

Chocolate Industry Analysis

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Surveying the Cocoa and Chocolate Industry

The cocoa industry has showcased progressive growth primarily due to the vigorous growing trajectory observed by the most in-demand global chocolate sweets. This is probably due to an exponential rise in the origin of common stock grindings that has put up an intensified demand in the market for ingredients that are cocoa based([FortuneBusinessInsights](#), 2020).

Chocolate continues (till date) to be a leading taste in confectionery food items especially in every newly launched chocolate variant of beverages, bakery items, and other sweet treats. Also, owing to the immense demand for cocoa ingredients in almost every beverage and baking industry, the cocoa and the chocolate industry has observed fuel in the demand for its products occasionally.

Having a forecast projection of around \$61.34B by the year 2027, the chocolate industry during a forecast period manifests a CAGR value of around 4.6% as disclosed by the latest 2022 report([360ResearchReports](#), 2022).

1. Structure of the Industry

Coming in at seventh number in the list of most chocolate consuming countries, the UK has the world's largest confectionery market in the entire EU region([UKEssays](#), 2015). The UK chocolate industry has more of an oligopolistic structure in which few relatively large company brands like Cadbury, Mars, etc produce similar, slightly varying products([Hall](#), 2021).

In an oligopolistic structure industry, there's no dominant force competitor; the companies and brands operating within such industry structure tend to collude rather than compete with one another. Consequently, this creates hurdles for the non-established brands to conquer the market let alone enter it([Hall](#), 2021). The oligopolistic structure of the chocolate industry can be attributed to the fragmentation occurring between large company brands in the chocolate confectionery sector. Additionally, when an industry has five or fewer company brands in the market that elucidate and exhibit 60% of the total market sales or

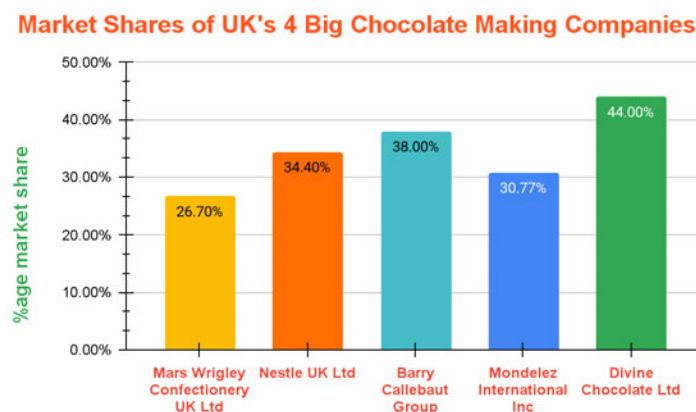
demand fulfilment, the industry structure is referred to as oligopolistic in nature which is exactly what the chocolate industry in the UK looks like([UKEssays](#), 2015).

The oligopolistic structure of the chocolate confectionery industry in the UK has created some barriers to entry probably because of the existing firms having strong financial power in winning over customer allegiance through their powerful branding campaigns([Doherty and Tranchell](#), 2005). Despite the top-performing brands in the UK chocolate industry creating a challenging situation for new entrants, there still exist some small profits and shares in chocolate brands like the Divine Chocolate company, a brand that is renowned for its fair trade policy([Leissle](#), 2012).

In global terms, the chocolate market is forecasted to grow at a CAGR of 4.15%(census 2021-28)([DataBridgeMarketResearch](#), 2021). The major factor that has been discerning and driving the growth rate of the cocoa industries is the awareness caused by top brands about the health benefits of pure cocoa usage. Yet another factor that's escalating the chocolate industry growth is the changes in lifestyle the pandemic has imposed and the consumption patterns associated with chocolate lovers' intake of their favourite confectionery.

- **Companies in UK's Chocolate Industry Holding the most of Market Share**

There are a total of 4 big companies in the UK that make available Chocolate and Confectionery products available to consumers in the marketplace both on a local scale as well as internationally([IBISWorld](#), 2021). These along with their %age market share are as under:



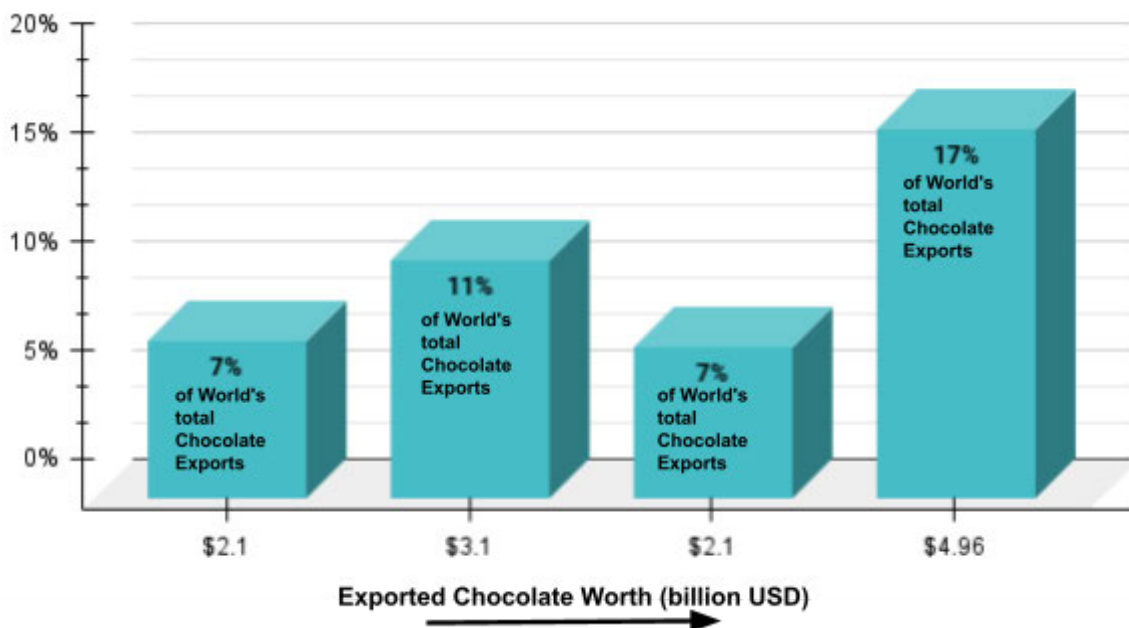
The divine chocolate company is a legal entity that brings to consumer market chocolate products. The company has twice achieved distinction for being 'best for the world' B corp([DivineChocolate](#), 2017).

- **Cocoa Industry Raw Material Supply and Major Production Centres**

Although there are four ([Kumar and Sable, 2019](#)) main regional segments of the cocoa industry from which cocoa beans are sourced, being among the most chocolate consuming countries in the EU, the British cocoa industry receives a supply of its raw materials mostly from Ivory Coast (Ghana), a country in West Africa ([CBI, 2019](#)). Almost two-thirds of the world's cocoa beans are sourced from West Africa.

Major chocolate production factories on a global scale are located in 4 countries including Germany, Italy, Belgium, and Poland. Here's a brief overview of how much worth of chocolate each country exported as of the 2020 census:

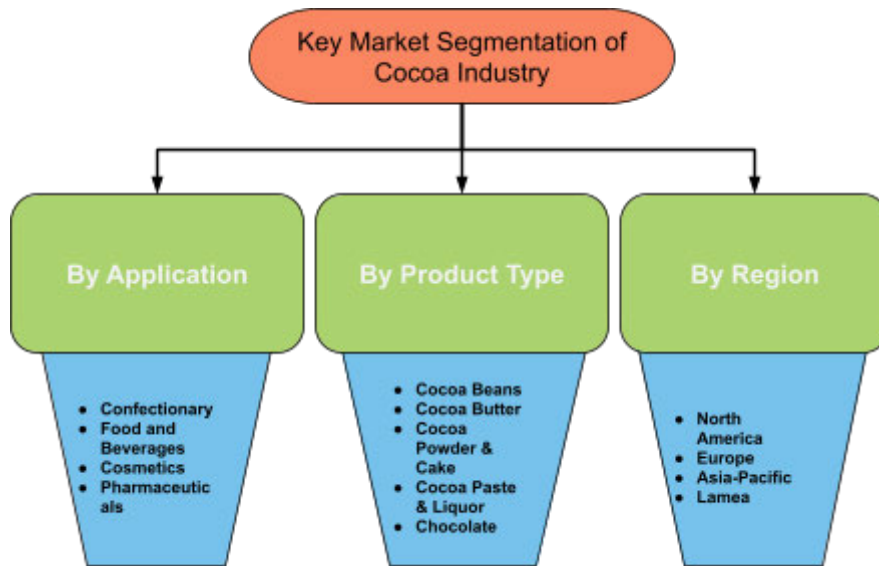
Total Chocolate Exports by 4 Major Chocolate Producing Countries



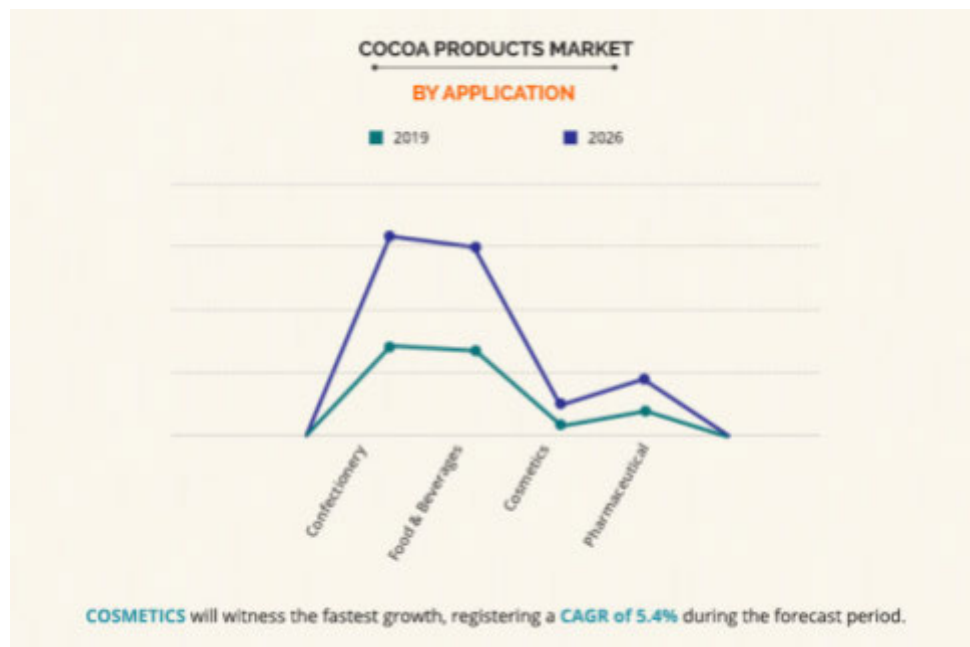
- **Segmentation of Cocoa Industry**

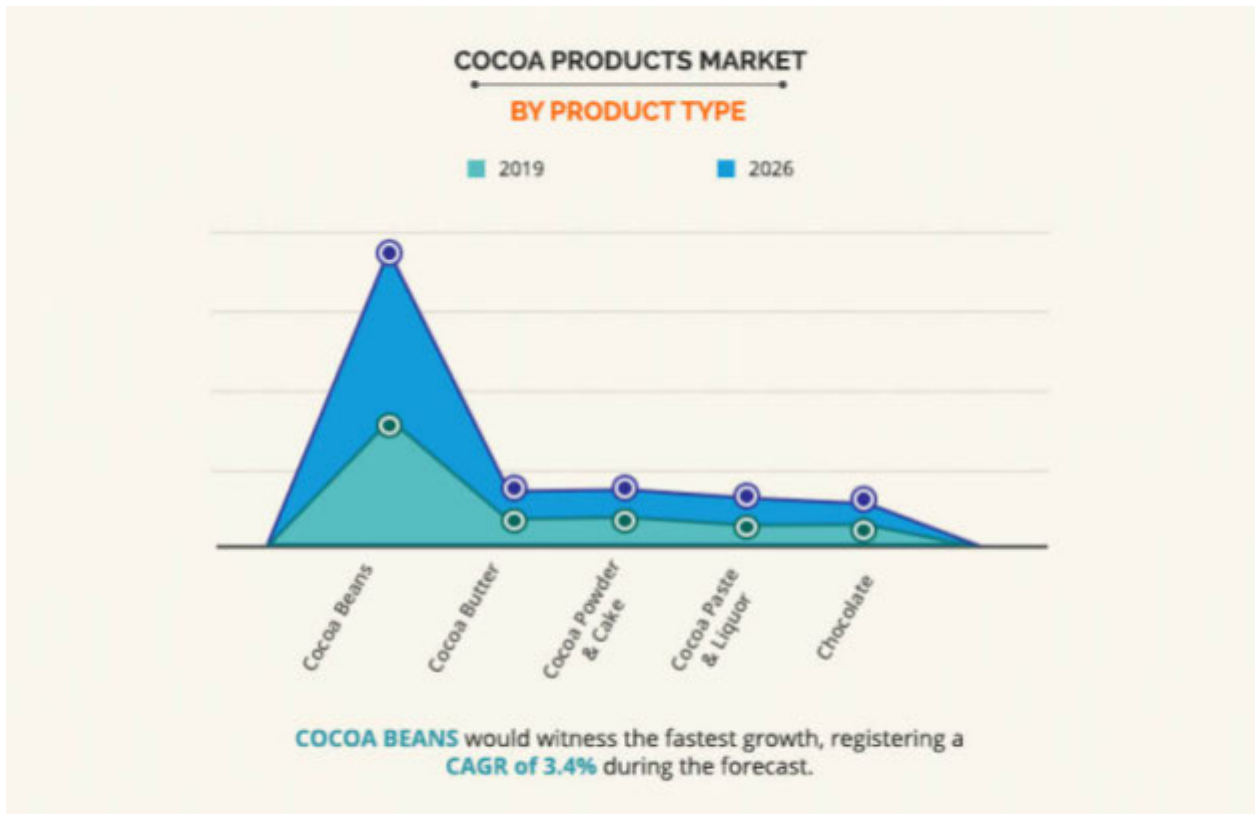
Cocoa is an ingredient that is not only used in food and confectionary items alone. Rather the ingredient has found its application in beauty and skincare products as well. For that matter, the segmentation of the cocoa industry extends beyond the consume-only items and into the external application only products. Other than that, cosmetics and pharmaceutical industries also make use of the cocoa ingredient in their products ([Kumar and Sable, 2019](#)). However, the demand for the confectionery segment outweighs that of other application segments of cocoa.

Here's how the key market segmentation for the cocoa industry looks like:



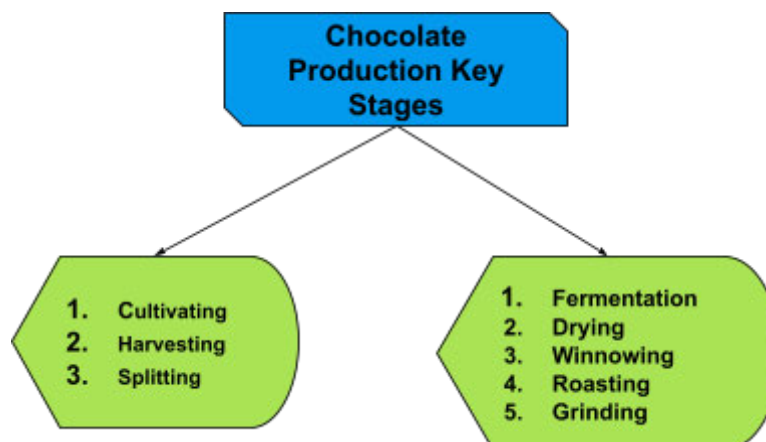
Within the regional segmentation, Europe owns the most mature cocoa market probably because of the retail market infrastructure that has evolved steadily over the years (Kumar and Sable, 2019). As for the segmentation of the market based upon application and product types, the graphical stats appear as under (Kumar and Sable, 2019):





2. Supply Chain Analysis and Key Stages

The supply chain of the chocolate industry goes through 8 key phases before it is made available to consumers. These 8 stages have 3 stages that are processed at cocoa plantation fields and the rest of the 5 stages are a part of further processing at industries.

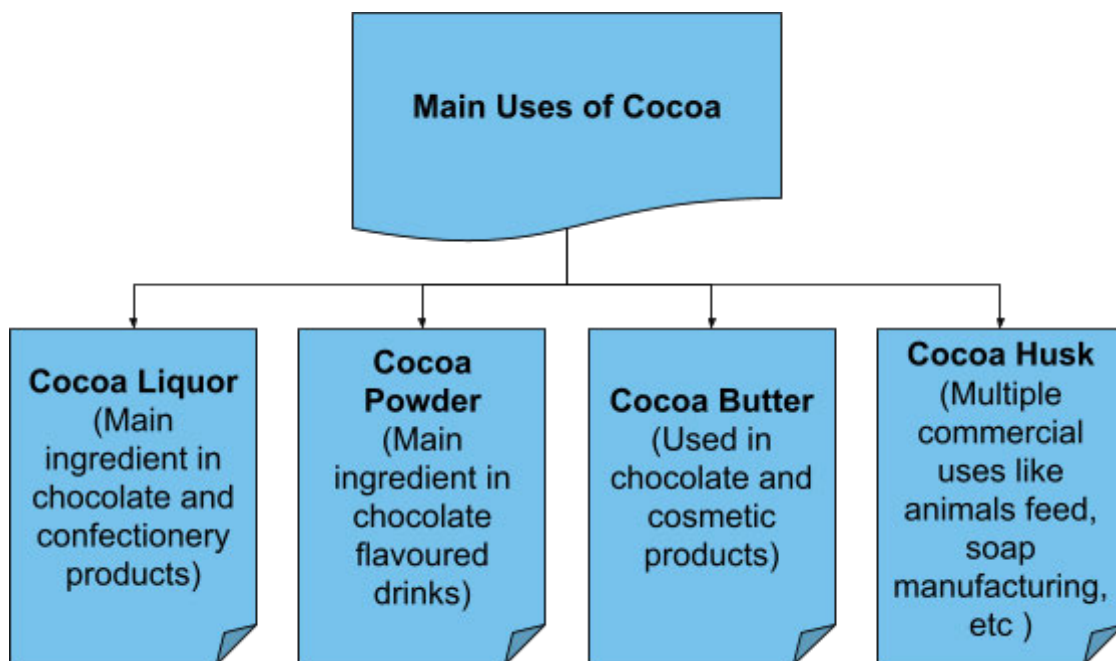


After these 8 stages, the supply chain of the chocolate industry further extends into transportation and retailing to satisfy the consumer demand market([Konstanst. et al., 2018](#)).

- **Commodity Production and Supply**

Cocoa is an ingredient that is enjoyed by the consumer market with a total consumption of 4.5M tons annually. This makes it a crucial farming commodity([Pines, 2021](#)) in markets upon the export of which most underdeveloped countries rely on. Procured from the dried and fermented beans of the Theobroma Cacao plant, cocoa forms the first critical node of the huge chocolate industry.

Presently the consumer market of chocolate modifies the use of cocoa according to their taste preferences. While the critical ingredient; cocoa is used in both food and non-food products, however, for food applications, consumers derive the following uses of cocoa:



- ❖ **Factors Affecting the supply of cocoa to chocolate industries**

The critical node ingredient of the chocolate industry has its supply depending on 6 main factors: supply, climate, production cycle, infrastructure and transportation, consumer preferences, and lastly the British Pound.

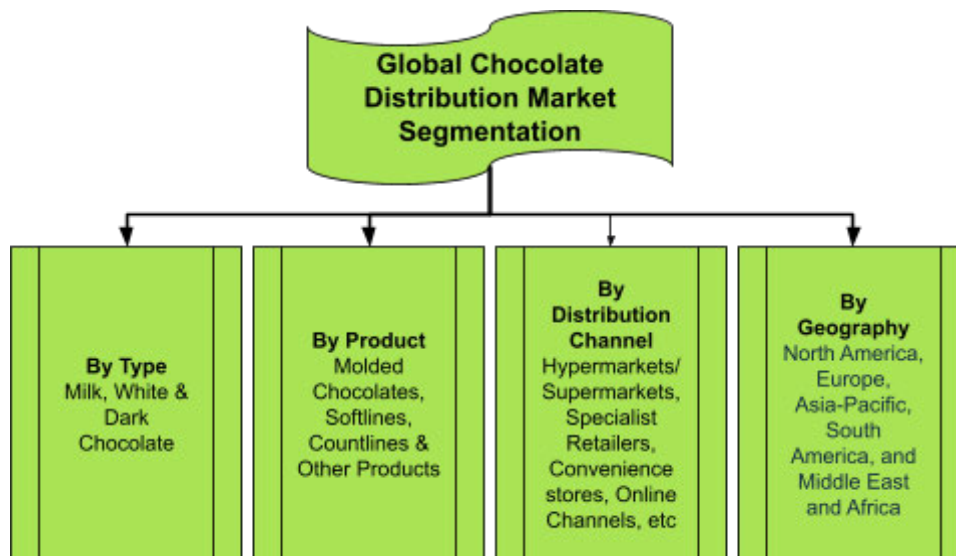
- **Production and Main Market Distribution**

The production cycle of the critical node ingredient of the chocolate industry is quite tiring and takes anywhere from 4 to 6 years for the seedling to mature into a ripe fruit giving plant([ChocolateKnowledge, 2021](#)). This multi-year endeavour of the right crop

cultivation and harvesting makes it challenging for farmers to weigh in on their decisions crucially before they actually start monitoring some profits from their investments into cocoa production([Pines](#), 2021).

Additionally, the immense growth time paves a threat of cocoa supply shortage to the chocolate industry's supply chain which consequently results in price inflations of the critical node ingredient. Compounding this issue is the fact that cocoa is mostly grown in less economically developed countries like Ghana that have limited infrastructure. During heavy rainfall seasons the weak infrastructure causes damages to crops and transportation gets affected at large. As a result supply disruptions are experienced by the chocolate industries([Sana](#), 2017).

By main market distribution channel([MordorIntelligence](#), 2021), the chocolate industry is segmented into the following sub-segments:



- **Ethical, Sustainability and SR issues in Supply Chain**

The chocolate industry, even though it shows a growing CAGR, however, the industry has some ethical and sustainability issues as is the case with every other operating industry. Mostly at the consumer premises, customers purchase their favourite chocolate item, get done with the purchase, and leave because, in this fast-paced world, no one has the time to delve into the topic of how the cocoa was produced that made possible the dessert people consume. Where in reality, the question of whether the cocoa sourced for the production of confectionery is ethical or not is often shrouded with mystery and can't be resolved without proper backward tracking.

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- Child labour, perceived as morally and ethically not acceptable by UNICEF, is one of the biggest issues prevailing at cocoa plantations([UNICEF, 2021](#)).
 - Additionally, the low wages of cocoa-growing peasants hardly allows them to afford a decent living which is ethically wrong. For instance in Ghana, the world's second-largest cocoa production city in Africa, on an average per day salary of all the hard work of cocoa farmers is only about £1.5 which is clearly a wage even below the poverty line. Cocoa farming reports([Peprah, 2015](#)) indicate that over 2M children in the cocoa mass-producing cities of Ivory Coast and Ghana are occupied in child labour for the production of cocoa. Compounding this issue is the fact that even if one wants the situation to be curtailed totally, it's not happening to the extent it should be; rather it's growing([Hainmueller, Hiscox, and Tampe, 2011](#)).
 - Global Slavery Index has indicated that almost 1% of the total child labour on cocoa plantations is forced and the risk factor of forced labour in cocoa agriculture was becoming common([WalkFree, 2018](#)). What's more, is the hazards involved when a 10yr old kid sprays toxins on plant pods without any protective clothing. With the unhealthy conditions, the low wages, the poor sanitary conditions, with non-nutritious cheap foods to consume, the chocolate industry is ethically unjust and no doubt cruel enough to not assess the critical conditions of the cocoa-growing peasants.
 - Deforestation because of an ever-growing demand for cocoa is yet another issue that is deteriorating environmental conditions in cocoa-producing countries. More and more peasants in these countries are turning to protected lands to fulfil the 62% rise in cocoa demand over the last 2 decades([SourceTrace, no date](#)).
 - In respect to the lengthy cocoa-growing cycle, the fact of cocoa not being an everlasting ingredient affects supply chain sustainability during the time the plants don't produce fruit.

3. Ethical, Sustainability, and SR issues faced by Cadbury (and their effects on the company)

Cadbury is one of the leading brands of the chocolate industry whose confectionary items are enjoyed by consumers worldwide. Emerging as a global brand with offices and manufacturing plants operating in both Northern America and the United Kingdom, the Cadbury brand and the entire range of its products are generally owned by American sweets manufacturing giant, Mondelez International ([PestleAnalysis, 2014](#)). Although Cadbury is a British multinational confectionery company, it's Mondelez International that owns it which is actually American.

As discussed above, supply chains of all companies face challenges that need to be handled for the efficient, sustainable and ethically consistent supply chain management. Cadbury too has several ethical and sustainability issues that impart a stain on the socially responsible ethos of the company. Here are some of the issues, in the pretext of ethics, sustainability and social responsibility, that the Cadbury company faces:

- **Unseen Disruptions in Production and Distribution Channels**

The number one issue that the Cadbury company faces in its supply chain management is the disruptions to the production and distribution channels of the supply chain upon which the entire infrastructure of a company is based. These disruptions might be caused because of the poor infrastructure of countries (as mentioned above) from which the company sources its starting critical node ingredient; cocoa. Other than that, accidental product damages and extreme weather conditions might also become a reason for it. These disruptions are strong enough to negatively affect the make and sell of the company's products.

- **Price Inflation due to enhanced demand or intensified competition**

With inflation comes immense declining margins which is a usual expected consumer behaviour against inflation. However, depending upon the cause of inflation, the intensified competition affects the company's overall business financially especially when the competing companies utilise their resources in price reductions, multiple new product launches, market focus change, enhanced marketing expenditures etc.

In the case of enhanced demand, the company's supply chain is exposed to risk when multiple retail trades, owing to the trends taking place in the industry, might cause price inflation.

- **Varying Consumer Preferences**

With Cadbury being a globally supplying chocolate company, varying consumer preferences and demands depending upon their budget and geographical location impose an issue to the company when they find it challenging to fulfil consumer demands timely or at a reasonable cost. For instance, the Indian Cadbury often faces denunciation regarding all of its products being the same and consumers demand new, different range products([Manoj](#), no date). However, in countries abroad like Australia and the UK, it is not the view held by consumers about the company. Due to varying consumer demands, Cadbury India often observes performance decline([Malviya](#), 2020) when the challenge of varying consumer preferences does not allocate the company a reasonable time to respond.

- **The issue faced in Cadbury's Corporate Social Responsibility**

Back in 2009, Cadbury faced issues that questioned its Social Responsibility when carbon emission footprints of the company's dairy farm were observed to be affecting environmental conditions. On average, per cow emitted 80-120 kilograms of carbon dioxide annually([Adam](#), 2009). These figures are equivalent to the carbon emission of a vehicle on annual terms which is unhealthy and unhygienic. Cadbury took to the resolution of the issue by working with more than 65 dairy farmers for the reduction of its cow's methane emissions or carbon footprints.

4. Forecast of Cadbury's Performance in Coming years

As Cadbury continues to top the list of reputable chocolate confectionery brands in countries where it operates, the company is considering expanding its business in countries like China, Nigeria and Russia([Jones](#), 2006) anytime in the near future. Following this move can benefit the company at large specifically because the targeted countries have immense population rates which could simply account for the large market opportunity for Cadbury in those countries. Additionally, the increase in the demand for confectionery items holds a bright future for the company.

Cadbury also holds the vision and a great opportunity to co-brand marketing with reputable brands in other industries (related to maybe dairy like ice cream or some milk brand) which can generate more capital income for the company. In the scenario of meeting consumer preferences for business growth and economic strengthening, Cadbury should adapt to the trends taking place in the food industry like the low-calorie diet, sugar-free items, etc. Similarly, the company's idea of introducing a vegan-free version of its dairy milk chocolate also holds a good vision for the market.

Similarly, strengthening its infrastructure by installing in the evolving technological equipment and machinery can help the company gear up its production costs and time.

5. Conclusion

Chocolate is a delicious treat that has been around for thousands of years. Although the production and consumption of chocolate have changed throughout history, the popularity of chocolate has not wavered; in fact, it's grown steadily over the past few decades.

The chocolate industry has been on a roller coaster for the last decade, but despite ups and downs, it is still one of the top five food industries in the world. This can be attributed to the vast acceptance, popularity and consumption of chocolate globally. From candy bars to ice cream, chocolate is everywhere and there's no stopping it. The global chocolate market has the potential to get bigger, as it is still growing.

During the past decade, chocolate companies have observed a spike in sales owing to the increased demand for chocolate-based confectionery products. The most significant factor that directly affects the growth of the chocolate industry is the cocoa beans and cocoa butter supply, the first critical node ingredients of the chocolate supply chain. Mostly these critical node ingredients are often subjected to inflations due to shortages or other factors.

Companies like Cadbury and other frontline holding companies in the chocolate industry are trying their best to implement sustainable, ethical and socially responsible supply chains for the chocolate consumers market and they are, to the most extent if not full, successful in their endeavours too.



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