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Bc. Alexandra Kiš Bandiová

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**Chocolate Confectionery market analysis -
United Kingdom**

Author: Bc. Alexandra Kiš Bandiová

Thesis supervisor: doc. Ing. Jan Koudelka, CSc.

Declaration of authenticity

Hereby I confirm that I have written the thesis "*Chocolate Confectionery market analysis - United Kingdom*" by myself using a literature listed in the footer and in the list of references at the end of the work.

Prague, 1.12.2015

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Signature

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Abstract

This Master's thesis deals with analysis of chocolate confectionery market in the United Kingdom. The methodology used to bring a complex picture about the main trends is retail scan data analysis accompanied by consumer panel and consumer research. As a result, this work provides a detailed mapping of chocolate confectionery market environment and elaborates a set of recommendations for marketing orientation.

Key words:

chocolate confectionery, market analysis, marketing research, consumer research, United Kingdom

List of abbreviations

UK	United Kingdom
FMCG	Fast Moving Consumer Goods
SKU	Stock Keeping Unit
AMA	American Marketing Association
ESOMAR	European Society for Opinion and Market Research
pp	Percentage Point
RSP	Retail Selling Price
YoY	Year on Year
CAGR	Compound Annual Growth Rate
mn	Million
MAT	Moving Annual Total
MS	Market Share
KJSMONDZ	Kraft + Mondelez
MARSWRIG	Mars + Wrigley
PL	Private Label
AO	All Others
KPI	Key Performance Indicator
POS	Point of Sales

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Introduction

Cocoa has played an important role in history. While in past it used to serve as currency, nowadays it is used as a main ingredient of chocolate, one of the most desired food and source of indulgence for both kids and adults. Despite of naturally appealing character of chocolate it is still classified as a consumer good and is therefore the subject of marketing activities pursued by its manufacturers.

The highly competitive environment present in the FMCG segment requires marketers to plan their marketing activities wisely and effectively. Strategic decisions are key to success and knowledge about competitors' activities is crucial to gain competitive advantage over them. There is no tool which would guarantee market and sales movements in the future, however, marketers can lean on past evolution and build their marketing strategies assuming similar behavior. Strategies are therefore direct implications of marketing research. Nevertheless, marketing research does not only rely on historical data but with increasing importance of consumer behavior manufacturers put increasingly more importance on consumer research.

The chocolate confectionery market in the United Kingdom is a very sophisticated market. Many players present on the market make it a challenge for marketers to succeed with their offerings while, on the other hand, thanks to a strong base of customers this market provides continuous opportunities for further development. Thus, also market research has to be complex and cover various dimensions.

Previously mentioned complexity of the chocolate confectionery market in the UK is one of the reasons for choosing it as a subject of this thesis. Furthermore, it brings the author's interest and experience acquired in the marketing department of one the leading chocolate confectionery manufacturers. This experience together with an academic background obtained during the studies could serve as a good basis for this work.

The aim of this thesis is to analyze the complex chocolate confectionery market in the UK, seize the size of the market, spot its main trends, map market share distribution of main players and identify leading brands with use of retail data. The analysis will be executed with regard to market product segmentation based on various criteria including product category, manufacturer, brand, need state, festive occasion and seasonality, product variant, region and selling channel.

Further to the main goal of the thesis, this work is intended to spot eventual gaps in actual market product portfolios, identify opportunities and elaborate a set of recommendations for marketers to appeal to the right target customer segments with the right product type. The output of this work should sketch overall marketing opportunities in the UK chocolate market instead of focusing on one single firm. In order to collect relevant data for this purpose and to cover areas that retail data are not able to cover, retail data will be accompanied by a consumer panel, which will serve as a source of information for consumer status, consumer preferences, main drivers for purchasing behavior, consuming occasion, amount consumed and frequency.

Additionally, the results of this analysis will be at disposal of one of the leading manufacturers in chocolate confectionery industry for potential use in real business.

A great part of data was provided by the concrete real firm, chocolate manufacturer, which for confidential reasons will be called XY in the entire scope of the thesis.

The work is divided into 2 parts, first one (Chapters 1-3) having entirely theoretical character and second part (Chapters 4-7) focusing on practical content of this work. The theoretical section aims to present to the reader fundamental features related to market research. Starting with the definition of main market components and broad characteristics of market and marketing practices this section gets to the methodology used later on in practical part.

The second part has a purely practical character. To provide an overall picture and positioning of chocolate confectionery, the analysis in chapter four starts with general classification of chocolate confectionery worldwide. Subsequently the focus narrows to the UK, proceeds through positioning of chocolate confectionery within retail and packaged food to the actual situation in UK chocolate confectionery market. Euromonitor data and structure is used for the purposes of this chapter.

The fifth chapter is intended to identify key growing segments in chocolate confectionery. This chapter starts with deep analysis of Nielsen retail scan data (three databases were used: Chocolate Confectionery, Everyday Chocolate and Bitesize) and is followed by consumer panel based Europanel data. Consumer panel is then complemented by consumer research about sharing bags.

Current trends in consumer preferences are discussed in chapter six. Besides general trends in flavors this chapter touches on innovations in the chocolate industry, health impacts of chocolate and the perception of palm oil use in chocolate by British customers.

The entire market analysis is summed up and evaluated in chapter seven in the form of suggestions for current and potential marketers. At this point the analysis narrows down to the category of sharing bags as a consequence of previous results. Starting with a definition of key customer segments and target groups the chapter ends with suggested positioning and possible recommendations of marketing mix for selected target segments.

THEORETICAL PART

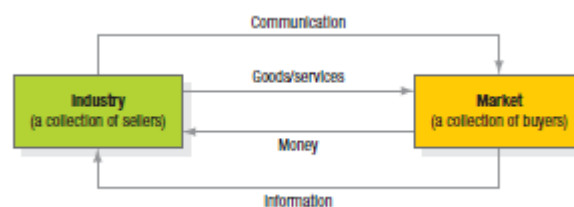
1 Basic concepts

This chapter intends to introduce basic principles which one has to keep in mind when referring to market, marketing and marketing research in general.

1.1 Market and marketing

Historically, a market was described as a physical place where buyers and sellers gathered to exchange goods. Over the time, the term market has acquired broader, more abstract meaning. The definition of market by economists differs from the one of marketers. According to marketers, market is „a set of all current and potential buyers, who buy certain product or service in certain situation and thus satisfy one or more needs“¹. On one hand, market is a collection of companies that offer goods and services for consumption and create industry. On the other hand, market can be understood as a collection of consumers who demand these goods and services. Diagram 1 shows the relationship between buyers (market) and sellers (industry). The sellers supply the market with goods and services and communicate with market in form of ads, direct mail and other marketing activities. On exchange, buyers pay for goods and services in form of money and provide sellers with valuable sales data, customer preferences, needs and believes. The inner loop demonstrates exchange of goods/services for money, outer loop demonstrates exchange of data and information.

Diagram 1: Simple Marketing System



Source: KOTLER, Philip a Kevin Lane KELLER. Marketing management. 14th ed., Pearson Education, 2012, 9.

The above set of relationships forms a simple marketing system. Marketing means „*managing markets to bring about profitable customer relationships*“². Creating these relationships requires work and sellers have to search for buyers, understand their needs, design right offerings and promote them, set prices and deliver. However, marketing is no longer exclusive for sellers and companies have to ask themselves how the buyers can reach them and even how buyers can reach each other.

¹ JAKUBÍKOVÁ, Dagmar. Strategický marketing: strategie a trendy. 2., rozš. vyd. Praha: Grada, 2013, 52.

² KOTLER, Philip, ARMSTRONG, Gary . Principles of marketing. 15th ed., global ed. Boston: Pearson, 2014, 30.

1.2 Competition

The nature of marketing assumes that the company should provide customers with bigger satisfaction than its competitors. No single strategy is suitable for every company, therefore each company should take into account its size and capabilities to acquire the appropriate marketing strategy to attract customers. This might be done by placing counter offerings to those of company's competitors.

Besides direct competitors operating in the same segment, the company has to consider also potential competitors and substitutes, especially in consumer goods segment.

1.3 Customer

The key of successful usage of marketing strategies is the knowledge of current and potential customers. For marketers it is very important to know how is the customer thinking, when and how is he deciding, which are the factors that influence final decision to purchase a product and what motivates him to buy and consume the product. All these elements together with everything related to final product purchase (and actual product consumption) is a consumer behavior and marketers must fully understand it.³ There are several ways to acquire information about customers. The companies can collect data on their own (by creating customer databases, own research) or they can buy data from specialized agencies (e.g. Nielsen).

1.3.1 Buying decision process

The consumer is exposed to constant influence of several internal and external stimuli. At the same time, each consumer is exceptional and possesses different individual predispositions. When talking about consumer buying decision process from marketing point of view, we need to analyze relations between stimuli, both external and internal, individual predispositions of each customer, marketing stimuli and consumer's response. These relations are well explained in a Black Box Model which is portrayed as a Diagram 2.

Diagram 2: The Black Box Model



Source: Author, from KOUDELKA, Jan. Spotřební chování. Vyd. 1. Praha: Oeconomica, 2010, 11.

³ BOUČKOVÁ, Jana. Marketing. 1. vyd. Praha: C.H. Beck, 2003, 432 s. Beckovy ekonomické učebnice, 92.

We can see that consumer behavior starts with his stimulation by marketing stimuli (which include marketing mix) and other stimuli characteristic for given environment. The reaction to these stimuli then differs depending on consumer's predispositions (further analyzed in next chapter) and results in a certain form of buying decision process. Consumer's predispositions influence each phase of buying decision process. Final form of buying decision process then enters to our predispositions and is reflected in our future decision process.⁴

1.3.2 Factors influencing consumer behavior (Consumer's predispositions)

As it was already mentioned previously, factors influencing consumer behavior differ from product to product. Among the most important factors belong brand/company and its image, product packaging, product price or product characteristics. At the same time, factors may derive from customer himself and in this case we distinguish 3 types of factors influencing consumer behavior: cultural, social and individual.⁵

Cultural factors

The environment in which customer grows up and is educated is particularly important to form his buying behavior. Culture is a fundamental element forming individual's wants and needs. Each culture is then divided into smaller subcultures and social classes and members of each one of them require distinct product and show different preferences. The term cultural anthropology is plays an important role when it comes to multinational corporations since these are, by their nature, obliged to take into consideration elements of various cultures when performing their marketing activities. Not only product itself (package, functionality, design), but also communication and distribution have to be adapted.⁶

Social factors

Social predispositions are narrowly correlated with cultural predispositions as an individual gets to know his culture by process of socialization. Inside given cultural area, the consumer is impacted by diverse social groups and relationships to these groups, the most important being **family**. We can classify social groups by intensity with which an individual interacts with them to primary groups and secondary groups. Primary groups are usually smaller and individual maintains close relationships with members. Family is a basic example of primary group. There are two important families in consumer's life: family of orientation includes parents and sibling and determines individual's orientation towards religion, politics, self-awareness, love and others. Second is family of procreation - individual's spouse and children. The family of procreation has more impact on everyday purchasing behavior and we can observe gender differentiation of roles within the family. In past, wife was usually in charge of purchase of basic goods like food and staple clothing items. Husband, on the other hand used to take care of technical goods. Modern family order does not follow these roles distribution anymore, therefore marketers should aim both men and women as possible targets for every kind of product.

Another social group type which significantly affects individual's purchasing behavior is **reference group**. Some of these reference groups are primary groups which include friends,

⁴ KOUDELKA, Jan. Spotřební chování. Vyd. 1. Praha: Oeconomica, 2010, 12.

⁵ KOTLER, Philip a Kevin Lane KELLER. Marketing management. 14th ed., Pearson Education, 2012, 151.

⁶ BÁRTOVÁ, Hilda, Vladimír BÁRTA a Jan KOUDELKA. Chování spotřebitele a výzkum trhu. Vyd. 2., přeprac. Praha: Oeconomica, 2004, 27.

neighbors and co-workers (here we can also include family), others are secondary such as religion and profession. However, the behavior of individual is not only influenced by social groups to which he/she belongs, but also by groups to which he would like to belong (aspirational groups) or which he/she rejects (dissociative groups).

Each individual has a specific **role** in a group which consist of activities that he/she is expected to perform. The role then connotes to a **status**. People tend to choose products/services that would represent their status and marketers must be aware of that.

From what was said it is clear that marketers, in order to appeal to as large group of potential buyers as possible, have to target their activities to individual, which forms a reference group and thus create a multiplied response.

Individual factors

Last, but not least, consumer purchasing behavior is strongly influenced by his/her own individuality. The uniqueness includes age, stage in life cycle, occupation, economic circumstances, personality, self-concept, lifestyle and values.⁷

1.4 Product

Kotler defines a product as *“anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need”*.⁸ The product does not necessarily mean something physical. Depending on tangibility, products are typically classified as *services* (intangible) and *products* (tangible).⁹

1.4.1 Product levels

When creating the right product offering, the marketers should think in three levels (Diagram 3):

Core customer value represents the core benefits that the product can bring to customer. At this stage, marketers should recognize what the product means for customers and design the product so that it will satisfy certain requirements, keeping in mind that the customer's expectations may differ by place and time.

On the next stage, core customer value is turned into actual product. Marketers develop visible and tangible features of the product: design, packaging, material, size, brand name, quality and others.

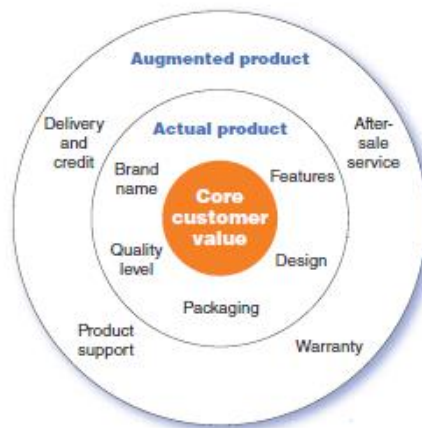
Augmented product is the last stage of product architecture. It is the broadest level and refers to additional consumer services and benefits, among others warranty, repair/service facilities, after sale services, brand image, delivery or credit.

⁷ KOTLER, Philip a Kevin Lane KELLER. Marketing management. 14th ed., Pearson Education, 2012, 155.

⁸ KOTLER, Philip, ARMSTRONG, Gary. Principles of marketing. 15th ed., global ed. Boston: Pearson, 2014, 248.

⁹ MAJUMDAR, Ramanuj. Product management in India. 2nd ed. New Delhi: PHI Learning, 1998, 26.

Diagram 3: Product Anatomy



Source: KOTLER, Philip, ARMSTRONG, Gary. Principles of marketing. 15th ed., global ed. Boston: Pearson, 2014, 250.

1.4.2 Product classification

We can classify products into two basic groups based on their final use: industrial products are meant for further progressing and are usually used for conducting business. Consumer products or goods, on the other hand, are intended for final consumption. For purpose of this work we will focus on consumer products.

The term “consumer goods” was used by M. Copeland¹⁰ already in 1923 when he classified them into three classes: convenience goods, shopping goods and specialty goods.

Convenience products are bought frequently, the consumer usually buy them without greater decision effort, the price is set low and are placed in many locations to make them accessible when consumer needs them or wants them. Convenience products include for example beverages, cosmetic products, fast food, magazines, grocery items or confectionery products. Chocolate confectionery products (and all fast moving consumer goods)¹¹ which will be further analyzed in this work belong to this specific category.

Shopping goods are less frequently purchased and consumer compares them to choose the best suitable offer. Marketers usually place products in fewer points of sale but invest in in-store support to provide customers with information. Typical examples include clothes, home appliances, casual cars or airline services.

Specialty products have unique characteristics, therefore consumer is willing to spend considerable amount of time to gather information about the products. Typical examples are designer clothes or luxury cars.

Later on, Kotler¹² mentions a fourth class of consumer products: unsought products. These are mostly products that consumer does not know about and does not consider to buy them, for example, latest innovations or blood donations. Given their nature, unsought products need a lot of promotion and marketing effort.

¹⁰ COPELAND, Melvin T. *Relation of Consumers' Buying Habits to Marketing Methods*. Harvard Business Review, 1923. [online] [cit. 2015/05/30]. Retrieved from <http://www.scribd.com/doc/209921494/Copeland-1923-HBR-Article#scribd>

¹¹ For more about FMCG refer to 1.4.3.

¹² KOTLER, Philip, ARMSTRONG Gary. Principles of marketing. 15th ed., global ed. Boston: Pearson, 2014, 251.

1.4.3 Fast Moving Consumer Goods (FMCG)

By definition, “generally cheap products that have a short shelf life, and are purchased by consumers on a regular basis. Profit margins on these products are usually low for retailers, who try to offset this by selling large volumes”¹³, fast moving consumer goods (FMCGs) are convenience products. FMCG sector comprises large variety of products starting from groceries and ending with toiletry. Within segments, the products do not demonstrate striking differences, therefore marketers have to constantly search for marketing techniques to build customer loyalty and beat competitors. For this category, mass communication, price promotions and discounts extensive distribution networks and other sales support are very common.

Based on purchase impulse, we can subdivide FMCG goods into 3 subcategories: staples are goods necessary for everyday life and consumers purchase them when the stock reaches a critical level (e.g. cheese, shampoo, biscuits). Impulse goods are procured without prior planning and consumer does not buy them until he sees them. Therefore these goods are placed on additional displays (chocolate confectionery belongs to this subcategory). Emergency goods are purchased only in particular need state (e.g. umbrella).¹⁴

1.4.4 Product line and product mix

Every company is present on the market by offering a certain range of products. This product range is a result of numerous marketing decisions based on customer needs and valuable long term marketers’ market knowledge. However, besides decisions about single products there is a need to build a product line. **Product line** is a group of products that are marketed to the same target group of customers, serve to the similar manner and are accessible in the same outlets or fall into similar price level.¹⁵

The essential decision regarding product line is the decision about product line length. If the line is too short, there is a need for new product addition in order to increase profits of the company, while of the line is too long, company should drop out some product items in order to increase sales of remaining items.

There are two ways to extend the product line length: line filling and line stretching. Line filling occurs by simple product addition to the present product line with objective to fill in market gaps and prevent competitive actions. For example, in chocolate market, Kinder Chocolate, Kinder Surprise, Kinder D  lice or Kinder Bueno can be easily kept in product line of Ferrero since they are targeted to different segments and as long as they do not result in cannibalization and customer confusion. Line stretching occurs when company lengthens its offering beyond its existing range. For example, Ferrero offers Kinder products on kids chocolate market and at the same time plays important role in premium, more expensive chocolate segment of pralines.¹⁶

The set of all product lines that manufacturer offers for sale create a **product mix**. Company’s product mix is defined by four dimensions: the number of product lines is called product mix

¹³ KPMG. *Fast-Moving consumer goods in Africa*. [online] [cit. 2015/05/30]. Retrieved from www.kpmg.com

¹⁴ MAJUMDAR, Ramanuj. *Product management in India*. 2nd ed. New Delhi: PHI Learning, 1998, 27.

¹⁵ KOTLER, Philip, ARMSTRONG Gary. *Principles of marketing*. 15th ed., global ed. Boston: Pearson, 2014, 258.

¹⁶ AVLONITIS, George J a Paulina PAPASTATHOPOULOU. *Product and services management*. SAGE, 2006, 22.

width, product length refers to the length of each one of product lines, product depth is defined by number of versions (usually we speak about Stock Keeping Units (SKU's)) in each product line and product mix consistency refers to the extent to which various product lines are close to each other in terms of end use or others. For example, Product mix of Ferrero includes Kinder product line, Pralines product line, Nutella product line Tic Tac product line and others.

1.4.5 Cannibalization

When managing product mix and product lines, product managers have to plan carefully a new product launch. Especially in high tech companies, the technology progress is very fast and new versions of the same product are required in short intervals. When a company decides to replace an existing product by new one regardless of its position in the market, it uses cannibalization. As the old product comes to the end of life cycle, a new product is introduced with higher price in order to sustain sales. Time is essential in case of cannibalization since late or early cannibalization can result in drop of company sales or profits.

Cannibalization can be used in two different ways: **offensive cannibalization** is used by attackers to establish themselves into market. This type of cannibalization hurts market leader and cuts his market share in favor of attacker. This is also a good strategy to defend market share. Usually market leaders do not commit cannibalization unless they are forced to do so by competitors. **Defensive cannibalization**, on the other hand, is a useful tool to detain attackers from being successful by cannibalization of its own products before competitors. The company can decide to keep its technology advantage over competitors and introduce new product exactly at the same time when the old product finds itself at the end of life cycle. This strategy of technology advantage is characteristic for fast moving consumer goods, to which chocolate confectionery belongs.¹⁷

2 Market research

Managers and marketers have to take several decisions every day, more or less important. By using market research it is possible to take some of the risk out of decision process since the information acquired can provide marketers and managers with a solid base to formulate the right marketing strategy. For purpose of market research both primary and secondary data can be used. Companies often execute marketing research in-house and create their own market research departments, but they could decide to acquire information from specialized agencies which offer wide range of market research services (e.g. GfK, Ipsos, Kantar, Datamonitor, Euromonitor International and others). Agency research is typical for smaller companies as it is less costly.

2.1 Marketing research vs. Market research

In practice we can find plenty of definitions of marketing research, often it is even called “market research”. The questions are: Is “market research” really synonym of “marketing research”? What is the actual distinct difference between these two terms?

¹⁷ SHARMA, Neetu. *Marketing strategy on different stages PLC and its marketing implications on FMCG products*. [online] [cit. 2015/05/30]. Retrieved from <http://indianresearchjournals.com/pdf/IJMFSMR/2013/March/12.pdf>, 132 p.

Answer to these two questions is not so obvious and might depend on definitions that we take into account. In the following section we will have a look at two definitions coming from professional organizations.

According to American Marketing Association (AMA), **marketing research** is *“the function that links the consumer customer, and public to the marketer through information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process.”*¹⁸

ESOMAR (European Society for Opinion and Market Research) defines **market research** as *“systematic gathering and interpretation of information about individuals or organizations using the statistical and analytical methods and techniques of the applied sciences to gain insight or support decision making.”*¹⁹

When we consider only these two definitions, the relationship between market research and marketing research is evident. While market research is more focused on individuals and organizations present on the market, marketing research is more oriented to efficiency of promotions, branding and general consumer awareness.

However, definitions of the two mentioned are not strictly limited to what was written above, therefore the relationship between them can be interpreted differently by each individual. Observed areas are mutually dependent and should not be separated, otherwise the results of research could be distorted. In practice, the two are used to name the same process of data collection in any form and therefore they are used as synonyms.

2.2 Market research process

Market research usually consist of the following steps:²⁰

Define problem and research objectives

First step for marketer is to define the problem not too broadly and not too narrowly. Researcher decides which information is to be collected, specific objectives are set and hypothesis to be examined are established.

Develop research plan

The second stage is dedicated to decisions about data sources (primary or secondary), data collection methodology, research approaches (through observation, focus groups, surveys, behavioral data, and experiments), research instruments (questionnaires, qualitative measures and technological devices), sampling plan (who, how many people, how should we choose respondents) and contact methods (by mail, by telephone, in person, online). The research plan itself is then designed based on depth, costs, urgency and extent of data required.

¹⁸ American Marketing Association. [cit. 2015/06/09]. Retrieved from <https://www.ama.org/AboutAMA/Pages/Definition-of-Marketing.aspx>

¹⁹ Esomar. [cit. 2015/06/09]. Retrieved from <https://www.esomar.org/knowledge-and-standards/market-research-explained.php>

²⁰ KOTLER, Philip a Kevin Lane KELLER. Marketing management. 14th ed., Pearson Education, 2012, 99.

Collect actual data

The following step, actual data collection, is the most complex, the most expensive and the most prone to errors. For various reasons respondents can be not present at point of research, they might be dishonest or refuse to collaborate.

Analyze information

The data is analyzed with the help of statistical techniques and analytical tools. The type of analysis is decided already in previous stager of marketing research and depend on data collection procedures, sampling and measurements.

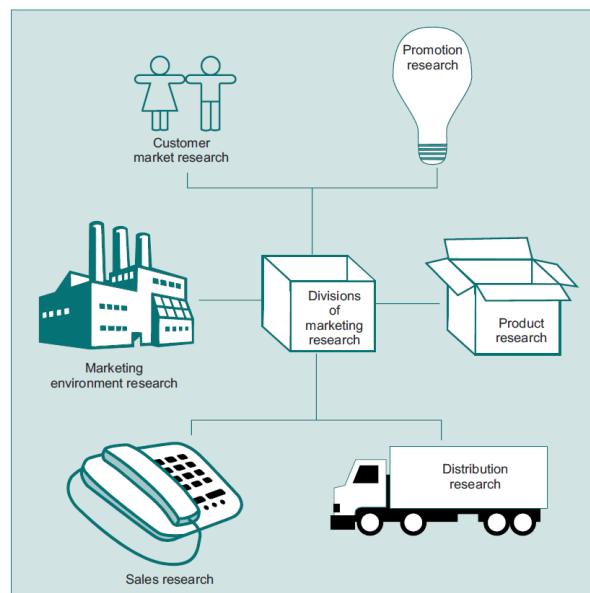
Present findings

At this stage, all findings are consolidated and gathered together to be presented in a clear, understandable way. All results and recommendations can be displayed in form of reports, score-cards or dashboards. After this step, management should have all information to take decision if necessary.

2.3 Divisions of market research

As mentioned previously, market research is a very complex task comprising large amount of methodologies and processes. Not only there are several different options to execute marketing research, but also examined objects differ. Divisions of marketing research are as portrayed in Diagram 4.²¹

Diagram 4: Divisions of marketing research



Source: TONY PROCTOR, Barbara Jamieson. Marketing research. Harlow: Pearson Education, 2004, 1/9

²¹ TONY PROCTOR, Barbara Jamieson. Marketing research. Harlow: Pearson Education, 2004, 1/9.

Customer market research

Customer market research is aimed to supply quantitative data about customers (sales volumes, values, units, location, frequency and others). We can get to know size of particular markets and market segments, identify future trends and forecast future sales. It is also a valuable source of information about competitors and their market shares. This division of marketing research will be used later on in this work to analyze chocolate confectionery market in UK (primarily using Nielsen retail scan data).

Advertising and promotion research

Advertising research is meant to provide marketers with information about success of advertising campaigns. Based on results of this research it is possible to choose the right mix of promotional media and campaign material to reach target audience. Sometimes companies can use advertising research on a limited sample and thus evaluate likelihood of success of certain campaign in advance.

Product research

Product research helps companies with decisions about launch of a new product or additional use of existing product. Very often, after product development itself the new product is tested on potential buyers in limited numbers of points of purchase. For FMCG goods, the same product is usually tested separately for each country since customer requirements differ. Based on buyer's feedback additional arrangements may be performed (e.g. regarding packaging). Additionally, it is a good assessment of a product compared to competing products.

Distribution research

Distribution research helps to find the best suitable channel and retail outlets location for product. Premium goods manufacturers have their own outlets, while FMCG manufacturers have to think of the entire length of distribution channels (wholesale, intermediaries, retail, etc.).

Sales research

Sales research is a way to assess sales techniques used at the point of sale by sales force and can give manufacturer impulse for salesforce training.

2.4 Marketing environment

Marketing environment consists of *“actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers”*²². These factors usually depend on each other and their evolution is dynamic and significantly uncertain. Given the uncertain nature of factors influencing marketing environment, marketers are exposed to the pressure of becoming environmental trend trackers and opportunity seekers. Even though marketers should be attentive to environmental changes, they can use marketing research and marketing intelligence to get better orientation in marketing environment.

²² PHILIP KOTLER, Gary Armstrong. Principles of marketing. 15th ed., global ed. Boston: Pearson, 2014, 92.

Marketing environment is formed by:²³

Micro environment (task environment) – factors that are close to the company and the company is able to influence them:

- Company
- Customers
- Suppliers
- Intermediaries
- Competitors
- Publics

Macro environment (broad environment) – factors that not only influence one company, but have an impact on all subjects present in given period and given economic system, they are not to be influenced legally by the company. Macro environment consists of six components: demographic environment, economic environment, natural environment, technological environment, political environment and cultural environment.²⁴

The main challenge for marketers is to monitor both, micro environment and macro environment, to be able to identify, on one hand, threats for the company that can derive from constantly changing environment, on the other hand opportunities and possible competitive advantage, eventually adapt strategies to meet new marketplace conditions.

3 Data collection methodology and data evaluation

For purpose of this work, two main sources of data will be used: Passport Euromonitor International data is primarily used for global classification of chocolate confectionery in worldwide and within UK and in-depth analysis of chocolate confectionery is based on retail scan data (Nielsen). In this chapter I will describe data collection methodology and main characteristics and procedures of both data sources.

3.1 Euromonitor International

Euromonitor International is an independent market research provider which collects data and creates analyzes of thousands of products in the majority of industries and countries around the world.

3.1.1 Passport

Passport is a global market research database by Euromonitor International which collects consumer market data from 210 countries and 28 industries worldwide. The platform includes two main types of analyzes: Industries and Countries & Consumers. Both subgroups issue statistics, global reports, company profiles, country reports comments and country highlights. Besides historical data, Passport also provides forecasts for next 3-5 years depending on research.

²³ BOUČKOVÁ, Jana. Marketing. 1. vyd. Praha: C.H. Beck, 2003, 432 s. Beckovy ekonomické učebnice, 81.

²⁴ KOTLER, Philip a Kevin Lane KELLER. Marketing management. 14th ed. Upper Saddle River, N.J.: Prentice Hall, 2012, 11.

3.1.2 Passport research methodology

Euromonitor International combines two views on each industry/country:

Global insight of industry specialists who conduct dialogues with key players and opinion makers in industry, provide global research inputs and create in-house company analysis. This research is executed top down, which means that researchers go from most general information deeper in industry details.

On the other side there is **local knowledge** done on bottom up basis, meaning that the entire data collection process starts with desk research, is followed by store checks (focusing on product, price, place and promotion) and finalized by trade survey together with discussion on data and dynamics with local industry. The results of both, global insight and local knowledge are then validated and cross-checked resulting in final **market analysis**.²⁵

3.1.3 Passport data sources

Data source for **global insight** is a combination of knowledge acquired through industry interaction and secondary sources like annual accounts, broker reports, financial press international and national specific databases and local company websites.

Regarding **local knowledge**, the following sources are accessed to execute desk research:²⁶

- National statistics offices governmental and official sources
- National and international trade press
- National and international trade associations
- Industry study groups and other semi-official sources
- Company financials and annual reports
- Broker reports
- Online databases
- The financial, business and mainstream press

Subsequently, store checks throughout several channel types provide valuable information about 4P's: where and how the product is sold, what are product innovations, packs and SKU formats, what are price variations of products and how the product is promoted. Finally, trade surveys are elaborated based on dialogues with the key players in industry when various point of supply chain are interviewed (material suppliers, manufacturers, distributors and retailers).

After all, the data is consolidated and validated to provide cross country comparable and relevant analysis.

3.2 Retail audit

Retail data, or often called retail audit is one of the essential sources of information about consumer behavior for manufacturers. It is a way to measure sales in retail and gives us an appropriate picture about market size, trends, market potential, market shares, importance of individual sales channels, distribution, price and portfolio. Besides other information about customer coming from consumer panel research, tracking studies and usage and attitude

²⁵ Euromonitor. *Market Analysis*. [online] [cit. 2015/06/16]. Retrieved from <http://www.euromonitor.com/research-methodology-market-analysis>

²⁶ Euromonitor. *Euromonitor methodology*. [online] [cit. 2015/06/17]. Retrieved from <https://www.portal.euromonitor.com>

studies, retail audit is one of the most extensive sources of information, especially for FMCG. As a basic source of information for this chapter will be used a publication *Actionable Marketing Insights from Retail Audit Analysis* from Laszlo Zsom.

According to Zsom, the scope of retail audit provides us with information about two and a half “Ps” out of 4”Ps” of the marketing mix. Information about price and place (in form of distribution channels and location distribution) being a full “P” complemented by some features about product representing a half “P”.²⁷ In fact, the impact of promotion on sales can be easily derived from retail scan data by extracting baseline volume/value (normal everyday sales in the absence of any store-level promotion) and incremental volume/value (additional predicted volume that results from in-store promotion).

3.2.1 Retail data sources

Data collection is beneficial for both, manufacturers and retail chains as they can easily monitor market evolution. Manufacturers have two options to obtain retail scan data: they can get them directly from retail chain or from specialized market research agencies (e.g. Nielsen, IRI, etc.). The advantage of data set acquired from retail data providers is that they have a dense net of agreements with retail channels across the whole country and therefore they are able to cover the majority of regions.²⁸ Even though retail data providers never cover 100% of the market, they provide information about coverage rate on each market and each product segment for manufacturers to be able to extrapolate data and estimate real sale volumes. Furthermore, specialized agencies possess required IT capabilities necessary to collect the right data.

3.2.2 Retail data evaluation

In order to be efficient and avoid being lost in irrelevant details, it is not necessary to run deep analysis every time. Zsom suggests to use a logical methodology so called drill-down technique which means to start with analysis at macro level. If we spot a problem or irregularity, he suggests to go down at micro level and look for answers to these specific questions. However, we should not be satisfied with simple data mining, but based on historic data we should try to find out reasons and recommend possible marketing actions.²⁹

Additionally, in order to be efficient in retail data analysis we should look for trends instead of month-to-month fluctuations. This way significant increases or decreases can be explained e.g. by seasonality of product and very small changes can be just fluctuations around expected trend. To provide relevant conclusions, volume shares of retail channels should be taken into account (1pp growth in channel which accounts for 20% of national category is not the same like growth 1pp in channel which accounts for 80%).³⁰

3.2.3 Retail data measures

Zsom divides data into two main groups:

²⁷ ZSOM, Laszlo. *Actionable marketing insights from retail audit analysis: a practical approach*. Budapest, Hungary: Marketing Intelligence Ltd., 2011, 13.

²⁸ ZSOM, by Laszlo. *Actionable marketing insights from retail audit analysis: a practical approach*. Budapest, Hungary: Marketing Intelligence Ltd., 2011, 213.

²⁹ ZSOM, by Laszlo. *Actionable marketing insights from retail audit analysis: a practical approach*. Budapest, Hungary: Marketing Intelligence Ltd., 2011, 13.

³⁰ ZSOM, by Laszlo. *Actionable marketing insights from retail audit analysis: a practical approach*. Budapest, Hungary: Marketing Intelligence Ltd., 2011, 15.

Performance measures

- Sales volume/value (volume and value units differ from database to database, value can be displayed in local currency or common currency like € or \$)
- Volume/value share (share is calculated for total market or for each segment individually)
- Share in shop selling the good

Explanatory facts

- Price (every type of information related to price, e.g. price per unit, price per kilo, price bands, average price, etc.)
- Distribution (every type of information related to distribution, e.g. channel type, location, etc.)

When analyzing retail data, the principle of weighted averages should be used. Weighted averages are used for national shares (weighted averages of shares within retail channels), national average price (weighted averages of prices within retail channel types) or national distribution levels (weighted averages of availabilities across retail channel types).³¹

3.2.4 Nielsen methodology

Nielsen is the leading global provider of scan data collected across multiple outlets including hypermarkets, supermarkets convenience stores, independent food stores and others for packaged goods manufacturers and retailers and for other consumer service industries.

Naturally, it is not possible to collect data from 100% of retailers present on the market, therefore Nielsen provides information about coverage of data collection in each country. The official coverage rate for the UK published by Nielsen is 70%. Therefore, to obtain an estimated picture about the full market size we would need to extrapolate data to 100% (this methodology is particularly important when we want to compare market sizes of different countries with different coverage rates).

The actual data is collected from many different aspects. Sales can be reported in different units according to user needs. Sales volumes are expressed in kilos or pounds, sales values in local currency, sales units in number of packages sold. This structure allows users to analyze reasons of what is happening on the market.

³¹ ZSOM, by Laszlo. Actionable marketing insights from retail audit analysis: a practical approach. Budapest, Hungary: Marketing Intelligence Ltd., 2011, 16.

PRACTICAL PART

The main goal of practical part is to map chocolate confectionery market in the United Kingdom (UK) using publicly accessible data, retail audit data and consumer panel data. The resulting trends and specifications of the market should provide a solid base to identify market gaps and opportunities for current or potential players and eventually suggest marketing activities in UK chocolate market.

The practical part is divided into three parts. First part covers global facts about chocolate confectionery market, classifies chocolate confectionery within segment of packaged goods, share of chocolate confectionery in different retail channels and size of chocolate confectionery market in the UK compared to other countries and worldwide. This analysis is based on Euromonitor data and is meant to provide an introduction on positioning of chocolate confectionery market.

In the second part, the analysis will proceed deeper into chocolate confectionery segments with help of Nielsen retail scan data and Kantar consumer panel data. The analysis starts on chocolate confectionery level and breaks down into lower levels according to various segmentation criteria. In this part, the key indicators and trends will be revealed.

The last part will be dedicated to conclusions. Based on results of the retail scan data and consumer panel and partially secondary consumer research, the potential marketing opportunities will be given.

4 Chocolate confectionery classification

The worldwide economy is still in a process of recovery after last financial crisis, however, according to World Economic Outlook³² forecast, the global growth should slightly accelerate in upcoming 2 years. In 2015 and 2016, the global growth of world output should reach 3,5% and 3,8% compared to 3,4% in years 2013 and 2014. Almost three thirds of the growth will still come from emerging countries, however, the contribution of advanced countries to global growth is strengthening.

The United Kingdom as an advanced country experienced smaller growth than the global growth did. In 2014, the output growth in UK reached 2,6%, which is considerable improvement compared to 1,7% a year before. At the same time it was the highest growth within the most important advanced economies.³³ Given the fact that UK is situated outside of the euro area, the growth can be partially attributed to recent exchange rate fluctuations. At the same time, the consumer prices grew only 1,5% in 2014 compared to 2,6% in 2013³⁴, which could potentially lead to higher demand for consumer goods.

As we will see further in this chapter confectionery is a growing industry in both, developed and emerging countries. As a reaction to recovering economy, consumers all around the world are driven by desire for premium products, where chocolate confectionery belongs. Consumers are increasingly turning to chocolate as an affordable indulgence which should lead to further growth of this segment in future. The major growth should come from

³² International Monetary Fund. *World Economic Outlook April 2015* [online] [cit. 2015/06/18]. Retrieved from <http://www.imf.org/external/pubs/ft/weo/2015/01/pdf/text.pdf>

³³ United States, Germany, France, Italy, Spain, Japan, United Kingdom, Canada

³⁴ Movements in consumer prices are shown as annual averages

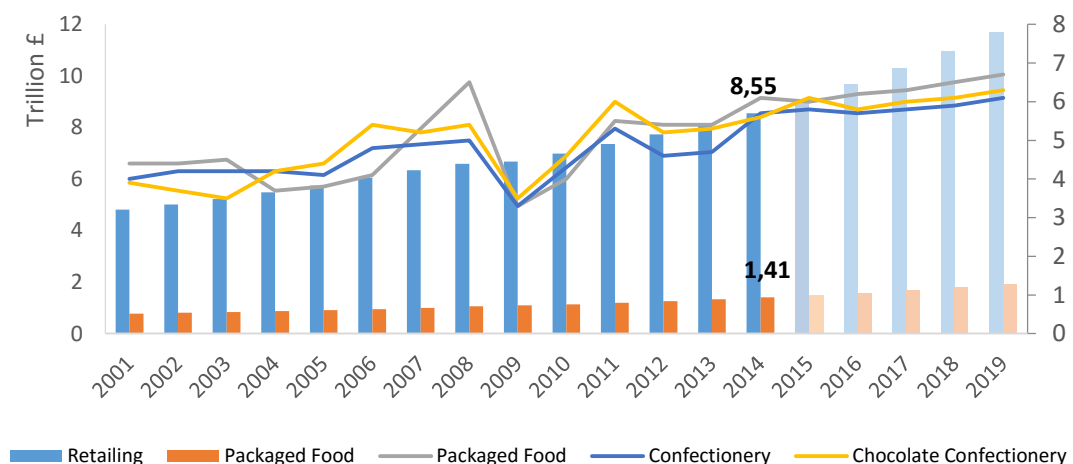
emerging countries, specifically India and China. However, this might become a challenge for chocolate manufacturers due to the increasing demand for cocoa as a commodity, which forms essential part of premium chocolate products, especially tablets, and consecutive price increase. Since the main part of the growth is expected to come from emerging countries, pushing prices up when consumers cannot afford it might not be a perfect solution. Therefore, chocolate manufacturers have to cope with this situation and come up with an appropriate strategy.

Being part of fast moving consumer goods, chocolate confectionery segment benefits from positive economic situation. It is one of the most dynamic FMCG segments. Euromonitor (Passport) follows 21 types of consumer goods and in this hierarchy chocolate confectionery finds itself under Packaged Food³⁵. Therefore, this part of the work will start at the Packaged Food level.

4.1 World

Euromonitor, besides following product categories consumption monitors also overall retail value. As we can see in Graph 1, the value of retail in RSP (retail sales price) has been increasing in the long run. Being part of retailing, packaged food shows similar tendency of movement. The growth of packaged food category since 2001 has been relatively stable with exception of years 2006-2011. Before the crisis between years 2006-2008 the packaged food category experienced striking growth of 2.4pp (percentage points) from 4.1% to 6.5%. After a deep fall in 2009 to 3.3% of growth, the rate of growth of packaged food returned back to stable mood. All the rankings in this sub chapter are in £ value terms (RSP – retail selling price) if not stated otherwise.

Graph 1: World Retail (Retail value RSP), YoY change (%)



Source: Author, data retrieved from www.portal.euromonitor.com

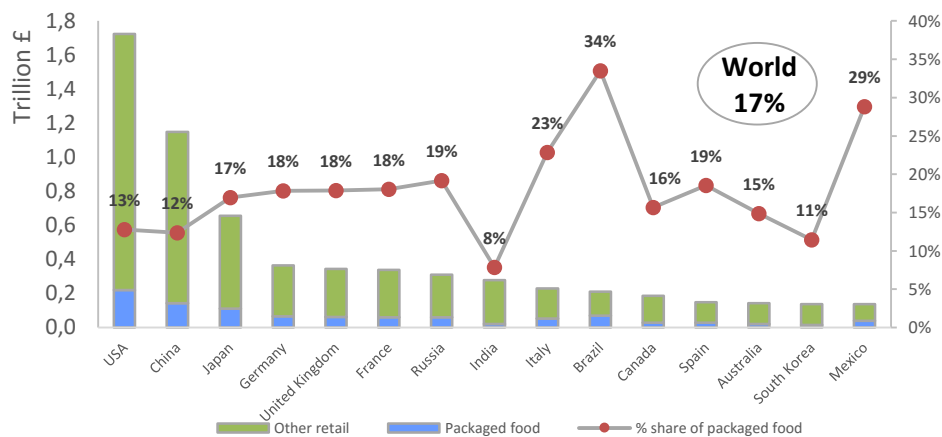
The value of retail sales in 2014 worldwide was 8.55 trillion £, out of which 16.5% (1.41 trillion £) was packaged food. From Graph 1 it is visible that the growth trend of chocolate

³⁵ For chocolate confectionery classification see attachment.

confectionery copies the growth trend of packaged food. After the crisis in 2009, the growth of chocolate confectionery was slightly stronger than the one of packaged food, however, since 2012 the growth of packaged food is faster. In future, according to Euromonitor, this trend is expected to continue. Furthermore, chocolate confectionery segment shows higher rates of growth than average confectionery rates in long run, nevertheless, these two rates were identical (5.6%) in 2014.

The following three graphs show the position of chocolate confectionery in retail in 15 most important markets in each category. Graph 2 shows that in 2014 from observed 15 countries packaged food plays an important role in retail especially in Latin American countries like Brazil and Mexico (34% and 29% respectively). On the other hand, the proportion of packaged food in the two leading countries in retail value terms (USA and China) is relatively low (13% and 12%).

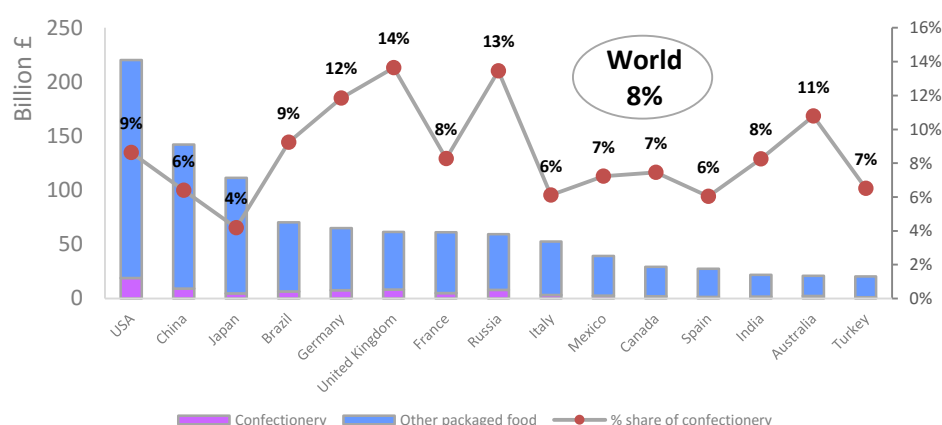
Graph 2: Packaged food in Retail 2014



Source: Author, data retrieved from www.portal.euromonitor.com

When we look at Graph 3 we can notice that total confectionery forms approximately 8% of worldwide packaged food segment. The global confectionery market in 2014 was worth almost £120 billion pounds. Even though the global confectionery market has been growing, the per capita consumption in Western Europe and North America has been declining. Confectionery has a very weak position in Japan, only 4% of total packaged food value. United Kingdom is definitely country with the strongest position of confectionery within packaged food (14%) followed by Russia and Germany. However, the position of confectionery, especially chilled products has weakened in Russia since January 2015 as a reaction on exchange rates fluctuations and the remaining confectionery categories will most probably follow this trend.

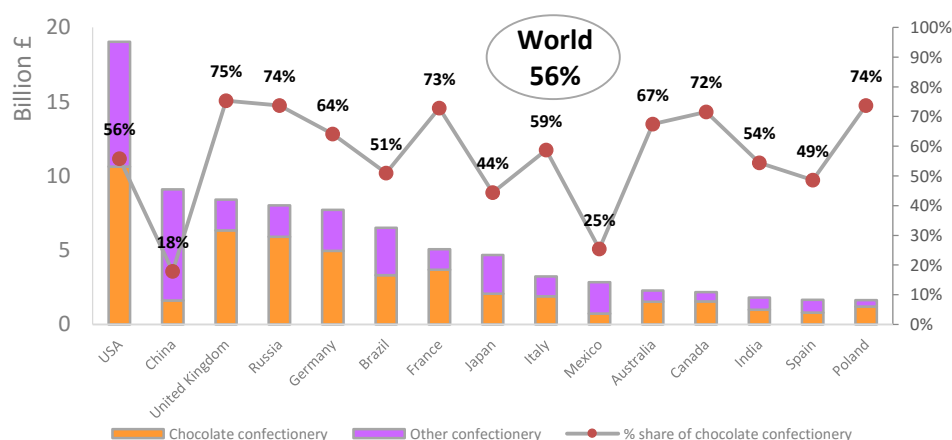
Graph 3: Confectionery in Packaged food 2014



Source: Author, data retrieved from www.portal.euromonitor.com

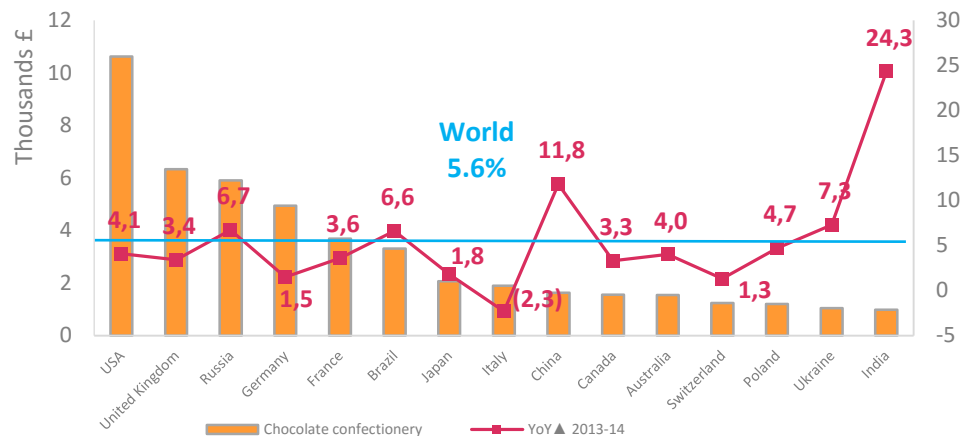
Finally, in Graph 4 we can have a look at position of chocolate confectionery. Even though confectionery market in China is quite large, it is definitely not a “chocolate” country. While in confectionery sector occupies second position worldwide, in chocolate confectionery it is only ninth position with 18% of total confectionery in China. Nevertheless, Graph 5 shows that chocolate confectionery sector in China performs very well and experienced growth of almost 12% in 2014 (YoY change vs. 2013), which is double the world average growth. Oppositely, chocolate is very popular in United Kingdom. With three quarters share of chocolate confectionery in confectionery market it ranks on second position worldwide in £ value terms (RSP). Additionally, chocolate confectionery heavily prevails in total confectionery segment in Russia, France, Canada and Poland where the share of chocolate confectionery is more than 70%. The highest growth rate in 2014 was in India, however, confectionery market is still relatively small. Based on Euromonitor data, the growth in upcoming five years is expected to come from India and China. With large populations and low current per capita consumptions, these markets offer huge opportunities for manufacturers. Five out of 15 observed countries experienced higher growth that the world average 5.6% and only Italy experienced negative growth of -2.3% compared to 2013.

Graph 4: Chocolate confectionery in Confectionery 2014



Source: Author, data retrieved from www.portal.euromonitor.com

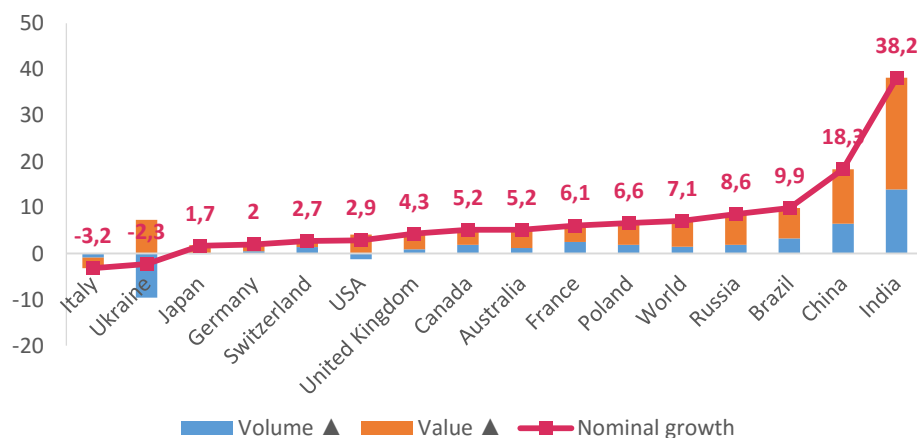
Graph 5: Chocolate confectionery 2014



Source: Author, data retrieved from www.portal.euromonitor.com

Graph 6 portrays the YoY change of chocolate confectionery sector in both, volume and value (current £ RSP) terms. As it is visible in this graph, chocolate confectionery is increasing in volume and value terms in almost all observed countries except of Ukraine volume, Italy both, volume and value and USA volume. The graph also reveals that value growth rate (world average 5.6%) is significantly bigger than volume growth rate (world average 1.5%). This means that the growth is driven mainly by price increases rather than actual growth in volumes. Based on this we can conclude that in Ukraine volume decrease was stronger than price increase and therefore the final nominal growth is negative. This graph also proves that one should not make conclusions based on only one growth indicator, but rather take into account all aspects of the market. Nevertheless, this analysis is not very accurate on higher levels of hierarchy or between categories (e.g. confectionery or packaged food) due to the different measurement units.

Graph 6: Evolution of Chocolate confectionery segment in 2014 (vs 2013) in largest chocolate confectionery markets, %



Source: Author, data retrieved from www.portal.euromonitor.com

As we could see in this chapter, the consumption of confectionery (and packaged food in general) in developed countries (North America - USA, Europe – UK, Germany) is quite high. Increased consumption of sugar puts pressure on manufacturers to reconsider the content of their products to be aligned with healthy lifestyle in developed countries. But this is not the only problem that bothers chocolate confectionery manufacturers. Constantly increasing prices of cocoa (25% increase per metric ton over 2014) force them to think of manufacturing costs. This puts sugar confectionery in advantage over chocolate confectionery since price of sugar keeps decreasing. As a result of both, decreasing calories/pack and increasing manufacturing costs, manufacturers often opt for degraming, when the pack weight is reduced while keeping the price unchanged. This might be quite challenging for traditional chocolate producers in UK like Mondelez, Mars or Nestle and they should reconsider degraming of their products in order to keep customer loyalty and trust.

As mentioned previously, cocoa prices have a huge impact on manufacturing costs when it comes to chocolate. Graph 7 confirms increasing price of cocoa as commodity since 2012, although still remaining below 10 years maximum during food price crisis in 2010. The forecast for cocoa prices is unfavorable for chocolate manufacturers as it is expected to grow during next decade due to unstable supply but also due to insecure political situation in West Africa, where most of the supply comes from.

Graph 7: Cocoa global prices, 2006-2015

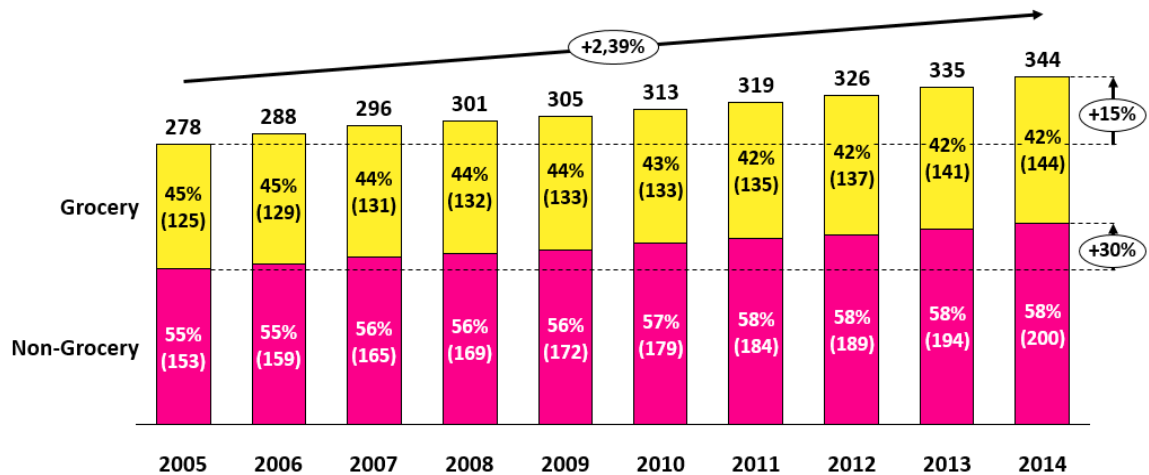


Source: Nasdaq, 22/06/2015

4.2 UK

Over the last 10 years, the retail category in UK has been growing with CAGR +2.39%. According to Graph 8, groceries are becoming less and less important in favor of non-grocery products. Groceries contributed only 29% to total retail growth and over the observed period, non-grocery products growth rate (30%) was double the rate of groceries (15%). In 2014, the share of grocery in retail was only 42% compared to 45% 10 years ago and this long term trend appears to continue also in future.

Graph 8: UK retail, Billion £ RSP

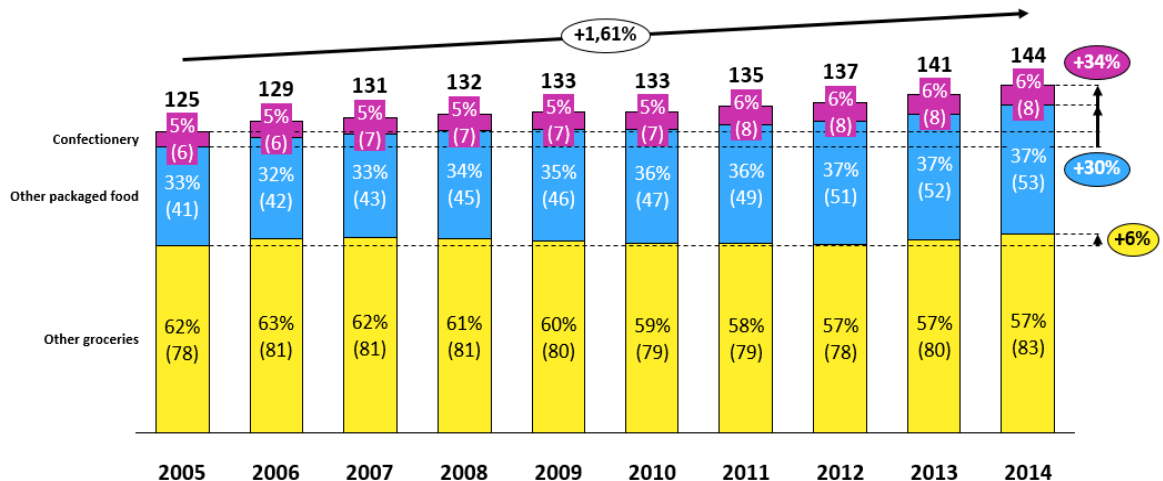


Source: Author, data retrieved from www.portal.euromonitor.com

4.2.1 Confectionery evolution

When we look at grocery in detail (Graph 9), we have to notice that different segments face completely different rates of growth. Confectionery still plays very small role within grocery sector, in 2014 it was 8.4% share of total groceries. However, this share is growing considerably and confectionery sector is one of the most dynamic. The growth of other groceries than packaged food is volatile, sometimes even negative, especially during food price crisis in 2010.

Graph 9: UK groceries, Billion £ RSP

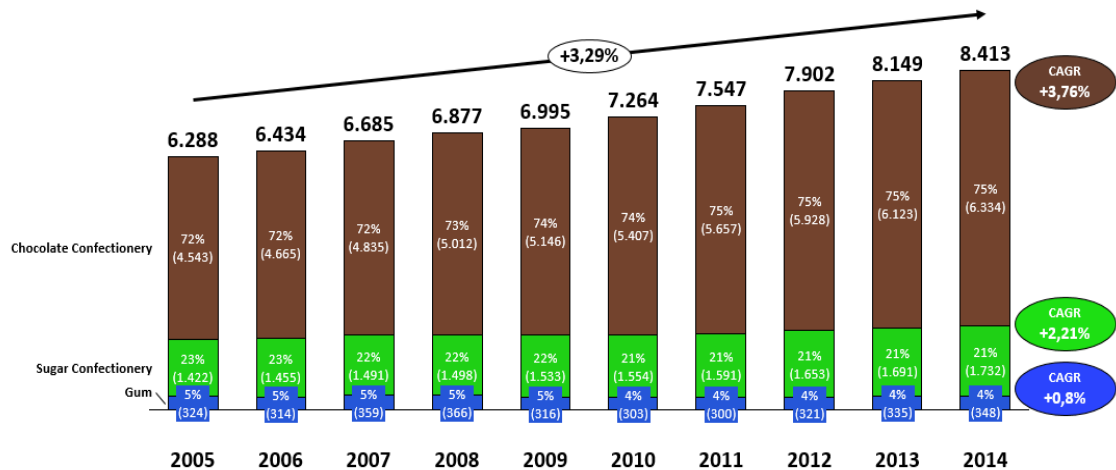


Source: Author, data retrieved from www.portal.euromonitor.com

Finally we come to confectionery segment. In Graph 10 we can see that the worldwide trend of growing confectionery segment is true for UK market. Between years 2005 and 2014, the confectionery grew at the CAGR of +3,29% compared to average grocery CAGR of +1.61% which confirms increased demand for indulgence and premium products in developed economies. So it is true that chocolate confectionery is predominating segment in confectionery and it is a major driver for confectionery growth with CAGR 3,76%. The graph

proves that, despite gum and sugar confectionery value growth, their share in confectionery segment is decreasing due to CAGR lower (+0,8% and +2,21% respectively) than the overall confectionery CAGR in favor of chocolate confectionery. Therefore, chocolate confectionery formed three quarters of confectionery portfolio in the UK with 3pp more than in 2005.

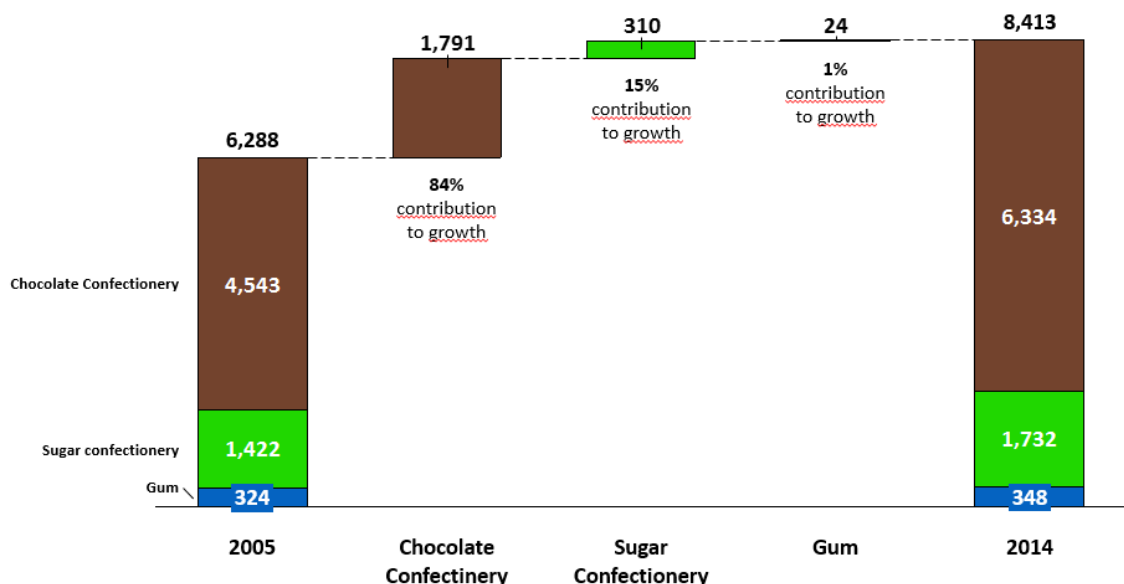
Graph 10: UK confectionery, Million £ RSP, shares



Source: Author, data retrieved from www.portal.euromonitor.com

The following Graph 11 summarizes the contribution to growth of chocolate confectionery, sugar confectionery and gums. Over past ten years, confectionery consumption in the UK grew from £6,288 mn to £8,413 mn, which means by 33,8% in nominal value terms. 84% if this value growth falls into chocolate confectionery.

Graph 11: UK confectionery, Million £ RSP, contribution to growth



Source: Author, data retrieved from www.portal.euromonitor.com

4.2.2 Chocolate confectionery evolution

The chocolate confectionery UK market analysis in this chapter is meant to draw a general picture about its structure, evolution, distribution and main players and more detailed analysis based on retail scan data will be done in the following chapter. Since data in this chapter and the following chapter covering retail scan data are collected under different methodology and with different coverage rate, the data is not 100% aligned and the results may differ.

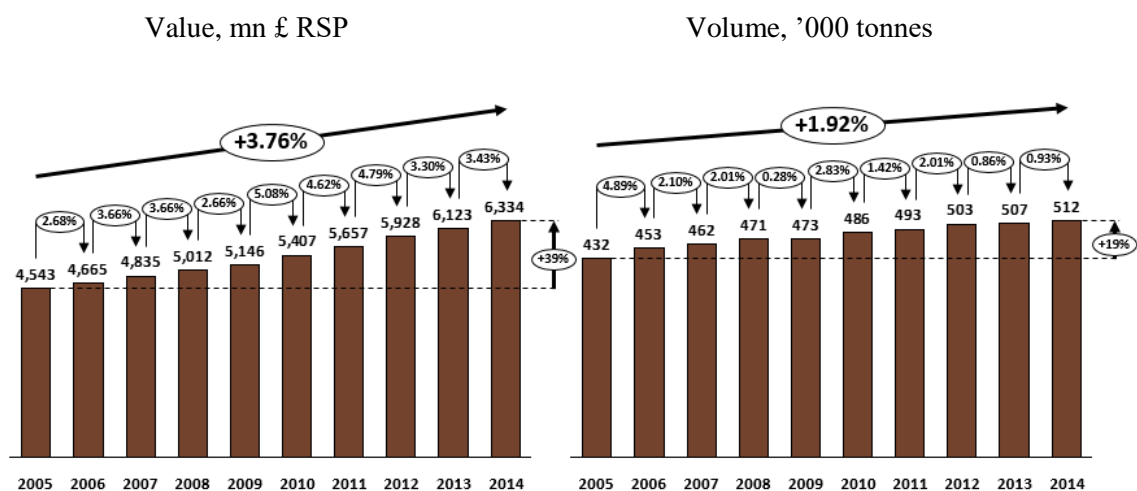
Till now, the entire analysis was based on value data in RSP, current price because the measure units were so diverse across categories that it was irrelevant to compare them to each other. Now, once we are at the level of chocolate category, the categories are homogeneous enough to perform an analysis also based on volume data. It is even necessary, because single value based analysis does not provide us with complete picture of category evolution and after volume analysis we could end up with significantly different conclusions.

Now we know that chocolate confectionery is performing very well in value terms. Is it the same in volume terms?

The answer is in Graph 12. In value terms, chocolate confectionery grew by 39% over the past 10 years. Comparably, during the same period in volume terms it was hardly half of it, only 19%. Where does this difference come from?

First of all, we have to take into account the inflation. The prices are constantly increasing and therefore, for the same amount of volume we pay every year more money. Secondly, manufacturers are obliged to react to changing manufacturing costs and thus adjust retail sales price paid by customer to keep healthy margins. Here, it is necessary to mention increasing cocoa price, which is an essential ingredient of all chocolate based products. And last but not least, degraming of selling units favors manufacturers in gaining the same money for less volume sometimes even without customer noticing. When we count all the mentioned aspects, we can conclude that difference in volume-value growth, as we can see it in Graph 12, is unavoidable.

Graph 12: UK chocolate confectionery

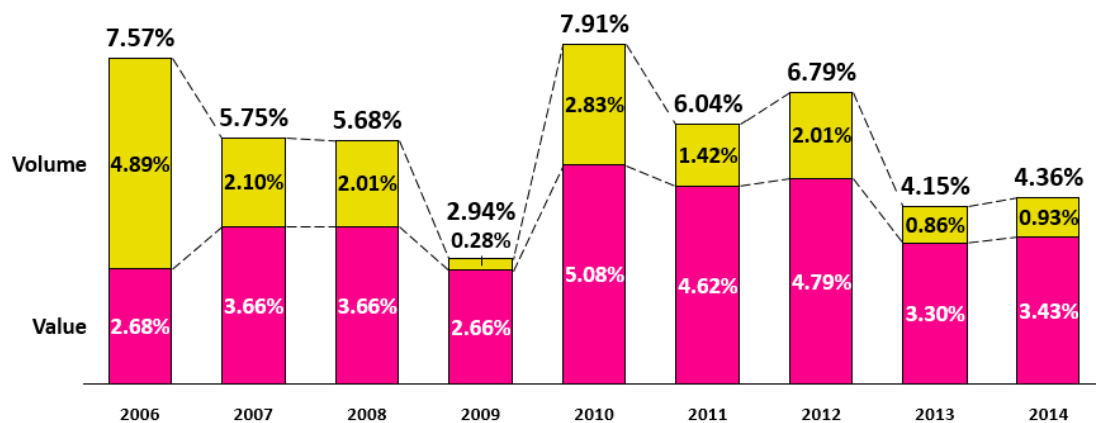


Source: Author, data retrieved from www.portal.euromonitor.com

When we compare volume and value growth rates (see Graph 13), we notice several facts. First of all, volume growth rates has been always significantly lower (except of 2006, when the volume growth rate was higher) than value growth rates. Another important fact is that chocolate confectionery experienced very weak year in 2009 and boom in 2010. If we compare the following graph with the graph of Cocoa global price from previous chapter, we will see the correlation between these two graphs, specifically value growth rate. In 2006, the price of cocoa was low and chocolate confectionery value growth was also low, 2.68%. After growth in 2007, the price of cocoa in 2008 dropped for a period of time and chocolate confectionery value growth dropped as well as a response to lower manufacturing costs and therefore probably lower consumer prices. The cocoa price reached its maximum in 2010/2011 and so did the value growth of chocolate confectionery, which exceeded 5%. Now oppositely consumers were paying higher prices and therefore value growth was higher. Same pattern is observable over the remaining 3 years till now.

Additionally, the Graph 13 shows weakening of overall nominal growth of chocolate confectionery in the UK in last two years. Volume growth in 2013 and 2014 was less than 1%. However, the share of volume growth on overall nominal growth is declining, which means that the prices are increasing faster than the actual volumes of sales.

Graph 13: UK chocolate confectionery, volume vs value growth



Source: Author, data retrieved from www.portal.euromonitor.com

Cocoa global price evolution



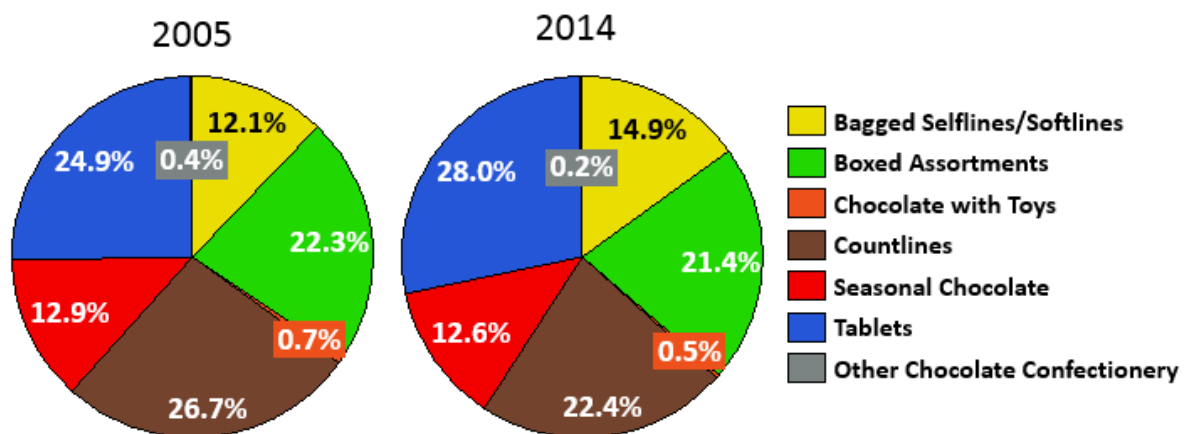
Source: Nasdaq, 22/06/2015

4.2.3 Chocolate confectionery portfolio

To analyze chocolate confectionery segment and to better understand causes of growth/decline, it is divided into lower categories. However, different sources use different classification of chocolate confectionery segment, therefore it is not relevant to compare results coming from different sources directly to each other unless we specify the content of each category in each source to identify differences and justify different results. For purpose of this chapter, the classification of Euromonitor will be used to spot the main trends in chocolate confectionery segment.

Euromonitor divides chocolate confectionery segment into 7 subcategories: Bagged Selflines/Softlines, Boxed Assortments, Chocolate with Toys, Countlines, Seasonal Chocolate, Tablets and Other Chocolate Confectionery. The following Graph 14 illustrates value shares of categories within chocolate confectionery sector in 2005 and 2014. We can see that the significant changes in shares occurred in 3 categories, 2 of them being the biggest. While the most important category in 2005 was Countlines with 26.7% of share, in 2014 Tablets took over the first rank with 28%. During this period, Countlines lost almost 5pp in favour of Tablets and Bagged Selflines/Softlines. In 2014, two categories with the biggest shares, Tablets (28%) with Countlines (22.4%), account together for more than half of total chocolate confectionery value sales. Third rank belongs to Boxed Assortments. Boxed assortments category keeps more or less the same share as 10 years ago (21.4% in 2014). This trend of decreasing share of Countlines and increasing share of Tables might be attributed to inclination of people to healthy lifestyle and consecutive preference of dark chocolate. Interesting is also the increasing share of Bagged Selflines/Softlines category.

Graph 14: Chocolate confectionery in 2005 and 2014, value (£ RSP) shares



Source: Author, data retrieved from www.portal.euromonitor.com

4.2.4 Chocolate confectionery distribution

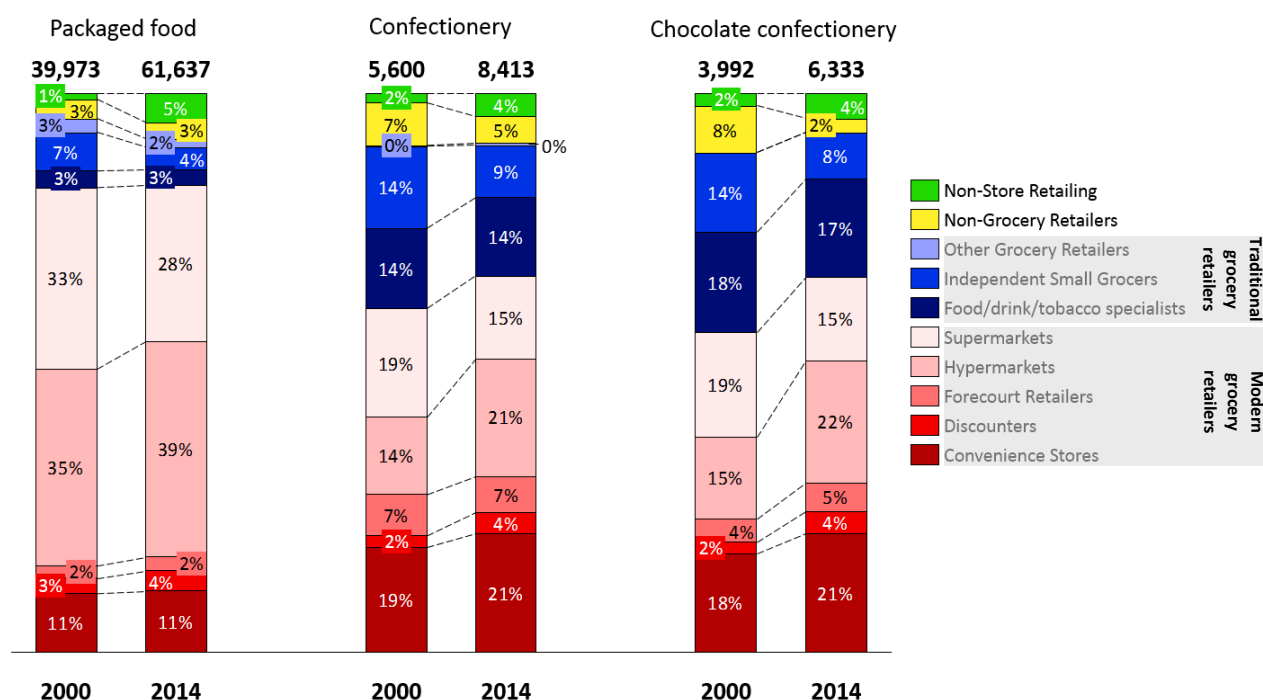
When it comes to distribution, we face the same problem that we face with categorization: the observed sample differs from retail scan data and the distribution within retail channels may differ.

Euromonitor distinguishes two main types of retailing in the UK: Store Retailing and Non-store Retailing. Non-store Retailing, which includes vending, internet shopping and direct

selling, plays negligible role in chocolate confectionery business, although its importance strengthened in last 15 years period from 2% to 4% of total sales value.

Store retailing is a main mode to sell chocolate confectionery. We recognize three main types of store retailers: modern grocery retailers, traditional grocery retailers and non-grocery retailers. Graph 15 shows increasing importance of modern grocery retailers, they account for 67% of total sales value in 2014. It is an increase of 9pp compared to 2000. All types of modern grocery retailers registered increase in share excepting of supermarkets. The most significant increase is to be noticed in hypermarkets (from 15% share in 2000 to 22% in 2014) thanks to increasing number of hypermarket outlets and numerous promotions. On the other hand, the share of traditional grocery retailers diminished from 32% to 25%. Based on this we can conclude that people tend to move from occasional single purchases made in traditional grocery stores (kiosks, independent small groceries) which objective is immediate consumption, to gust purchases of bigger volumes with objective to store products at home and consume them in future.

Graph 15: Chocolate confectionery distribution channels, value (£ RSP)



Source: Author, data retrieved from www.portal.euromonitor.com

4.2.5 Chocolate confectionery manufacturers

Given the fact that UK chocolate market is the biggest western European chocolate confectionery market, it is natural that the majority of the most important world players is present there. According to International Cocoa Organization³⁶, the list of top global manufacturers that manufacture some kind of chocolate is the following (the manufacturers marked in green are present on UK chocolate confectionery market):

³⁶ International Cocoa Organization. *Who are the main manufacturers of chocolate in the world?*. [online] [cit. 2015/07/12]. Retrieved from <http://www.icco.org/about-cocoa/chocolate-industry.html>

Table 1: Top 10 Chocolate manufacturers

Company	Net Sales 2014 (US\$ millions)
Mars Inc (USA)	18,480
Mondelēz International (USA)	14,350
Ferrero Group (Luxembourg / Italy)	10,911
Nestlé SA (Switzerland)	10,466
Meiji Co Ltd (Japan)	9,818*
Hershey Foods Corp (USA)	7,485
Chocoladenfabriken Lindt & Sprüngli AG (Switzerland)	4,022
Arcor (Argentina)	3,500*
Ezaki Glico Co Ltd (Japan)	3,049*
August Storck KG (Germany)	2,272

Source: Author, International Cocoa Organization

* This includes production of non-confectionery items

When we have a look at the chocolate manufacturer structure in the UK (Table 2), we can see that the leading player on the chocolate market is Mondelez International (second worldwide). Mondelez International includes the British multinational company Cadbury, which manufactures the British most famous brands like Dairy Milk or Crème Egg. The evolution of Cadbury is visible in the table. Before 2010, still in company with Schweppes, Cadbury was a leading manufacturer on the market as a standalone company. After being purchased by Kraft Foods in 2010, it remained its leading and strengthening position on the market under the Kraft Foods ownership. Very important moment for Mondelez occurred in 2012, when it basically entered the UK chocolate confectionery market by purchase of Kraft Foods and thus became UK chocolate confectionery market leader.

Another important occasion, which will affect especially pralines and boxed chocolate sector, happened just recently in June 2015. The Italian manufacturer Ferrero agreed to buy traditional chocolate company Thorntons. By this merger, the new company would become the fourth largest company on UK market overcoming Swiss manufacturer Lindt. Nevertheless, the deal is not closed yet and still has to be approved by Thorntons's shareholders.

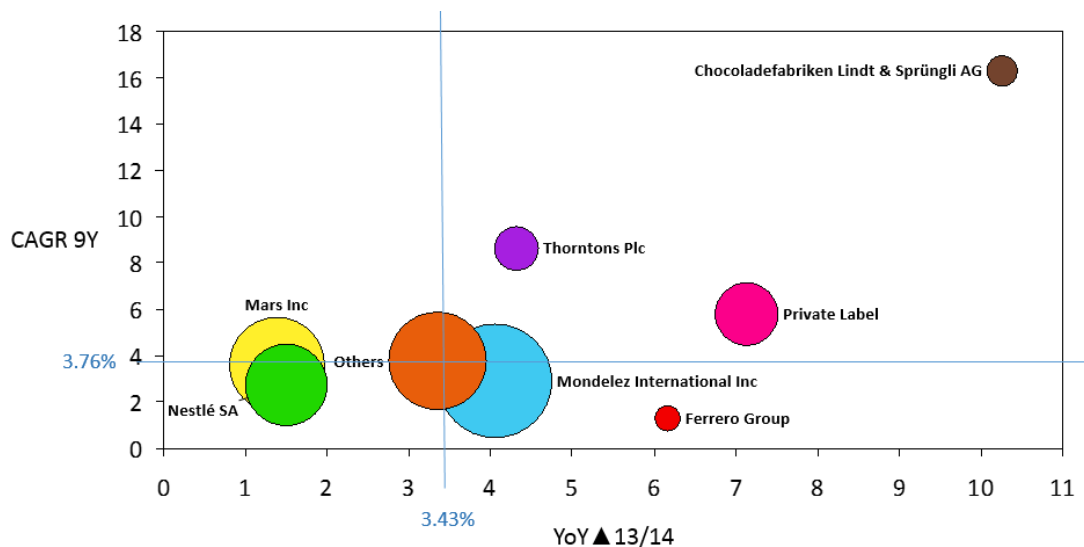
Table 2: Chocolate confectionery manufacturers structure UK

Value, mn £ RSP	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Mondelez International Inc	-	-	-	-	-	-	-	1,611	1,686	1,754
Mars Inc	927	905	947	992	1,000	1,122	1,181	1,229	1,253	1,270
Others	894	959	1,000	1,000	1,037	1,064	1,083	1,202	1,217	1,261
Nestlé SA	706	719	727	743	765	814	870	879	886	899
Private Label	336	350	360	387	409	427	449	486	520	557
Thorntons Plc	132	140	165	191	210	217	237	251	266	277
Chocoladefabriken Lindt & Sprüngli AG	37	40	46	59	65	80	95	111	131	144
Ferrero Group	88	91	85	76	74	71	76	84	92	98
Zetar Plc	23	25	25	27	27	27	28	30	28	27
Bon Bon Buddies Ltd	18	18	18	18	19	20	20	21	21	22
Elizabeth Shaw Ltd	7	7	7	8	8	8	9	9	9	10
Storck KG, August	12	13	15	16	16	17	19	9	8	8
Big Bear Group Plc	5	5	5	5	5	6	6	6	7	6
Cadbury Plc	-	-	-	1,315	1,340	-	-	-	-	-
Cadbury Schweppes Plc	1,197	1,225	1,264	-	-	-	-	-	-	-
Kraft Foods Inc	164	168	172	177	172	1,534	1,586	-	-	-
Grand Total	4,543	4,664	4,835	5,012	5,146	5,407	5,657	5,927	6,123	6,333

Source: Author, data retrieved from www.portal.euromonitor.com

For Thorntons, Ferrero takeover might be a good chance to solve its long term issues. Even though Thorntons managed to increase its sales in both, long and short term, it is struggling to heal its decreasing margins caused by increasing manufacturing expenses. The following Graph 16 shows the position of manufacturers on UK chocolate confectionery market. The bubble size represents size of manufacturer (sales value, £ RSP) in 2014, horizontal axis shows short term growth of manufacturer (% YoY ▲ between years 2013 and 2014) and vertical axis pictures compounded annual growth rate (CAGR) since 2005. Even though Thorntons appears to be in quite healthy shape based on the bubble diagram, this diagram does not show us the profitability. Similarly, from long term point of view, Ferrero is a manufacturer with the lowest CAGR rate (1.27%) with decreasing sales value between 2006 and 2010, however, the company focused on profitability improvement and keeps growing since 2010. Last year, Ferrero recorded the second highest percentage growth of all manufacturers after Swiss manufacturer Lindt. The market leader Mondelez International grows faster than the market in short term, while Mars and Nestle were the least growing companies last year. It is interesting to spot the trend of private labels. Consumers seem to trust private labels more and more and these are successfully stealing market share from all traditional brands with high long term growth rate (CAGR 5.8%).

Graph 16: Chocolate confectionery manufacturers position UK



Source: Author, data retrieved from www.portal.euromonitor.com

This chapter provided us with valuable information about size and trends of UK chocolate confectionery market. However, due to various practices of manufacturers and increasing manufacturing costs, the growth comes mainly from increased prices and lowering pack weights. Moreover, the price of chocolate is directly dependent on cocoa prices which are increasing. Regarding format, the importance of Countlines decreases in favor of Bagged selflines/Softlines and Tablets. Regarding distribution, modern retail (which consists of hypermarkets, supermarkets, grocery stores, discounters and forecourt retailers) registered growth compared to previous years. From smaller formats the best performing are convenience stores (21%) and from bigger formats hypermarkets with 22%.

5 Chocolate confectionery market analysis – UK

Now after defining chocolate confectionery market and positioning worldwide and in the United Kingdom, this chapter will go into more details with use of various segmentation criteria. The chapter is divided into two parts: the first part of the analysis will be based on retail scan data (Nielsen), second part will be focused on consumers, their preferences and habits.

5.1 Retail audit (Nielsen)

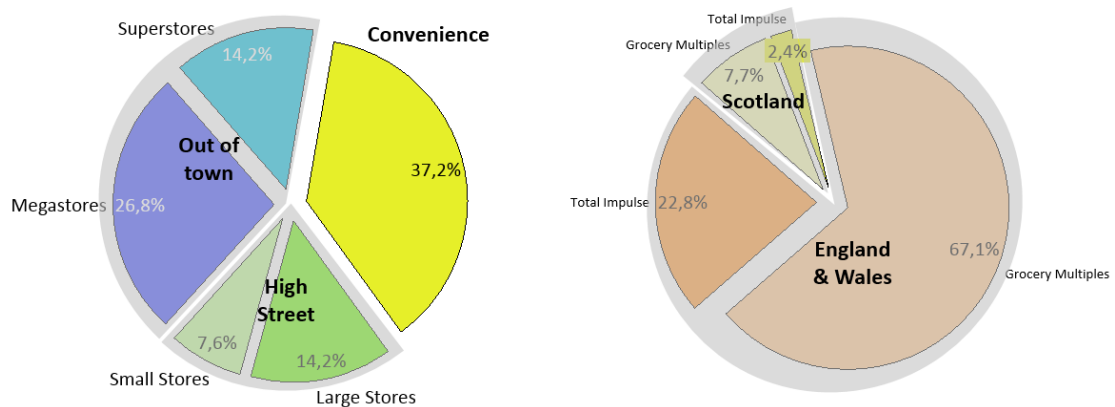
Nielsen structures scan data into various databases according to manufacturer's requirements and needs. The database can be created based on product type, product segment, occasion, need state or target group. This way manufacturers can look at their market position in different contexts, especially if they play on various markets. For this reason, more than one database will be used to analyze market situation. Possible discrepancies of data in this chapter and previous chapter are caused by different data sources, data collection and data structure of Euromonitor and Nielsen. Thus, when talking about chocolate confectionery market size, the numbers will differ. Additionally, Nielsen guarantees the accuracy of collected data 3 years back, therefore in this chapter only MAT data 3 years back will be used starting from 20/06/2015. Data are NOT EXPANDED.

5.1.1 Chocolate Confectionery database

Geographically chocolate confectionery market in the UK is split into two areas (see Graph 17): England & Wales and Scotland. In both areas, $\frac{1}{4}$ of sales is done impulsively – the decision to make a product purchase comes right before purchase itself and is unplanned. For confectionery this impulse purchases are very common thanks to products position at store. Especially chocolate snacks are very often positioned at the check-out appealing to customers waiting in a queue. This positioning is accurate for smaller packages intended to be consumed immediately.

40% of chocolate products are purchased in superstores and megastores located out of town. These purchases are mostly planned when we don't take into account special offers which stimulate people to buy unplanned products. Therefore, these chocolate products are either meant for some specific occasion or are purchased to the "stock". Therefore bigger packs, multipacks or more expensive products are purchased here. When deciding about product distributions manufacturers should keep this fact in mind and supply adequate product packs to different store types.

Graph 17: Chocolate Confectionery UK, £ value shares³⁷



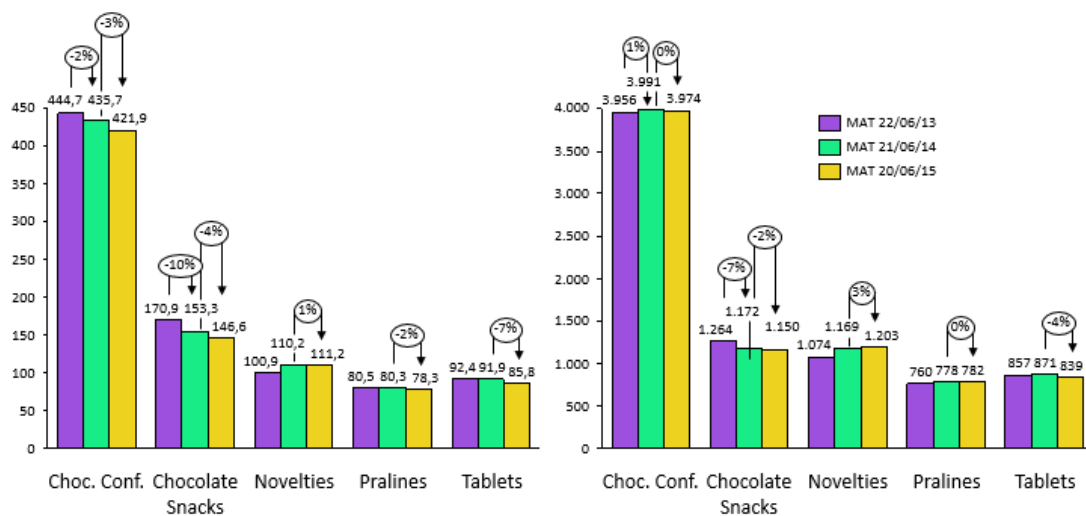
Source: Author, Nielsen, MAT 20/06/2015, internal data of XY

This database tracks the majority of chocolate based products and allows us to look at chocolate confectionery divided into 4 segments: pralines, tablets, chocolate snacks and novelties.³⁸

Graph 18: Chocolate Confectionery UK

Volume, mn kg

Value, mn £



Source: Author, Nielsen, internal data of XY

Graph 18 illustrates the evolution of volumes and £ value of all 4 categories in 3 years. Overall chocolate confectionery market decreases in volume, but remains stable in value terms which means that there has been a price rise. The overall negative growth is caused mostly by chocolate snacks, snacks decrease 4% in volume and 2% in value YoY, which is more than chocolate category. Similarly, tablets registered greater percentage decrease than

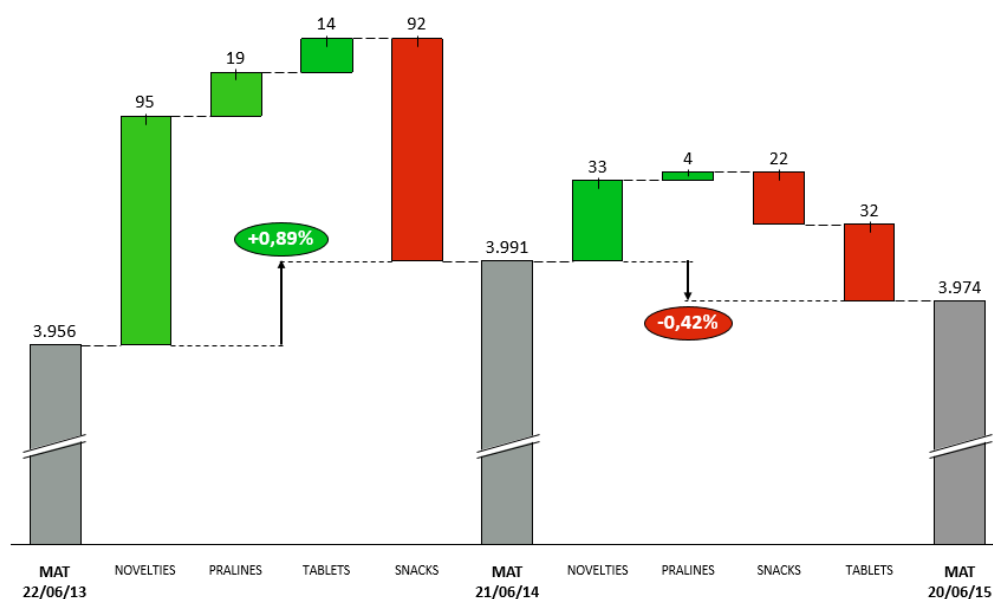
³⁷ Megastores - >3,700 sq. m
 Superstores - 2,300 - 3,700 sq.m
 Large Stores - 930 - 2,300 sq.m
 Small Stores - 280 - 930 sq.m
 Convenience - < 280 sq.m

³⁸ See attachment for description and content of product segments.

chocolate category, however, the share of tablets in chocolate confectionery is smaller than the one of chocolate snacks. Therefore the drop in tablets segment does not have such significant influence on overall chocolate confectionery growth. The reverse trend is observable in novelties, which are the only category increasing in both, volume and value (1% and 3% respectively). Finally, pralines has been remaining relatively stable over the last 3 years.

In absolute values, the value growth contribution of segments is portrayed in Graph 19. From this graph it is obvious that the main contributor to the growth are novelties in both years. We can see that between MAT 22/06/13 and MAT 21/06/14, the growth of novelties pralines and tablets was almost fully compensated by negative growth of snacks. The year after, between MAT 21/06/14 and MAT 20/06/15, tablets weakened their growth and became the main negative growth contributor in chocolate confectionery. Snacks, on the other hand, reduced their loss. At the same time, novelties slowed down their growth. In the last MAT, the negative growth of snacks and tablets prevailed over positive growth of novelties and pralines and consequently the overall growth of chocolate confectionery was negative.

Graph 19: UK Chocolate Confectionery, mn £ value growth contribution by product segment



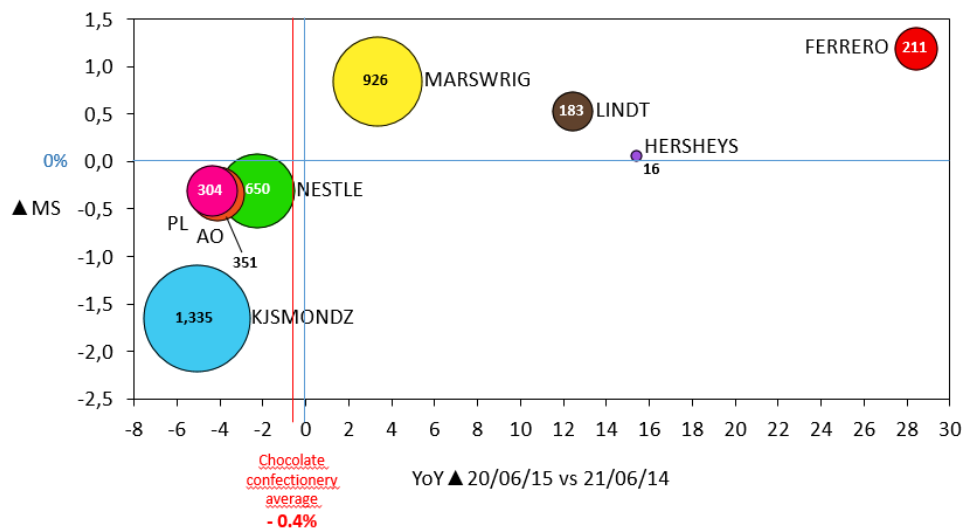
Source: Author, Nielsen, internal data of XY

The following bubble graph (Graph 20) demonstrates manufacturers present on chocolate market. The size of bubble illustrates the value size of manufacturer, horizontal axis shows percentage YoY growth and vertical axis is a representation of YoY market share growth/decline. This way, more upper-right position the manufacturer occupies, stronger it becomes. As it was already mentioned, the YoY value growth of chocolate confectionery is negative (-0.4%). The biggest negative growth is to be spotted for the biggest manufacturer Mondelez (-4.4%). Possible reason for this might be gradual delisting of several brands like Roses and Heroes in pralines or 4 packs of chocolate snacks Crunchie and Wispa. The distribution of these products in last observed period was 0 or very close to 0. Delisted was also one SKU of one of the most favourite English brands Giant Buttons 155g but it was subsequently replaced by new SKU of 119g. With this move Mondelez increased price/kilo

by almost £2 while keeping packaging the same (pouch). The exact same product replacement occurred within tablets. Dairy Milk 120g was replaced by 110g with the same average price/pack. For manufacturer it is relatively dangerous to decrease the weight of pouch while keeping or even increasing the price since it can provoke repulsion of the customers (even the loyal ones) and lead to market share losses. This could be also the case of Mondelez and its MS loss in the last period. Giant Buttons are produced with use of fair trade ingredients (among others), instead of increasing price or decreasing package weight they could focus on package improvement and accentuate fair trade origins to be more visible for consumers. It is because consumers are nowadays very reactive to socially responsible origins of products and therefore they would be willing to pay a bit more if they know that the product is fair trade. This way Mondelez could increase the price instead of “cheating on” customers with pack weights and keep them loyal, eventually even attract new customers.

Besides Mondelez, negative growth we can see for Nestle and private labels. Mondelez, Nestle and private labels are losing market share in favor of Lindt, Mars and Ferrero. In Mars they did similar thing with Maltesers and Minstrels that they did in Mondelez with Giant Buttons and Dairy Milk. They replaced heavier pouch by exactly the same lighter pouch. The difference here is that instead of increasing the average price/kilo they decreased it significantly. In Minstrels case the price drop was almost by £3.5. From the fact that Mars gained almost 1.1pp of MS and Mondelez lost more than 1.6pp we can conclude that consumers are definitely checking kilo prices of purchased products and are very sensitive to price change. The trend seems to be in favor of smaller manufacturers gaining market share from their larger competitors. Ferrero registered the highest YoY growth of 28% and gain of 1.2pp of market share.

Graph 20: UK Chocolate confectionery manufacturer split, mn £, ▲ of MS and YoY ▲



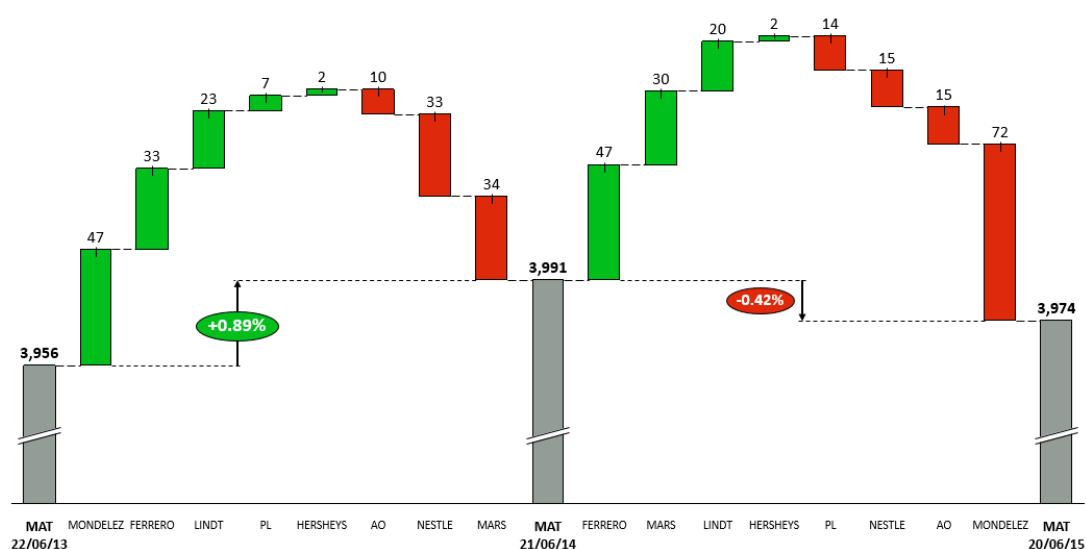
Source: Author, Nielsen, internal data of XY
*data not expanded

In absolute values, the manufacturer's growth contribution can be seen in the following Graph 21. Again we can see the deterioration of Mondelez, two years ago Mondelez was the main growth contributor while last year moved to the opposite side of the scale and became the strongest negative growth contributor with the consequence of serious market share loss. Oppositely, Mars improved significantly over the two years period. We have seen in previous

bubble graph that Ferrero and Lindt are relatively small in size, but in absolute values they are doing very well. Over the last two years they remain their stable position of the main growth drivers in absolute £ values.

The main driver for Ferrero growth was an introduction of new snack Nutella&Go. It's a combination of hazelnut-chocolate cream and breadsticks. More than 1/5 of Ferrero growth comes from this new launch. We will see later in this work that similar combinations of different products are very trendy in chocolate market these days (like chocolate with Oreo, potato chips or salty snacks). Additionally, Kinder Surprise as one of the most successful Ferrero brands has been growing significantly in last three years thanks to various improvements. Sales were supported by several licenses (e.g. Barbie, Cars, My Little Pony) which appears to be a good strategy for Ferrero. Another new element for Kinder Surprise was introduction of Her line. It is special edition of Kinder Surprise for girls with guaranteed girly toy. This prevented kids from disappointment of toy. In store all these activities were strengthened by additional product displays with special banners. All these efforts could be even more effective if accompanied by media campaigns.

Graph 21: UK Chocolate Confectionery, mn £ value growth contribution by manufacturer



Source: Author, Nielsen, internal data of XY

However, it is not accurate to analyze the entire chocolate confectionery market as a whole, but rather focus on each segment separately since each manufacturer has priorities and does not play in all the sectors. The graph below (Graph 22) shows the same analysis by sector: novelties, pralines, tablets and snacks.

Mondelez is to be seen in the lower-left corner of the diagram in each segment, which means that it is poorly performing, losing market share in each segment together with negative value growth.

In the most positively growing sector novelties (+2.8% YoY) almost all manufacturers are growing respect to the last year. As it was already mentioned, Mondelez is the only one declining in this segment and losing market share in favour of other competitors. Despite of a new brand introduction, the decline in Eclairs brand was stronger. When it comes to market share gain, the best performing manufacturers are Mars and Ferrero, even though Ferrero

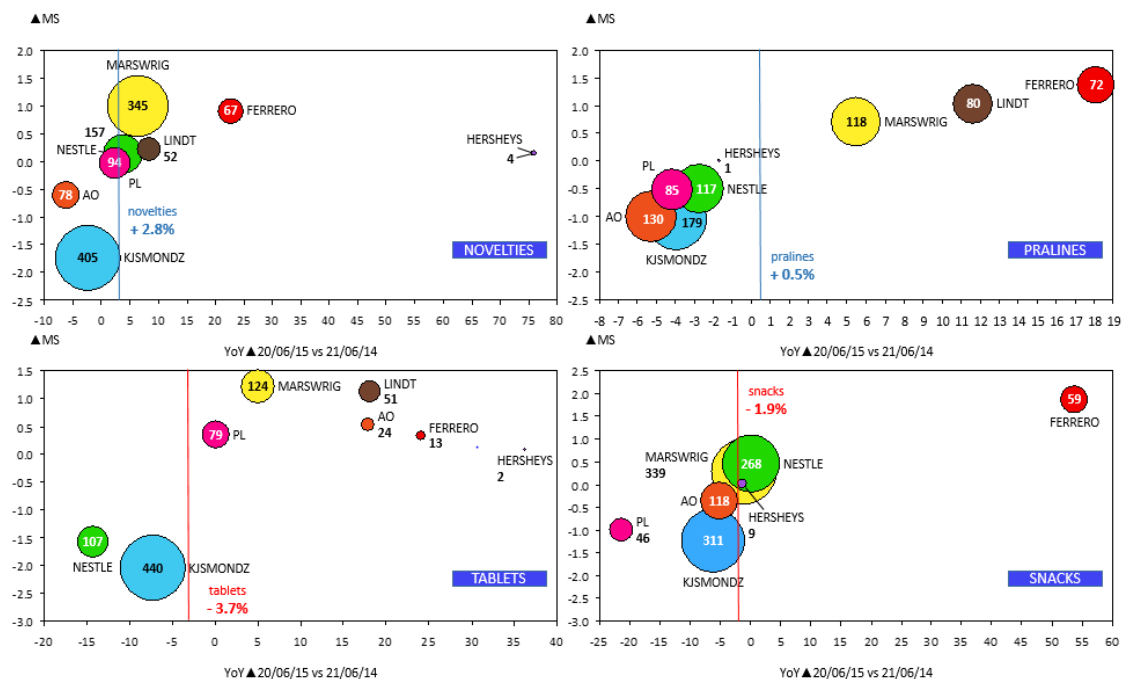
belongs to the group of smaller players. The biggest contributors to Mars growth are M&M's with YoY growth 25% together with Milkyway. For Ferrero it is Kinder Surprise and Kinder Schokobons together with seasonal assortment especially during Easter. Besides that, Herheys's Reeses are still relatively small in value share, but they have been growing for last two years with high rates and big potential.

In pralines, the second fastest growing segment, the power of players is relatively even. Again, Ferrero is the best positioned regarding growth and market share gain. The major contributor to this gain is brand Rocher which keeps growing in last 3 years. The growth of 18% YoY allowed it to gain some market share from competitors (1.4pp). For Lindt, pralines sector is the priority and it keeps competitive position with strongly positive growth. The fastest growing brand out of Lindt portfolio is Lindor.

Tablets, the segment which suffers the strongest decline (-3.7% YoY), has one dominant player, Mondelez. The remaining manufacturers and considerably smaller compared to Mondelez, but almost all of them (except of Nestle) show positive YoY value growth and are winning MS from Mondelez and Nestle. Nevertheless, these players are so small that despite of very high growth rates they will not be able to endanger the dominant position of Mondelez any time soon.

Finally, snacks segment is the least dynamic at the moment. The market is declining almost 2% YoY and so do the majority of manufacturers. Ferrero is again the one with outstanding growth rate and MS gain mainly thanks to the introduction of new format of Nutella, Nutella&Go and Kinder Country support. Mondelez, on the other hand, is losing because of decline in Crunchy brand and roll down of Variety and Cadbury.

Graph 22: UK Chocolate confectionery manufacturer split by product segment, mn £, ▲ of MS and YoY ▲



Source: Author, Nielsen, internal data of XY

The previous analysis proved, that market with the most potential is novelties market. Therefore, for the purpose of this work, the novelties segment will be further analyzed in the following part.

Novelties is the only segment which grew in both, volume and value terms in MAT last two years. Out of all 4 chocolate categories it is the segment with the highest £/kg price (10.71 £/kg) after pralines with 9.99 £/kg, snacks 9.79 £/kg and snacks 7.85 £/kg.

The last available MAT (20/06/2015) brand ranking (Table 3) proves the leadership of Mondelez in the category. Overall, the strongest brand in £ value terms is clearly Dairy milk (Mondelez) accounting for 15% of total market. Mondelez being leader in novelties category has another two brands, Crème egg and Mini eggs in the TOP 10 ranking. Nevertheless, Mars is catching up with Mondelez in last MAT by increasing its market share and having 3 brands in the TOP 5 brands ranking (Maltesers, M&M's and Dove galaxy) which account together for 23% of the market. The remaining four ranks belong to traditional Kinder Surprise egg (Ferrero) and Nestlé with Smarties and Milkybar. All together the TOP 10 brands possess 65% of novelties MS.

Table 3: Novelties TOP 10 brands market share, £ value (MAT 20/06/2015)

MANUFACTURER	BRAND	MS
MONDELEZ	DAIRY MILK	15%
MARS	MALTESERS	10%
PL	PL	8%
MARS	M&M's	7%
MARS	DOVE GALAXY	6%
FERRERO	KINDER SURPRISE	5%
MONDELEZ	CREME EGG	4%
MONDELEZ	MINI EGGS	3%
NESTLE	SMARTIES	3%
NESTLE	MILKYBAR	3%
	OTHERS	35%

Source: Author, Nielsen, internal data of XY

When we go deeper into sub brands, we see that Mars is a manufacturer with the strongest sub brands. More than the sub brands, the purpose/format of the product is important. Nine out of TOP 10 sub brands are packs (pouches) with pieces inside. This proved increasing popularity of sharing bags used during sharing occasions. The product inside can have different forms: pieces of pure chocolate (Giant Buttons, Minstrel, Magic Stars, Peppermint Bubbles...), pieces with chocolate cover (M&M's and Maltesers) or individually wrapped pieces inside the bigger pouch.

Table 4: Novelties TOP 10 sub brands market share, £ value (MAT 20/06/2015)

MANUFACTURER	SUBBRAND	PURPOSE	FORMAT	MS
MONDELEZ	GIANT BUTTONS	SHARING	POUCH	4.9%
MARS	MINSTRELS	SHARING	POUCH	4.2%
MARS	M&Ms	SHARING	POUCH	3.9%
MARS	MAGIC STARS	SHARING	POUCH	1.5%
MONDELEZ	FREDDO	INDIVIDUAL	INDIVIDUAL	1.4%
NESTLE	BUTTONS	SHARING	POUCH	1.0%
MARS	MALTESERS	SHARING	POUCH	0.9%
MARS	COUNTERS	SHARING	POUCH	0.9%
NESTLE	BUBBLES PEPPERMINT	SHARING	POUCH	0.7%
MONDELEZ	CHOCMORA	SHARING	POUCH	0.6%

Source: Author, Nielsen, internal data of XY

More detailed look on SKU's value ranking (Table 5) reveals the following facts: the only two individual SKU's in the TOP 10 SKU's ranking are Kinder Surprise 20g and Crème Egg 39g. Clearly the most expensive SKU is Kinder Surprise priced at 39.75 £/kg (0.80 £/piece). Kinder Surprise is so expensive that in volume terms it would not rank in TOP 10 SKU's. On the other hand, in unit terms it is the best performing SKU with over 50 million units/year sold in last MAT. Nevertheless, despite of Mondelez leadership on chocolate market, its best ranked SKU finds itself on the third position (Giant Buttons). Volume and value leading SKU on the UK chocolate market is Maltesers 121g, sharing bag of milk chocolate with honeycombed center.

Table 5: Novelties TOP 10 SKUs (MAT 20/06/2015)

SKU	MANUFACTURER	BRAND	WEIGHT	VOLUME '000 kg	VALUE £'000	UNITS '000	£/kg	£/pack
MALTESERS	MARS	MALTESER	121g	4,283	44,192	35,394	£10.32	£1.25
KINDER SURPRISE	FERRERO	KINDER SURPRISE	20g	1,010	40,161	50,509	£39.75	£0.80
GIANT BUTTONS	MONDELEZ	DAIRYMLK	119g	3,910	37,618	32,860	£9.62	£1.14
MINSTRELS	MARS	DOVE GALAXY	153g	3,847	30,621	25,145	£7.96	£1.22
M&M'S	MARS	MMS	165g	3,983	29,624	24,142	£7.44	£1.23
MINI EGGS	MONDELEZ	MINIEGGS	90g	2,085	23,257	23,166	£11.15	£1.00
REVELS	MARS	REVELS	126g	1,875	18,564	14,881	£9.90	£1.25
TWIRL	MONDELEZ	TWIRL	109g	1,747	18,139	16,028	£10.38	£1.13
CREME EGG	MONDELEZ	CREMEEGG	39g	1,507	16,953	38,647	£11.25	£0.44
DAIRY MILK	MONDELEZ	DAIRYMLK	n/a	1,349	15,584	9,499	£11.55	£1.64

Source: Author, Nielsen, internal data of XY

*all prices are average prices of base and promotion products

Not surprisingly, in novelties segment (Table 6) single packs are the most favorite, 94% of novelties is sold as a single pack. After that, 3pack 4pack and 5pack have a small percentage of sales as the following table demonstrates.

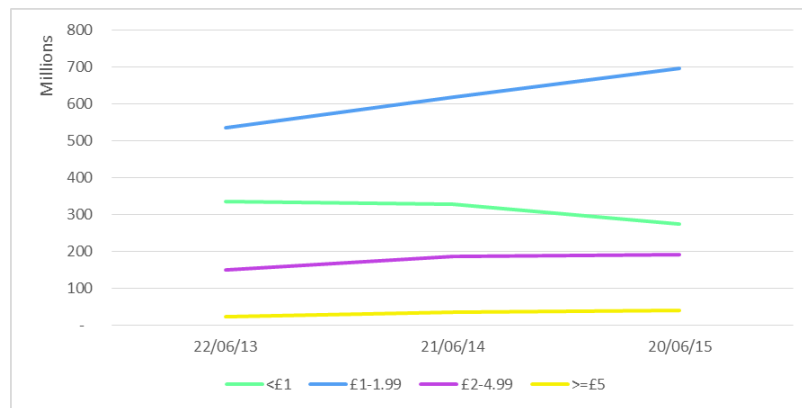
Table 6: Novelties number in pack share, £ value (MAT 20/06/2015)

Number in pack	Share
SINGLE	93.9%
3PACK	1.7%
4PACK	1.5%
5PACK	1.5%
6PACK	1.0%
12PACK	0.4%

Source: Author, Nielsen, internal data of XY

As it was already mentioned, novelties are the most expensive category. The Graph 23 shows the distribution of revenues from novelties by price bands. The highest revenues come from SKU's priced between £1 and £1.99. Not only it is the category with the largest revenues, but also it is growing very fast, in last 2 years it grew by 31%. Nevertheless, the fastest growing price band is SKU's priced at or above £5 (+65% in last two years). Oppositely, SKU's priced below £1 are decreasing (-18% in last two years) and losing their share in novelties portfolio.

Graph 23: Novelties price/pack evolution, £ value

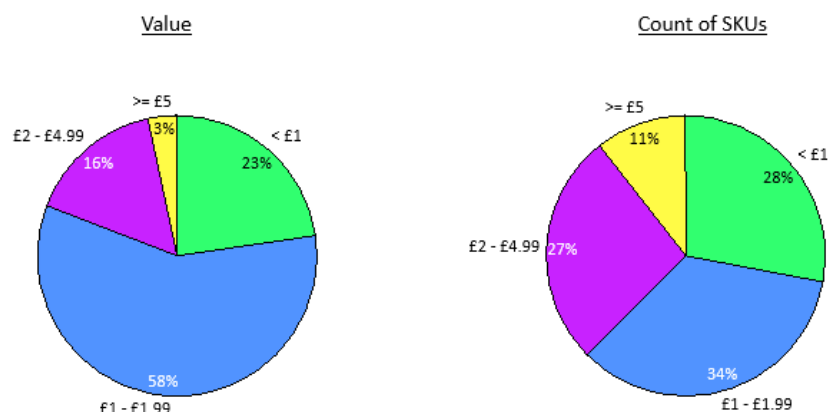


Source: Author, Nielsen, internal data of XY

*all prices are average prices of base and promotion products

The set of two graphs below compares the value share of each price band in comparison with the number of SKU's in each price band. It is interesting to notice that even though almost 60% of value belongs to SKU's between £1 and £1.99, only about 1/3 of all SKU's belongs to this price band. This price band is increasing with relatively high growth rate, generates large proportion of novelties sales and the competition is overloaded, therefore it would be a good opportunity to position a new product. In last two years, 119 new SKU's were launched in this price band (including number 1 SKU Maltesers 121g, £1.25/pack). On the other hand, the price band \geq £5 is growing even with higher growth rate, but the value share is only 3% compared to the fact that 11% of all novelties SKU's are situated in this price band. The manufacturers most probably spotted this growth trend and already launched their SKU's into this category. There are 52 SKU's in this price band introduced in last two years. Since the category of SKU's priced below £1 is declining, we can assume that the consumers are switching from self-indulgent products, which are usually smaller volumes with lower price to sharing products in larger packs and higher priced.

Graph 24: Novelties price/pack, £ value share & number of SKUs (MAT 20/06/2015)



Source: Author, Nielsen, internal data of XY

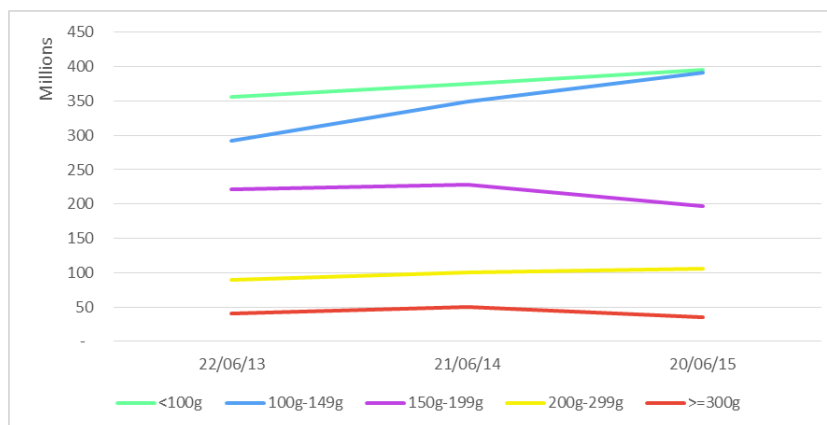
*all prices are average prices of base and promotion products

Similar analysis based on pack weight has been done as follows (Graph 25). Two years ago, the largest value was coming from SKU's weighted below 100g. Over two years, the SKU's weighted between 100g and 149g caught up with the previously mentioned and in 2015 these

two are leading weight groups. However, SKU's between 100g and 149g seem to have more potential in future growth. The SKU's between 150g and 199g and then SKU's ≥ 300 g decline in favor of lighter packs.

If we look back at the price/pack evolution, the results seem to be contradictory. While previously was assumed that consumers are moving to larger, more expensive SKU's, Graph 25 reveals that the value of packs above 300g is decreasing. This can be explained in the way that manufacturers position lighter SKU's in expensive price bands, and therefore expensive price bands are growing while heavier SKU's don't necessarily need to grow. This way the £/kg price increases and the manufacturers reach higher level of premiumness.

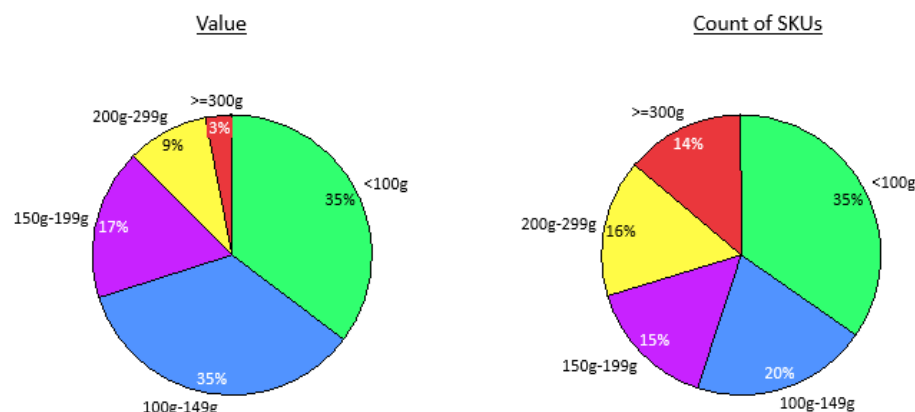
Graph 25: Novelties pack weight evolution, £ value



Source: Author, Nielsen, internal data of XY

Similarly, following the comparison of value share and number of SKU's in different weight groups (Graph 26). Large number of SKU's already exists above 200g, 30%, while only 12% of value is generated by these SKU's. This means that there are enough competitive SKU's. The most suitable opportunity would be again in the fastest growing weight group, 100g – 149g where 35% of value is generated by 20% of SKU's. The growth rate is 35% and 79 SKU's were introduced here in last two years (including the leading SKU Maltesers 121g).

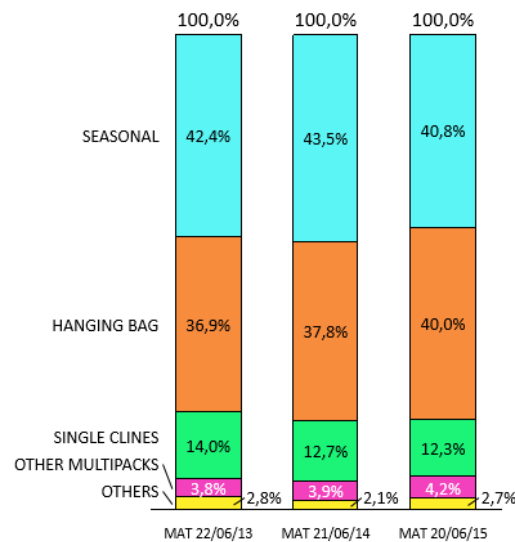
Graph 26: Novelties pack weight, £ value share & number of SKUs (MAT 20/06/2015)



Source: Author, Nielsen, internal data of XY

A big part of novelties belongs to seasonal portfolio. Seasonal part of novelties includes all kinds of Easter eggs, moulded figures and customized format of regular products. Therefore, the formats (or confectionery fixture units) are much more diverse than in other chocolate confectionery segments (for example tablets or snacks have very similar format among categories). Graph 27 shows that the seasonal format in June 2015 was almost 41% (approximately 3pp lower share than a year ago). On the other hand, hanging bags are gaining popularity and gained 2pp during last year.

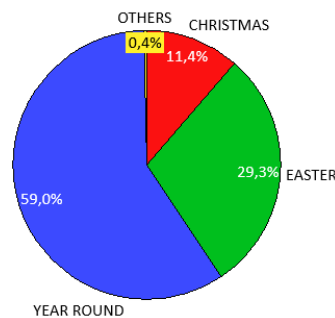
Graph 27: Novelties by confectionery fixture unit, £ value



Source: Author, Nielsen, internal data of XY

Around the year there are several festive occasions in which chocolate plays an important role, e.g. Valentine's day, Halloween, Mothers and Fathers day etc. But the 2 most important ones are Easter and Christmas. Easter and Christmas in UK are a good opportunity for chocolate manufacturers and they put a lot of focus on seasonal portfolio. Easter with its chocolate eggs is the most important festive occasion during the year and more than two thirds of seasonal products are sold in this period. It is interesting to underline, that seasonal products account for 41% of all novelties while this periods in total account for only 2-3 weeks during the year. Not surprisingly it is an essential part of a business for a lot of manufacturers.

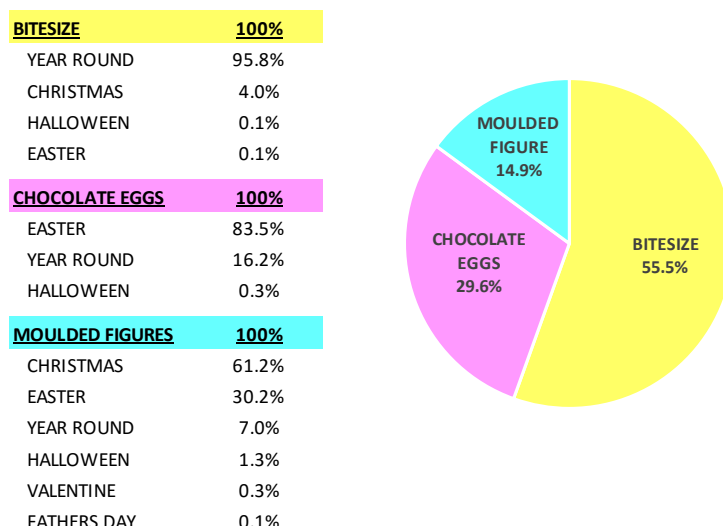
Graph 28: Novelties by festive occasion, £ value (MAT 20/06/2015)



Source: Author, Nielsen, internal data of XY

Novelties as a segment can be split into three sub segments: bitesize, chocolate eggs and moulded figures. Each of the sub segments play different role in novelties segment. When we look at the pie chart below (Graph 29), we find out that that basically each sub segment is meant to satisfy one of the three main festive occasions. Bitesize sub segment is consumed all year round, chocolate eggs during Easter and moulded figures mainly during Christmas, but also during Easter.

Graph 29: Novelties sub segments, £ value



Source: Author, Nielsen, internal data of XY

5.1.2 Everyday Chocolate database

Everyday chocolate database is structured in a different way than Chocolate Confectionery database. In the last available MAT, everyday chocolate market in the UK is worth £2,320 mn and is slightly decreasing (CAGR 2Y -2.1%) in both, volume and value (Table 7).

Total everyday chocolate is split between three basic need states: snacks, time together and treat (see table below). “Treat” is the most robust need state, accounts for more than 70% of total everyday chocolate. However, this need state is slightly deteriorating (CAGR -2.5% respectively). “Snacks”, equally as in Chocolate Confectionery database, are decreasing with CAGR -7.8% over the last two years. The only need state which is increasing is “time together”.

Treat segment is then further divided into tablets, treat multipack and treat single. Threat multipack and treat single are then split between hunger need state and pleasure need state. The growth of tablets is very unstable. In general, the hunger need state is deteriorating more than total everyday chocolate. On the other hand, the pleasure need state is growing.

Table 7: Everyday chocolate, £ YoY value ▲

NEEDSTATE (mn £)	22/06/13	21/06/14	20/06/15	▲ 21/06/14 vs 22/06/13	▲ 20/06/15 vs 21/06/14	CAGR 2Y
EVERYDAY CHOCOLATE	2,419	2,346	2,320	▼ -3.0%	▼ -1.1%	▼ -2.1%
SNACK	340	302	289	▼ -11.3%	▼ -4.2%	▼ -7.8%
TIME TOGETHER (BITESIZE BAG)	337	350	375	▲ 3.8%	▲ 7.2%	▲ 5.5%
TREAT	1,742	1,695	1,656	▼ -2.7%	▼ -2.2%	▼ -2.5%
TABLETS	558	582	572	▲ 4.2%	▼ -1.7%	▲ 1.2%
TREAT MULTIPACK	466	447	437	▼ -4.2%	▼ -2.3%	▼ -3.2%
HUNGER	248	220	188	▼ -11.3%	▼ -14.5%	▼ -12.9%
PLEASURE	218	227	248	▲ 3.9%	▲ 9.6%	▲ 6.7%
TREAT SINGLE	718	666	648	▼ -7.2%	▼ -2.7%	▼ -5.0%
HUNGER	500	441	418	▼ -11.8%	▼ -5.2%	▼ -8.5%
PLEASURE	218	225	225	▲ 3.2%	▼ -0.2%	▲ 1.5%

Source: Author, Nielsen, internal data of XY

The TOP 10 SKU's ranking (Table 8) in this database confirms the trend observed in the previous table. Even though the leading SKU is KitKat from snack category and is also growing, the rest of TOP 10 belongs to time together and tablets category. The ranking is based on £ value in last available MAT. Tablets are represented by 5 SKUs, however, when we look at the growth rate, we will see that most of them are declining or stagnating in volume and value. On the other hand, all the SKU's from time together segment are growing with triple digit compared to last year MAT. All of these SKU's are from Mars.

Table 8: Everyday chocolate TOP 10 SKUs, volume and value

NEEDSTATE	TRADING COMPANY	BRAND	WEIGHT	VOLUME ('000 kg)			VALUE (£ '000)		
				MAT 21/06/14	MAT 20/06/15	▲	MAT 21/06/14	MAT 20/06/15	▲
SNACK	NESTLE	KIT KAT	21 GM	6,988	8,742	25%	46,211	56,590	22%
TABLETS	MARS	GALAXY	114 GM	4,631	4,699	1%	43,446	44,298	2%
TIME TOGETHER (BITESIZE BAG)	MARS	MALTESERS	121 GM	1,570	4,283	173%	15,127	44,192	192%
TABLETS	PRIVATE LABEL	PRIVATE LABEL	100 GM	7,138	6,530	-9%	42,388	40,954	-3%
TABLETS	MONDELEZ	CADBURY DAIRY MILK	200 GM	3,312	3,913	18%	29,727	34,391	16%
TABLETS	MONDELEZ	CADBURY DAIRY MILK	110 GM	123	3,058	-	1,124	30,800	-
TIME TOGETHER (BITESIZE BAG)	MARS	GALAXY MINSTRELS	153 GM	1,331	3,847	189%	10,088	30,621	204%
TIME TOGETHER (BITESIZE BAG)	MARS	M&M'S PEANUT	165 GM	1,336	3,983	198%	9,507	29,624	212%
TREAT SINGLE (PLEASURE)	MONDELEZ	CADBURY TWIRL	43 GM	1,782	1,768	-1%	25,121	24,555	-2%
TABLETS	MONDELEZ	GREEN & BLACKS ORGANIC	100 GM	1,323	1,296	-2%	23,641	23,727	0%

Source: Author, Nielsen, internal data of XY

The analysis of everyday chocolate database proved that the most dynamic segment is time together where products in size of a bite are packed in bags. The purpose of these bags is sharing rather than self-indulgence. Additionally, products meant for pleasure enjoy more success than products meant to be consumed against hunger. Clearly, the chocolate confectionery is becoming a source of pleasure than a necessity.

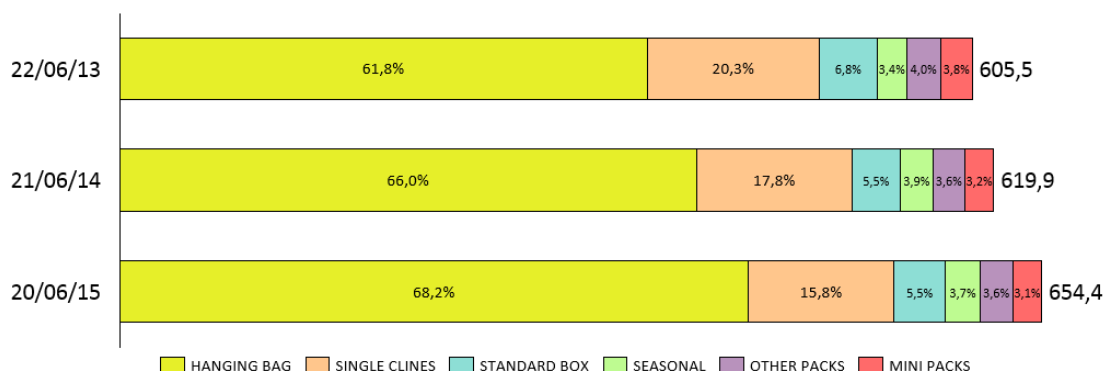
5.1.3 Bitesize database

Previously, two general databases were analyzed (Chocolate Confectionery database and Everyday chocolate). Based on these two analysis we can identify bitesize (sharing) segment as the most dynamic, fastest growing and the one with the most potential and perspective of further future growth. Therefore, in this part the bitesize database will be analyzed.

According to bitesize database, there are 902 SKU's in 198 product ranges. The product range with most SKU's is M&M's with 92 SKU's that recorded some sale in the last MAT.

The prevailing confectionery fixture unit in bitesize segment is hanging bag. In last MAT, the hanging bag accounted for more than 68%. The share of hanging bags in bitesize portfolio has been increasing in last two years. The share of single clines, on the other hand, is decreasing. The share of remaining confectionery fixture units (standard boxes, seasonal, mini and other packs) has remained constant. Hence, hanging bags are the main growth driver with YoY change more than 9%.

Graph 30: Bitesize confectionery fixture units, £ value share, mn £



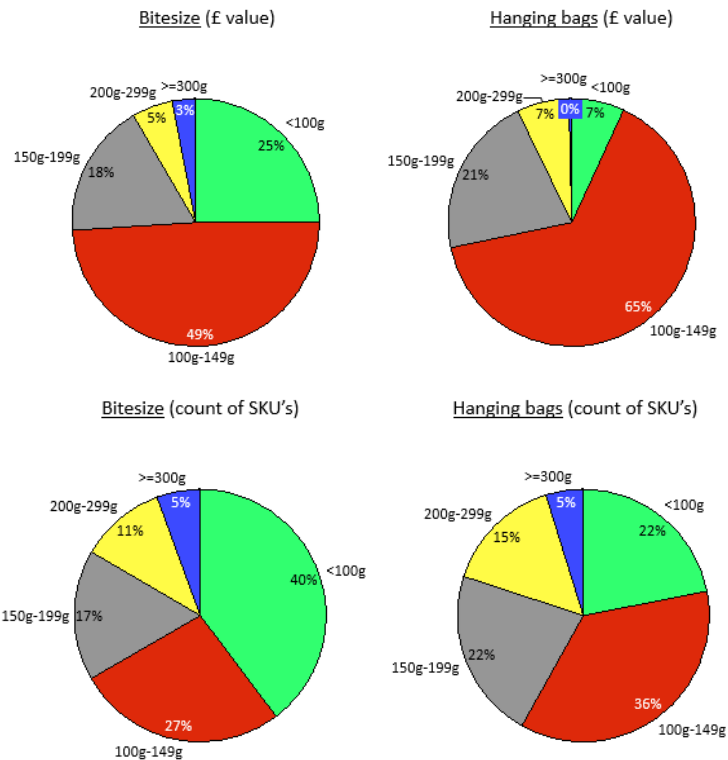
Source: Author, Nielsen, internal data of XY

In previous weight analysis of Chocolate Confectionery database, the most growing novelties weight range resulted to be 100g – 149g. In the diagram below (Graph 31) we can observe similar trend (the diagram below shows the entire bitesize segment on the left side and detail of hanging bags sub segment on the right side). A slight increase recorded also bags of less than 100g. When we look at the bitesize segment as a whole, we see that almost half of all sales come from products in a weight range 100g – 149g. Even though the sales in this range (100g – 149g) are almost half of total sales, only 27% of all SKU's generate these sales. The opposite is visible in packs lighter than 100g. This range accounts for 25% of sales, but 40% of SKU's belong here. However, £/kg and £/pack prices (average) are considerably higher in SKU's below 100g.

In hanging bags sub segment, the share of 100g – 149g is even higher than in bitesize segment, 65% and is still growing. The big bags of more than 300g in hanging bags do not generate almost any sales although still 5% of SKU's belong to this weight range.

Graph 31: Bitesize & Hanging bags pack weight evolution, £ value (MAT 20/06/2015)

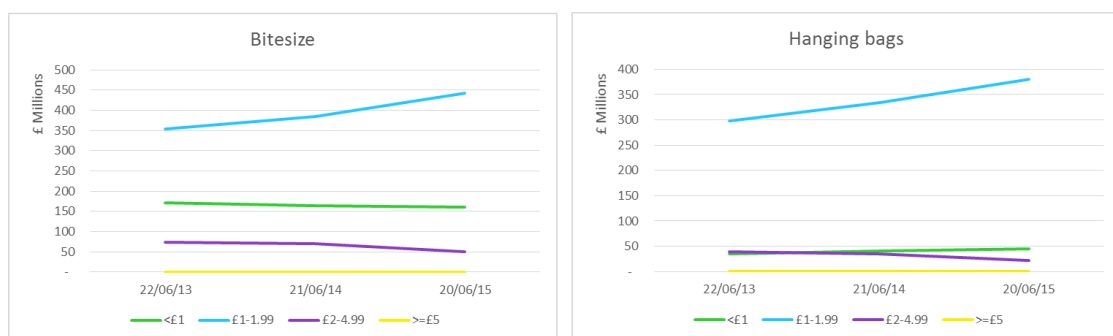


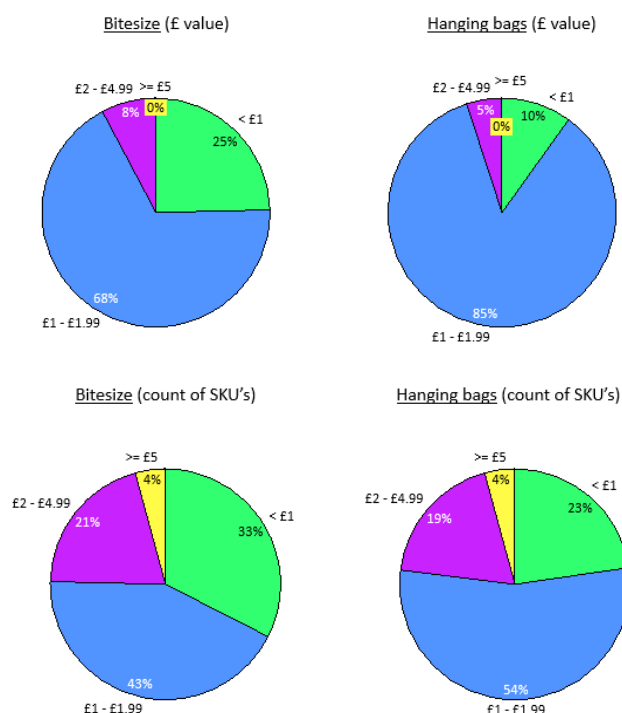


Source: Author, Nielsen, internal data of XY

The price analysis of bitesize segment and hanging bags sub segment (Graph 32) shows strong domination of products between £1 and £1.99. It is also the only growing price range. In hanging bags sub segment, 85% of sales are generated by products ranged between £1 and £1.99. The price range above £2 is declining and will probably remain low as hanging bags sub segment is not perceived as a premium sub segment. The range below £1 accounts for one fourth of total sales while one third of SKU's is from this price range.

Graph 32: Bitesize & Hanging bags price/pack evolution, £ value (MAT 20/06/2015)





Source: Author, Nielsen, internal data of XY
 *all prices are average prices of base and promotion products

After all, we can have a look at TOP 10 SKU's in bitesize segment. The ranking is based on £ value MAT 20/06/2015. The TOP 10 is dominated by Mars and Mondelez and very similar to the novelties TOP 10 ranking (excepting Kinder Surprise and Crème Egg which are not present in bitesize database). After having looked at Table 9 we can confirm results from the previous analysis. 8 out of 10 SKU's are hanging bags, 7 out of 10 SKU's belong to the weight range 100g – 149g and all except of one SKU (single cline Maltesers 37g) cost on average between £1.12 and £1.25 per pack. We can also confirm the fact that single clines price per pack is higher than hanging bags (Maltesers 37g cost £15.87/kg). It is also important to mention that 7 of these SKU's were not on market 2 years ago which proves the nature of fast moving consumer goods. It is interesting that all of these 7 newly introduced products are hanging bags and the only hanging bag present on the market 2 years ago was Milkybar Giant Buttons from Nestle which is now ranked at the 10th place. This only underlines the quick growth of hanging bags sub segments and reveals current trends with possible opportunities to compete.

Table 9: Bitesize TOP 10 SKUs (MAT 20/06/2015)

PRODUCT	TRADING COMPANY	CONFECTIONERY FIXTURE UNIT	WEIGHT (g)	VOLUME '000 kg	VALUE £'000	UNITS '000	£/kg	£/pack
MALTESERS	MARS	HANGING BAG	121	4,283	44,192	35,394	£10.32	£1.25
CDM GIANT BUTTONS	MONDELEZ	HANGING BAG	119	3,910	37,618	32,860	£9.62	£1.14
GALAXY MINSTRELS	MARS	HANGING BAG	153	3,847	30,621	25,145	£7.96	£1.22
M&M'S PEANUT	MARS	HANGING BAG	165	3,983	29,624	24,142	£7.44	£1.23
MALTESERS	MARS	STANDARD BOX	120	2,395	22,951	19,961	£9.58	£1.15
REVELS	MARS	HANGING BAG	126	1,875	18,564	14,881	£9.90	£1.25
CADBURY TWIRL BITES	MONDELEZ	HANGING BAG	109	1,747	18,139	16,028	£10.38	£1.13
CADBURY DAIRY MILK CARAMEL NIBBLES	MONDELEZ	HANGING BAG	120	1,331	12,397	11,094	£9.31	£1.12
MALTESERS	MARS	SINGLE CLINES	37	771	12,236	20,832	£15.87	£0.59
MILKYBAR GIANT BUTTONS	NESTLE	HANGING BAG	126	1,324	12,226	10,512	£9.23	£1.16

Source: Author, Nielsen, internal data of XY
 *all prices are average prices of base and promotion products

After analyzing 3 different databases it is visible that the fastest growing product category is novelties while snacks and tablets are facing the opposite situation. Market share distribution plays in favor of smaller players (Ferrero, Lindt) with narrower product portfolio which manage to gain market share from market leader Mondelez. Overall, the leading brand in novelties category is Dairy Milk (Mondelez) with 15% market share. The leading SKU, however, is Maltesers (Mars). 58% of sales come from SKU's inside novelties priced between £1 and £1.99 and 70% of SKU's weights below 150g. Novelties is a category where festive occasions play an important role since more than 40% of total novelties is seasonal. Approximately the same amount is sold in form of hanging bags. When we focus on bitesize database, hanging bag is by far predominating fixture unit too. 8 out of TOP 10 SKU's in bitesize are hanging bags.

5.2 Consumer panel (Europanel)

Consumer panel is permanent and representative sample of consumers assigned to specialized research agencies to respond research questions related to product testing, taste testing and other areas. Consumer panels are a good addition to retail scan data since they don't only show what happened on the market but also why it happened. Consumer panels help us to understand the main drivers of products performance and provide information on how to achieve the targets (more buyers, higher spend per trip). Additionally, the advantage of consumer panel is the possibility to link purchase behavior with demographical and geographical characteristics of consumers and households. In this chapter Europanel will be used to analyze consumer's behavior.

Europanel is a global partnership of GfK and Kantar Worldpanel which provide perspective on behavior within FMCG. In the United Kingdom it is Kantar Worldpanel with 26,595 households for confectionery which use in-home scanning to collect information.

5.2.1 Key measures³⁹

Buyers

Number of households buying a brand/product or visiting a store at least once within the specified time period.

Penetration

Percentage of the population that bought the product, brand or category at least once within the specified time period (= % buying households of the product, brand or category).

Frequency

Average number of purchase trips for the product, brand or retailer per buying household in the specified time period.

Volume per Buyer

Average quantity bought of the brand or product per buying household within the specified time period (kg).

³⁹ Europanel. *Measures*. [online] [cit. 2015/07/10]. Retrieved from <http://www.europanel.com/measures.php>

Spend per Trip

Average amount spent on the brand/product per purchase trip for the brand/product within the specified time period (£).

Volume per Trip

Average quantity bought of the brand/product per purchase trip for the brand/product within the specified time period (kg).

Repeat Rate

The percentage of households that bought the brand/product at least twice (≥ 2) in the specified time period, in relation to all households that bought the brand/product during the same period.

5.2.2 Chocolate Confectionery UK

The data analyzed in this chapter belong to MAT December 2014, which means there is 6 months difference compared to Nielsen scan data analyzed in previous chapter (unless stated differently). The data are for total UK market and are EXTENDED.

Below we can see the table with basic consumer KPI's in Chocolate Confectionery and main manufacturers. Chocolate confectionery market penetration is high, 98.6% which means that 98.6% of tracked households has purchased some of the chocolate confectionery products at least once in MAT December 2014. Therefore the easiest way for manufacturers to increase their market penetration rate is to gain competitor's customers and thus increase number of households purchasing certain products. They can do it either by attracting customers with already existing products, or by new products development.

The phenomenon of decreasing strength of market leaders observed in previous chapter (retail scan data) is observable also in consumer panel analysis. Even though the time frame does not match perfectly, the decreasing trend is visible. The penetration of Mondelez decreased to 90.6% compared to a year ago penetration by almost 1pp. Similar trend is observable for second and third biggest manufacturers: Mars and Nestle. On the other hand, smaller manufacturers increased their penetration. Ferrero increased by 3.2pp to 37.3% in the last MAT, Storck, Thorntons and Herhey's as well.

It is very interesting to notice the repeat rate. This KPI allows us to measure how many customers liked the products and are vulnerable to buy it again and become loyal customers. The retention rate is influenced by customer retention effort of manufacturers and is a good indicator of how much value manufacturers provide to customers. Again the repeat rate is high for big manufacturers, but surprisingly despite of not significant penetration increase for Lindt, the repeat rate increased by 2.7pp compared to year ago repeat rate. The same is true for Ferrero. Significant decrease in retention rate of Storck might say something about product quality and customers disappointment. While penetration rate can be easily increased by one-time offerings or occasional point-of-sale activities, repeat rate requires customer to know the product. Therefore, if the product is good enough, one-time stimulation and the following decision to buy the product for the first time can lead to permanent customer loyalty and possible market share gains from competitors.

Chocolate confectionery being FMCG has quite high purchase frequency. This also means that since customers do approximately 44 trips per year to purchase chocolate in store, the

probability of switching from one brand to another is high, loyalty is low and therefore marketers have to promote their product on regular basis. For example, there is quite low number of Ritter buyers, but if they decide for Ritter, they do on average 3 trips to buy Ritter products. Lindt with approximately ten times more buyers has the same frequency of purchase.

Spend per trip in brand analysis says something about the premiumness of each brand. Premiumness indicates where the brand is positioned in terms of price compared to average price in segment/category. The higher is the price of the product/brand, the higher is premiumness of the product/brand and it means that is more expensive. Spend per trip does not indicate pure premiumness of the product, but it can mean that the SKU's of that individual brand are quite expensive and therefore customers are forced to spend more per trip. Based on that Thorntons and Lindt are the most premium brands with £4.38 and £3.5 spend/trip respectively. It is given by the fact that there manufacturers play mostly in pralines segment which is the most premium segment with the most expensive SKU's. High spend per trip can also indicate higher spend on more products of the same brand at the time.

Volume per trip then talks about product size. If the volume per trip is high number, most probably the brand/product is sold in heavier packs. Thorntons is selling the most volume per trip while Ferrero and Hershey's seem to have small packs. Volume per buyer is then simple multiple of frequency and volume per trip.

Table 10: Chocolate Confectionery by manufacturer consumer KPI's, MAT December

	Buyers (000 HH)		Penetration (%)		Frequency		Volume per Buyer (kg)		Spend per Trip (£)		Volume per Trip (kg)		Repeat Rate (%)	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Total Chocolate Confectionery	25,976	26,218	98.6	98.6	43.8	43.8	15.57	15.30	2.59	2.59	0.36	0.35	98.3	98.0
Total Ferrero Chocolate	8,968	9,911	34.1	37.3	3.5	3.9	0.56	0.59	2.33	2.37	0.16	0.15	43.7	46.3
Total Hershey's Chocolate	1,658	1,918	6.3	7.2	3.0	2.9	0.38	0.43	1.38	1.65	0.13	0.15	31.9	32.9
Total Lindt + Ghirardelli + RS	9,465	9,519	35.9	35.8	3.0	3.2	0.56	0.59	3.38	3.50	0.19	0.19	37.7	40.4
Total Mars Inc Chocolate	22,754	22,768	86.4	85.6	12.5	12.8	3.39	3.35	1.87	1.88	0.27	0.26	84.5	84.3
Total Mondelez Chocolate	24,109	24,090	91.5	90.6	17.3	17.2	4.80	4.58	2.20	2.17	0.28	0.27	89.3	88.5
Total Nestle Chocolate	23,054	22,767	87.5	85.6	12.4	12.4	3.28	3.28	1.80	1.81	0.26	0.27	85.3	84.6
Total PL Chocolate	21,106	21,047	80.1	79.1	10.2	10.5	3.14	3.31	1.75	1.80	0.31	0.31	81.8	82.3
Total Ritter Chocolate	832	919	3.2	3.5	3.4	3.0	0.60	0.53	1.73	1.57	0.18	0.17	34.0	30.4
Total Storck Chocolate	2,076	2,741	7.9	10.3	1.9	1.9	0.34	0.34	2.19	2.22	0.18	0.18	24.2	24.0
Total Thorntons Chocolate	9,555	9,866	36.3	37.1	2.5	2.5	0.81	0.78	4.74	4.38	0.32	0.31	32.5	33.0

Source: Author, Europanel database, internal data of XY

Table 11 shows the same metrics for chocolate confectionery by segment. Snacks have the highest penetration (91.5%). It can be caused by their smaller pack size and lower price therefore if people decide to buy some kind of chocolate, they tend to buy smaller quantities. On the other hand, in case of some occasion when a special, more premium chocolate product is needed, they opt for pralines or tablets (because of that lower penetration, 86.1% and 87.8%). Individual novelties categories (eggs, bitesize and moulded) are clearly linked to festive occasions like Christmas or Easter, therefore penetration is quite low. At the same time, frequency of eggs (Easter) and moulded (Christmas) is very low, 4.2 and 5.6. The frequency of bitesize category is also quite low, 11.3 even though the occasions to consume this kind of products are numerous. The purchase frequency of bitesize products is lower than the one of tablets (13.8) so there is still room for improvement. One way to increase frequency could be to create a sense of urgency, for example by offering limited edition. Snacks, despite of decreasing trend, have very high purchase frequency. This is thanks to small pack format, low price, positioning on places with high traffic (check-outs or stands) where people tend to

buy them even if the main purpose of the trip was not to buy snacks or customers just like the product so much that they buy it again.

Table 11: Chocolate Confectionery by product segment consumer KPI's, MAT December 2013, 2014

	Buyers (000 HH)		Penetration (%)		Frequency		Volume per Buyer (kg)		Spend per Trip (£)		Volume per Trip (kg)		Repeat Rate (%)	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Total Chocolate Confectionery	25,976	26,218	98.6	98.6	43.8	43.8	15.57	15.30	2.59	2.59	0.36	0.35	98.3	98.0
Tablets	23,431	23,358	89.0	87.8	14.2	13.8	3.09	2.99	1.68	1.68	0.22	0.22	88.0	86.9
Snacks/bars	24,340	24,339	92.4	91.5	24.0	23.5	7.20	6.87	1.75	1.75	0.30	0.29	92.4	92.0
Novelties	23,481	23,761	89.2	89.3	13.2	14.4	3.37	3.64	2.29	2.26	0.26	0.25	87.3	88.1
Eggs	17,172	17,762	65.2	66.8	3.7	4.2	1.22	1.29	3.36	3.32	0.33	0.31	56.6	59.5
Bite-Size	20,711	21,241	78.6	79.9	10.2	11.3	2.22	2.43	1.63	1.62	0.22	0.22	80.0	80.6
Moulded	20,360	20,670	77.3	77.7	5.4	5.6	1.62	1.69	3.30	3.33	0.30	0.30	70.5	72.0
Pralines	22,641	22,889	86.0	86.1	7.1	7.2	3.28	3.23	3.97	3.86	0.46	0.45	78.2	78.4

Source: Author, Europanel database, internal data of XY

Table 12 below shows consumer KPI's per brand in bitesize segment. The table reveals correlation between number of SKU's in brand and penetration. M&M's having the most SKU's (according to Nielsen) has the biggest penetration of 26.8% (not considering private labels) despite of not being the most important brand in terms of value. The penetration increased by 5.1pp compared to last year. The same is true for frequency, people buy M&M's 3.6 times per year, which is the most of all brands. However, if we look at volume/trip, it is not the highest, only 0.21kg/trip and even decreased compared to last year. This might be given by the fact that since there are so many different SKU's, people tend to buy just the right amount of product that they need/consume immediately at the time and not buy it for future consumption. Frequency is therefore higher, because they don't mind coming to the shop to buy the product more times as long as they have just the right amount. Repeat rate is increasing so people like the product.

Maltesers, the leading brand in value terms, is not the best performing in penetration. It could mean that the brand has a lot of loyal customers who keep buying bigger volumes but does not appeal to such a wide range of customers.

Revels, which is one of the TOP 10 brands in value terms, despite of relatively low penetration, the frequency is 3.2. Volume per trip is quite small (0.16kg) while spend per trip is quite high (1.38 £). Most probably the products are priced high or the pack size is very small and therefore £/kg price is high. The frequency and repeat rate are above average which means that even though not that many people decide to buy this brand, those who buy it are loyal and willing to pay and buy again.

Kit Kat ball with very high volume and spend per trip offer only big and expensive sharing bags and do not appeal to many customers and it seems that they even became more expensive since volume/trip is the same compared to last year while spend/trip increased by £0.21.

Table 12: Chocolate Confectionery by brand consumer KPI's, MAT December

	Buyers (000 HH)		Penetration (%)		Frequency		Volume per Buyer (kg)		Spend per Trip (£)		Volume per Trip (kg)		Repeat Rate (%)	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Total Chocolate Confectionery	25,976	26,218	98.6	98.6	43.8	43.8	15.57	15.30	2.59	2.59	0.36	0.35	98.3	98.0
Novelties	23,481	23,761	89.2	89.3	13.2	14.4	3.37	3.64	2.29	2.26	0.26	0.25	87.3	88.1
Bite-Size	20,711	21,241	78.6	79.9	10.2	11.3	2.22	2.43	1.63	1.62	0.22	0.22	80.0	80.6
Kinder Shoko-Bons	167	324	0.6	1.2	1.3	1.7	0.35	0.41	2.72	2.31	0.26	0.24	10.6	15.3
Hershey's Bite-Size	184	216	0.7	0.8	1.4	1.6	0.28	0.25	2.51	1.97	0.20	0.16	15.3	12.6
Galaxy Minstrels	6,264	6,533	23.8	24.6	2.8	3.0	0.54	0.56	1.36	1.35	0.19	0.18	36.8	37.6
Maltesers	14	5,792	0.1	21.8	1.6	2.9	0.44	0.43	1.82	1.32	0.27	0.15	18.3	36.2
M&M's	5,710	7,133	21.7	26.8	3.0	3.6	0.69	0.77	1.54	1.47	0.23	0.21	40.3	45.3
Milky Way	2,294	2,167	8.7	8.1	2.0	2.1	0.28	0.26	1.29	1.26	0.14	0.13	23.8	22.4
Revels	3,462	3,505	13.1	13.2	2.8	3.2	0.46	0.51	1.41	1.38	0.17	0.16	36.6	38.4
Milka Snacks/Lila Stars	30	2	0.1	0.0	0.9	2.0	0.18	0.34	1.52	1.16	0.20	0.17	0.0	63.7
Cadbury Creme Eggs	899	4	3.4	0.0	1.4	0.9	0.31	0.14	1.69	0.79	0.23	0.16	11.7	0.0
Cadbury's Dairy Milk Buttons	33	62	0.1	0.2	1.1	1.4	0.05	0.08	0.60	0.59	0.04	0.06	0.0	6.6
Cadbury's Twirl Bites	2,977	3,178	11.3	11.9	2.3	2.5	0.39	0.37	1.43	1.30	0.17	0.15	25.2	28.3
Cadbury's Bitsa Wispa	2,751	3,410	10.4	12.8	2.2	2.2	0.34	0.30	1.30	1.21	0.15	0.14	26.5	24.4
Cadbury's Dairy Milk Caramel Nibbles	2,421	2,280	9.2	8.6	2.4	2.6	0.45	0.41	1.33	1.32	0.19	0.16	27.3	26.9
Kit Kat Ball	376	309	1.4	1.2	1.5	1.4	0.56	0.50	2.24	2.45	0.37	0.37	15.4	12.8
Smarties	5,540	5,495	21.0	20.7	2.7	2.8	0.51	0.54	1.28	1.36	0.19	0.19	36.3	35.7
Rolos	3,910	4,242	14.8	15.9	2.5	2.7	0.47	0.51	1.14	1.14	0.19	0.19	33.3	35.5
Milky Bar Buttons (inc giant)	4,276	4,281	16.2	16.1	2.6	2.7	0.34	0.35	1.20	1.19	0.13	0.13	32.3	30.7
Munchies	2,892	2,925	11.0	11.0	1.8	2.6	0.22	0.36	1.08	1.15	0.12	0.14	20.7	28.7
PL Bite-Size	7,838	8,057	29.8	30.3	3.7	3.9	0.89	0.93	1.19	1.18	0.24	0.24	50.1	51.6

Source: Author, Europanel database, internal data of XY

Table 13: Bitesize TOP 10 brands, £'000 (MAT 20/06/2015)

Brand	MAT 20/06/2015 £'000
MALTESERS	118,651
CDM GIANT BUTTONS	58,617
GALAXY MINSTRELS	50,245
M&M'S PEANUT	46,455
PRIVATE LABEL	28,700
REVELS	26,860
SMARTIES	22,487
CADBURY TWIRL BITES	21,335
MILKY WAY MAGIC STARS	18,045
MUNCHIES	17,204

Source: Author, Nielsen, internal data of XY

The consumer panel analysis in this chapter proved that there is a big opportunity for improvement in bitesize segment. The customers who buy this kind of product are used to buy it quite frequently, however the manufacturers should aim to attract more people who have not discovered this segment yet. On average people buy bitesize format less than once per year and it's around 220g every time. Spend per trip is only £1.62, which is less than the average of all segments (tablets, snacks, novelties and pralines). However, the metrics differ heavily from brand to brand.

5.2.3 Sharing bags consumer research

Sharing bag covers different kinds of pack formats from bags (a flexible container made of plastic) to pouches (small bag usually closed with a drawstring). In this category we can include all products from bitesize segment which fulfill the condition of being packed in a bag or pouch either individually wrapped or freely placed inside the package. The reasons why consumers like sharing bags comparing to tablets or pralines are given by resealable nature of the pack: unlike chocolate tablet, sharing bag offers freshness of the chocolate, smaller pieces provide portion control and makes consumers feel less guilty and does not require them to eat all at once. Even though consumers like resealable nature of sharing bags not all of them have the same properties. Sticky seals on bags don't work most of the time that's why pouches are preferred thanks to their drawstring.

According to consumers, the greatest things about sharing bags and the reasons why would they opt for sharing bag instead of any other chocolate form are their shareability, versatility, treatment, permission to indulge, multiplied satisfaction, suspension of guilt, great value snack and the fact that they enhance the moment when they are consumed.⁴⁰

Consumer lifestyle in the UK is slightly changing in last years. Life speed is high and everyday life is becoming hectic. Therefore people are moving their social activities from outside to their homes. British Office of International Statistics claims that people started to prefer staying home and socializing instead of going out. They even spend more money for eating and drinking at home (on average 5% more) than going out. This is opposite of the results of the same research from 2011 when people spent more on drinking out of home. Moreover, pre-family young people increase their preference to spend time at their friend's houses before going out.⁴¹ Barbecues, picnics or simple nights with family together are more common because people prefer spending their free time in their comfort zone. For this reason consumers want to be always prepared for such an occasion and shop food to their stocks to be consumed when such an occasion occurs. At the same time, there is still 28% of single households.⁴² Even though sharing bags were primarily meant for sharing occasions, it turned out to be increasingly common option for these solo occasions (24% of sharing bags are consumed solo).⁴³ Sharing bags are thus gaining popularity among both groups at the expense of boxed chocolate, which seems to be too formal and luxury for this purpose, or tablets which turn out to be unpractical. This part will focus on both groups and map demographic characteristics.

When we look at the demographic distribution of buyers and consumers of sharing bags in Graph 33, we will notice that buyer and consumer are not the same person. Older consumers account for 50% of buyers while they only consume ¼ of consumers with young families following the opposite pattern. This proves strong donor purchasing and family sharing. Considering this we might assume that older customers are more attracted by traditional products if they are not well informed about family preferences. Therefore companies should build their marketing activities so that they keep them appealing to older customer base. Older customers are also very price sensitive and follow leaflets and TV promotions, so they can be reached by special offers and price promotions.

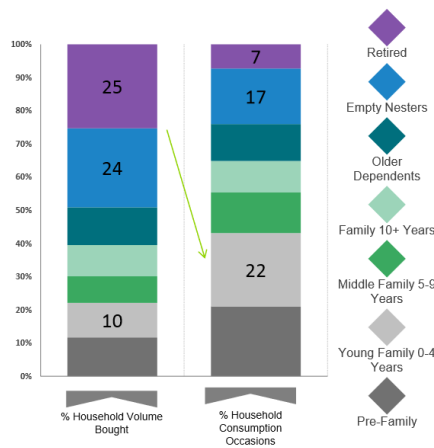
⁴⁰ Internal documents of XY

⁴¹ Independent. *Stay-at-home drinking and socialising on the rise as Britons avoid paying premium of being served food or drink in pubs and bars*. [online] [cit. 2015/09/25]. Retrieved from www.independent.co.uk

⁴² Office for National Statistics. *Families and Households, 2014*. [online] [cit. 2015/09/25]. Retrieved from www.ons.gov.uk

⁴³ Internal data of XY

Graph 33: Sharing bags buyers vs. consumers, volume distribution

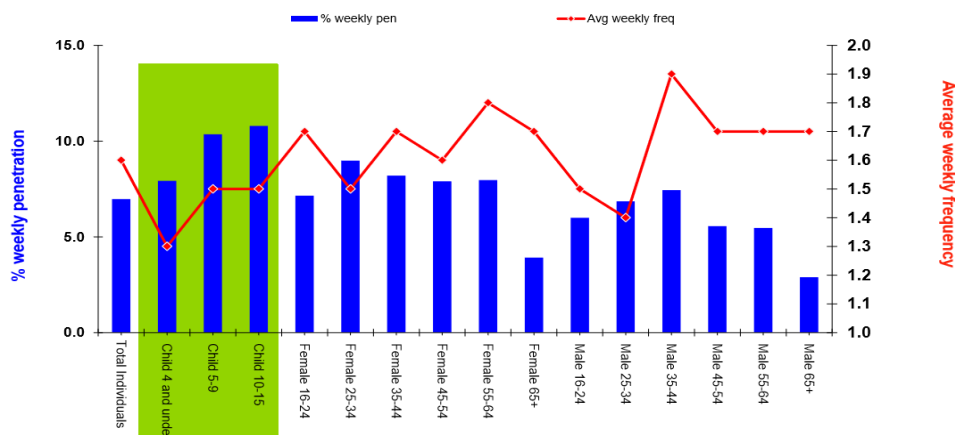


Source: Worldpanel, internal data of XY

Graph 34 shows deeper breakdown of sharing bags consumers. Typical sharing bag consumer is not a child. Even though the penetration for kids is higher than for adults, they represent smaller part of the population and therefore are smaller group than adults. At the same time kids don't consume as frequently as adults which means that female adults are the key consumers. This is interesting. The reason might be that usually women are buyers and they decide to buy sharing bag with objective to share it with partner or family. Many times this objective is not fulfilled and the sharing bag is consumed solo by a woman instead of being shared (24% of sharing bag consuming occasions are solo occasions – consumed alone⁴⁴). Buying a sharing bag might be also a good excuse to buy chocolate product and the buyer gets rid of the guilt with a will to share the product.

Even if female buyers are buying sharing bag for sharing, they usually tend to buy their favorite brand.⁴⁵ To support sales manufacturers could create a sharing bag version of female oriented product (e.g. like Ferrero did with its Kinder Bueno female target group). This way, even if the woman would feel guilty for buying a single cline product, she would probably be more vulnerable to buy sharing version of the same product.

Graph 34: Penetration and frequency of sharing bags by age and gender, UK



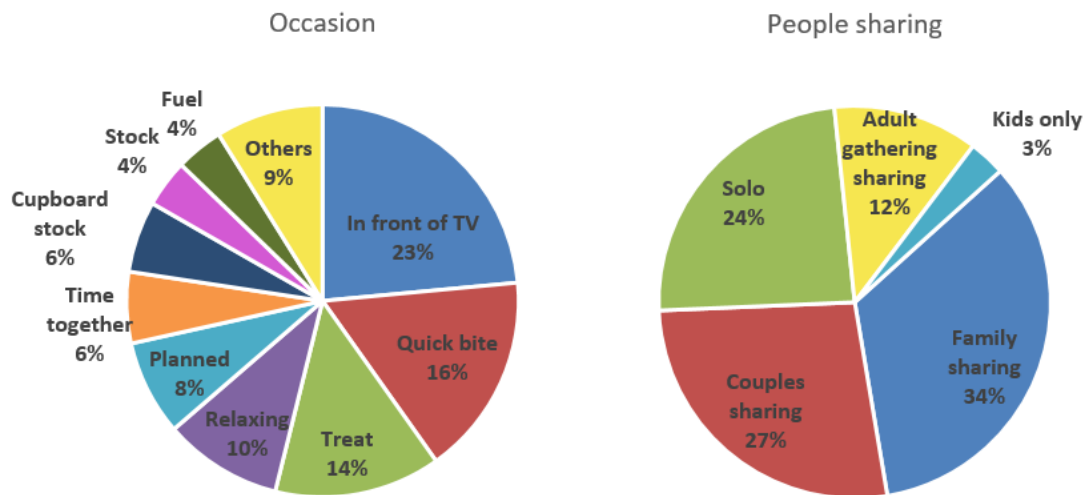
Source: Worldpanel, internal data of XY

⁴⁴ Internal documents of XY

⁴⁵ Internal documents of XY

As we can see in Graph 35, almost $\frac{1}{4}$ of sharing bags are associated with watching TV. Another 30% belongs to quick bites and treat. This clearly demonstrates that chocolate sharing bags have similar consumption purpose as salty snacks which are usually consumed in front of TV. The distribution among other occasions is very balanced therefore it is quite difficult to target a specific occasion. However, all the occasions are informal and need casual package appearance, preferably pouch which is easily storable and transferable. The other pie chart says that only 3% of occasions are exclusive for kids. This means that manufacturers have two options if they want to enter sharing bags market: either to follow current trend and focus on adults which would mean that they should opt for packaging appealing to adults, flavors could be more experimental and bitter containing for example nuts or mint which is traditionally very popular flavor in the UK. Second option would be to try to play on relatively small market for kids and basically try to build it by introducing product based on successful products for kids in different segments for example milky or very sweet chocolate. This could be done only with use of very strong well-known brand which would market itself.

Graph 35: Split of occasions and people consuming sharing bags, UK



Source: Worldpanel, internal data of XY

This part revealed that for sharing bags there is no single target group and prevailing occasion (except of TV sharing) for consuming sharing bags. Therefore manufacturers have plenty of options to position their products.

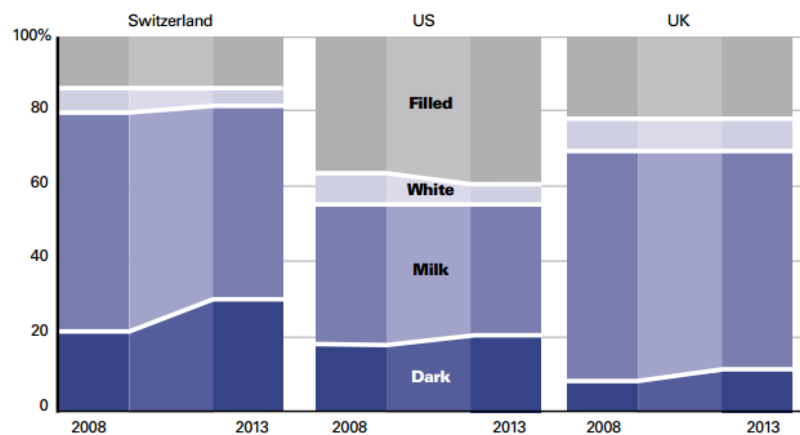
6 Main trends, threats and opportunities in chocolate confectionery

Basically since the first chocolate bar was produced, chocolate has been mainly perceived as something sweet, and therefore necessarily sinful and unhealthy. On the other hand, already during both World Wars it was used as a source of energy for soldiers and various favorable effects on health and beauty have been proven since then. Here are some facts influencing chocolate confectionery market which manufacturers will probably have to take into account when inventing and producing new products.

The rise of dark chocolate and other flavors

The fame of dark chocolate is rising, especially in health conscious countries. Although, in the UK the share of dark chocolate on sales falls behind Switzerland, which is country with the biggest consumption of chocolate per capita. In 2013 dark chocolate accounted for around 10% with increasing tendency at the expense of milk chocolate. The share of white and filled chocolate remains stable. Since dark chocolate is considered healthier and more luxury than other types of chocolate, the rise of this type is expected also in future. This prediction is supported by the fact that manufacturers invest in innovation and try to eliminate bitter taste of dark chocolate, therefore dark chocolate can appeal to customers even more.⁴⁶

Graph 36: Chocolate bars by flavors in key markets



Source: KPMG. [online] [cit 2015/09/28]. *A taste of future*. Retrieved from www.kpmg.com

In filled chocolate there is one flavor booming particularly. Caramel is chosen for its luxury taste currently being second most popular flavor and is quickly catching up with hazelnut according to Euromonitor.⁴⁷

This booming trend of dark chocolate should be taken in account by product managers and reflected in portfolio. Dark chocolate is appealing mostly to adult consumers due to its bitter nature, therefore if the product is targeting adult audience, adding features of dark chocolate to product could be a good way to convince consumers about decent product quality. Since caramel, hazelnut and other filled chocolate (see above) are experiencing growth, creating a product which would contain pieces of various flavors could create an opportunity too.

Innovation

Since chocolate is heat sensitive, it is difficult to sell it in summer periods or in countries with constant warm weather. Mondelez with its Dairy Milk brand is fighting this issue by inventing melt-resistant chocolate which survives up to 40°C. That would allow them to be present in markets like India or Brazil all year round.⁴⁸

Chocolate consumers are becoming more vulnerable to experiment.⁴⁹ Therefore manufacturers can open up their imagination and come up with unusual flavors like Wild Ophelia did in the

⁴⁶ KPMG. *A taste of future*. [online] [cit. 2015/09/28]. Retrieved from www.kpmg.com

⁴⁷ Ibid.

⁴⁸ Ibid.

⁴⁹ Ibid.

US with hibiscus peach flower, Gepa in Germany with mango and coco with white chocolate or Luximo in Poland with peach. Also deserts themselves inspired brands to create flavors like crème brûlée and tiramisu. In the UK, manufacturers could focus on variations of mint flavor which is very popular among English consumers. Given this fact one of the options could be to experiment with different spicy flavors like ginger or chili.

Moreover, with increasing consumer health awareness some manufacturers started to use raw, fine and rare ingredients and add various cereals to chocolate for instance quinoa, sesame or granola (Seattle Chocolate). In some cases we can find a taste profile of chocolate on the packaging just like we are used to with wines or coffee.⁵⁰

Another innovation in chocolate field is merging it with popular products such as salty snacks, olive oil, alcohol and even beer. Mondelez merged traditional Milka with salty snacks Lu, Dairy Milk with Oreo or Carre Chocolate with Belgian beer. This strategy works mostly for customers that are sensitive to new products promotion and vulnerable to experiment.

Health impact of chocolate

Chocolate has been judged as sweet threat causing weight gain, diabetes, acne, gastrointestinal discomfort or others. It is true. But this happens with over consumption of chocolate just like with any other sweet. Chocolate is rich in sugar, that is why it tastes so good. Without sugar the chocolate would be sour. That is the case of dark chocolate. Therefore reasonable amount of high quality chocolate rich in true cocoa (min 70%) may positively affect human health.

Dark chocolate, when consumed in moderation is quite nutritious. It contains fiber, iron, magnesium, copper, manganese and a few other minerals and antioxidants. Flavanols, which are the most important chocolate component positively impacting health, improve blood flow and thus lower blood pressure. They help to reduce bad cholesterol, lower the risk of cardiovascular disease, prevent cancer and protect skin by improving blood flow to the skin. Caffeine and theobromine present in chocolate may strengthen brain function and overall cognitive function. Finally, the organic composition of chocolate causes release of endorphins and serotonin which are associated with good mood.⁵¹

Social responsibility – palm oil issue

The problem of palm oil being used in the majority of everyday food has been recently discussed among public. The issue is not the negative impact of palm oil on our health but more the social hazard that companies commit when using it to produce. Palm oil is a vegetable oil produced of palm tree fruit. The production of palm oil is associated with various negative facts including deforestation (mostly in South-East Asia), climate change, animal cruelty (threat of extinction of orangutan or Sumatran tigers), but also with devastating impact on people, slavery and child labor. The impact of these kind of information on consumers is crucial these days when many consumers became socially conscious and judge companies involved in these procedures. Although the producers are not causing these problems themselves, it is their responsibility to reconsider the use of palm oil if the companies want to keep up pace with consumers. Some big chocolate manufacturers (Nestle, Lindt, Cadbury – although the composition differs between countries and Cadbury in the UK

⁵⁰ MOGELONSKY, M. *Chocolate innovation: The top 10 trends driving global chocolate confectionery market*. [online] [cit. 2015/10/01]. Retrieved from www.mintel.com

⁵¹ GUNNARS, K. *7 proven health benefits of dark chocolate*. [online] [cit. 2015/10/01]. Retrieved from www.authoritynutrition.com

contains palm oil) started to produce palm oil free chocolate products as a reaction on this case. This might be done by purchasing Certified Sustainable Palm Oil from certified growers that must fulfil real credible sustainability standards.⁵² Another alternatives like yeast are currently being in process of development.⁵³

Consumers in the UK are aware of palm oil, TNS survey⁵⁴ from May 2014 shows that 59% of 1000 respondents have ever heard about palm oil. It is more than for example Germany (50%) or Italy (45%) but less than France (74%) and Australia (68%). However, British consumers do not perceive palm oil as the worst fat for their health unlike consumers from other developed countries. They are convinced that the worst fat for them is lard. Only 12% of British consumers think that palm oil is bad for their health comparing to France with 58% of consumers thinking that palm oil is harmful. The truth is that scientists and health authorities have not agreed on palm oil impact on human health but demonstrable connection between certain disease and palm oil has not been proven.⁵⁵ Even though it might seem that British consumers are therefore well informed about health impact (or not impact) of palm oil, in reality it is probably not the case. Only 20% of respondents think that palm oil production is negative for the environment. But negative environmental effects have been certainly proven. Regarding social impact, only 17% think that palm has negative social influence. Overall, when respondents were asked if it was relevant for them if food did not contain palm oil, only 40% claimed yes. This survey revealed that even though British consumers are aware of palm oil and have heard about this issue, they are quite indifferent whether it is used in production or whether it has some negative impact on their health, environment or society. This also implies that consumers most probably do not pay that much attention to food products content and are vulnerable to buy products containing palm oil despite of palm oil issue.

7 Suggestions for marketing orientation in UK chocolate sharing bags market

After detailed analysis of present chocolate confectionery market in previous chapters, this chapter will intend to sum up final findings and outline marketing suggestions to present or future market players in UK chocolate sharing bags market. This set of suggestions will start with segmentation of customers, evaluation of these segments and identifying a target group and will conclude with suggested positioning in structure of marketing mix. Sample of consumers consists of consumers who bought chocolate sharing bag in last month. Data sources for this chapter were provided by XY.

⁵² Say no to palm oil. *Palm oil*. [online] [cit. 2015/10/01]. Retrieved from http://www.saynotopalmoil.com/Whats_thebritish_issue.php

⁵³ BALCH, O. *Scientists reveal revolutionary palm oil alternative: yeast*. [online] [cit. 2015/10/02]. Retrieved from www.theguardian.com

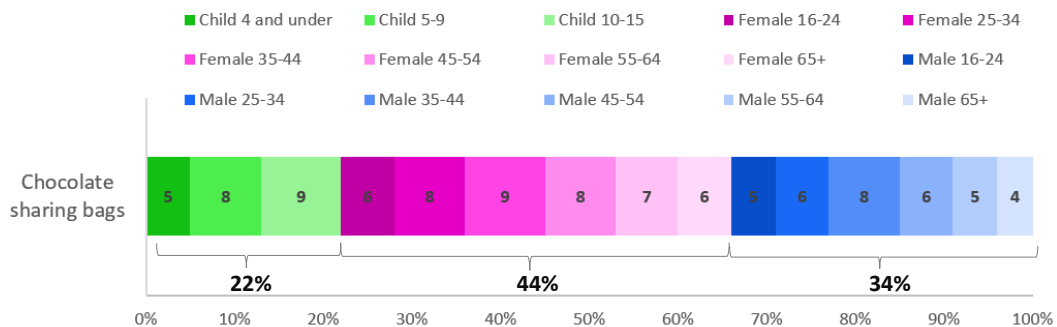
⁵⁴ TNS. *Palm oil perception – TNS 5th report*. [online] [cit. 2015/10/02]. Retrieved from <http://www.palmoilandfood.eu/sites/default/files/4%20-%202015%2006%2001%20olivier%20charrier%20Presentaton%20to%20EPOA%202nd-%20jun%20-%202015%20final.pdf>

⁵⁵ BROWN, E. *Cruel oil*. [online] [cit. 2015/10/02]. Retrieved from www.cspinet.org

7.1 Segmentation

Firstly, consumers will be segmented based on gender and age. Graph 37 shows clear domination of women (44% of total consumers) in chocolate sharing bags consumption while men part of consumers is only 34%. By definition of the sample, out of these female consumers only $\frac{1}{4}$ are mothers⁵⁶. This supports the idea from chapter 5.2.3 that females incline more to consume sharing bags than males also because they enjoy to share them with others as well as to indulge them solo. As mentioned above and also visible in the graph, kids represent only 22% of total consumers⁵⁷, which assumes adult oriented nature of sharing product types. Another interesting pattern visible in Graph 37 is the fact that the consumption of chocolate increases with age till it reaches the peak between 35-44 age of life for both, males and females (together account for 17%). After this stage the consumption starts to decrease.

Graph 37: Percentage of consumers of sharing bags in each segment, age and gender, UK



Source: Author with use of internal documents of XY

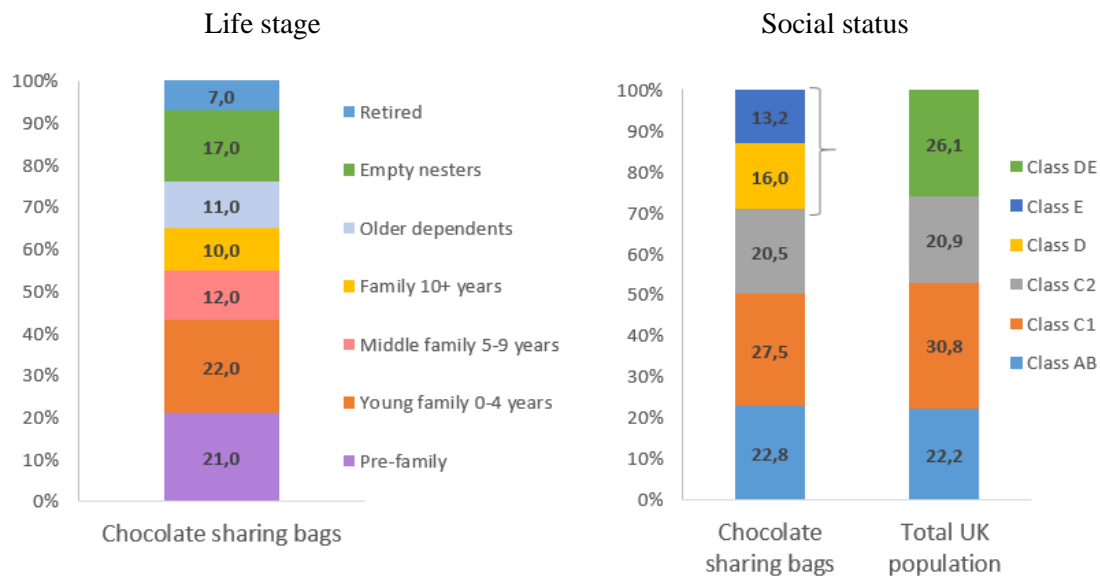
Next Graph 38 is dedicated to life stage and social status segments. It shows that chocolate sharing bags are very popular among families (44% all together). The fact that 21% of products is consumed by pre-family consumers supports the trend already mentioned in chapter 5.2.3. of young people preferring staying at home and consume their own food/drinks before going out. Older abandoned households, specifically retired people account for only 7% of consumers. Relatively high consumption of chocolate sharing bags by empty nesters, 17%, might be caused by family gatherings with their families.

Lower consumption of chocolate by retired people is also correlated with another segmentation criteria which is social status. The same graph (Graph 38) portrays consumption of chocolate sharing bags by social status of consumers. This classification is based on occupation of the head of household. The consumption is split evenly between middle class and working class (classes ABC1 being middle class and C2DE being working class). Given the fact that retired consumers fall into class E (with the lowest income) they consequently consume less chocolate (only 13.2% the entire class E). We can see that class C1 (supervisory and administrative middle class), comparing to overall UK population, has a reserve in consumption of sharing bags at the expense of class D and E (lowest grade occupations) meaning that in spite of lower income, classes D and E tend to buy relatively more sharing bags.

⁵⁶ Internal documents of XY

⁵⁷ Internal documents of XY

Graph 38: Percentage of buyers of chocolate sharing bags in each segment, life stage and social status, UK



Sources: Author with use of internal documents of XY

UK geographics [online]. Retrieved from <http://www.ukgeographics.co.uk/blog/social-grade-a-b-c1-c2-d-e>

The following segmentation criteria is important in order to understand consumer thinking, but is very difficult to quantify since the data was collected in form of focus groups of 3000 respondents.⁵⁸ Here consumers are divided into segments based on their relationship towards chocolate sharing bags. Using this criteria we can recognize 4 major segments: men, young women, mums and grandmothers. Men are segment which is the least engaged with chocolate sharing bags and chocolate in general and they usually don't buy sharing bags unless for special occasions (e.g. present). For them sharing bag is only a practical version of chocolate product and they don't purchase it with treating intentions. Therefore they are not relevant as a target segment. Pre-family young women claimed that for them chocolate sharing bag is a normalized format.⁵⁹ This means that they are used to buy them without any special occasion for nights alone and to bring them to share with friends (see previous sections of this chapter). This segment is already well established because it is not necessary to appeal to young women with new product category (chocolate sharing bag) but rather address them within category. Women in this segment usually buy the pack impulsively when they need it. On the other hand, mums and grandmothers are also active segments but they try to keep some sharing bags on stock just in case they need them. These two segments differ in purpose of sharing bag usage. While mums often use it as a reward or mode of distraction, grandmothers buy sharing bags to spoil their family and please everyone. Moreover, mums are keen on experiment with new products/formats and very often buy product which is currently in special offer while grandmothers are stuck to favorite products and opt for guarantee. Grandmothers naturally use less packs since the family and kids are not present with them all the time and therefore the consumption and purchase frequency are lower.⁶⁰

⁵⁸ Internal documents of XY

⁵⁹ Ibid

⁶⁰ Ibid

7.2 Targeting

The following segments will be evaluated to choose the right segments to target for sharing bags: men, young women, mothers and grandmothers. The segments will be evaluated based on the following criteria in order of importance: relationship towards chocolate, size of the segment, costs of reaching the segment and purpose of purchase. For each criteria each customer segment will be assigned the grade from (1) to (5) ((1) very suitable, (5) not suitable) which will represent suitability of certain segment as a target segment from point of view of each criteria.

Relationship towards chocolate is the most important criteria to be taken into account when talking about chocolate. It cannot be quantified but it tells us a lot about what to expect from consumer reaction on marketing activities. This criteria allows us to exclude segments that are not relevant to us right at the beginning of evaluation and save time since we will not proceed in evaluating segments with negative relationship towards chocolate. As mentioned in chapter 7.1 men (5) are the least engaged with chocolate and do not have any particular relationship to chocolate products. On the other hand, women in general (including young women (1), mothers (1) and grandmothers (1)) indulge chocolate during various occasions.⁶¹ Therefore whichever marketing activities would not be as affective on men as on women and therefor would be relatively more costly with less visible or no results. For this reason men are excluded from further evaluation.

Size of the segment is important for prediction of future sales. If the segment is not big enough it is not worth to focus on it. According to Office for National Statistics, the segment of young women aged between 20 and 29 years was in 4.3 million in 2011⁶² which represents almost 7% of the population. The size of mothers is calculated as from all women aged between 20 and 44 years. The number of women in this group is 10.8 million⁶³ while every fifth women at this age is not a mother⁶⁴ giving us approximately 8.6 million of mothers (14% of total population). The same rationale is applied to grandmothers (over 55 years) giving us approximately 6.1 million grandmothers.⁶⁵ As mentioned in chapter 7.1 mothers buy higher volume of sharing bags than grandmothers in order to have some in the sock all the time. Grandmothers buy sharing bags only occasionally (see previous chapter), therefore despite big size of the segment, the expected sales in this segment are not that large. Due to previously mentioned, the grading is as follows: young women (2), mothers (1) and grandmothers (3).

Another very important criteria when picking the right target segment are costs of reaching the segment. Young women would be accessible mostly by magazines and internet, eventually by TV, billboards and posters around the city. This segment is reactive to relatively many modes of marketing communication therefore the content of the communication would be more important than the mode of communication. It has to be clear from the ad/commercial that the product (sharing bag) is exactly what the young woman needs. To reach the segment it is not necessary to use all modes of communication since it would be costly and the size of the segment is not as big that it would be worth to invest so big funds to appeal to young women.

⁶¹ Internal documents of XY

⁶² ONS. [online]. Retrieved from <http://www.ons.gov.uk/ons/rel/census/2011-census/population-and-household-estimates-for-the-united-kingdom/index.html>

⁶³ Ibid

⁶⁴ ONS. [online]. Retrieved from <http://www.ons.gov.uk/ons/rel/fertility-analysis/cohort-fertility--england-and-wales/2012/sty-cohort-fertility.html>

⁶⁵ ONS. [online]. Retrieved from <http://www.ons.gov.uk/ons/rel/census/2011-census/population-and-household-estimates-for-the-united-kingdom/index.html>

Mothers, on the other hand, due to their preference of products in special offer and discounted products (see previous chapter) are more reactive on POS activities, this means that the product has to be visible in store which could be reached by special temporary placement of products when they are in offer, strengthened or strategic positioning of products in the store or sampling. Thus the costs of reaching the segment of mothers would then be mostly costs related to retailer. Grandmothers are the most easily reached by traditional communication tools like leaflets and TV commercials. The grading follows: young women (3), mothers (1) and grandmothers (2).

Young women (pre-family status) thanks to their willingness to share and enjoy sweets with their friends as well as for self-gratification represent various modes of use. Mums (family status) with various kids age buy sharing bags with an objective to have something to share in the stock for family nights with TV or planned or unexpected gatherings (see chapter 5.2.3 Sharing bags consumer research). At the same time they consume these sharing bags to satisfy their necessities. Grandmothers usually purchase sharing bag to please their grandchildren and the turnover of sharing bags would probably not be as big as in other customer segments. Social status of both, young women and mums, is indifferent since differences between various social classes chocolate consumption are minimum (see Graph 38). Grading: young women (1), mothers (1) and grandmothers (3).

Segments grading is summed up in the following table:

Table 14: Grading of customer segments by criteria

criteria/segment	weight	men	young women	mothers	grandmothers
relationship towards chocolate	4	5	1	1	1
size of segment	3	-	2	1	3
costs of reaching	2	-	3	1	2
purpose of purchase	1	-	1	1	3
overall		-	17	10	20

Source: Author

Segment of men was excluded already at the beginning of evaluation process. As the most suitable target groups were selected mothers and young women with the lowest overall score.

7.3 Positioning

The nature of sharing bags predetermines positioning of products in this category. Consumers perceive sharing bags as a product connected to leisure time and informal occasions (see chapter 5.2.3 Sharing bags consumer research) like watching TV or as a small bite. Versatility and resealability (chapter 5.2.3 are the most important features for consumers. Given these consumer preferences, sharing bags products should not be given any luxury appearance but rather should be positioned as informal and practical and focus on properties for which they are liked by customers (allow to reseal the bag using resealable label or drawing string in order to keep products fresh and safely shut inside the pack). The best option in case of sharing bags would be not to create too complicated and impractical package but rather play with colors and stay with simple motives.

The following marketing mix will further specify positioning of sharing bags products within target segments young females and mothers.

7.3.1 Product

UK is undoubtedly very attractive market for chocolate manufacturers not only for its second position worldwide in consumption of chocolate after USA, but also for its consumers who are willing and used to consume chocolate products. As the previous analysis have shown, the trend is that consumers are slightly changing their preferences for chocolate formats. Segments like treating snacks (see chapter 5.1.2) are being abandoned together with traditional tablets. However, when it comes to snacks, British customers appear to react positively on new formats of snacks which combine traditional chocolate snack with some other ingredient like breadsticks, crackers and chips therefore there could be a possibility for innovations for manufacturers (for example launch Nutella&Go of Ferrero has generated more than £10M in 6 months)⁶⁶. Boxed chocolate remains on the position of special occasions.

Thanks to changing consumer lifestyle and moving their friends and family gatherings to their homes, sharing bags became very popular and practical. These two segments, mothers and young females, are not very saturated yet and thus there is room for new product launch. The product should be preferably pouch (hanging bag is a good option to be placed in hanging bags isle) with drawstring since consumers like the option to keep it fresh. There is slight preference for pouches where pieces of product are freely placed together in pouch before individually wrapped pieces. However, this might be given by the fact that most of the products on market are of the first type and exactly sharing bags with individually wrapped pieces could be a good opportunity for manufacturers to be taken. This condition fulfills the requirement of keeping chocolate fresh, not to have to consume the whole pack at once and thus avoid the feeling of guilt. Also this would allow consumers to split the pouch into small pieces for different purposes, different consumers or to carry it in their bags without making mess. Also there would be no need for drawstring.

The pack weight should be between 100g-149g with price per pack between £1 and £1.99 since these groups generate the majority of sales with relatively few SKUs.

Even though chocolate is mostly perceived as a product for kids, it is not the case for sharing bags. Therefore, the taste does not have to be childish (sweet and milky). With increasing popularity of dark chocolate manufacturers can afford to create sharing bag with more bitter taste. Other flavors which are not so favorite among kids like hazelnuts and exotic fruits are a good option. Due to increasing health awareness of society, the use of raw, certified and fair trade ingredients could help manufacturers to appeal to new customers.

7.3.2 Price

From the fact that chocolate confectionery volume sales are decreasing while keeping value sales constant or only slightly increasing we can assume that prices of chocolate in general are increasing. It can be because of increasing price per pack or by decreasing weight of the pack while keeping the same price. In this case price per kilo is increasing. In any case, if manufacturers want at least to keep constant value sales and do not want them to drop, they must follow this trend of increasing prices unless they find some other competitive advantage which would boost their sales. At the same time, thanks to health consciousness of customers chocolate volumes are most probably going to decrease over the next periods. Out of our target groups, price seems to be very important for mothers as they very often buy product

⁶⁶ Nielsen database, internal documents of XY

which is in offer at the time of shopping. On the other hand, young women are not as price sensitive as mothers and tend to buy exactly product that they like.⁶⁷

Based on our previous analysis the majority of sharing bags have slightly higher price than tablets and snacks (boxed chocolate has higher price because it is mostly premium product) but still manufacturers try to keep the price below £2. It is psychologically advantageous because consumers are more willing to buy something which does not exceed £2. Better option is to lower the pack weight to be able to keep this psychological price. There is similar possibility to do the same thing in price range below £1. However, for sharing bags it is not very common to be of such small weight. Nevertheless, such small bag could be a good option for convenience stores (and check-outs) which generate more than 37% of chocolate sales in the UK.

We could also see that consumers are very sensitive to degraming of packs (substitution of one SKU by another one with the same appearance but slightly lower weight so that casual consumer does not even notice the difference) like, for example, Mondelez did with its Dairy Milk (see Table 15).

Table 15: Switch from heavier pack to lighter pack, Dairy Milk Mondelez, MAT 20/06/2015

SKU	Volume '000 kg			Value £ '000			Price/kg			Price/pack		
	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
Dairy Milk (Mondelez) 120g	6 432	8 985	4 866	56 915	81 267	45 629	£8,85	£9,05	£9,38	£1,06	£1,09	£1,13
Dairy Milk (Mondelez) 110g	-	123	3 058	-	1 124	30 800	-	£9,17	£10,07	-	£1,01	£1,11

Source: Author, Nielsen Chocolate Confectionery database

In 2014 Mondelez introduced Dairy Milk tablet of 110g. In the same year, sales of Dairy Milk 120g declined to almost half compared to previous year (£45M). In 2015 the average price/pack for these two products was almost identical (£1.13 and £1.11) which proves that this manufacturer intended to replace these two products. Consequently also the price/kg has to be higher for lighter pack. However, sales for these products cumulatively in 2015 are lower than in 2014 which means that some consumers could notice the weight change and decided not to buy this SKU. Therefore it is very risky to choose this option because it can be perceived by customers as “cheating” and would be better if manufacturers could avoid this case by adding some other competitive advantage.

7.3.3 Place

As for place, chocolate has been sold in all types of grocery (sometimes even non-grocery) stores. Convenience stores prevail over all store types. Convenience stores are mostly for impulse purchases or small everyday shopping. A chocolate product is bought (by customer who buys chocolate product at least one per year) on average almost every week (see chapter 5.2.2 Chocolate Confectionery UK - frequency) thus convenience store is the right place for chocolate products. Also, consumer is becoming loyal only when he tries the product and likes it. Therefore convenience stores are the best for first purchase, to introduce product to the market. For convenience stores single packs are preferable. When it comes to sharing bags, convenience store is also a good place for smaller bags below £1. Those should be positioned in check-outs and appeal to consumers to try them (when it is new product).

⁶⁷ Focus groups results, internal documents of XY

Convenience stores are perfect distribution channel to appeal to young women who are used to buy their sharing bag on their way home or to their friend's house.

In bigger stores (Superstores and Megastores) people are used to shop to their stocks. If they plan to buy chocolate here, it is mostly for specific occasion. Sharing bags can be easily planned for some gathering or just to have it in stock if needed. This way also some multipacks can be introduced to these store types. Since these stores are big enough, it is possible to create brand blocks or even product blocks (products of one brand are positioned one next to each other in one or several rows or columns on the shelf) and this way attract consumer attention. Let's imagine that consumer likes some product/brand and comes to the shop with an objective to buy it. When he stands in front of the shelf where all products are of one product line, it can easily attract his attention. He will buy his favorite product but at the same time he will notice a new product which is part of his favorite product line. This way he can purchase the new product immediately instead of originally planned product, he can buy both products to try it or he can simply think of buying it next time. But at least now he/she is aware of the product. Hypermarkets and Supermarkets are stores where mums and grandmothers pursue their purchases therefore instore activities here should be targeting them.

Very unconventional way of selling chocolate proposed Nestle just recently. They plan to sell super-premium Swiss chocolate Cailler through Amazon.⁶⁸ This is very specific case because this kind of chocolate is expensive enough to be beneficial for manufacturers. However, this model could be applicable to products with some special features, special flavors. There is also option to make a certain product online exclusive so that it is not accessible through any other channel. Manufacturers could for example offer complete freshness of the product shipped directly from the plant.

7.3.4 Promotion

We have found out that the purchase frequency of bitesize products is relatively low so there is still room for improvement. One way to increase frequency could be to create a sense of urgency, for example by offering limited editions of products accompanied by proper media campaign.

The new product promotion should be also supported by in store activities. Besides using standard shelf together with competitive products manufacturers can opt for special standalone extra stands with where they could allocate all products of one brand and thus support sales of each product. These stands could be enriched by banners to attract customer attention and strategically situated on different places inside store.

Referring back to chapter 6.1.1 Chocolate Confectionery database, novelties in general are very popular during various festive occasions: 41% of novelties are sold over some festive occasion. For sharing bag product type all these family gatherings are optimal opportunity to grow since this is exactly when mothers are seeking for something special to be shared while staying home together. Easter and Christmas are already fruitful therefore it would be worth to focus on remaining celebrations which account only for 0.4% all together. Halloween, Valentine Day, St. Patrick's Day Mothers Day and Fathers Day could be an opportunity to create customized packaging (package color, size, shape and pictures, for example black/orange, pumpkins, ghosts, creatures for Halloween, red/pink/white, hearts for Valentine

⁶⁸ MUDHANI, A. *High-end Swiss chocolate brand to finally hit U.S.* [online] [cit. 2015/10/03]. Retrieved from www.usatoday.com

day, green motives for St. Patrick's day, etc.) through which the product could appeal to customers to buy it for the first time. Product could be also placed into a special type of packaging like doses, bowls or boxes in customized shapes. Additionally the display should also attract customer attention immediately when he/she enters the store. For this purpose temporary leading points (for example arrows on the floor, etc.) could be used in store. Later on, if the customer likes the product, he/she would buy also ordinary version of product. In this case the key is to be different from competitors. Putting together more products of the same brand could lead to cross-selling and stimulate people to buy different products in addition to products that they originally intended to purchase. On the other hand, creating occasional multipacks with ongoing theme would lead to upselling.

7.4 Marketing communication tools

The modes by which the customers can be reached, informed and reminded about the chocolate confectionery products (in this case chocolate sharing bags) are described in the following section. All these communication tools should be accompanied by appropriate POS activities. In case of new product launch or product relaunch the communication tools should be more aggressive and concentrated with objective to be successful.

7.4.1 Advertising

Advertising is a traditional mode of marketing communication. Based on experience and FMCG nature of the product, for chocolate TV commercial are very effective way of advertising. Its appeals to wide and spread range of customers. Especially when introducing new product to the market, advertising it is an essential task for marketers to communicate to target customers the new product launch. In our case the target groups are mothers, however their purchase decision is many times driven by family member's preferences. Therefore it is important and effective to reach families to stimulate all family members at the same time.

In case of young women, better option of promotion could be ad in magazines and newspaper. Repeated appearance of certain product will stimulate consumers mind and unconsciously penetrate into their mind. Later on with the next shop visit they will recognize the brand/product and consider it as known. Additionally for sharing bags it would be appropriate to communicate their advantages (see 5.2.3 Sharing bags consumer research) just to remind them to costumers and evoke the state of need.

7.4.2 Sampling

By handing out samples the manufacturer provides consumer with a risk-free opportunity to try the product. People love to be given something for free. And if the product s good enough, the sampling initiative is multiplied by word of mouth effect. Sampling is a perfect marketing communication tool for sharing bags since this way consumers can experience the product exactly 'as it is', this means that real product can be distributed in a form in which it is sold, no need to produce special customized samples. Sampling can be used as both, POS activity which would appeal to customers that make their decision directly in a shop and sampling out of shop. The advantage in case of chocolate is that it can be consumed immediately and provide customer with immediate impression about the product. When this impression is positive and this experience occurs directly in a shop, the consumer can be enhanced to buy the product right away.

Another mode of sampling is to attach the sample to another product. To appeal to young women samples could be packed together with magazines or provided as a gift for shopping of certain goods, e.g. clothes, stockings or shoes.

7.4.3 Public relation activities and events

Supporting various social events and sponsoring is a good way to increase the brand awareness, however it is not that suitable for a single product promotion. Sponsorship usually requires quite large financial funds, therefore chocolate being FMCG with relatively low margins should use this kind of marketing commutation only after careful consideration that the benefits of this sponsorship will prevail over costs. Many times sponsorship does not bring immediate results in form of increased sales but rather brings long term effect on brand as a whole. Probably the most suitable events for chocolate would be the ones related to gathering and family reunions like amusement parks, various concerts or TV shows and thus appeal to mothers and families. Sponsorship could be connected with previously mentioned sampling to strengthen its influence.

Conclusion

The main focus of this thesis was the analysis of the chocolate confectionery market in the United Kingdom from different points of view with regard to various product segmentation criteria. The main goal was to establish the analysis in such way that the reader was able to understand fundamental specifics and trends observable in a certain time frame, the development of chocolate confectionery categories and, based on these findings, provide a series of marketing recommendations which would potentially lead to reinforcement of brands and products.

The first section was rather theoretically oriented and provided an introduction to the main topic by defining basic terminology and explaining methodology used later on in the practical section. From market participants through competitive environment the theoretical part analysed consumer behavior and product as a part of FMCG where chocolate confectionery belongs. The second, practical part was then structured gradually from the top down (drill down) meaning that the chocolate confectionery classification started from an overall position worldwide down to the UK market and, analogically, the position of chocolate confectionery in the UK within retail category with use of Euromonitor data. The following chapter consisted of two parts: the first analysis followed the structure of three chocolate confectionery databases from Nielsen, specifically Chocolate confectionery database, Everyday chocolate and Bitesize, to gain a more detailed vision of several categories. Competitive analysis as well as price and distribution policy were subject of this chapter. The second part of this chapter was more oriented on consumers and reasons for their behavior by analyzing consumer panel and consumer research in sharing bags. The whole market research was topped by current trends in the chocolate confectionery market and perception of chocolate by consumers in the fifth chapter. Due to the very broad scope of chocolate confectionery category the concluding chapter is narrowed to chocolate sharing bags category. This category was selected based on increasing sales development in sharing bags category and customer inclination towards it. The scope of this final chapter is set of recommendations and suggested marketing mix for selected target segments. The overall intention of the thesis was to capture marketing opportunities in the UK chocolate market deriving from the analysis of secondary data (this means to capture the absolute market attractiveness) rather than focus on a single chocolate manufacturer. By this I consider the goal of the thesis to be accomplished with main findings in the following paragraph.

Chocolate confectionery sales in the UK in 2014 were £6,334 million according to Euromonitor. The volume and value of sales is growing every year with an increasing share of chocolate confectionery on the total confectionery category. More detailed insight into Nielsen databases revealed that the trend is decreasing market share of market leader Mondelez at the expense of smaller manufacturers like Ferrero and Lindt. The most significant growth is in the novelties category, 2.9%.

Novelties demonstrate high degree of seasonality since 41% of the category are seasonal products sold mostly before Christmas and Easter. The important category within novelties are hanging bags (subcategory of sharing bags), currently 40% of novelties with increasing popularity which was also confirmed in consumer research.

Moreover, based on consumer research the lifestyle in the UK supports the growth of sharing bags sales as people are open to experiments with flavor and formats. UK customers are not so much concerned about product content and ingredients. They are attracted by sharing bags

for their characteristics like versatility and ability to store the product. These characteristics are the reason why sharing bags target primarily women, specifically mums and young women. Given their informal nature. Sharing bags are positioned as a chocolate format for leisure time and various types of gatherings.

As mentioned previously, this work was not only intended to provide detailed market mapping of chocolate confectionery but also to be available for practical use to one of the main chocolate manufacturers.

I find it important to mention that even when executing precise market research, manufacturers can never be sure that the strategy selected will lead to success. However, it helps to lower risk of failure significantly and should not be underestimated. Nevertheless, sometimes even random product launch or marketing campaign can bring unexpected positive results.

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Attachment

Chocolate Confectionery

This is the aggregation of tablets, countlines, bagged selflines/softlines, boxed assortments, seasonal chocolate, chocolate with toys, alfajores and other chocolate confectionery. Note that chocolate overtly positioned for baking/cooking purposes is excluded from Euromonitor International's confectionery coverage.

- Bagged Selflines/Softlines

These bagged products included are either chocolate or sugar coated with a solid centre, which is usually chocolate or nut-based but in some cases may include other types of centre, eg honeycomb or malted milk. This also includes all other selflines, many of which have liquid/soft centres, such as cream or caramel. Soft candies with a chocolate centre and chocolate-coated candies are also included. Chocolate eggs are excluded. Leading global brands include M&M's (Mars), Hershey's Kisses (Hershey), Cadbury's Buttons (Cadbury), Maltesers (Mars).

- Boxed Assortments

This is the aggregation of standard boxed assortments and twist wrapped miniatures.

- Standard Boxed Assortments

Includes assortments which may be budget or premium, adult-orientated products; examples of the latter are picture boxes, liqueurs, pralines and bouchées. Also includes selflines where the chocolates contained therein are identical. Jars and tins are included. Also includes products packaged in a paper bag so long as they belong to a range that is generally considered a boxed assortment brand. For example, Nestlé's Caja Roja is packaged in both boxes and bags. Leading global brands include Mon Chéri (Ferrero), Ferrero Rocher (Ferrero), Lindt (Lindt & Sprüngli), Godiva (Campbell Soup).

- Twist Wrapped Miniatures

These boxed chocolates are derived from an existing brand whose format has been miniaturised and are typically individually twist wrapped. Includes products containing both chocolate and sugar confectionery twist wrapped miniatures such as Nestlé's All Stars. Leading global brands include Celebrations (Mars), Miniature Heroes (Cadbury), Lindt Miniature (Lindt & Sprüngli), and Toblerone One by One (Kraft).

- Chocolate with Toys

Includes chocolate products sold with a toy or a surprise. These include eggs with gifts contained inside, for which Ferrero (Kinder Surprise) are renowned. Nestlé among others have several such products in the market. Also includes toys with chocolate sold inside eg M&M's Surprise (Mars). Leading global brands include Kinder Surprise (Ferrero), Perugina (Nestlé), and Cadbury Yowie's (Cadbury).

- Countlines

Chocolate bars eaten as snacks. Many are filled and unsegmented ie not pre-cut. Typical examples include Snickers and Mars. Countlines can be sold in a diversity of formats, including multipacks or mini-fun sizes. Other products in this category include wafer bars (typically KitKat), and cereal/muesli bars coated with chocolate (eg Afghans). However,

cereal/muesli bars, which are nutritionally fortified and coated with chocolate will fall under energy bars. Alfajores are excluded (see below). Leading global brands include Snickers (Mars), Reese's (Hershey), Mars (Mars), and KitKat (Nestlé). Leading global brands include Snickers (Mars), Reese's (Hershey), Mars (Mars), KitKat (Nestlé). One exception to note is that for the UK market only, two finger KitKat is counted under chocolate-coated biscuits.

- Seasonal Chocolate

Seasonal products include chocolate eggs (mostly sold at Easter) which may be large, small or mini, packaged or unpackaged, filled or unfilled. However, eggs with surprise (such as Kinder Surprise) are excluded – see Chocolate with toys. Selection boxes and hollow moulded figures for Christmas as well as for other occasions (eg Easter, Valentines Day, Christmas, Halloween, etc) are also included.

- Tablets

Moulded and segmented chocolate bars in a wide range of sizes from bite-size to “family bars”; some are filled with nuts and/or raisins and made of different types of chocolate ie white, milk and dark. Tablets in countline format are included eg Cadbury Dairy Milk (Cadbury) or Galaxy (Mars). "Fun size" tablets are also included here, be they sold individually or in multipacks. Leading global brands include Milka (Kraft), Cadbury's Dairy Milk (Cadbury), Ritter Sport (Alfred Ritter), Hershey's Milk Chocolate (Hershey), Côte d'Or (Kraft), Lindt (Lindt & Sprüngli).

- Other Chocolate Confectionery

Chocolate products that do not fall within the previous chocolate definitions are included eg chocolate lollipops, chocolate-flavoured lollipops, liquid chocolate, chocolate foam etc.

Source: Euromonitor International