

BEM 106 Project

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Godiva Chocolatier
in North American
market

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Basic Information

Godiva has annual sales of approximately \$500 million. Among these sales, more than \$200 million is made within the United States and annual operating profit is projected to be about \$55 million. It was sold to Yildiz Holding A.S. by Campbell Soup Company on March 18th 2008 for \$850 million. Godiva is located at an entry level of the premium chocolate market. Other comparable firms include Guylian, Lindt & Ghirardelli, Leonidas, and potential entrants to the luxury chocolate goods market currently targeting lower-end customers are Hershey's, Russell Stover, among others.

Current Position

Targeting Market

Godiva is aiming at a masstige market like Armani Exchange, Victoria's Secret, Bose, Tiffany & Co, Coach, and so on. These companies share common characteristics, such as portrayal of desirable luxury in their product design or taste and their high, but not too expensive price range. This makes it easier for the mass to reach them compared to other higher-end products and at the same time, fulfilling their desires for luxury.

Marketing Strategy

Comparison with Tiffany & Co. is very interesting in the sense that they both use lucrative advertising to keep up their reputation, have their own signature colored boxes, (Tiffany Blue vs. Godiva Gold Box) and the purchases of their products tend to have a high proportion of being gifts rather than the buyer's own indulgence. The last part is very important in understanding Godiva's supremacy in the premium chocolate market as people have different criteria for choosing products to be used as gifts and to consume themselves.

Lucrative Advertisement

Using lucrative advertising they managed to make the name Godiva "... synonymous with indulgence and pleasure." In game theory, using conspicuous expenditure is used to signal the quality of the products of the firms. In the luxury chocolate market,

lucrative advertising works well as conspicuous expenditure implicitly signals the high quality of the products and increases public awareness of Godiva's ability to splurge cash into marketing. When it comes to giving gifts, people's perceptions matter more than the product themselves and people tend to choose something that everybody knows and likes rather than something that the recipient might love, but never heard of.

High Seasonality

One interesting fact is that Godiva's sales during holiday seasons- from December to February- comprise of more than 60% of its total annual sales. Also, Godiva offers special discounts for those seeking Godiva as corporate gifts. These are just a few of many consequences of Godiva having a set reputation as a luxurious confectionery gift.

Main Objective

The main goal of Godiva is to keep its existing customers by maintaining the prestige of the brand name in the chocolate market and blocking possible entrants.

SWOT Analysis

Strengths

Godiva has multiple distribution channels such as Godiva “boutiques” in malls, as well as Macy’s, Saks 5th Avenue, and Neiman Marcus. By selling chocolates exclusively in these channels, Godiva strongly avoids the impression of cheap mass produced chocolate you can find everywhere, thus strengthening its higher end image.

It also has a unique, attractive design and decoration. Well-designed Godiva boutique is a key component of the Godiva image of a luxury good; it stimulates the customers to come inside and take a look. Delicately designed chocolates that are often considered to be more beautiful than delicious, are enclosed in Signature Gold Box decorated with ribbons.

Godiva has a good customer service where they send discount coupons in times for holidays, birthdays, etc. Not only does it show loyalty to its customers, but it also works as another form of advertising which boost its sales. In fact, they were one of the first companies to do so, engaging in an outreaching and active, rather than passive customer management.

Weaknesses

They have failed many times in their efforts to expand their business in terms of product diversity. They debuted their Godiva Belgian Drink in 2006 in collaboration with Coca Cola Company, which wasn’t too successful. Also they made Godiva Ice Cream from 1999 to 2007, which started out strongly, having grabbed 7% market share of the superpremium ice cream category in the first year, but eventually they pulled it out after disagreement with Coolbrands, the manufacturing company, as the sales declined.

Recent acquisition by Yildiz Holding A.S. which does not have a lot of experience in the North American market might be perceived as an opportunity for their rivals to strongly challenge Godiva.

Opportunities

With Norman Love, a famous pastry chef, Godiva introduced G Collection in 2003 as a limited release. It became a huge success, and thus the handmade G Collection was launched as one of their regular collections. As their distinctive line, G Collection is more expensive than other Godiva chocolates, (about 3 times as much per weight) and is exclusively sold in select boutiques. They could build upon their successful introduction of G collection and expand their higher-end collections, possibly launching a new sub-brand with a different name.

Threats

Economic downfall could have a dramatic impact on Godiva, as sales of gifts and semi-luxury goods drop in times of recession. This was experienced at the end of the 1980s when U.S. economy hit a serious downturn. Considering the subprime mortgage crisis and the ongoing recession, this could seriously hurt Godiva's sales, at least in the short run. There's also competition with other rivals such as Neuhaus, Guylian, Leonidas. Bigger mass-market companies like Hershey's and Nestlé are always waiting for an opportunity to enter the very profitable high-end market, although their efforts haven't been successful yet.

Market Analysis: Competitors & Possible entrants

Guylian

- Guylian is the only Belgian chocolatier manufacturing its own praliné. It developed a traditional recipe with a unique system of roasting and caramelizing hazelnuts.
- Guylian maintains a strong position in the worldwide Duty Free and Travel Retail market: ¹
 - The Travel Retail market realizes 10% of all Guylian sales
 - More than 60% of all international Travel Retail Shops sell Guylian Chocolates

Hershey's

- Artisan Confections Company, a wholly-owned subsidiary of The Hershey Company, markets Scharffen Berger high-cacao dark chocolate products, Joseph Schmidt handcrafted chocolate gifts and Dagoba natural and organic chocolate products.
- Hershey's has a wide consumer acceptance in commodity market, strong brand equities, manufacturing expertise and mass distribution capabilities

Lindt & Sprungli (USA) Inc. and Ghirardelli Chocolate

- A continuously growing number of suppliers in US market
- US Market has become the Group's most important source of revenue
- Strong advertisement
- Lindt & Sprungli (USA) Inc
 - Has a growth rate of 19%

¹ TRIQ Research 2006

- Expanded distribution and intensified nationwide communication campaigns have brought substantial market share gains.
- 100 Lindt boutiques demonstrated as a great experience for visitors.
- Huge sales growth with the exceptionally successful Excellence tablet range and with its Lindor balls, which have already become a classic
- Ghirardelli Chocolate Company
 - Growth rate of 10.9%
 - Successful design of “Squares”
 - Ghirardelli restaurants and stores in many cities

Leonidas

- Targets gift market and has a similar price range to that of Godiva
- Recently started to enter Duty Free Market outside US.
- Launched a new premium product line “L”, smaller and more refined chocolate, similar to Godiva’s ‘G’ collection.
- Has increased its market share in US past years

How Godiva can react to these companies

- Guyilan: Duty Free Market is not the main target of Godiva, so Godiva doesn’t need to react directly to Guylian for now. If they were to concentrate more on domestic gift market, Godiva still has an upper hand in that Guylian’s chocolates are mostly milk chocolates which are losing its popularity compared to dark chocolates, which is something that Godiva focuses on.
- Hershey’s: Although Hershey’s has been trying to grab a part of the profitable luxury chocolate market, and has high revenue, neither Joseph Schmidt nor

Dagoba have been successful so far. As their partial introduction of higher-end products spurred up lukewarm responses, Hershey's would not be able to engage in a strong competition in the luxurious chocolate market.

- o Lindt & Sprungli: Lindt and Ghirardelli chocolates are sold in large retail stores as well as their stores which makes them a commodity rather than a fine gift suitable for rare occasions. Also, Ghirardelli specializes in chocolate bars rather than truffles or pralines which also makes them less than ideal gift ideas.
- o Leonidas: As seen from their launching of 'L' Collection, they're second-movers in the United States market trying to keep up with Godiva's moves. Nonetheless, they're the biggest competition and arguably the biggest rival at the moment. As long as Leonidas tries to copy Godiva's strategy as they have been doing, Leonidas is not a big problem, as the first-mover advantage in this market is distinctive. For now, Godiva can lean on its superior reputation and market share.

Recommendations

How to Keep the Current Position

A large part of the ongoing strategy for Godiva should be retaining its present dominant position on luxury confectionary gifts. As an entry-level premium chocolate company aiming at a masstige chocolate market, Godiva almost effectively exercises monopoly power at this level.

The biggest entry to barrier in this market would be reputation. Godiva has a first-mover advantage, at the moment, as having already established itself as the go-to brand for chocolate gifts. In order to strengthen this advantage, they would need to rely on advertising, collaboration with other companies and promotional events which will be discussed later on. Godiva has a big advantage in that reputation cannot be easily bought, especially not in a short period of time. This would give Godiva plenty of time to react when it sees a rival aggressively trying to decrease their market share in which case, rather than accommodate them, Godiva should fight back. This would not be in the form of a price war, but rather in the form of a promotional war, where Godiva needs to strive to keep its name in the public using combination of giveaways, events, and collaborations that would keep it in the public's eyes.

Product Diversification

Pralines, ganache, truffles, and bars are not the only products that Godiva has created. Godiva is collaborating with the Coca-Cola Company to make Belgian chocolate blend drinks in retail stores. They sell Godiva Chocolate Liqueur and flavored coffee, as well as ice cream. Cheesecake Factory sells cheesecake made out of Godiva chocolate.

But so far these various horizontal expansions have not been quite successful. They pulled out the ice cream products from the US market, and neither liqueur nor drinks are as famous as the Godiva pralines and truffles.

One of the reasons is that Godiva is not attractive for personal consumption. It is known as a nice not-too-cheap gift to present, but people tend to reach for more affordable and easily available products such as Hershey's and Kit Kat. For those who seek "good quality" chocolates, they turn to small-sized higher-end chocolatiers, whose products may be more expensive, but have a deeper taste and are handmade from better ingredients. Simply speaking, Godiva chocolates are not worth the money for everyday chocolate lovers' own consumption.

Other reasons for Godiva's failure in attempts to expand horizontally lie in choosing inadequate business partners. For instance, Coca-Cola and Dreyer are far from luxury or prestige that Godiva is seeking. Working together with those companies, and keeping their product prices higher than their competitors in the mass market, Godiva is stuck in the middle between high quality and low price. If they wanted their products to be successful in the mass market, they should produce more and keep the price down, even if it means using lesser quality ingredients. However, this is not recommendable as although the product itself might be successful, the ensuing loss of brand image would be far too great to justify the profit made from diversification into the mass market.

Brand Expansion

We have found out that although many people consider the signature golden box of Godiva chocolates as an ideal present for holidays, not a significant portion of the buyers come back for their own consumption. Therefore, rather than aiming for the mass market, Godiva should strive to aim for higher-end customers.

There are several ways to do this:

- Working together with well-known artists or chefs, and introducing more exclusive product lines with better quality chocolates similar to the G collection.
- Putting more emphasis on design and collaborate with artists. This strategy has already been utilized by Recchiuti Confections, but Godiva should carefully analyze this strategy, as jumping on the bandwagon in the blended drinks after the Starbucks' case has been unsuccessful.

- Exploring the possibility of building upon the G collection and creating more collections under a sub-brand that does not necessarily carry the name “Godiva”.
- Exploring a mix of chocolate with fashion, such as making chocolate pieces that resemble new outfits and fashions of a famous designer or brand for a particular year and season. Victoria’s Secret and other popular but highly regarded brand are potential partners. For example, collaboration with Victoria’s Secret in form of Chocolate fashion show will be effective. Since most of the consumers of chocolate are females and the target customers of Victoria’s Secret and Godiva wouldn’t be that different since they both have the similar theme of indulgence and pleasure.
- Hiring more renowned chefs and/or artists to design their new collections. It will also gain attention of public while gaining the brand image of higher-end chocolate.
- Spending more resources and time on research and development. Customers’ preferences and thoughts as they buy and consume the products should be carefully analyzed to develop higher quality and more preferred chocolate pieces. TCHO chocolate company could serve as a benchmark here. Rather than hire a focus group to tweak a chocolate’s flavor to perfection, or use their own palates, TCHO conducts public “beta testing,” a product development process that allows the purchasers to give feedback that the company uses to refine the product.
- Continuing its promotions, or creating new programs such as giving away a complimentary 4-piece truffle box per purchase of tiffany ring. Godiva had promotional gift programs where they placed three certificates redeemable for a diamond ring worth \$10,000 in their chocolate boxes for Valentine’s Day in 1997. They also collaborated with Aaron Basha on Mother’s Day in 2006 to sell a baby shoe charm made out of white gold and diamonds with the G collection and sold it for \$2,006. Collaboration with Tiffany & Co. will be a good idea since chocolate and jewel are two of the most popular gift ideas to give to females. With great brand awareness of two companies, a new collection, which contains a set of chocolates and jewels, can target many customers with needs for quality gifts for females.

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