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BA (HONS) BUSINESS ADMINISTRATION BY
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SEMESTER 2 EXAMINATIONS 2008/2009
BUSINESS POLICY
MODULE NO: BST3003DL

Date: 13th June 2009

Time: 3 hours

INSTRUCTIONS TO CANDIDATES:

There are **FOUR** questions on this paper.

Answer **ALL FOUR** questions.

Note:

1. All questions are equally weighted and carry 25 marks each.
2. This is an open book examination. During the examination you are allowed to use your own notes (**not textbooks or module handbook**).
3. A fresh copy of the Case Study is attached to the examination paper.

Candidates are advised that the examiners attach importance to legibility of writing and clarity of expression.

Bolton Business School
BA (Hons) Business Administration by Distance Learning
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Semester 2 Examinations 2008/2009
Business Policy
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Answer ALL FOUR questions

Q1

Identify and critically evaluate the distinct strategic capabilities of Thorntons plc as presented in the case study.

(25 marks)

Q2

Identify and critically evaluate the key success factors in the specialist chocolate market as presented in the case study.

(25 marks)

Q3

Critically evaluate the extent to which Thorntons plc developed a competitive advantage in the specialist chocolate market as presented in the case study.

(25 marks)

Q4

Identify and critically evaluate the strategic choices made by Thornton's plc as presented in the case study.

(25 marks)

END OF QUESTIONS

Thorntons plc: corporate and business strategy

David Jennings

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



Introduction

In September 2003 Thorntons, the UK's largest manufacturer and retailer of specialist chocolates, completed a three-year planning period aimed at achieving a turnaround in the company's performance. While company turnover had been increased to £167m (≈ €250m) providing Thorntons with an 8 per cent share of its core market, boxed chocolates, profit after tax had declined to the lowest level for seven years (Exhibit 1). During that time Thorntons had set out to follow a series of strategic initiatives involving the reorientation of the company towards becoming a retail-focused business, increasing the scale of the company's manufacturing and retailing operations and developments that would affect the company's product range, the markets served and product positioning.

For Thorntons' core products, the ranges of boxed chocolates, certain key manufacturing and selling activities are conducted in-house with the quality of the boxed chocolate selections assured by the use of quality ingredients and through the manufacturing expertise the company has developed. In addition in-house manufacture is felt to protect the exclusivity of Thorntons' principal recipes. Non-core products, such as solid chocolate bars, are largely supplied by outside producers.

Similarly the manufacture of basic liquid chocolate, a capital intensive process, is by an outside supplier, the supplier achieving buying and processing economies of scale beyond those that would be available to Thorntons. Packaging, which accounts for a large part of the product's perceived value, is also manufactured by outside suppliers.

The majority of the company's sales are made through company-owned shops. The company's own retail outlets provide a good quality of service and offer the inclusion of personalised messages, written in icing, on such gifts as Valentine's Day chocolate hearts and Easter eggs. At extra cost products can also be purchased gift-wrapped. The company's shops have become a part of the UK high street. In an independent market research survey, consumers asked to rank their typical high street, included Thorntons in fifth place. Establishing and maintaining the company's shops requires a considerable commitment of resources. For a new shop the average cost of fitting out often exceeds £100,000. Once established shops need further expenditure to cover wear and tear. The layout and appearance of Thorntons' own shops are frequently altered, with the changes developed and evaluated in the company's mock shops in Derbyshire and the south of England prior to their high-street introduction. The company also

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Exhibit 1

Thorntons Group: selected company information

	(£m)*										
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	
Sales	96.6	95.6	97.6	111.3	132.8	141.3	153.4	159.9	163.8	167.1	
Operating profit	12.6	10.1	5.8	11.3	12.9	13.1	10.5	10.1	10.4	9.4	
Profit after tax	7.8	6.7	(15.1)	8.6	9.0	9.7	5.2	4.5	7.3	4.4	
Fixed assets	51.0	50.4	45.1	52.1	86.2	109.1	104.4	96.7	88.8	83.2	
Net assets	47.3	50.1	33.3	38.4	44.8	48.1	49.1	40.0	43.0	43.0	
Gearing ratio (%)				16	71	105	130	111	86	67	
Number of UK outlets											
Own Shops	243	263	269	300	344	390	410	400	395	389	
Franchised	189	150	129	202	151	110	127	163	181	198	

* £1 = approx. €1.5.

makes use of franchised outlets that have occasionally prompted concern regarding the quality of particular outlets or through their occupying a major location or an inappropriate location.

The freshness of the product is a distinctive feature of Thorntons chocolates. For many other manufacturers, addressing the wider chocolate market, the greater use of vegetable fat (other than cocoa butter) results in products with a shelf-life of over a year. Although Thorntons' own research had indicated that freshness is not the first concern for consumers when purchasing a gift of chocolates, the company believes that it is essential to maintain the customer's experience of a fresh product. As a consequence many retail outlets, corner shops, garages, and some of the supermarkets have at times been seen as not suitable for the product, even if the company wished to achieve sales through those outlets.

The demand for Thorntons boxed chocolates follows a strongly seasonal pattern: 35 per cent of sales are in the seven-week period before Christmas, a further 10 per cent are for Easter, including three million Easter eggs. The combination of providing a fresh product together with the need to meet a seasonal pattern of demand places particular pressures upon the company's manufacturing facilities. A proportion of the Christmas product is produced several months in advance, maintaining freshness through chilled storage. However Thorntons chocolates are enrobed in chocolate, rather than moulded. Their hand-made appearance makes the process of packing boxed chocolates less open to automation than is the case

for moulded chocolates (with their more uniform shape and size) produced by companies such as Cadburys. The seasonal demand for packing staff requires the increased use of casual workers, with consequent falls in efficiency. Seasonal demand also requires the use of temporary staff in the retail outlets to meet a sales pattern that can within a few days increase tenfold; typically the company sells £10m of chocolate in the last 72 hours of Christmas trading. At times the company has sold ice cream (self-manufactured or bought in) as an attempt to offset the effect of low, off-season, chocolate sales.

In certain respects Thorntons' strategy, with its emphasis upon vertical integration and product differentiation, can be traced back to the company's origins.

Development into a public company

Thorntons was founded in 1911 by Joseph Thornton, a commercial traveller engaged in selling confectionery. Tired of travelling, he opened his own shop in the city of Sheffield. His two sons, Norman and Stanley, joined him to combine their abilities in retailing, devising recipes, and manufacture, to provide freshly-made confectionery, manufactured in the shop it was sold in.

The benefits of self-manufacture and product innovation were soon to become apparent. During the 1920s several product lines were established

that have continued to the present day. In 1925 a recipe for Special Toffee, based upon cream, butter and eggs, gave the business an outstanding product. The self-manufacture of Easter eggs, decorated in the shop to include names and messages, added to the range of freshly made and fresh-tasting confectionery.

In 1953 Stanley and Norman Thornton visited Switzerland to find out how Thorntons could make what was regarded as the very best of chocolates. The visit included the Basle School for Swiss Chocolatiers and the recruitment of an outstanding student, Walter Willen, who created the original recipes for Thorntons' Continental chocolates, a range that was to become the largest-selling specialist assortment of chocolates in the UK.

Thorntons began to develop sales outside the UK and by 1982 the value of Thorntons' exports to Europe and Australia had reached £300,000. Attracted by the prospect of further non-UK sales the company decided that the massive potential of the US market offered the best vehicle for expansion. Thorntons opened two shops in Chicago, with the longer-term intention of operating a 100-shop chain throughout the USA.

By the late 1980s Thorntons operated the largest chain of quality confectionery shops in the UK, 170 company-owned shops and 100 franchised outlets operating in towns too small to merit a Thorntons owned shop. Thorntons believed that there was scope in the UK for a further 130 retail outlets with the expansion concentrated in the south east, away from the company's heartland in the Midlands and the north, and that the time had arrived for the stock market flotation of Thorntons; this was achieved in 1988 at a flotation price of 130p per share. With the offer of shares eight times over-subscribed, share trading began at a good premium.

European and UK developments

Although Thorntons was achieving success in the UK, the venture into the US was showing little prospect of profit and was closed. However further opportunities for growth were anticipated through acquisitions in Europe, where markets were believed to be more similar to the UK than had proven to be the case with the venture in America. Within three months of flotation Thorntons had made its first European acquisition, Gartner, based in Antwerp, a specialist in high-quality chocolate

and fresh cream products with sales of £1.7m mainly made through patisseries. Thorntons established an integrated manufacturing and retail operation, distributing Gartner's products through Thorntons retail network as well as selling its own confectionery to the Belgium company's customers. In the following year Thorntons acquired two French confectionery retailers, Candice-Martial SA and Societe Nouvelle de Confiserie (SNC) for a total of £8.65m. Candice had 55 retail outlets based mainly in the Paris area selling confectionery and ice cream. SNC had 11 confectionery outlets in the Normandy and Brittany region. The French and UK factories were to contribute to the supply of each other's markets.

In the UK Thorntons had a 1 per cent share of the daily confectionery market and a 6 per cent share of the confectionery gift market; as a consequence sales were highly dependent upon a number of seasonal events. The six weeks before Christmas provided 30 per cent of turnover. Easter, Valentine's Day and Mothering Sunday accounted for a further 25 per cent of sales. The concentration of sales into short periods of time made the company particularly vulnerable to market conditions at those times. The comparatively short shelf life of the company's products exacerbated the problems of seasonality.

Thorntons continued to develop the products and packaging within its core chocolate gift ranges. The Continental range, the best-selling specialist chocolates in the UK, was developed to include a 'French' dark chocolate selection and a 'Belgian' milk and white chocolate selection. A new Classics traditional assortment and a Premier Selection of hand-finished chocolates were established to top the company's range.

While the majority of Thorntons' sales were made through the company's own shops, use was also made of other forms of distribution, including franchising. In certain respects franchising provided a cost-effective way to achieve distribution coverage, however it did not provide the customer with the same experience as shopping in a Thorntons-owned shop and occasionally it could be difficult to maintain standards. Franchising could also provide surprises. In 1995 the company lost 15 franchised outlets following their takeover by Clinton Cards, a company that did not normally sell confectionery. The retailing of greetings cards represented the principal business of a high proportion of Thorntons' franchisees. Thorntons itself owned Mary Morrison, a small

chain of greeting card shops in Scotland; however the chain was not considered to be central to Thorntons' core business and in 1990 Mary Morrison was sold to Hall of Cards for £2m.

Progress was made in developing the company's commercial customers. Thorntons had a long-standing supply arrangement with Marks and Spencer and in 1991 Sainsbury's was added to Asda as a supermarket outlet for the company's products, with the range of chocolate products broadened to suit supermarket shelves. Commercial customers' products differed by style and recipe from those provided through Thorntons' own outlets and regular customers could not be sure they were made by Thorntons.

The attempt by the group to enter the European market began to show disappointing results. Marked differences became apparent between the UK and French markets both in consumer tastes, with the French consumer preferring bitter chocolate, and through seasonal sales being less important gift occasions. In 1993 Thorntons (France) made a loss of £1.8m – the accumulated cost of the French initiative had reached £20m. Thorntons began to plan for the conversion of some of the shops to the Thorntons brand, with the aim of increasing the synergy with the UK business.

A change of direction

John Thornton, the son of Norman Thornton, had joined the company in 1966, becoming Chairman and Chief Executive in 1987. During the latter part of 1995 the company announced that it was seeking a new person for the position of Chief Executive. In January 1996 Roger Paffard became the first non-family Chief Executive of Thorntons with John Thornton as Chairman. Roger Paffard's previous position was that of Managing Director of Staples UK, the office supplies superstore joint venture between Kingfisher and Staples, where he had presided over the expansion of the out-of-town superstore business. Announcing the appointment, John Thornton described Mr Paffard as 'energetic with a strong retail background'. Roger Paffard demonstrated his faith in the company by purchasing 73,000 shares at 135p. Further changes to the board of directors included the appointment of the company's first Marketing Director.

The new management team undertook a comprehensive review that resulted in a number of changes to the group. To improve efficiency and

cut costs, packaging was to be concentrated at the Belper packing and manufacturing site, providing annual savings of £250,000. The Belgium business, Gartner Pralines, was to be sold for a nominal sum. The 30 per cent of Gartner's output that had been produced for the UK would be replaced by production at the group's main plant at Alfreton. Within the year a buyer was found, again for a nominal sum, for the remaining shops in France.

With regard to UK operations the new Chief Executive concluded that the company's existing shops were 'tired and increasingly off-pitch', many of the shops were too small and in poor locations. The Chief Executive concluded that the group had become over-focused upon manufacturing to the comparative neglect of its retailing activities and the development of the product range. Mr Paffard had initially doubted whether Thorntons should continue manufacturing, however a review convinced the board that the company was the only possible manufacturer for 70 per cent of its product lines. With the aid of retail consultants Thorntons undertook a review of its UK market, concluding that there was still significant potential to increase the UK retail chain.

By the end of October 1996 the company's three-year plan had been developed to include the closure of 126 shops and the opening of 216, to take the total from 269 to 359 shops. There was to be an emphasis on developing larger and better, prime location sites, in such locations as malls, shopping centres and small market towns. Expansion was particularly targeted towards London and the south. The aim was to provide a 60 per cent increase in total floor space by the year 2000, with annual sales per shop of £350,000. In addition the product range would be developed to provide a wider range of products. Achieving these targets would require an ambitious programme of investment, averaging £17m a year for three years. Over the next three years the group invested a total of £53m in new factory, warehousing and till systems. The manufacturing investment tripling the level of potential output.

Targeting growth and innovation

By the late 1990s the company's senior management had come to see Thorntons as a market-led, retail-driven business, selling into a market that could be defined in a number of ways. Within the confectionery market Thorntons core products

Exhibit 2

UK boxed chocolate market (% market share)

	1999	2002 (estimated)
Cadbury	24	24
Nestlé Rowntree	22	19
Masterfoods	13	16
Kraft Jacob Suchard	13	13
Thorntons	8	8
Ferrero	6	5
Other brands	10	9
Own-label	5	5
Total value of sales	£713m	£699m

were within the boxed chocolate market, a market in which four companies, Cadbury, Nestlé Rowntree, Masterfoods and Kraft Jacob Suchard, accounted for 72 per cent of sales (Exhibit 2).

(Appendix 1 provides an overview of the UK confectionery market that includes the boxed chocolate market.)

As a gift Thorntons' boxed chocolates competed with a wide range of products in the £5–10 price range, provided by high street specialist retailers such as Body Shop and KnickerBox. The same market was also addressed by postal gifts such as flowers and wine.

Thorntons' plans were revised to achieve further growth. Thorntons' channels of distribution were targeted for further expansion to increase the total of wholly owned shops to 507 by 2001 together with 200 franchised outlets. Overall the company's sales growth was targeted to increase by 15 per cent a year. At the same time greater importance was given to product development. Thorntons markedly increased the rate and scope of product innovation, repackaging and relaunching the Classics range, adding 'Swiss' and 'Austrian' selections to the core Continental range and introducing an Awesome American range. In 1997 27 new countlines (wrapped chocolate bars designed for one person to consume) were introduced, providing a five-fold increase in the range available. The ice cream range was expanded and a children's range introduced, with product themes including dinosaur eggs, fossils and dalmatian spots. In 1998 a further 132 new and updated products were introduced. Widening the product

range to include a greater emphasis on countlines, which acted as a snack or impulse buy, attracted a wider range of customers but it also brought Thorntons into competition with the products of such companies as Nestlé and Cadburys.

Sales from the new ranges were over £5.5m (4 per cent of turnover) in 1998, but not all of the new products were to prove successful. Within the year 15 new products were discontinued due to their failing to reach an acceptable level of sales. Losses from the discontinued products were increased due to a lack of timely performance information; in 1998 the company had only begun a £3m programme to install EPOS in the shops.

During 1998 Thorntons' sales increased to £133m, with sales in the company's own shops growing to £105.9m. Sales to commercial customers had reached £17.4m, the main customer remaining Marks and Spencer. However, profits fell short of the company's own target.

The company continued to develop responses to the problem of seasonality. Through product development and shop relocation initiatives Thorntons sought to attract a wider range of customers thereby increasing the importance of impulse and everyday snack purchases. The effectiveness of these initiatives in smoothing demand was limited. In 1997–98 the tonnage produced at the low point of production remained half of that achieved at peak. The requirements of Thorntons' main commercial customers were seasonal and similar to their own.

The introduction of new products had achieved a number of beneficial effects, increasing the num-

ber of male customers, children and teenagers and lowering the overall age profile of the customers, although 50 per cent of turnover was still derived from the 12–16 weeks of sales involving Christmas, Easter, Valentine's Day, Mother's and Father's Day. The development of mail order provided an economic response to a seasonal pattern of demand while new forms of outlet, such as Café Thorntons (combining aspects of a café and a confectionery store), offered the possibility of developing outlets with a less seasonal pattern of sales. Seasonal demand remained difficult to meet. During the Christmas 1998 period consumers had tended to delay their seasonal purchases with the result that sales for the Christmas season were down by 3.8 per cent on a like-for-like basis. Roger Paffard explained 'Christmas came very late and our shops couldn't cope, which meant people were dropping off the queues rather than waiting to buy. If we had had one more day before Christmas at those busy levels we would have seen a like-for-like increase'.

Sales for Easter 1999 and Mother's Day were also disappointing leading to a warning of a reduction in profits. The Chief Executive announced that the group had underestimated the amount of new product necessary to stimulate sales over Mother's Day and Easter, advertising spending and new product launches were to be increased to raise the momentum of sales. The Chief Executive believed a slow-down in product development during 1999 had been 'lethal' in a situation where consumers constantly expected new offerings. For the coming spring (year 2000) new products and relaunches would make up 92 per cent of items on sale for Valentine's Day, 100 per cent for Mother's Day and 91 per cent for Easter Sunday. New products for Valentine's Day were to include chocolate-scented T-shirts and underwear, and for Easter eggs on sticks that could be hidden in the garden. New and relaunched products were to be in place for the 1999 Christmas sales period, including a relaunch of the best-selling Continental selection and a range designed for the millennium celebrations that included a chocolate champagne bottle.

The three phase turnaround plan (2000–2003)

In March 2000 the company announced that it was unlikely that it would achieve even the 1999

pre-tax profit of £10.5m let alone meet stock market expectations of £12m for the year to late June 2000. By mutual agreement with the board, Roger Paffard left Thorntons. Within a month the appointment of a new Chief Executive, Peter Burdon, had been announced. Peter Burdon's career included Esso, McKinsey & Co and the Boots retail group. The new Chief Executive announced that 'in the past Thorntons has focused a little bit too much on store openings and less on driving sales growth'. In his view the company needed to exploit its strong brand through marketing and advertising campaigns but did not need immediate changes in its product range: 'Thorntons is, and will remain, chocolate and toffee'. The core Thorntons customer was described as a 'thirty year old, Daily Mail reading woman'. However the company's deteriorating performance was prompting a revision of its strategic development. A new three-year plan was introduced aimed at achieving a turnaround in the company's performance. The plan consisted of a sequence of three, year-long, phases.

- Year One: stabilisation of the business.
- Year Two: the creation of organic growth.
- Year Three: the development of new growth options, possibly through the acquisition of rival confectionery brands.

Despite product developments Easter 2000 proved disappointing. Although like-for-like sales increased by 6 per cent the increase was not as much as expected, leaving the company with an excess of 300,000 chocolate eggs, subsequently sold off at half price or less. Expensive adult eggs, costing more than £15, proved difficult to sell and the market for novelty eggs, such as one that contained a CD, was also weak. After taking account of marketing expenditure the overall loss amounted to £5m.

Thorntons intensified their efforts to lessen their dependence on seasonal sales. New product development was focused towards day-to-day sales and the brand's advertising would no longer focus upon the company's heritage, typified by the advertising slogan 'Chocolate heaven since 1911', but upon the promise of 'There's lots in store for you'. In the financial press a number of analysts commented that consumers most often looked to the supermarkets for mass-market confectionery.

Over time product innovation had led to duplication within product ranges. New rules were to be followed to avoid cluttered product displays, including withdrawing products as new ones were introduced. The policies would eventually result in a 15 per cent reduction in the product range. Opportunities to increase commercial sales were also to be explored. The capital expenditure programme was to be reduced and focused more clearly on profit enhancement. The roll-out of new stores was to be slowed, however agreement had been reached for a number of joint venture shops, selling chocolates and cards, to be developed with the Birthdays Group (a 500-strong chain of greetings card and novelties outlets) as an experiment in serving small catchment areas. The lower rents and the attractiveness of the joint offer were to prove profitable and by 2001 the joint shops accounted for 40 of Thorntons' total of 400 'own' shops.

Thorntons' sales accounted for about 50 per cent of the market for premium boxed chocolates. Further research by the company had revealed that gift purchase was a key strength of the Thorntons business. It was announced that the company intended to reposition many of the company's products so that they were associated not only with such gift occasions as Christmas and Easter but with 'every occasion when people want to give a small gift' such as birthdays, exam success or job changes. The store environment was to be altered to gain more effective gift display. The product range and advertising messages were changed from 'there's lots in store for you', and the implication of personal indulgence, to focus on gift giving. Further growth was anticipated for the franchise network, despite its association with lower margins, and also for mail order distribution.

By mid 2001 the stabilisation phase of the plan was seen as having been completed on time with the company experiencing improved stock levels and reductions in selling and distribution costs. In addressing the second phase Mr Burdon stated in the 2001 Annual Report that Thorntons' vision was to become 'The UK's leading retailer and distributor of sweet special food' with the intention of markedly increasing their manufacturing and distribution to other retailers through Thorntons branded products as well as 'own brand', provided the product was 'indulgent and connected to chocolate and toffee'. Thorntons was to develop ranges of branded desserts, ice cream, sponge puddings,

cakes and cheesecakes, biscuits and chocolate bars under the 'Thorntons Pure Indulgence' brand for sale through supermarkets. Licences would be arranged with suitable third-party food manufacturers. Further targeted outlets were to include pubs and restaurants. Thorntons' boxed chocolate and toffee would only be sold through the company's shops and franchise outlets, however impulse bars would also be sold through multiple grocers, initially with a 12-month exclusive supply arrangement with the Tesco supermarket chain.

Seasonal sales performance improved. For Christmas 2001 sales were 8 per cent higher than for the rather disappointing previous Christmas season. The internet, telephone and mail order service (which included options for combining chocolates with a bouquet, wine, perfume, cologne and toiletries, for individuals, weddings and corporate gifts) reported a 100 per cent increase in sales for the half year, with an average order value of £25 as against the average shop purchase of £7.

The annual report for 2002 focused upon the need to 'profitably lever . . . our greatest asset, the Thorntons brand'. Reflecting on the three-year turnaround plan Mr Burdon concluded that opportunities remained for significant organic growth and that future development should have this as its focus. Thorntons no longer intended to initiate the third year of the original three-year plan, the development of new growth options. The new strategic agenda would emphasise:

- *Brand values.* The clarity and consistency of all elements, such as product, packaging, shop environment and staff uniforms.
- *Support for retail activities.* Freeing store managers' time by simpler stock and planning systems; separate management structures for the cafés and the Birthdays joint-venture stores; developing the relationships and opportunities presented by third-party distribution.
- *Faster new product development.*
- *New café concept.* Aimed at doubling the number of cafés (from a total of 25) within two years.
- *Long-term shareholder value.* Through seeking new opportunities.

Seasonal sales continued to dominate Thorntons' revenue. In early 2003 the company's seasonal sales performance appeared to improve. In the two weeks' run-up to Valentine's Day 2003 the

company sold 350,000 boxes of chocolates including 70,000 boxes of Eden. Directed towards younger women Eden combined such exotically named flavours as Forbidden Fruit, Grand Passion and All About Eve with chic packaging, pink lettering on a black box that was closed by a pink elastic 'garter'. Gross profit margins widened as new products were priced to encourage customers to trade up and poor selling products continued to be withdrawn.

However by Easter 2003 the UK chocolate market and Thorntons' sales became affected by what was to become the hottest summer in 30 years. Year end results to June 2003 revealed that like-for-like sales by the company's own stores had increased by only 0.9 per cent (1.6 per cent for the first half of the year). The Chief Executive's report stated that such vulnerability was expected to recede as the company increased its sales through other outlets. The ending of the exclusive supply agreement with the Tesco supermarket chain had been followed by further agreements being gained with other major confectionery retailers. Branded sales through other retailers had grown by 94 per cent during the year to a total value of £3.1m. Similarly royalties from licensed products had increased from £0.2m to £0.5m, commercial sales had grown by 25 per cent and sales by the Gift Delivery Service by 26 per cent to £5.3m. Long-term success, Mr Burdon stated, would best come from being a branded manufacturer operating through multiple channels to the customer.

New management and new directions?

The disappointing results for the year ending June 2003 brought critical comment from a financial press that had already become accustomed to Thorntons announcing warnings that profit targets were not being achieved. Questions addressed the longer-term failure of the company to develop its profitability and also the company's strategy, including the continued use of an extensive chain of own shops in a market where the supermarkets had developed their sales to account for over 50 per cent of UK confectionery sales. Within a few weeks the ownership of the company, in which the Thorntons family continued to control 29 per cent of the shares, was also opened to question by the proposal of a management buyout led by Peter Burdon and financed by a private equity firm. The intention was to return Thorntons to being a private company. On announcement of the news the company's share price rose 20.5p to 155.5p, its highest value for more than three years.

However, the price for control of the company was higher, 180p a share. By February 2004, with potential bidders unwilling to meet the required price, talk of a bid for Thorntons had disappeared. Two months later John Thornton signalled the end of 90 years of family management of Thorntons by announcing his retirement as the company's executive chairman.

APPENDIX

The UK confectionery market

UK per capita consumption of confectionery is one of the highest in the world. Within the UK market chocolate confectionery is viewed as an affordable treat, as part of snacking or a gift. The UK confectionery market is highly competitive with a great deal of product and packaging innovation. Manufacturers have tended to focus effort upon the chocolate sector, with its higher margins. The chocolate market after a period of steady growth has since 2000 shown signs of decline in both the volume and value of products sold.

UK confectionery sales (£m)*

	Total	Chocolate	Sugar
1993	4,415	3,038	1,377
1997	5,167	3,496	1,671
1999	5,462	3,750	1,712
2002 (estimate)	5,179	3,494	1,685

* £1 = approx. €1.5.

Mintel observes (November 2002) that compared to other food categories chocolate confectionery is 'highly indulgent', combining creamy chocolate taste, interesting textures and ingredients (such as caramel nougat) to complement the chocolate content. The connotation of indulgence is often increased by the benefits created for the product.

Chocolate market: sub-sectors

	Value share	
	1999 (%)	2002 (estimate) (%)
Countlines	45	43
Moulded bars	15	15
Boxed chocolates	19	20
Seasonal products	11	10
Bagged selflines	10	12
Total Value	£3,750m	£3,494m

Countlines: Wrapped chocolate bars designed for one person to consume. The sector is dominated by Kit Kat (Nestlé Rowntree) 16 per cent of countline sales value (advertising expenditure in 2002 £6.3m), Mars Bar 12 per cent. Between 1997 and 2002 this sector has experienced a slight decline in value of sales, partly due to the inability of new product development to counter the increasing attractions of alternative products for consumer expenditure (such as for teenagers, mobile phones and fast food) and the retail strength of multiple grocers reducing daily opportunities for impulse buying.

Moulded bars: Chocolate as slabs or segmented, the product can be separated to be shared.

Boxed chocolates: The market for boxed chocolates is largely driven by gift giving for such occasions as Christmas, Easter and Valentine's Day. Since 1997 the value of the luxury/premium market has grown by 13 per cent. Within the boxed chocolates market brands occupy particular positions, Black Magic associated with romance, Roses informal expressions of thanks, Celebrations with sharing. Sales increases have been achieved by brands that emphasise sharing.

Within this sector competition to Thorntons is provided not only by the larger manufacturers, whose resources can sustain investment in product support (an average advertising to sales ratio of 3 per cent in 2000) and relaunch activity, but also smaller more specialist chocolate brands. The company Elizabeth Shaw following success with their Famous Names range of liqueurs, launched Vodka Shots in 2001, designed to appeal to younger customers. Its success was followed by Mexican Tequila Shots and Imported Schnapps shots and The Collection, a sliding box of liqueurs launched in 2002, designed to appeal to ABC1 consumers aged 30–50. Certain retailers, for example Marks and Spencer, have high quality images that support the sale of own-label boxed chocolates as gifts. While a supermarket brand may not normally be appropriate for more than a casual gift occasion, retailers have addressed this deficiency by developing their own premium brands, such as Sainsbury's Taste the Difference. Often these products are innovative, for example Waitrose Chocolate Blueberries launched for Christmas 2000.

A number of international companies operate largely outside of the UK market. Leonidas, a Belgian manufacturer, has over 1,750 independently owned stores throughout the world (19 in the UK). The retailers receive supplies, at least weekly, from the company's three factories in Belgium. The retailer is allowed to add products of suitable quality produced by other companies to broaden the range of products available in the shop.

Seasonal products: This sector of the market includes all items that are packaged with a seasonal theme and are available for only a limited period. In 2000 Easter chocolate confectionery accounted for 66 per cent of the sales of seasonal chocolate, Christmas 23 per cent, followed by Valentine's Day 5 per cent, and Mother's Day 4 per cent. Value for money is becoming of less importance than the recipient of the gift liking the gift.

and the gift providing an appropriate celebration for the occasion. Recently manufacturers have found it difficult to present an increasingly sophisticated consumer with new items that will attract purchase.

As manufacturers Cadburys have market leadership in both the Easter and Christmas seasonal markets. Woolworths sold 20 million Easter eggs in 2003. Consumers showed themselves willing to purchase luxury Belgian chocolate eggs from Woolworths, but avoided the store's 'commodity' products.

Bagged selflines: Smaller chocolates sold in bags, examples include Smarties, M&M's, Mars Miniatures and more recently Toblerone.

Distribution

In 2002, 43 per cent of chocolate confectionery sales were through multiple grocers (1997, 39 per cent), CTNs 11 per cent (1997, 16 per cent), department stores 9 per cent (1997, 9 per cent), petrol forecourts 11 per cent (1997, 7 per cent). Despite the predominance of sales through multiple grocers brand sales account for over 90 per cent of chocolate confectionery sales.

Impulse sales are important in the chocolate confectionery market and are reflected in where confectionery is displayed in retail outlets. The growth of sales through petrol stations can be related to this factor and the absence of parking problems. Industry research has found that men tend to be associated with last-minute shopping and that impulse outlets such as petrol stations are an ideal place to attract them.

Source: Marketing data sources, Euromonitor, Mintel.