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An Insight into Market competitiveness of Bean to Bar Chocolate in Coimbatore City – Application of Porter's Five Forces Model

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ABSTRACT : Understanding the external business environment is necessary for any entrepreneur to invest in a market. Analysis of market competitiveness provides insights into various factors involved in major decision making efforts. The current paper has attempted the same with the help of established tools and techniques. SWOT analysis and Porters five forces model are the commonly used tools for analyzing business and market based planning. The bean to bar chocolate is one of the fastest growing segments in food industry and effective marketing strategies would help attract investments through the entry of new players and also aid the growth of the exiting companies in the market. This study aims at understanding the competitiveness of bean to bar segment using the five key factors of Porter's model by evaluating the competitive advantage and market profitability of bean to bar chocolate brands in Coimbatore City. The results of the study would serve as an eye-opener for budding entrepreneurs and existing business ventures to understand the current business environment for bean to bar segment in Coimbatore City.

Keywords: Five forces model, bean to bar chocolates, chocolates, business environment, market competitiveness, strategy, entrepreneurs

INTRODUCTION

Last few years have seen a strong increase in appetite towards chocolates in India (Thomas, 2017). The chocolate market has evolved as an effective alternative to the traditional sweets and forging as a gifting option especially on occasions (Rehan, 2007). The market is currently dominated by multi-national companies like Cadburys, Nestle and Indian brand, Amul. These are commercial chocolates which are widely distributed and are widely available at a reasonable price in the market. The large increase in health-conscious consumers has given rise to various innovations in the food industry. The chocolate industry is usually considered as an unhealthy segment in food industry have undergone a dynamic change in perception amongst the clients. This has given rise to the evolution of bean to bar or craft chocolate industry around the world. Bean-to-Bar Chocolate market was valued at USD 11.14 billion in 2019 and is projected to reach USD 24.64 billion by 2027, growing at a CAGR of 11.22% from 2020 to 2027 (Verified Market Research, 2020). Bean to bar chocolates is the concept of sourcing chocolate directly from the cacao bean farmers and processing the bean to manufacture chocolates under controlled environment (Vaidyanathan, 2020). The bean to bar chocolates is usually made without any stabilizers or preservatives and often concentrate on dark chocolate which is considered as a healthy alternative to the commercially available chocolates. The bean to bar chocolate market has also seen a boom in India in the last decade and Coimbatore having access to good quality cacao from nearby places in Kerala state and Pollachi area has become the epicentre for bean to bar chocolate market for the country as whole. There are little evidences on business environments for the chocolate industry in India. The current research is first of its kind to construe the business environment for bean to bar chocolates in Coimbatore. The results would provide cognisance on the existing business environment and thereby elucidate the strengths and opportunities that lay ahead for the segment.

MATERIAL AND METHODS

A. Methodology

To understand the market competitiveness for the bean to bar chocolate industry in Coimbatore city, primary information was collected from the discussions with bean to bar customers, retail store managers and manufacturers in Coimbatore City. Secondary sources like books, research articles, newspapers and website publications were used to understand the market competitiveness of the industry around the world. The relevant information obtained from the discussion with the primary respondents has been used for analysing the competitiveness of the bean to bar chocolate industry in the city.

The Five Forces Model. The Five Forces Model, developed by Michael. E. Porter is the summary of competitive forces in five areas of the overall market (Porter, 1980). Porter's five forces include - three forces from 'horizontal' competition: the threat of substitute products or services, the threat of established rivals, and the threat of new entrants; and two forces from 'vertical' competition: the bargaining power of suppliers and the bargaining power of customers as shown in Fig.1. Analysis of current market structure of bean to bar chocolate was done in the study area (Coimbatore) using this framework.

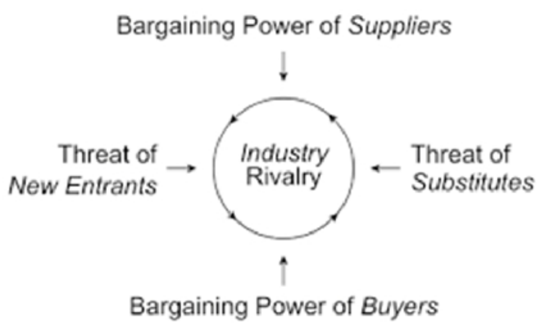

Fig. 1. A graphical representation of Porter's Five Forces model (Source: Porter (1957).

The Porter Five Forces include –

Threat of New Entrants. The threat of new entrants refers to the ability of new companies to enter into an industry. New entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete (Porter, 2008).

New entrants in a market has a significant influence on the incumbents' competitiveness and ability to generate profit. Despite numerous barriers to entry, new firms sometimes enter industries with higher-quality products, lower prices, and substantial marketing resources (David, 2011).

Bargaining Power of Suppliers. It refers to the pressure that suppliers can put on companies by raising their prices, lowering their quality, or reducing the availability of their products. Undermining the bargaining power of its suppliers can make a firm worse off (Bakos and Brynjolfsson, 1993). The bargaining power of suppliers affects the intensity of competition in an industry, especially when there is a large number of suppliers, when there are only a few good substitute raw materials, or when the cost of switching raw materials is especially costly.

Bargaining Power of Buyers. It refers to the pressure that customers/consumers can put on businesses to get them to provide higher quality products, better customer service, and/or lower prices. Knowing how the customers actually use the products enhances a company's ability to segment customers, customise products set prices to capture better value, and extend value added services (Porter and Heppelmann (2014). When customers are concentrated or large or buy in volume, their bargaining power represents a major force affecting the intensity of competition in an industry.

Threat from Substitute Products. Companies are concerned that substitute products or services may displace their own. Competitive pressures arising from substitute products increase as the relative price of substitute products declines and as consumers' switching costs decrease.

Rivalry among the existing players. Competitive rivalry is a measure of the extent of competition among existing firms. Rivalry among competing firms is usually the most powerful of the five competitive forces (David, 2011). Intense rivalry can limit profits and lead to competitive moves, including price cutting, increased advertising expenditures, or spending on service/product improvements and innovation.

RESULTS AND DISCUSSION

India being a manufacturing hub, it is saddled with a lot of gaps in the industry (Kaushal, 2020). The bean to bar chocolate industry in Coimbatore is well developed in comparison to other regions of the country due to the presence of various players in the market. In 2020, the market was comprised of three major brands namely M&N chocolates, Soklet and Chitra'm craft chocolates. The brands currently operate in different business formats with M&N chocolates focussed on standalone store model, Soklet with extensive retailing and distribution network and Chitra'm craft chocolates available in the format of a café and in few organic retail stores.

The market is in its nascent stages in Coimbatore and the companies are implementing various measures to improve the sales and customer base. The study has analyzed the competitiveness of bean to bar chocolate industry Coimbatore with the help of Porter's Five Forces Model as the tool.

A. Threat of New Entrants – Moderate to High

The threat of new entrants in the bean to bar chocolate industry is moderate to high. New entrants brings innovation, new ways of doing things (Fern Fort University, 2020). Since the initial investment is comparatively lesser, the barriers to start a manufacturing facility is also low. Supply side economies of scale are high thus making it an interesting market for new entrants. Low brand loyalty and brand positioning among the clients makes it easy for new entrants in the market. However, the availability of skilled labour and extensive training for the existing man power, low economies of scale makes it difficult for new entrants to become a quick success. Still, with low switching costs, new brands can attract customers using lower prices, thus establishing a threat. Easy access to the distribution channels and option to sell online along with increase in demand side benefits of scale supports the new entrants. Further the lack of stringent government policies in the emerging field of chocolates and low anticipated incumbent response strategies make the industry more appealing to new entrants.

B. Bargaining Power of Buyers – Low to Moderate

The bargaining power of buyers in the case of bean to bar brands in Coimbatore is low to moderate. The bean to bar chocolate is still considered a luxury product which is not purchased every day and the volume of purchase is also small.This means the influence of single buyer in the market is very low. Also, it is understood that the customer base who opted for these types of chocolates are diverse and have different agenda for the purchase. Quality is more than making a good product (Takeuchi and Quelch, 1983). Though the quality conscious clientele is willing to pay a premium for the good quality products, the cheaper alternatives available in the market relatively unhealthy can dictate the price of the bean to bar chocolates. A customer would not mind switching back to the alternative segment if they find the bean to bar chocolates not value for money. As the product mix of this segment has not still peaked or diverse, switching of brands only becomes more of a mere possibility and not certainty given the favorable factors. Service and knowledge sharing for the products along with ethical values are additional factors which can make a buyer remain interested towards a brand. Consistent reinvention and attractive packaging along with easy access would make the buyer profitability higher. On the other hand, the backward integration of the chain is onerous due to the factors like availability of skilled and trained labour, higher production time etc.,

C. Bargaining Power of Suppliers – Low to Moderate

As of December 2018, companies such as Lindt, Mondelez, Ferrero, Hershey's, and Nestle can trace less than 30% of their cacao back to the farmer. This lack of transparency allows for child slave labour and other unethical and unsustainable practices to occur – certification or not (Cacao Magazine, 2019). Suppliers exert low to moderate pressure on bean to bar chocolates brands in Coimbatore. Bean-to-Bar makers have a better control over their supply chain from directly sourcing the cacao beans from handpicked farmers to some of them even having their own farms. This helps them deal directly with the farmers excluding the mediators or middlemen. Though there is a moderate risk of supplier's forward integration, the need for investment and restricted availability of skilled specialty labor makes it difficult for a new entrant to enter the market. From the discussion with various cacao farmers, it is evident that the technology transfer options available and practiced by the chocolate makers for improving the bean quality encourages them to work with the chocolate makers. The price offered by bean to bar makers to the cacao farmers is higher than the price offered by the other commercial brands thus reducing the risk of switching by the suppliers. The often exciting supply chain management of the bean to bar chocolate makers has reduced the bargaining power of suppliers. But the power of suppliers is still moderate as the substitute is not available therefore increasing the importance of cacao bean suppliers to the bean to bar industry.

D. Threat of substitutes – Moderate to High

The major threat for bean to bar chocolates in Coimbatore city are the substitutes that include commercial chocolates, homemade chocolates, traditional sweets and confectionary. The bean to bar chocolates are often expensive and unless the consumer understands the product in detail, the substitutes are often opted due to buyer price sensitivity. Bean to bar chocolates are healthier with natural ingredients and minimal processing, artisanal gourmet chocolates taste better because of locally sourced raw material and a burst of natural flavours (Agarwal, 2021) when compared to the other substitutes which reduces the threat considerably. The gifting market which is also a major contributor for sales of bean to bar chocolate is often under threat of substitutes with low switching cost. The threat of substitute is moderate to high for bean to bar chocolate brands in Coimbatore city as the value proposition of the substitute products are often unique and caters to needs to different consumer segments.

E. Competitive Rivalry within an Industry – Moderate to High

The consumer awareness of bean to bar chocolates was found to be very low. It was also evident from the results that, though the three brands are well established in the city, word-of-mouth plays a prominent role in the marketing. Quality of ingredients, innovative packaging, easy accessibility, product based differentiation and price are the major factors which influenced the consumer in choosing a brand between Soklet, Chitra'm and M&N chocolates. Recently there's also been major growth in the value-added sector of craft chocolate (Max, 2021). The switching cost between the brands is very low as the product differentiation is minimal, thus making the competition between the existing brands very intense. The constant need for reinvention and high strategic stakes makes the rivalry between the brands more complex. There is also enough space for new players with novel and unique ideas which adds to the intensity of competition. In spite of the strong rivalry, the industry is growing and potential consumer base is high thus reducing the intensity of competition. Based on these factors the competition between bean to bar chocolate brands in Coimbatore remains moderate to high.

The Soklet brand has taken the initiative to have a strong distribution network within the city including airport stall and other places helping in better visibility. The packaging and the tree to bar concept with a good supply chain are their strengths in the market. M&N with their physical store provides an experience for consumer to choose from a huge collection of chocolates suiting the purpose of health, gifting etc. Chitra'm being availablein Café Infusions, a chocolate themed store, and few retail outlets have also concentrated on their customer interaction and experience to remain strong in the market.

The industry has three brands that are equally balanced with steady growth, high storage and fixed costs with high exit barriers resulting in need for improvement in quality, price differentiation, new product line and innovative advertising to be able to compete in the highly competitive bean to bar chocolate segment in Coimbatore. The abstract details of relative market competitiveness of bean to bar chocolates in Coimbatore is presented in Table 1.

Table 1: Market Competitiveness of bean to bar chocolates in Coimbatore.

Porters Five Forces	
Forces	**Threat**
New Entrants	High supply side economies of scale and demand side benefits of scale. Low capital requirement and low brand loyalty. Easy access of distribution. Lack of government regulations. Low anticipated incumbent response and low switching cost. Overall – ***Moderate to High***
Threat of Substitutes	Low price of alternatives but with lesser intrinsic benefits. Buyer price sensitivity is moderate. Switching cost is low. The clientele is quality conscious. Overall - ***Moderate to High***
Bargaining Power of Suppliers	High risk of forward integration. Switching cost is high. Lack of legal framework for partnership with farmers. Good supply chain but lack of substitute raw materials. Overall – ***Low to Moderate***
Bargaining Power of Buyers	Single buyer strength is low. Switching cost is low. High buyer profitability. Low buyer backward integration. Overall – ***Low to Moderate***
Competitive Rivalry	Competition among three brands. Switching cost is low. Minimal product differentiation. High strategic stakes. High potential market but with high exit barriers. Overall – ***Moderate to High***

CONCLUSION

The Porters model of analysis of the five competitive forces led to early identification of the market trends for the bean to bar chocolate industry in Coimbatore city. The analysis can be used to exploit the emerging opportunity in the confectionary segment. Bargaining power of buyers of bean to bar chocolates as well as the suppliers in Coimbatore city was found to be low to moderate. The competitive rivalry between the existing brands in Coimbatore is moderate to high. The threat of substitute products was also found to be moderate to high. While all the five forces exerted pressure on the industry to an extent, competitive rivalry between existing brands, threat of new entrants and substitutes were the major factors deciding the competitiveness of bean to bar chocolate industry in Coimbatore.

FUTURE SCOPE

The bean to bar chocolate market is in the nascent stage around the world. The related research about this field of chocolates is sparse in India. Cacao farms are abundant in southern India due to the favourable weather conditions. The bean to bar makers concentrated here can exploit the raw, indigenous cacao beans for their high quality and taste. This in turn strengthens the farmers both economically and socially. The bean to bar chocolate industry focusses on transfer of technology to farmers which aids in better yield and returns for their cacao crops. The study would help the existing manufacturers and aspiring makers to develop strategies to strengthen their presence in the domestic market. The bean to bar chocolate industry has been a boon to consumers who crave for variety, quality and a healthier alternative for guilt free indulgence.

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Conflict of Interest. The authors certify that they have NO affiliations with or involvement in any organization or entity with any financial interest or non-financial interest in the subject matter or materials discussed in this manuscript.

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