

Case Study – Strategic Planning

Seattle's Theo Chocolate specializes in the divine. The cocoa that the chocolate maker harvests to produce its delicious candy bars comes from a tropical evergreen known as *Theobroma cacao*—translated literally, “food of the gods.” The heavenly flavor that resides in the plant's cacao pods helps sustain the worldwide confectionery industry, and Theo is one of the newest companies to master the art of cacao cultivation.

Founded in 2006 by Joseph Whinney, Theo Chocolate prides itself on being the first organic and Fair Trade Certified chocolate maker in the United States. In addition to producing world-class chocolate, Theo integrates ethical standards throughout its entire business, all the way from the cocoa farm to the candy rack.

When Theo first started its production, the company offered an exotic line of dark chocolate and milk chocolate bars and truffles. These early treats had unusual names such as Coconut Curry, the 3400 Phinney Bar, and Bread & Chocolate. Moreover, the bars were wrapped in artistic watercolor packaging with whimsical cover designs. Theo's launch garnered accolades from critics and organic food consumers alike, in part because of the company's creativity and sustainable business model.

But selling chocolate to foodies and green consumers didn't add up to the high volume that Joe Whinney and his management team hoped to achieve. In addition, Debra Music, Theo's vice president of sales and marketing, began noticing barriers to mainstream acceptance of Theo's products. In particular, Theo's flavors and product names were too funky for mass appeal, and wrapper designs were so artistic that customers were confused about what was inside the packaging. Managers knew something had to be done.

“When we looked at our numbers and realized we were not growing at the rate that we thought we should, and that in certain markets we were struggling,” Music remarks, “we decided to apply some science to what we were doing.” The marketing executive's research turned up some possible solutions.

“We found that we needed to be selling in places where people wanted just a milk chocolate bar,” Music said. “Our products were a little bit intimidating, so we decided to rein that in and create a much more accessible product line.”

Founder Joe Whinney began working on a new strategy—one based around the company's ultimate goal. “The overall goal is that we would like Theo to be the most loved chocolate company in the world,” said Whinney. But since widespread appeal is rare for exotic products, Theo's founder had to go back to the

drawing board. “When we decided to alter course and make more accessible products, we looked at market data for the first time, and we looked at what were the clear winners in the market,” Whinney says. “We decided that consumers were choosing the winners already, so we designed products that we felt would meet consumers’ expectations and allow us to stay true to our ethics and quality.”

Since managers agreed that Theo needed a gateway product that would attract consumers more easily, the company started producing classic milk chocolate bars. Unlike the exotic bars produced at the company’s launch, Theo’s classic line included familiar taste combinations such as chocolate and mint, regular milk chocolate, and cherries and almonds. “We created a classic line that had more traditional flavors and that was in packaging that was easy for consumers to understand,” says Whinney.

The end result is that Theo now offers two distinct product lines for two different market segments. The company roasts a Classic line of milk chocolate bars for mainstream customers, and it offers Fantasy Flavors for more adventurous eaters. Each line embodies the high quality and sustainability that make up the Theo brand.

The strategy was a hit with consumers. “The growth was fairly dramatic,” says Whinney. “We were able to access markets that we weren’t able to before. In the Pacific Northwest we’re the No. 1 selling chocolate brand in the natural and organic category—and we’re the fastest growing in the top 10 across the country.”

While some small businesses prefer niche markets, appealing to mainstream customers was consistent with Joe Whinney’s belief that everyone should be able to enjoy Theo Chocolate. “We believe that everyone should have access to great chocolate, and so we wanted to make sure that we were responding to the marketplace, listening to what people really wanted, and then producing products that met our goals and theirs as well.”

If Theo maintains its current growth, Joe Whinney’s goal of becoming the most loved chocolate company in the world may be more than just a dream—it could be divine destiny.

Discussion Questions

1. Evaluate Theo’s new strategy in light of the company’s strengths, weaknesses, opportunities, and threats.
2. Using the BCG Matrix, explain Theo’s decision to offer a classic line of chocolate bars after having limited success with Fantasy Flavor chocolates.
3. Which of the three competitive strategies—differentiation, cost leadership, or focus—do you think is right for Theo Chocolate? Explain.