate may have been checked the stock online for a particular retailer but when he turned up at the retail shop, the brand he wants to buy is not there, so he then and there decides an alternative. The person may go to another retail shop or he may buy another similar kind of product from the shop, because what he wants to buy is not available. This is why proposition selection and evaluation are different stages of buying process.

Acquisition/purchase: Once selection has taken place, different approaches are there for proposition acquisition. For example, there is always an emotional aspect attached when we are making an infrequent purchase. Family as a whole can act as a single most influencing factor, where wife's and children's influence most of the buying decisions.

Re-evaluation: The theory of cognitive dissonance (Festinger, 1957) suggest that we are motivated to reevaluate our beliefs, attitudes, opinions, or values if the position we hold on them at one point of time is not same as we held an earlier point, due different actions, circumstances and intervening events.

Experience can clash with expectation which can create buyer remorse.

People may feel angry, guilty, surprise or embarrassment. People are biased to think that they have made right choices despite the contrary evidence which gives dissonance theory new light on otherwise puzzling behavior

The consumption experience can be described as “ an emergent property that results from a complex system of mutually overlapping interrelationships in constant reciprocal interaction with personal, environmental, and situational inputs” (Hirschman and Holbrook, 1986, p. 219).

It depends when food