Anil Jiwan Mall
Duo Ren
Jiawen Sun

Professor Thomas Rees
Professor Xiaochuan Tong

MBA461-Financial Claimants

Strategic Plan for Cocoo Chocolate

Table of Contents

Intro

Cocoo's mission is to deliver high quality, aromatic chocolate to consumers. We would target consumers of all age groups with a single premium product: Coco Milk Chocolate Bars with hazelnut crisp and Almond (100g)

Ingredients:

- Sugar
- Cocoa Butter
- Cocoa Solids
- Milk Solids
- Almond
- Vanillin
- Honey
- Hazelnut

Variable Product Costs

(Production: 40,000)

Raw materials	100,000
Payment for suppliers	4,000
Advertising & Commission costs	9,000
Marketing costs	16,200
Labor Cost	25,000
Telephone bill	10,000
Electricity bill	7,500
Storage and Packaging costs	25,000
Shipping costs	9,000
Variable S&A Expenses	20,000

Sales Price: USD 11

Contribution margin (Per Unit): 5.64

It may be argued that all brands are based on differentiating ideas and design concepts. But in boutique brands, the weight given to this aspect is visibly higher than in mainline brands. Cocoo's selection supports a supply chain that is not only more transparent than fair trade or big-brand chocolate but also tastier. Therefore, instead of competing mega players in the market like:Mondelez,Nestle,Hershey and Mars, etc., here are a few of our competitors we identified in the market:

- Mother Mary Dark Chocolate
- Domori Quantum Milk Chocolate w/ Hazelnuts 42% (500g)
- Bonnat Hazelnut Praline Milk Chocolate 55%
- Milk Chocolate Hazelnut Bar 3.53oz

We can see that the prices of our main competitors are anywhere from USD 9 to 14.

Fixed Costs

(Production: 40,000)

Rent	10,000
Utilities	9,500
Web hosting and domian fees	700
File hosting and email marketing	1,200
Project management software	900
Social Media Management Tools	600
Internal Communication Tool	400
Wifi & Internet access	1500
Subscription fees for ecommerce platforms	1000
Insurance fee	7700
Salaries Expense	25,000
Transportation Costs	9,000
Fixed Manufacturing Expenses	15,000
Fixed S&A expenses	10,000
Equipment Rental	5,500
Other Fixed Expenses	50,000

Marketing plan and marketing expenses

The primary target market for Cocoo chocolate is all ages of people, households with one to three people, and households with household income above $45,000 per year. These households contain consumers that eat chocolate one to three times a week, like to indulge by eating chocolate, and are willing to try new brands of chocolate. The four marketing mix elements of the Cocoo marketing program are explained in detail in the following strategies regarding product, price, promotion, and distribution.

Product Strategy

Product Line: Cocoo chocolate is available in one flavor and one type. A smaller product line will be introduced into the US market during the first 5 years.

Packaging: Cocoo chocolates are packaged in brightly colored wrapping with bold and animated replicas of the chocolate in the package. Holding a high standard of using environmentally sustainable products, Cocoo has changed the cardboard quality in the chocolate boxes to use more recyclable materials

Price Strategy

Cocoo chocolate is priced at around $11 for a bar of chocolate in a 3.5 oz package.

Promotion Strategy

The main promotional channels for Cocoo will be through; in-store promotions, end of aisle displays, free samples, distribution discounts, and advertising.

In-Store Promotions: In-store promotions will be conducted in popular grocery stores. The promotions will consist of "buy one, get one free" (BOGO), and 10%-20% discounts on chocolate bars. Promotions will take place every two months to increase awareness of the brand and purchases in the US.

End of aisle displays: End of aisle displays will be put up in popular grocery stores in the target markets. These displays will have bars of milk chocolate at a lower price. This will increase customer acquisition and purchases.

Free Samples: To get consumers familiar with the brand, Cocoo will have a representative in grocery stores and other target markets who will give taste samples to potential customers every month for five months.

Distribution Discounts: If the wholesaler purchases at least 400 bars of milk chocolate, Cocoo will provide 350 bars at a 40% discounted price.

Advertising: To raise awareness about Cocoo in the US, the company will advertise in popular magazines and on social media platforms that are targeted more towards all age group.

Distribution Strategy

Cocoo will be manufactured in the Bethlehem plant and shipped to the local main warehouse in Allentown. After that, the product will ship to distributors and retailers. Most industry sales in the chocolate market in the US are derived from confectionery wholesalers, who account for about 80% of the market. In turn the confectionary wholesaler supplies supermarkets, specialty stores, convenience stores, and drug/discount stores, making it the most important link in the supply chain. Cocoo will identify a confectionary wholesaler who will identify supermarket chains and specialty stores in the Northeast states where consumption is heaviest.

Marketing Expense

The 12-month period ending December31,2023

End-of- Asile Display	$11,400
Free Standing Display	$14,000
Print Advertisements	$15,000
Affiliate Marketing Commission & Fees	$2,000
Influencer Marketing	$10,400
Facebook & Instagram Ads	$4,000
Free Chocolate Promotion	$8,000
Total	$64,800

Location for the production facility.

We decided to set up our production facility in Bethlehem, PA, with a warehouse in Allentown.

The reason we set up manufacturing in Bethlehem, PA, is that the city has a rich history of manufacturing and is called home by plenty of reputed manufacturing companies nowadays, including: Marcon & Boyer Inc., Sealed Air Corporation, PolyOne, Air Products, and Factory LLC. Taking advantage of the well-established industry could help us overcome current challenges caused by inflation, like a shortage of labor.

Moreover, Northeastern Pennsylvania has the lowest operating costs for food and plastics manufacturing, based on the report from The Boyd Company.

Lastly, with only one hour driving distance from New York, the largest market across America. Setting manufacturing in Bethlehem will allow the company to take advantage of its location to penetrate the New York market and the whole northeastern market and reduce its logistics costs.

Operating Budget

Operating Budget ACCOUNT NAME	Budget Q1	Budget Q2	Budget Q3	Budget Q4	Budget Q5	Budget Q6	Budget Q7	Budget Q8	Budget Q9	Budget Q10	Budget Q11	Budget Q12	Budget Total Q1 - Q12
Total Revenue	440,000	462,000	467,500	473,000	487,300	495,000	511,500	528,000	562,100	605,000	629,200	649,000	6,309,600
Less Variable Costs:													
Raw materials	100,000	123,801	146,998	127,465	142,596	130,431	132,518	132,880	137,048	165,000	175,000	193,000	1,706,737
Payment for suppliers	4,000	7,238	4,875	7,304	9,272	8,154	4,668	9,121	4,091	6,967	6,665	5,147	77,502
Advertising & Commission costs	9,000	13,725	10,316	13,749	11,449	9,552	11,597	10,798	13,112	11,414	11,294	11,515	137,521
Marketing costs	16,200	24,008	24,477	22,999	24,261	23,955	18,189	23,781	16,670	23,355	22,251	22,994	263,140
Labour Cost	25,000	26,642	28,824	27,057	30,969	29,011	29,389	33,663	29,257	29,450	26,569	34,310	350,141
Telephone bill	10,000	11,768	14,166	12,591	14,105	11,001	14,820	13,559	12,273	10,568	14,705	10,631	150,187
Electricity bill	7,500	10,000	11,231	12,998	19,446	6,617	12,000	11,712	15,000	16,300	18,540	17,500	158,844
Storage and Packaging costs	25,000	26,380	26,232	30,000	31,000	28,223	29,719	29,029	20,000	21,000	29,159	22,773	318,515
Shipping costs	9,000	12,962	12,820	12,479	11,864	10,999	10,429	12,127	11,075	12,360	13,266	14,611	143,992
Variable S&A Expenses	20,000	28,178	27,614	20,225	29,419	28,270	26,134	29,954	28,368	29,456	26,126	21,333	315,077
Total Variable Costs	225,700	284,702	307,553	286,867	324,381	286,213	289,463	306,624	286,894	325,870	343,575	353,814	3,621,656
Contribution Margin	214,300	177,298	159,947	186,133	162,919	208,787	222,037	221,376	275,206	279,130	285,625	295,186	2,687,944
Less Fixed Costs:													
Rent	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
Utilities	9,500	9,500	9,500	9,500	9,500	9,500	9,500	9,500	9,500	9,500	9,500	9,500	114,000
Web hosting and domian fees	700	700	700	700	700	700	700	700	700	700	700	700	8,400
File hosting and email marketing	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
Project management software	900	900	900	900	900	900	900	900	900	900	900	900	10,800
Social Media Management Tools	600	600	600	600	600	600	600	600	600	600	600	600	7,200
Internal Communication Tool	400	400	400	400	400	400	400	400	400	400	400	400	4,800
Wifi & Internet access	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	18,000
Subscription fees for ecommerce platforms	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	12,000
Insurance fee	7700	7700	7700	7700	7700	7700	7700	7700	7700	7700	7700	7700	92,400
Salaries Expense	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	300,000
Transportation Costs	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	108,000
Fixed Manufacturing Expenses	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	180,000
Fixed S&A expenses	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
Equipment Rental	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	66,000
Other Fixed Expenses	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	600,000
Total Fixed Costs	148,000	148,000	148,000	148,000	148,000	148,000	148,000	148,000	148,000	148,000	148,000	148,000	1,776,000
Net Operating Margin	66,300	29,298	11,947	38,133	14,919	60,787	74,037	73,376	127,206	131,130	137,625	147,186	911,944

Strategic Plan

Vision

The vision of our company is to become the leading chocolate manufacturer across the U.S. with top quality and customer satisfaction.

Objectives

1. Financially, to achieve a sales growth in earnings per share of 8% every year and to obtain a return on equity of at least 15%.
2. To become top 10 chocolate brands in the US within five years.
3. To establish and maintain a brand image of a popular chocolate brand with high-quality products.
4. To increase the recognition and public awareness of the brand by investing in social media advertising.

Target Market

Both retail and online markets in the US, targeting all ages of groups.

Industry Analysis

The chocolate industry in the US is currently facing several challenges. First, the increasing trend toward healthy foods has put much pressure on the chocolate industry. Thus, sugar-free, organic, and free trade chocolates could see significant growth in the foreseeable future. Also, because of the economic recession in the past few years due to the COVID pandemic, consumers have chosen not to purchase discretionary products, including chocolate, as often as they did in the past, which has caused a decrease in the demand for chocolate products. However, this negative impact on the industry is expected to recover as the economy recovers because people tend to purchase inexpensive luxuries while obtaining satisfaction easily, and chocolate is the best option.

The demand for chocolate products is influenced by pricing, distribution, consumer lifestyle, potential substitution, and product innovation. In recent years, European chocolates such as Lindt and Guylian have entered the US market with large investments in advertising and promotion, which occupies a large portion of market share and is expected to keep growing.

Major markets for the chocolate industry include confectionery wholesalers (77%), supermarkets (15%), specialty retailers (7%), and direct consumers (1%).

Core Competencies

Cocoo's core competency seeks to provide:

1. High-quality milk chocolate made from environmentally sustainable ingredients that will provide a more flavorful alternative to other milk chocolate consumers in the United States market
2. Distribution discounts to retailers and an efficient distribution system that reflect Cocoo Chocolate standards

These core competencies translate into a sustainable competitive advantage as Cocoo continuously monitors its distribution system and consumer attitudes toward Cocoo in the US market in order to gain nenew,ong-time consumers of the brand and maintain high customer retention.

Operational Plan

A single-flavor and single-shape chocolate is planned for production, which requires a simple manufacturing process and less demand for equipment and machinery. The manufacturing process is highly computer-controlled and consists of a series of advanced pieces of equipment, including a chocolate cooling tunnel, an enrobing machine, a coating machine, and a molding machine, to ensure quality control.

For legal formalities, the DIN (Director Identification Number), TAN (Tax Account Number), food processing order certificate, and business certificate for chocolate production will be obtained and sent to the appropriate departments.

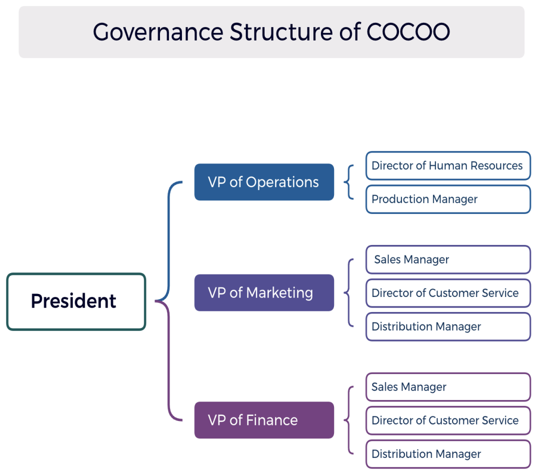
The highly mechanized manufacturing process allows for a condensed personnel structure. The main hiring requirement would be for packaging and storage. Also, staff for quality control is necessary.

Ingredient suppliers are selected and maintained with strong connections. The critical raw materials include sugar, milk (milk powder), cocoa butter, coca mass, vegetable fat, emulsifiers, and flavors.

Implementation and Plan

The introduction of a new brand to the chocolate market in the US is not easy and requires a detailed marketing plan to succeed. First, consumers will be allowed to have a trial run and gain brand recognition with the end of aisle display. Then a standing display will be implemented in the retail stores to receive a reflection of the brand. During this period, the brand should gradually be able to compete against other top brands. In the final stage, a full market promotion plan will be implemented by social media advertising to achieve and maintain full brand recognition.

Governance Structure



Manufacturing companies typically use traditional structures for organizing their resources. These almost always involve departmentalization so that similar tasks can be grouped together. Our structure grouping employees by one or more of the following criteria:

- Function
- Products
- Processes
- Customers
- Regions

Our company department consists of three departments: finance, operations and marketing. A vice president would oversee each of these divisions and report to the company president, who is responsible for all three divisions and is normally at the top of a manufacturing company organizational chart.

Finance: Managers of allocations, inventory control, accounting and financial planning all report to the VP of finance.

Operations: Production managers and the director of human resources report to the VP of operations.

Marketing: The sales manager, director of customer service and distribution manager all report to the VP of marketing.

Potential Agency Problems

The sales team may raise the price of chocolate for more margin per unit in the short term.This sudden unnecessary rise in the cost of chocolate disappointed the customers and boycotted the product sold by the company that would jeopardize the reputation of the company in long-term. Few customers who bought the product realized a fall in the quality and were utterly disappointed. It resulted in agency problems between the stockholders and the loyal and regular customers of the company. All of these are against the principal's interest.

Principal-agent relationships can be regulated, and often are, by contracts, or laws in the case of fiduciary settings. Another method is to incentivize an agent to act in better accordance with the principal's best interests. For example, if an agent is paid not on an hourly basis but by the completion of a project, there is less incentive to not act in the principal’s best interest.

Risk factors from the local/regional market, national market, and international market

1. Government actions may have negative impacts on the operation of the company. For example, excessive scrutiny of the industry can result in the change of material legal and regulatory change which results in the increase of production cost. And due to the trend of dietary, additional labeling requirements and levying additional taxes on certain products can be required which would also increase the production cost.

2. Increased competition or concentration of customer based can result in price pressure and margin decline. The negative health connotations of chocolate does not benefit its sales in competition with new healthy snacks such as nuts and energy bars. These products could make our chocolate company struggle to grow, especially when our competing companies decide to change focus and enter the healthy snack market. The company is also at risk from the trend towards consolidation of the retail trade, which can result in a higher concentration of the customer base and decreased sales and margins.

3. The general economic condition in the US could be negative for the company’s operation and development. Obviously, recession of the economy can significantly reduce the consumer demand for our products and our sales profitability as the disposable income decreases. And uncontrollable factors such as interest rates, energy costs and inflation could all influence the consumer spendings. Also, the disturbance in the credit markets could also impact on our ability to manage normal commercial relationships with our suppliers, customers and creditors. If the credit market condition deteriorates significantly, the connections between our company and suppliers or customers can be disrupted which negatively influence our business.

Financial and Non-financial Strategies

Non-financial strategies address the external shocks of a business, establish an effective workforce, and determine operational excellence in a business. By running an efficient operation, the business can generate a lot of extra cash flow that can help curb external shocks. Another non-financial strategy that can help address external shocks like supply chain issues is shifting supplier relationships from transactional to collaborative. In this case, buyers can have conversations with suppliers regarding what they need so that suppliers can get relief on what they need to supply. Also, larger orders can be spread over long periods of time.

In terms of financial strategies, boosting the social media presence of the business can help address shocks like COVID. This strategy will help the business reach more customers. Another strategy that can be used to address these shocks includes the alignment of communication channels. Since there might be difficulties in communicating with employees during a pandemic, it's important to come up with a communication channel that will reassure the employees of the company that their jobs are secure. By doing this, the workers can concentrate on their work.

Applying chain evaluation is also another important non-financial factor that will address these shocks. By understanding the supply chain of the business, potential vulnerabilities can be exposed. This process can be done by analyzing the most crucial aspects of the supply chain, all the way down to tracking raw materials. It's also important to know the possible points of failure in the business for it to deal with issues of inflation. This can be determined by knowing the employees who are responsible for critical processes or services in the business. In case there are problems with those processes, the employees can be replaced by others.

Another non-financial strategy that can deal with inflation is the reduction of unnecessary costs. By reducing unnecessary costs, the business can balance its budget in a scenario where price reduction is impossible.

NPV and internal rate of return (IRR)

NPV

Discount Rate 5%

Year	Net Annual Cash Flow ($m)	Discounted Cash Flows
0	-1,696,822.00	-1,696,822.00
1	145,648.00	138,712.38
2	223,119.00	202,375.51
3	543,147.00	469,190.80
Total	**-784,908.00**	**-886,543.31**

The NPV is a metric that is able to determine whether or not an investment opportunity is a smart financial decision. NPV is the present value (PV) of all the cash flows (with inflows being positive cash flows and outflows being negative), which means that the NPV can be considered a formula for revenues minus costs. If NPV is positive, that means that the value of the revenues (cash inflows) is greater than the costs (cash outflows). When revenues are greater than costs, the investor makes a profit.

As our calculation results show, our NPV is negative, which means the money generated in the future isn't worth more than the initial investment cost.

A negative net present value means this may not be a great investment opportunity because you might not make a return. Essentially, a negative net present value is telling you that, based on the projected cash flows, the asset may cause you to lose money. There are other factors outside of the net present value calculation that could still make this a potentially good investment, such as providing enhanced safety or increasing company morale.

Internal Rate of Return (IRR)

Input Data

Timeline

Period	0	1	2	3
Cash Flows	-$1,696,822.00	$138,712.38	$202,375.51	$469,190.80

Output

Internal Rate of Return (IRR)	**-26%**

Internal Rate of Return (IRR) is a financial measure used to evaluate projected cash flow results and compare the feasibility of a project/investment. IRR is generally used with other financial measures such as Net Present Value (NPV) and Return on Investment (ROI).

IRR is defined as the discount rate at which you can ensure that your investment makes more money than its actual cost. In other words, it is the rate at which the NPV is zero.

As our IRR is negative, which occurs when the aggregate amount of cash flows caused by an investment is less than the amount of the initial investment. In this case, the investing entity will experience a negative return on its investment.

A business that calculates a negative IRR for a prospective investment should not make the investment.