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Montreaux Chocolate USA: Are Americans Ready for Healthy Dark Chocolate?

In October 2012, Andrea Torres, director of new product development at Montreaux Chocolate USA, was poring over data from a recent Nielsen BASES II test. Over 15 months had passed since the Consumer Foods Group (CFG) of Apollo Foods had purchased the rights to distribute Montreaux's European chocolate products in the U.S. as a means of increasing market share, in pursuit of upscale market segments. Torres was now satisfied with the research and methodology that her New Product Development (NPD) team had employed to assess market opportunity in the U.S. to date.

A board meeting was scheduled for December 10, at which Torres would be expected to make a solid, comprehensive, and compelling presentation on the status of the acquisition/assimilation of Montreaux and plans for the launch of the new product in the U.S.

David Raymond, her division manager, had committed to a set of aggressive sales forecasts that placed even greater significance on the accuracy and adequacy of the research and its application. As a result, Torres was carefully and pragmatically evaluating her options: do further product testing, launch in selected test markets, stage a regional rollout, or launch nationally?

Corporate and Company Background

Apollo Foods, a Los Angeles, California-based, global consumer packaged-goods powerhouse, offered an unrivaled portfolio of brands, manufactured confectionery, biscuits, snacks, beverages, cheese, and convenient meals, as well as an array of packaged grocery items for distribution in 170 countries. It reported 2011 revenue of $54.4 billion and net income of $3.5 billion, to which the CFG, one of four operating divisions, contributed $19.1 billion in revenue and $1.26 billion in net income. Twelve of the company's iconic brands generated revenues of over $1 billion annually and some 80 brands exceeded $100 million annually. The CFG, which was responsible for all confectionery products, managed three of those brands.

HBS Professor John A. Quelch and Professor Diane Badame of the Marshall School at the University of Southern California prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. Although based on real events and despite occasional references to actual companies, this case is fictitious and any resemblance to actual persons or entities is coincidental.

Apollo knew its consumers well and had been successfully feeding their hunger for bold flavors, easy meal solutions, and "better-for-you" offerings with more than 70 new product innovations over the past three years.

In June 2011, Apollo acquired the exclusive rights to manufacture and market Montreaux chocolate products in the U.S. from the well-known Swiss company Montreaux Chocolate Company S.A. Montreaux had long sought to expand to the U.S. but lacked the resources. Apollo was seeking a greater presence in the lucrative chocolate market and an opportunity to grow its confectionery share in the U.S., especially as it enjoyed a number-two position in the global confectionery business, largely due to products other than chocolate, such as gum and candies. This rights acquisition was the most expeditious method for both entities to achieve their goals and, given mutual reliance, offered the opportunity of an enduring and mutually rewarding relationship.

Shortly after entering into the agreement, Apollo had considered the purchase of a chocolate manufacturing facility in Pennsylvania to support the unique manufacturing processes of the Montreaux chocolate products and to serve the anticipated growth in Montreaux sales, but decided to wait until the NPD group provided a definitive launch strategy and timeline.

Apollo delegated management of the arrangement to the CFG, which formed a new division, Montreaux Chocolate USA, to operate the business. David Raymond, formerly a marketing director in the New Business Division, was named division manager. He committed to achieving aggressive goals by year-end 2015, based on Apollo's successes and marketing expertise and Montreaux's reputation as a high-quality chocolatier in Europe. The goals included:

1. National distribution of the new Montreaux product line (referring to the degree to which a given product is available for purchase or the percentage of stores carrying a given product)
2. $115 million in annual sales
3. Be in the top 25 in revenue (0.60% market share; see **Exhibit 1** for volume projections)

Montreaux personnel from Switzerland came to the U.S. and worked closely with Apollo personnel to develop Montreaux Chocolate USA's technical expertise. One engineer from Switzerland was assigned to support Torres for two years, to assist in product development and process engineering.

When Apollo first acquired the rights, it considered marketing the products through Montreaux's existing broker network but opted instead to employ Apollo's large sales force to maximize the opportunity by leveraging existing relationships. This plan of action would allow Apollo to penetrate the traditional retail channels, including "big-box" supercenters, supermarkets, drug stores, and convenience stores.

The Chocolate Confectionery Market

Chocolate is made by roasting, crushing, and refining cocoa beans. Dark chocolate is typically at least 55% cocoa; higher-quality products contain at least 70%. Milk chocolate, on the other hand, typically contains a maximum of 50% cocoa, to which milk is added. The higher concentration of cocoa in dark chocolate is the source of its claimed health benefits.

Chocolate is the most lucrative segment of the global confectionery market, accounting for 52.6% of the market's total value. In 2011, Europe captured the largest regional share of the global confectionary market at 45.2%, with the Americas following at 33.9%.[1]

The U.S. confectionery market reported total revenues of $35.648 billion in 2011, representing an annual compound growth rate of 2.8% between 2007 and 2011. Total revenue for the chocolate segment in 2011 was $17.664 billion, a 1.9% increase over 2010. The U.S. chocolate market was expected to grow almost 2% annually through 2015.[2]

Consumers' focus on fitness and health in the U.S., which sharpened over the past three decades, prompted Montreaux Chocolate USA to consider expanding its chocolate offerings to include products that featured a healthy focus. As the emphasis on healthy eating habits heightened, however, so had the number of competitors and the rate of new product introduction.

Fishers, Inc., a Dallas, Texas-based firm, was the leading global player in 2011, generating a 16.8% share of the market's value. Apollo Foods solidly held second place at 15.4%, with Swiss food giant Cornelius S.A. following at 9.1%. None of these companies, however, was the leader in the U.S. chocolate market; that honor went to Lancaster Company, with a 34.8% U.S. market share. Fishers closely followed with a 34.4% share.

The chocolate market in the U.S. is composed of seven product segments, with the top four accounting for 94.4% of market value:

1. Bar/bag/box (3.5 oz.+): $7,149 million, with 7.6% growth between 2009 and 2011
2. Seasonal chocolate: $4,407 million, with 9.9% growth
3. Bar/bag/box (less than or equal to 3.5 oz.): $3,479 million, with 18.5% growth
4. Snack-size chocolate (less than or equal to 0.6 oz.): $2,522 million, with 10.8% growth

Other segments include gift box, sugar-free, and novelty chocolate.[3]

The overall market for chocolate in the U.S. is segmented by mass market and premium, with the mass market accounting for 80.3% of sales and premium for 19.7%. The premium segment is further segmented into everyday gourmet/affordable luxury, upscale premium, and super premium, which represent 16.8%, 2.2%, and 0.7%, respectively, of total sales.[4]

Grocery, drug, and convenience stores, and Walmart, collectively sold approximately 45.3% of the chocolate candy in the U.S. in 2011. Grocery was the largest channel, accounting for 15.8% of sales followed by convenience stores at 11.7%, drug stores at 9.0%, and Walmart at 8.8%.[5]

Trends in the U.S. chocolate market in 2011 included:

1. Premium chocolate products moving to mainstream channels (i.e., supermarkets, mass merchandisers)
2. Dark chocolate sales benefiting from flavanols—antioxidants that can help to lower cholesterol and provide cardiovascular benefits
3. Low-calorie options such as reduced fat and aerated chocolate
4. Packaging going to stand-up pouches and bigger sizes that appeal to economically conscious consumers
5. New labeling with terminology emphasizing shareability, portion control, and saving a piece for later
6. Increases in pricing attributable to rising commodity costs

Consumer Attitudes and Usage

Among confection-eating adults in 2012, chocolate was consumed by 92%, who ate an average of 7.8 pieces of chocolate confectionery per month. By comparison, confection-eating children consumed less than half that amount of chocolate on average per month, although the penetration of children eating chocolate was, at 95%, slightly higher than that for adults.[6]

Chocolate consumption spanned gender, age, and household income groups, with slight variations in the formats purchased. Women were slightly more likely to eat chocolate than men (94% versus 90%), and higher-income earners were more likely to be attracted to boxed chocolates. The 45–64 age group had the highest level of per capita chocolate consumption, and that level was increasing. These consumers were prime targets for premium and specialty chocolates, and the most likely to purchase chocolate for holidays or as gifts, as well as to spend more on chocolate that they buy for others. This group was also most likely to purchase chocolate when it was on sale. Consumers increased their consumption of dark chocolate as they grew older. The "everyday sophisticates" or "bliss consumers" who bought dark chocolate were typically brand lovers, socially influential, worldly, and more willing to experiment with new foods. Montreaux Chocolate USA "loyalists" were female, aged 45–64, college educated, married with children, with household income of $50,000+, concerned about health and weight, and more likely to purchase chocolate for themselves than as a gift.

What Motivated Consumers to Purchase Chocolate?

Women who ate chocolate were more likely than men to associate it with positive experiences such as personal reward and mood enhancement. They reacted very positively to new ingredients and flavors as well as the purported benefits of improved cardiovascular fitness and lower blood pressure. In contrast, men were more focused on price and would respond positively to practical characteristics—energy boosters, quick, easy, convenient, and affordable.[7]

Convenience was a key driver of a chocolate purchase as indicated by three-quarters of consumers who purchased chocolate confectionery at supermarkets, with fairly equal percentages doing so in the candy aisle and at checkout.

Women perceived a greater distinction between premium and non-premium chocolate than did men and identified premium chocolate as a personal luxury that offered better taste and greater flavor variety. Over two-thirds of premium chocolate eaters believed it was healthier than mass-market offerings largely because lower-quality chocolate products usually contained artificial flavors, fillers, or other additives. Moreover, close to 40% of adults preferred mini and snack sizes, typically 0.25–0.60 ounces, to standard bars; given the heightened awareness of health and wellness issues, this preference may have indicated an effort to control consumption.

New Product Development at Montreaux

The NPD Group's charter was to achieve national distribution of Montreaux Chocolate USA and continue to significantly build the chocolate business in the U.S. by developing new product lines. Given the deliverable expected by senior management by year-end 2012, coupled with the company-wide focus on health and wellness, and her manager's commitments, Torres accepted NPD's recommendation to explore the growing dark chocolate category. She and her team subsequently met with Montreaux's research and development personnel, who had joined the group from Apollo, and their advertising agency to generate ideas for the new product. Out of these sessions came 45 ideas that all parties agreed merited further testing.

Montreaux decided to partner with Nielsen BASES to quantitatively assess and optimize the new dark chocolate initiative. Montreaux was keenly interested in understanding the long-term viability of the initiative, as they were going to invest significant resources in the launch and wanted the initiative to endure. BASES's extensive innovation experience had identified the 12 key things that drive successful consumer adoption of new products and empirically tied a new product's potential on these factors to the odds of in-market success (see **Exhibit 2**).

BASES, a division of the Nielsen company, a large multifaceted marketing consultancy, offers services that span the new product development process, from early idea screening through launch qualification of the final concept and product. With the help of these factors and the ability of the BASES Model to project volume potential of new products prior to launch, BASES would help Montreaux hone in on the new product opportunity and a strategy that 1) was in line with Apollo and Montreaux's **strategy** for health and wellness, 2) demonstrated strong consumer **viability**, and 3) would deliver the financial **potential** that was strong enough to meet the goals of the team. The team would be able to trace the progression of the initiative from idea to concept, to product and the BASES team would consult throughout the dark chocolate development and help Montreaux track against projections into year-one and beyond.

BASES Idea Screening Test

The first study Montreaux commissioned was a BASES Idea Screening test. BASES offers a low-cost way to quickly prioritize which new product ideas merit further development. This insight is based on performance on four of the factors that underpin the foundational strengths of an initiative and could reasonably be evaluated at the early phase of testing: Distinct Proposition, Attention Catching, Need/Desire, and Advantage (see **Exhibit 2**). From this screening Montreaux was able to narrow down the initial 45 ideas to the 12 ideas that possess the strongest potential and should be accelerated for concept development, many of which incorporated dark chocolate with fruit.

BASES Snapshot Concept Test

Montreaux understood the need to further prioritize the concept lines based on preliminary volumetric indicators as well as the feasibility of improving areas of optimization. Thus, the winning ideas moved to a BASES Snapshot concept test to identify early optimization opportunities and rough size of the price estimates prior to product development. Each idea was developed into a full concept via the addition of the concept images, messaging, varieties, and prices. A total of 200 consumers per concept were asked to evaluate the given concepts that they viewed online and to provide feedback. No actual product tasting/trial was included yet; the intent was to identify which concepts have the strongest potential to be tried by consumers in market. The BASES Snapshot identified five dark chocolate with fruit concepts that respondents considered distinct as well as attractive and relevant. However,.credibility issues existed due to the unfamiliarity of the new European brand in the U.S. marketplace. With that knowledge in hand, these five "winners" were selected for further development. With the inclusion of a line-optimization analysis to better gauge the best combination of fruit flavors to include, the team confirmed that blueberry, pomegranate, and cranberry should be among the top flavors. From this testing the NPD group gave top development priority to two dark chocolate with fruit concepts, one with 70% cocoa and one with 90%.

Montreaux's R&D team then moved on to product development to find viable formulas that would meet the brand's high standards of quality and flavor at a price point consumers were willing to pay. Different types of fruit and fruit flavors, colors, and texture were developed. In addition to those identified earlier, NPD considered many other types of fruit, including goji berries, orange, acai, raspberries, and currants. At first, the number of prototypes was too large for all to be consumer-tested, so members of the project team met biweekly to taste the products and winnow the list of prototypes.

Focus Groups

Once the list of winning product formulations had been reduced to a manageable size (four in total—two with 70% cocoa and two with 90% in one of two sizes, 3.5-ounce bar or 10 squares in a 5-ounce stand-up pouch), NPD conducted eight focus groups to determine the optimal level of cocoa, reconfirm the best varieties of fruit, and refine future positioning of the line. Participants were shown headline descriptions and given samples of the four products. This qualitative research found that consumers preferred the taste of the 70% cocoa to the slightly more bitter 90% variation and also confirmed the previously identified top three flavors were also among the best tasting. The perception of healthfulness was considered the most significant difference between the new dark chocolate products and other chocolate offerings.

Marketing Issues

Aside from the product formulation, several other issues had to be addressed, including positioning, size, and packaging. Qualitative research results indicated health benefits as a potentially strong basis for positioning over taste, but NPD also noted taste was identified as an important attribute by most respondents in quantitative testing. Another positioning issue was the perception consumers should have of Montreaux Chocolate USA versus its primary competitors: Should Montreaux build upon its European brand equity or more directly tailor to the American consumer? As indicated in earlier testing, the respondents struggled with credibility issues because of the Montreaux brand name. As for size and packaging, some consumers preferred the smaller squares for portion control while others preferred the standard 3.5-ounce candy bar, and NPD needed to choose one size over the other.

Second BASES Snapshot Concept Test

Based on the research results to date, Torres decided to conduct a second BASES concept test to address these open issues. A total of 200 consumers per concept were asked to evaluate concepts that they viewed online and to provide feedback. NPD developed four refined 70% cocoa dark chocolate with fruit concepts with alternative positioning (healthy versus taste) and packaging/size (3.5-ounce bar versus squares in a 5.0-ounce stand-up pouch) for a second BASES Snapshot to determine rough revenue potential of the four optimized lines (see **Exhibit 3**).

Diagnostic information generated by the research found the 5-ounce stand-up pouch with healthy positioning to offer the greatest revenue potential, reconfirming the results of the focus group testing that found consumers respond very favorably to healthy messaging (with the smaller pieces aiding in the healthiness perception). While the 3.5-ounce bar with taste messaging was able to encourage consumers to expect to buy more often due it its smaller size, the concept was seen as less unique, thereby classifying it as a more risky proposition. Additionally, the smaller ounces and subsequent price generated less revenue than the winning pouch/health concept.

Results also found that taste was a strong secondary message that should be communicated in conjunction with the healthy positioning. The concepts were able to improve the credibility slightly by better linking the European heritage with taste. Additionally, the Snapshot suggested areas for a few potential improvements; both value and naturalness perceptions were soft (see **Exhibit 4**).

BASES II Testing

After making some minor modifications to the positioning and messaging of the product's value proposition, in August 2012, Andrea Torres decided to move forward with the BASES II testing. The methodology required contacting consumers via a proprietary Internet survey panel to gauge trial interest among a representative sample. Each respondent would be queried about their purchase interest. If they expressed the intent to buy the dark chocolate in the future, they would be shipped samples to try and then re-contacted about their product experience. Their responses would be used as inputs for the BASES volume forecasting model, including their buying intentions, intended frequency and quantity of purchase, price/value assessments, and other similar diagnostics. Results would be available within eight weeks of launching the research study.

The BASES II, the most robust concept and product evaluation offered by BASES, would allow Torres's team to evaluate the market readiness of the new dark chocolate and pinpoint potential areas of product optimization. Additionally, it would provide a one-year volume forecast by creating a simulated national-scale test market, which would allow the NPD Group to create alternative marketing scenarios by varying input parameters and then analyze the impact of these adjustments on trial rates, repeat rates, total sales volume, cannibalization, and profitability.

The team decided to test the 70% cocoa dark chocolate with fruit with healthy messaging and new stand-up pouch concept due to its heightened revenue potential, better alignment with health and wellness initiatives, and strong consumer acceptance of the proposition.

The results of the likelihood to purchase question stated that 23% of respondents would definitely buy the Montreaux dark chocolate with fruit product and 40% would probably buy the product. These ratings, along with other diagnostics, were average at best, which was somewhat unsettling to Torres.

In BASES testing, the calculations are compared to standards with which comparable products have been tested in the marketplace. This prompted the NPD team to consider testing the sensitivity of various levels of awareness and distribution low, medium, and high) to determine the degree to which first-year sales forecasts would meet or exceed the $30 million hurdle rate, assuming a retailer gross margin of 35% and manufacturer suggested retail price of $4.49 (see **Exhibit 5**). While the product results indicated the product performance was strong, the team was interested in understanding the impact if the product experience was softer as well. There were some finance team members who wanted to reduce the quality of the cocoa and understand the impact. Thus, sensitivity of the repeat rate was evaluated as well as indicated by various repeat rates for mediocre, average, and excellent product scenarios (see **Exhibit 5**). While Torres recognized that the BASES Model was much more sophisticated than NPD's immediate needs required—and could additionally provide a degree of comfort in her forecast by producing up to two years of projections for sales volume—expediency and budget constraints prevailed, as she opted to leverage commonly held forecasting assumptions in the industry to understand the rough impact of some of the key levers on year-one volumes.

Final Steps

In preparing for the upcoming board meeting on December 10, Torres contemplated what recommendations she would bring to the meeting. She knew her boss, David Raymond, was expecting a high level of confidence in the forecasts on which he based his commitment to the three-year objectives, as did the board when evaluating the need for a new product.

Incidental at this point but nonetheless relevant to the upcoming meeting was a product name. The NPD team members had not yet made that decision. Should they continue to build brand reputation of the parent company by calling it Apollo or stay with the Montreaux name to build on the European company brand equity? Or should another brand or sub-brand name be introduced, such as Healthy Cravings, to emphasize the benefits of the dark chocolate product line with fruit? Or should the brand name be a sub-brand of Apollo?

Production facilities and processes were additional considerations. All product prototypes had been produced by Apollo's R&D technical center. Based on initial forecasts, the need for a plant was apparent but work on that project had not begun.

Torres's final decision was whether to recommend further product testing; test market the product in selected test markets; plan a regional rollout or launch nationally.

If Torres decided on a test market, the team would coordinate a full-scale, in-test market execution that entailed marketing the test product in two to four nationally representative cities through normal distribution channels. Apollo Foods would have to utilize its sales force to sell the test product to the trade and persuade retailers to carry the product in limited quantities, given it would be produced in small test batches. While this test would allow the NPD Group to holistically gauge the viability of the dark chocolate line in-market with close-to-actual market conditions prior to a wide-scale rollout, it was also the most expensive (over $3 million) and would take the longest time (one year) to obtain a proper reading of the results. This test would not only push the introduction to something beyond three years since the acquisition, but also present an element of risk as it provided the competition with an advanced notice of Montreaux Chocolate USA's new product plans and ample opportunity to buy the product off shelves, test it, and respond accordingly. Additionally, it could be very difficult to find cities that were fully representative of the U.S. consumer population.

There was an added element of complexity: The NPD team had recently learned that a competitor had also tested a dark chocolate with fruit concept and was likely not far from an introduction.

The pressure to move quickly was high.

Exhibit 1 Montreaux Chocolate USA Volume Projections

($ dollar values in millions)	2013	2014	2015
Total U.S. Market Size	$18,378	$18,745	$19,120
Montreaux Chocolate USA	$51.0	$76.0	$115.0
Montreaux U.S. Market Share	0.28%	0.41%	0.60%

Exhibit 2 Nielsen's 12 New-Product Success Factors

Exhibit 3 Montreaux Dark Chocolate with Pomegranate Concept Board for BASES Snapshot

Introducing Montreaux Dark Chocolate with Pomegranate—
A New Kind of Chocolate that Is Good for Your Health

Now you can have a delicious tasting chocolate indulgence that not only has 70% cocoa but additional natural fruit ingredients which provide antioxidants that **boost immunity to heart disease** and can **lower cholesterol**.

A 75-calorie square that cannot only satisfy that chocolate craving, but also let you feel good about it after you have thoroughly enjoyed each piece.

Flavors include pomegranate, cranberry, and blueberry.

Each 5-oz. package is priced at $4.49.

Exhibit 4 Attribute Ratings for the 5-oz. Stand-up Pouch with Healthy Messaging Concept

Product Attribute	**How much would you agree with the statements made about this product? (% Agree or Strongly Agree)**
Would be better for me than other chocolates	87
Would be high quality	85
Would taste great	84
Would come in varieties I like	78
Would be a good way in indulge myself	74
Would be good for any time of the day	61
Would taste better than other dark chocolates	54
Would be good for everyday use	42
Would be an all-natural snack option	38
Would be a good value	33

Exhibit 5 Montreaux Purchase Volume Estimate, Year One

Trial Purchase Rate		**Repeat Rate by Product**	
Definitely would buy	23%	Mediocre Product	28%
Probably would buy	40%	Average Product	33%
U.S. Households (MM)	120	Excellent Product	38%
Penetration[a]	92%	Repeat Purchase Occasions (units)	4
Marketing Plan Adjustments			
Consumer Awareness		**ACV**	
Low Support	14%	Low	60%
Medium Support	17%	Medium	65%
High Support	20%	High	79%
Pricing	$4.49	Retail Margin	35%

[a] Assumed penetration of chocolate users.

NOTE: Acceptable hurdle rate is $30MM.

All numbers are fictitious and used for illustrative purposes.

Methodology

1. Trial Rate = "Definites" * 80% + "Probables" * 30%
2. Marketing-Adjusted Trial Rate = Trial Rate * % Awareness * % ACV (distribution) * Penetration
3. Trial Households = Households x Marketing-Adjusted Trial Rate
4. Repeat Volume = Trial Households * % of Households Repurchasing * Repeat Purchase Occasions
5. Total Purchases = Trial Purchases + Repeat Purchases
6. Retail Sales Value = Retail Selling Price * Retail Sales Volume
7. Montreaux Sales Volume = Retail Sales Volume * (1 – Retailer Gross Margin – 35% or .65)

Endnotes

[1] MarketLine, Global Confectionery, 0199-0710, November 2012, pp. 8, 10, and 12.

[2] Mintel, *Chocolate Confectionery-U.S.*, April 2012, p. 17.

[3] Ibid., p. 28.

[4] Packaged Facts, *Chocolate Candy in the U.S.,* May 2012, p. 6.

[5] Ibid., p. 10.

[6] Mintel, *Chocolate Confectionery-U.S.,* April 2012, pp. 88–89.

[7] Ibid., p. 119.