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**Generic and Functional Strategies**

**Company Overview and Strategies**

Rogers’ Chocolates (Rogers’) is a privately held company based in Victoria, British Columbia (BC), and operates in the premium chocolate industry. The company was established in 1885 by Charles “Candy” Rogers’ and is “Canada’s oldest chocolate company and British Columbia’s second oldest company” (C177). Over the past two decades Rogers’ has seen its sales increase by more than 900%; however, in the past five years growth has slowed considerably and sales have decreased due to the “slowdown in tourism after September 11, 2001 and the decline in the US Dollar” (C186).

Rogers’ overall company strategy is to produce chocolate of “the highest quality” and set its price point at a premium. Roger’s target market consists of “affluent customers looking for a luxury experience with a superior taste, or an elegant, prestigious, and uncommon gift item” (C184). Rogers’ product offering also includes truffles, nuts and chews, almond bark, nutcorn, and various assortments. Within its home base of Victoria, and throughout British Columbia, the brand image of Rogers’ is strong and customers are willing to pay the premium for the high-quality chocolates. However, the company has faced problems outside of its original market, where consumers aren’t as aware of the substantial quality of Rogers’ chocolate products: growth in operations in these areas has shown steady growth, but hasn’t met company expectations.

Sales strategies at Rogers’ are focused in four areas of operations within the premium chocolate industry: “retailing chocolate products through company-owned stores, wholesaling chocolate products, online/mail order sales of chocolate products and sales from Sam’s Deli, a well-known eatery in Victoria, which Rogers’ had purchased in 2004” (C182). Rogers’ obtains approximately 50% of the company’s sales from its 11 retail stores, 30% of sales comes from its wholesale accounts, 10% is generated through the online/mail order business and the rest is derived from operations pertaining to Sam’s Deli (C182-184). Sales within the chocolate industry show significant seasonal trends with about 25% of sales occurring during the eight weeks prior to Christmas. The customer base of Rogers’ retail stores consists mainly of tourists and loyal consumers in and around Victoria. Customers that make up the wholesale segment are divided into five categories: (1) independent gift/souvenir shops; (2) large retail chains; (3) train station stores, and hotel gift shops; (4) corporate accounts that purchased Rogers’ products for gifts for customers or employees; and (5) a new segment, specialty high-end food retailers (C183).

**Porter’s Five Forces Analysis**

1. ***Risk of Entry by Potential Competitors: Low***

The amount of established companies in the industry that produce high quality premium priced chocolates such as Rogers’ Chocolates, Godiva, Bernard Callebaut, and Lindt create high barriers to entry for potential competitors in to the high quality chocolate sector. However, Rogers’ Chocolates offers low risk for potential competitors due to its low economies of scale, absolute cost advantage and customer switching costs. Rogers’ Chocolates production took place during a labor-intensive one-day shift consisting of batch processing. A majority of the chocolates produced are hand-made and hand-wrapped using the same out-dated technology that has been used for the past several decades. These production techniques hinder Rogers’ Chocolates from creating high economies of scale and expansion of output because the production process is time consuming and expensive due to the products being hand-made and wrapped. Rogers’ is unable to create cost reductions that could be gained through mass-producing a standardized output with updated technology. Rogers’ has also failed to implement any meaningful measures of productivity or efficiency that would allow for them to find areas where they may be losing money and could find more cost-effective and productive means. By not developing measures of productivity and efficiency, Rogers’ also has developed a low absolute cost advantage that could allow for potential entrants in to the industry to be able to have similar cost structures and thus compete against Rogers’. Rogers’ also has poor demand forecasting because of its seasonality of sales that prevents the company from developing a forecasting program that will not be skewed due to the variability in monthly sales. The problems associated with Rogers’ forecasting causes the company to have frequent out-of-stocks or too much of a product at an undesired time which leads to customer dissatisfaction and lost profits. Customers of Rogers’ Chocolates also incur low switching costs because it is relatively non-time consuming for a customer to find another brand of premium chocolates that would satisfy their needs. Rogers’ Chocolates does however have relatively high brand loyalty which may create barriers to entry for potential competitors because it may be too costly for new companies to break down the existing consumer preferences. Rogers’ Chocolates is very popular in Victoria, British Columbia due to its positive brand image, premium product quality, traditional packaging and long history. Rogers’ found that when people were asked what they thought about the chocolate company, people either had never heard of Rogers’ or they exclaimed that it was the best chocolate they ever had. This brand loyalty would cause new entrants difficulty when entering the industry especially in Victoria and other parts of Canada where the candy is sold. However, it would be easy to compete if the new entrants were able to target a younger or wider age group that is not yet aware of the Rogers’ brand.

1. **Rivalry Among Established Companies**

Rogers’ Chocolates operates in a fragmented industry that is made up of a large number of small or medium sized companies that are not in a position to determine industry prices. The demand for the chocolates industry is currently showing a concern for health foods which will allow for the industry to capitalize on dark chocolate, which is healthier than milk chocolate and is rich in antioxidants, and organic products. This will cause competitors to focus on adopting these new health concerns in to their products and will create a rivalry to better differentiate their products. Exit barriers in the chocolate industry are low which allow for companies to exit the industry if they are unprofitable or experience variable demand.

1. **Bargaining Power of Buyers: Low**

Customers are willing to pay a premium price point for standard products based on strength of packaging, advertising and distribution as seen with the Godiva company. This shows that companies in the industry are able to price their products high despite standard quality if they are able to prove to the customers that their product is superior and special through packaging and advertising.

1. **Bargaining Power of Suppliers: Medium**

Suppliers depend on the chocolate industry for a majority of purchases and because there are numerous suppliers of chocolate and the chocolate making process is not a secret, the suppliers have little bargaining power over buyers. However, companies would incur switching costs because the chocolates may taste different which could lead to dissatisfaction in customers and employees for changing the recipe and beloved taste of Rogers’ Chocolates.

1. **Substitute Products: High**

Customers could switch to another chocolate brand very easily or could switch to a different type of sweet to satisfy their needs. Rogers’ Chocolates and the chocolate industry incur a high risk of customers switching to different brands or different types of products which are numerous and easily accessible.

**Internal Analysis**

**Financial and Cost Analysis**

Roger’s chocolates competitors consist of Godiva Chocolatiers which was recently sold by Campbell Soup for $850million, Bernard Callebaut, Purdy’s, and Lindt which produces Ghirardelli. Bernard Callebaut and Purdy’s are regional competitors against Roger’s. Due to Bernard Callebaut and Purdy’s being privately held, financial statements are not available. Godiva Chocolatier and Lindt are worldwide competitors. Godiva Chocolatier now owned by the Ulker Group from Turkey most current financial statements are not available. Hershey’s is another worldwide competitor. There are many brands under Hershey’s and the organization has several premium chocolate brands sold in Canada.

Sales of Godiva chocolates during 2007 amounted to $482million. The current ratio is an indicator of how well an organization can pay off debt that matures within one year. A current ratio of less than one indicates to the company that it needs to seek other financing options to pay off debt that matures within a year. During 2006 Roger’s current ratio was .905 and their return on equity amounted to 15.7%, which represents net income divided by shareholder’s equity. Using the 2006 figures, Roger’s return on invested capital is approximately 10.6%. Return on invested capital is defined as net income divided by the company’s equity and debt. Net income at the end of 2006 for Lindt was $186million and the current ratio equaled 2.16. Lindt’s return on invested capital was 9.8%. Ghirardelli reported a 25.6% increase in sales over the previous year. In 2007, Ghirardelli was able to double its sales due to increased internet usage. The increase was attributed to television advertising of the SQUARES. Hershey’s current ratio is .975 and return on invested capital equals 13.4%. Return on equity for Hershey equaled 68% in 2006. Currently in the confectioner industry, Hershey’s has the highest return on equity at approximately 66%. The industry’s average is 9% for their return on equity.

**SWOT Analysis**

**Strengths**

Roger’s Chocolates offers the highest quality premium chocolates to their customers. Chocolates were packed in traditional Rogers burgundy boxes, a new gold box, or tins. Some of the tins were decorated in Canadian art, old fashioned English roses, or cornucopias. Roger’s Chocolates offered its customers six premiere lines the Victorian Creams, Empress Squares, Dark Chocolate Almond Brittle, Marquis Assortment, Collectible Gift Tins, Fruit & Nut Collection, and Ice Cream and bars. In 2006, Roger’s Chocolates won a prestigious 2006 Superior Taste Award from the International Taste & Quality (ITQI). Roger’s has a long and rich history and strong family values which have created loyal employees throughout the company history. Many of the employees at Roger’s Chocolates are third generation employees. Employees at the company were proud of the heritage and were committed to quality which provides Rogers’ with high quality workmanship due to satisfied employees. Employees at Roger’s chocolates all learned multiple job functions and worked with a variety of work and tasks. Roger’s employed several disabled employees and supported a local social service agency. Roger’s offers its customer exceptional post purchase service. After customers purchase premium chocolates from Rogers they are sent a thank-you and confirmation letters to customers. Additionally, Roger’s Chocolates would pay the shipping charges for any order purchased that totaled over $500 dollars. Workers at this company take great care of hand-wrapping packages and are passionate about their company. Roger’s developed a strong global following and loyal customers Rogers Chocolate is a privately held firm, as a result they face less pressure then public firm endure. Many of their financial strategies were developed to reduce taxable earnings and their assets were depreciated quickly as possible under the Canada Revenue Agency’s Guidelines.

**Weaknesses**

Roger’s production planning was very complex by the impact of out-of-stocks on the historical information they used to plan the following years sales, the out-of-stock process caused major problems for product planning and inventory management. For example, when an item was out of stock for a month, and the back orders were beginning to be filled in a small amount of time the sales graph would be distorted with unnatural spikes. The unnatural spikes were used for the production planning the following year. Another weakness Roger’s faces is an aging customer base that are dying off rapidly. This presents a large problem because Roger’s Chocolates offers an old fashioned traditional brand that does not appeal to the younger buyers who are not attracted to their traditional brand. With customers placing more emphasis on living healthier lives Rogers must adapt and provide customers with their demands, but Roger’s suppliers do not have the organic or fair trade capabilities to produce. Not to mention, Roger’s Chocolates is not a large enough firm to pressure their supplier to change and produce organically. Last, since Roger’s produces high quality chocolates their price often times scares potential customers from buying their product, and limit their selves to a small share of the market as a result of producing only high quality products.

**Environmental Analysis**

**Opportunities**

Consumers constantly change their preferences for products. It is no surprise that consumers’ wants for chocolate products have changed to a desire for richer products, which has resulted in using higher quality chocolate to produce its goods. Consumers also want a greater variety of chocolate products. This enables Rogers’ to expand their product lines to meet the new needs of customers and provides an opportunity for greater sales of the new products.

It has been a trend in recent decades for consumers to desire healthy alternatives to traditional foods. In recent years, studies have shown that dark chocolate provides several health benefits and are rich in antioxidants. These new discoveries provide a great opportunity for the company to increase their product lines and sales of dark chocolate.

The holiday seasons and gift giving also presents the company with an opportunity for specialized products. The commercialization of these holidays encourages consumers to purchase more chocolate products than they would in an average day.

The 2010 Olympics being held in Whistler, Canada is also an opportunity because it will dramatically increase tourism for the area. Because many of Rogers’ consumers are tourists, this will prove to be an opportunity for Rogers’ to create specialized products and gifts for the event.

The chocolate industry relies heavily on milk for their products. The modern technology is another opportunity for the company to reduce time spent on traditional milking routines, which in turn reduces labor costs. The expectation is that the company will obtain financial benefits by reducing manufacturing costs through additional mechanical improvements and innovations.

Cocoa beans are grown principally in Far Eastern, West African, and South American equatorial regions. Therefore, the production of cocoa in other countries would provide the company a great opportunity. Most of the supply is currently provided by West African countries that are coping with civil unrest issues; therefore, the new development in other countries provides an opportunity to the company by increasing supplier options. For example, the Ministry of Agriculture in Jamaica has recently allocated millions of dollars to allow production of several Jamaican crops, including cocoa, to expand its production.

Another opportunity for the company relates to the price decline of refined sugar. In 2006, sugar crops and sugar refineries recovered from the hurricane impact of 2005. As a result, refined sugar prices declined and should decrease in future years. This price decline gives Rogers’ an opportunity to cut costs and possibly redistribute the savings into other areas such as research and development.

The profits on the online business have been increasing, thus a large distribution cost realized in the company. Packing and shipping costs can be reduced through technological advancements that focus on less waste and more efficient distribution channels. For example, programs such as Six Sigma and lean manufacturing are constantly making improvements to increase efficiency in distribution channels.

Telecommunications innovations present an opportunity to Rogers’. Advances in the telecommunication industry and the introduction of telecommunications technologies to less developed regions have allowed the company to expand its distribution chain and customers outside of Canada. For instance, the Internet has expanded a great deal. As it continues to expand, more individuals will gain access to Rogers’ chocolate product advertising and be able to attain chocolate products without visiting retail stores.

Rogers’ has an opportunity of franchising its outlets. Also, they can establish joint ventures with other retail companies in other industries. This could help the company to produce new chocolate flavored products. For example, consumers’ consumption of coffee has increased in recent years resulting in a flow of flavored coffee products. They also can expand its ice cream and sugar-free chocolate lines. This provides multiple opportunities to Rogers’, such as participation in new trends through their partners, gain added revenue and increase visibility of their products.

Many countries around the world are steadily becoming industrialized. As this occurs, new markets are created for all industries. Infrastructure develops and distribution channels become stronger. This provides a great opportunity for the Rogers’ chocolate to expand its business to international markets and increase overall sales.

**Threats**

A growing number of peanut allergies can have a negative affect on the company because most of chocolate products include peanut oil. Individuals with peanut allergies are very sensitive to peanut products, therefore, they cannot eat anything that could have potentially encountered peanuts or other assorted nut products. As more people develop these allergies, it will negatively impact sales of peanut products and therefore negatively affect Rogers’ products. Also because of recent salmonella outbreaks in peanut factories, Rogers’ Chocolates could potentially be at risk if their suppliers do not practice safe health measures.

An increasing number of individuals becoming more health aware thus abstaining from high calorie and sugar products. This health food movement has unfavorably affected the company by causing consumers to decrease their eating of traditional high fat chocolate products. Consumers may also search for healthier substitutes, such as fruits, health bars, and other healthy snacks. This potentially will lower sales of many product segments in the company.

In recent months, one of chocolate’s important ingredients, milk, has been on a steady price increase. If the price of milk will continue to increase, this will be a direct threat to the company because manufacturers will either have to raise prices to offset the increased cost of milk, or reduce profit margin of chocolate by keeping pricing constant.

Other threats to Rogers’ are stronger competitors. Manufacturing processes have changed enormously over the past several decades. As new technologies are introduced, their predecessors quickly become outdated and less efficient. In order to keep up with these new innovations and over performed its competitors, Rogers’ will have to invest significant capital in order to remain competitive.

**Recommendations**

Rogers Chocolates should take an aggressive strategic direction. The private company has strong financials, significant brand power, and many growth opportunities. Rogers increase spending on advertising and promotions, expand its online presence, franchise Sam’s Deli, and re-design its packaging. Rogers should target potential customers in other parts of Canada through direct-mail and corporate purchasing magazines. Since more customers in this digital age are shopping online, Rogers should also more aggressively promote its online website, launching a campaign that offers free shipping or 10% off a purchase. This promotion should be printed in magazines along with coupons and advertised on TV. The company’s website url should become a part of its logo. Furthermore, Rogers should franchise Sam’s Deli in parts of British Columbia and other parts of Canada. Finally Rogers should re-design its packaging to attract younger consumers. Rogers could offer customized tins, allowing customers to upload or submit a photograph they want on the tin. Rogers’ new packaging should express it’s been a Canadian tradition since 1989. It should still resemble a premium product just with more modern packaging. These changes will help Rogers Chocolates develop a broader market.