Godiva Rebranding Case Study Analysis

Happy Seal

I. Executive Summary

Purchased by Yildiz Holding in 2008, Godiva Chocolatier is a historically luxury chocolate maker founded in Belgium. Following the acquisition, Godiva's brand value fell and U.S. sales were flat, though the company did see international growth. In 2014, frustrated with the company's performance, Yildiz Chairman Murat Ülker pushed for Godiva to increase its distribution in the food, drugstore, and mass (FDM) channels, causing the existing management to leave. At this current time, August of 2014, Ülker and the newly appointed Godiva management team are eager to increase the company's sales and are faced with deciding how best to do so, via FDM or other strategies.

SWOT analysis reveals the core strengths of Godiva to be its luxury image, success in Japan, and Yildiz's knowledge of the mass market chocolate business. However, weaknesses include halted Chinese growth and brand perception issues in certain areas. The FDM channel, international expansion, and increased advertising are the greatest opportunities for Godiva, while competition from other chocolate brands is the company's primary threat. Further analysis presented in this paper also considers Godiva's point of difference from competitors, retail boutique network, and share of the luxury chocolate market.

The findings of such analysis suggest that Godiva would not be successful in FDM and that selling in this distribution channel would ultimately damage the Godiva brand. Instead, the best plan of action for Godiva is to focus on growing its international markets, particularly Japan, China, and the Middle East. Additionally, Godiva should spend more on its U.S. advertising to boost domestic sales and raise Godiva’s brand value. Lastly, the company should invest in its American network of Godiva retail boutiques by renovating stores, closing underperforming locations, and opening pop-up locations at holiday times, all of which will help to further boost U.S. sales and profits. Together, these strategies will allow Godiva to achieve significant growth.

II. Background

Godiva was founded in Belgium in 1926 as a family business making chocolates and pralines. Originally sold only in upscale Belgian department stores, the brand expanded by opening company-owned boutiques across Europe beginning in 1958 and reached American and Japanese department stores in 1966 and 1972, respectively. In 1974, the Campbell Soup Company, which was previously a partial owner of the chocolatier, fully acquired Godiva. Over the next decades, Godiva saw tremendous growth in North America, where the company focused its energy — Campbell kept only limited control of Godiva’s international operations. The brand continued to be known as a luxury chocolatier and was available for sale only in Godiva boutiques, department stores, select specialty retailers, and via catalog and online. Then and now, the company experienced highly seasonal sales patterns, with 80% of revenues made between Thanksgiving and Valentine’s day. By 2007, Godiva’s sales exceeded $500 million with its products being made in either the Reading, Pennsylvania manufacturing plant or the Belgian atelier. The main headquarters of Godiva were, and continue to be, in New York City, with a smaller London office managing international operations. In 2008, the company was purchased by Yildiz Holding for $850 million.

Yildiz Holding, led by Chairman Murat Ülker, is a vertically integrated mass-market confectionery company, though it also does business in nearly all food and beverage categories as well as several other industries. Sales of Yildiz Holding totaled $8 billion in 2013. In addition to acquiring Godiva in 2008, Yildiz purchased the McCormick spice company in 2009 and DeMet's Candy Company, an American confectionery maker, in 2013.

After purchasing Godiva, Ülker largely left the company on its own for several years. The only major change instituted by Yildiz Holding (rather than the Godiva management team which was left intact) was the appointment of new members, consisting of top luxury and retail executives, to the company board. Godiva was stable at first, performing better than most retailers following the 2008 financial crisis. Customers continued to purchase Godiva almost exclusively from company-owned boutiques, department stores, other specialty stores, and direct-to-consumer operations (Godiva catalog, online, and corporate sales) until the company launched an array of chocolate bars, squares, and truffles created specifically for the food, drugstore, and mass (FDM) channels in 2011. In 2012 and 2013, North American sales were less than expected and market research found that the company's brand image was falling. Internationally, Japanese sales were extremely substantial and growing, potentially overtaking the North American market within a year, while China and the Middle East were promising markets. In Japan, Godiva managed its own stores and worked with a local partner for department store distribution, while in the Middle East, Godiva launched a joint venture with a Saudi partner.

Between 2007 (right before Yildiz's acquisition of the company) and 2013, Godiva's sales grew from $510.3 million to $704.2 million, a 38% increase. In 2014, disappointed with such growth, Ülker decided it was time for Yildiz Holding to take more control of Godiva. Ülker wanted to grow Godiva sales by focusing more on the FDM channel, which constitutes a much larger portion of U.S. chocolate sales than do specialty stores, and spending more on marketing. The existing Godiva management disagreed with this approach and completely left in January of 2014, requiring all new management to be appointed. Under increased Yildiz control, Godiva began to increase marketing spending, renovate stores, and consider FDM more carefully.

Ülker's ultimate goal is to dramatically increase Godiva's sales from the $704.2 million logged in 2013 to $5 billion within 10 years. He believes this can be achieved through the FDM channel given Yildiz's expertise in mass market confectionery. However, others at Godiva feel that focusing on FDM would be detrimental to the company's luxury brand image and ultimately backfire. Additionally, substantial competition from mass premium chocolate brands exists in the FDM market. It is now August of 2014, and Ülker and the Godiva management team have several important decisions to make.

III. Critical Issues

The central issue in this case is how Yildiz Holding can grow Godiva's sales. Yildiz and the Godiva management team must decide whether or not Godiva should be sold in the FDM channel. If the management decides that Godiva should not be in FDM, it is essential that other steps are identified and taken to increase sales.

A related question raised by this case is whether Godiva can be successful in both the luxury and mass markets simultaneously. By carefully considering this question, a better decision on whether or not to be in FDM can be reached. If analysis suggests that a brand cannot successfully coexist in both markets, Ülker and Godiva must decide which avenue will be best for the company and tailor their strategy and branding accordingly.

IV. Analysis

The SWOT analysis framework is useful for analyzing the situation. The largest strength of Godiva is its luxury image and global reputation. Market research commissioned by Yildiz Holding in 2014 found that in general, the brand was strong and recognized by consumers as “classic chic.” An additional strength of the company is its success in Japan. There, where most luxury brands are experiencing sluggish sales, Godiva is achieving huge growth: between 2009 and 2013, Japanese sales grew from $154 million to $250 million, a 62% increase. In 2013, Japanese sales accounted for 31% of total Godiva revenues, and the Chief Financial Officer of Yildiz predicts that by 2015, Japan will be the largest market for Godiva, not North America. A huge strength of Godiva can also be found in its parent company: Yildiz Holding, the leader in mass confectionery in Turkey and surrounding areas. Yildiz has an immense amount of knowledge on mass market chocolate and the FDM channel, which would be very useful if Godiva decides to amp up its focus on FDM. Additionally, through the acquisition of McCormick and DeMet’s Candy Company, Yildiz gained U.S. trade and distribution capabilities, which could also be useful to Godiva. An additional significant strength of Godiva is its position as the market leader: the brand has an 80% share of the luxury chocolate segment.

In terms of weaknesses, one of the biggest issues for Godiva is its falling brand value in certain domains. While the market research mentioned above *did* indicate that Godiva was a strong “classic chic” brand in terms of esteem and knowledge, the research also found that Godiva was not viewed by consumers as innovative, fun, youthful, or energetic, particularly when compared to other chocolate brands. Internationally, a major weakness is that Godiva’s growth in China has been halted. The company’s retail and e-commerce network across China is not supported by succificent transportation infrastructure. Additionally, there is a lack of standardization among the 51 Godiva retails stores in the country.

One of the largest opportunities for Godiva is the FDM channel. In 2013, 49.9% of U.S. chocolate sales were made in modern grocery retailers, a category including convenience stores, discount retailers, and supermarkets. In that same year, just 7.2% of chocolate sales were made in specialty stores. If Godiva could achieve success in FDM, that channel could serve as a tool to grow the company tremendously. However, other opportunities for growth exist, such as increased international expansion. Japan continues to experience growth, and although China accounted for just 3% of Godiva sales in 2013, that number was expected to increase. Additionally, the Middle East contains the world's best-selling Godiva store. Focusing on these markets more could be a large growth opportunity for Godiva, as could increased spending on advertisements. Prior to being acquired by Yildiz Holding, Godiva had no television ads in the U.S. and very little advertising spending in general. In 2013, Godiva advertising spending amounted to only $5.8 million compared to Ghirardelli's $27.1 million. This difference is significant when placed in the context of Godiva having a 2.7% share of the U.S. chocolate market compared to Ghirardelli's 2.4% — Ghirardelli's higher spending cannot be explained by it being a bigger brand.

Threats to Godiva come mostly from competition: the American FDM channel is extremely competitive. Lindt, Ghirardelli, and to a lesser extent, Russsell Stover, are already firmly situated in FDM and dominate the mass premium market. Additionally, while Godiva's brand value has fallen, Lindt and Ghirardelli's have risen. Lower priced offerings from Mars, Hershey, and Nestle are also becoming increasingly premium in terms of quality and packaging, making the mass premium market in FDM even more competitive. As mentioned above, Godiva is the dominant leader in the luxury chocolate segment, though it does face competition from brands such as Maison du Chocolat, Pierre Marcolini, and, although not a chocolatier, Ladurée.

Since the most growth comes from matching strengths with opportunities, the findings of the SWOT analysis suggest that Godiva can achieve success by continuing its international expansion. Godiva's luxury image, global reputation, and success in Japan all indicate that foreign markets may be the best opportunity for Godiva to pursue. Additionally, Godiva's ability to achieve over $350 million in U.S. sales with very little American advertising spending (especially when compared to peers) suggests tremendous growth could be achieved by increasing advertising spending. Correcting the weaknesses identified by the SWOT analysis could also be a strategy for Godiva to increase its sales. In terms of the FDM channel, the SWOT analysis highlights the knowledge Yildiz has of the FDM channel and its U.S. distribution capabilities, but it also brings to light the intense competition Godiva would face in the mass premium chocolate market.

Further analysis using the concept of point of difference (POD) is useful in considering this competition and ultimately determining whether or not Godiva should be in the FDM channel. In positioning a brand, executives must always make sure that their brand has a POD from competitors and that consumers are aware of that POD and regard it to be true. Currently, Godiva's point of differentiation from mass premium competitors such as Lindt and Ghirardelli is its image as more luxurious and upscale. If Godiva concentrated more on FDM, this POD would erode since by the very fact of being sold in drugstores, grocery stores, and discount retailers, consumers would not view Godiva as a luxury brand. This would leave Godiva without a POD from Lindt and Ghirardelli. Since these brands are already well-established in the FDM channel, Godiva lacking a POD would give consumers no reason to choose it over those competitors. All of this suggests that Godiva would not be successful in FDM.

Not only would going mass market in North America likely fail due to Godiva lacking a POD, but doing so would also likely hurt international sales. In the completely interconnected world of today, foreign consumers would not view Godiva as a luxury brand if its distribution in America includes the FDM channel. This would be detrimental to the company as foreign sales accounted for 50% of total Godiva revenues in 2013 (up from 40% of sales just 6 years earlier) and will likely continue to become a larger portion of the business. Thus, although the FDM channel accounts for a huge portion of U.S. chocolate sales, Godiva being in FDM in North America would negatively impact the company’s foreign business.

When considering how to grow U.S. sales, Godiva’s company-owned boutiques must be carefully analyzed as well since they consistently account for half of total company revenues. In North America, the company currently operates 227 stores. Yildiz has invested heavily in the store network by closing stores with low sales as well as remodeling stores to be more open and focused on the product line. In updated stores, sales have increased 40%, suggesting that Godiva may be able to grow overall U.S. sales by continuing to upgrade its store network.

A final important item for consideration is the fact that, as mentioned in the SWOT analysis, Godiva controls 80% of the luxury chocolate market. While the company should be proud of this, it means that relatively little growth can come from increasing market share. To increase sales, Godiva must either enter FDM to gain a portion of the mass market chocolate segment — which prior analysis suggests would ultimately hurt the company — or grow the luxury chocolate market itself.

V. Recommendations

With all of the above analysis in mind, Godiva should not be selling its products in the FDM channel — the brand cannot successfully exist in both the mass and luxury chocolate segments simultaneously. Thus, other strategies must be adopted by Yildiz and the Godiva management team to grow the luxury chocolate market and meet Ülker's ambitious goals for the brand.

First, Godiva should concentrate on international growth, continuing its efforts in Japan and increasing efforts in China and the Middle East. Japanese sales of Godiva show no signs of slowing, so the company should continue to invest in its store network, distribution infrastructure, and marketing there. Godiva must also get its Chinese growth back on track, which would best be achieved by working with a local partner as the company does in Japan and the Middle East. A Chinese partner would have useful business knowledge for helping Godiva with the distribution and standardization issues it faces within its Chinese retail stores and e-commerce operations. Godiva should further develop the Middle East market by opening more retail boutiques, particularly in Saudi Arabia and the United Arab Emirates. Something Godiva should carefully consider for the future is opening a production facility strategically placed closer to the Asian and Middle East markets to complement its facilities in Pennsylvania and Belgium. Something else Godiva should consider for the future is opening a Godiva office within Asia or the Middle East to supplement its current New York and London offices, which would allow the company to better control its growing business in that area.

Godiva should also increase its advertising spending to grow sales in the U.S. The 2014 marketing budget of $6 million should be multiplied at least five fold, if not more, to be more in line with the spending done by Lindt and Ghirardelli. Television and social media advertising in addition to print and digital media ads should be implemented in the U.S. to grow the luxury chocolate market domestically. Whether Godiva does the advertising work internally or has it outsourced to another firm, the company should make sure that the advertising supports the brand's "classic chic" image while also highlighting the ways that Godiva is fun, innovative, youthful, and energetic, characteristics consumers don't currently associate with the brand. Increasing the marketing budget and carefully tailoring ads to raise the company's brand value will benefit Godiva sales in the short- and long-run.

In addition to raising advertising expenditures, Godiva should continue to invest in its network of retail boutiques. The sales-enhancing renovations introduced into some stores should be implemented across all Godiva boutiques. Additionally, the company should thoroughly analyze store sales data to identify underperforming stores to close as well as markets where additional stores could be successful. Godiva should also launch pop-up locations — stores or stalls — in high-traffic areas open only around the holidays of Christmas and Valentine's Day, which would allow the company to better capture seasonal sales without incurring the large expenses of operating full-line stores year-round. Pop-up shops may additionally increase Godiva's image as being not just classic and luxurious, but also fun and innovative.

VI. Summary

Faced with the current situation of slower-than-expected overall sales growth and falling brand value, Yildiz Holding must adopt new strategies to protect the $850 million investment it made in Godiva by purchasing it. Although Ülker’s initial plan to grow Godiva by increasing distribution in the FDM channel should not be carried out, there are several other ways for Yildiz to increase the revenues of Godiva. The company should adopt the following strategies: concentrating on growing foreign sales in key markets such as Japan, China, and the Middle East; increasing U.S. advertising expenditure to raise American sales and Godiva’s brand image; and investing in the Godiva retail network through renovations, seasonal pop-ups, and closures of poorly performing stores. By implementing these recommendations, Yildiz can reap the rewards of its acquisition of Godiva and ensure that the chocolatier's luxury image will remain strong, driving continued success for decades to come.