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Chocolate Market in the U.S.:

Trends and Opportunities in Premium, Gourmet and Mass Chocolate Products

September 2010



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TRENDS AND OPPORTUNITIES IN PREMIUM, GOURMET AND MASS CHOCOLATE PRODUCTS

SEPTEMBER 2010

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Chapter 1 Executive Summary

Methodology & Scope

This report relies upon numerous data sources that track chocolate sales. Statistics on manufacturer shipments are collected annually by the U.S. Census Bureau, Manufacturing & Construction Division. Retail chocolate sales data have been provided under special arrangement with Information Resources, Inc. (IRI). International trade statistics come from the U.S. Census Bureau Foreign Trade Division and from CAOBISCO (Association des Industries de la Chocolaterie, Biscuiterie et Confiserie de l'E.U.).

The discussion of leading global confectionery manufacturers was drawn from *Candy Industry Magazine*'s annual global confectionery report. U.S. chocolate company and brands sales data came from IRI.

Data on new product introductions, claims and flavors came from Product Launch Analytics, a division of DataMonitor. Trend analysis of the artisan premium chocolate segment was based upon surveys undertaken by special agreement with the Fine Chocolate Industry Association (FCIA) and TheChocolateLife.com. Additional information was drawn from discussions posted on several online confectionery special interest groups.

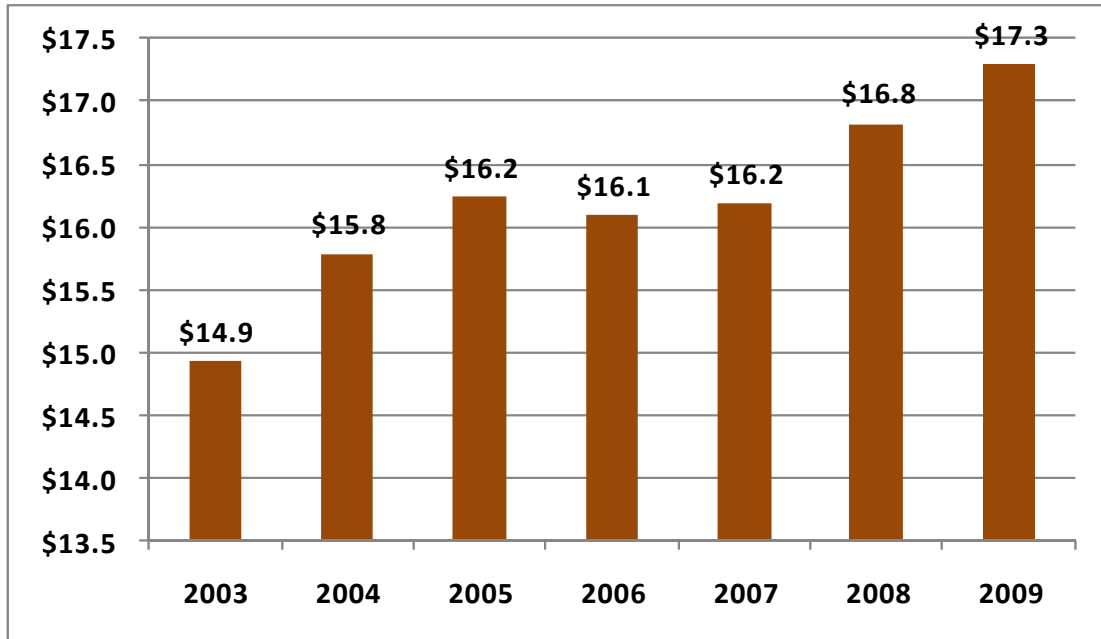
The analysis on consumer purchasing patterns, behaviors and trends came from Experian Simmons.

Chocolate Market Size & Growth

In 2009, U.S. retail chocolate sales topped \$17.3 billion, a new record. These sales mark a 2.8% increase over 2008, but a percentage point lower than pre-recession 2007. One factor attributable to higher sales was manufacturer price increases in response to higher commodity and transportation costs. Another factor was product premiumization and a rise in health claims. Volume/quantity jumped 3.1%, not because of higher manufacturer shipments, but rather as a result of a -10.3% drop in exports and 26.9% rise in imports. [Figure 1-1]

This chocolate sales growth differential between value and volume started six years ago in 2003. Since then, the value of chocolate sales has grown at a 2.5% compound annual growth rate (CAGR), while the quantity sold increased at only a 0.4% CAGR.

Figure 1-1
Retail Chocolate Sales, 2003-2009



Source: Census Bureau, *Current Industrial Report 2009*; compiled by Packaged Facts

These growth rates characterize a mature industry with well-established marketers. Market analysts suggest that future market growth has shifted to emerging markets in the Asia-Pacific region.

Everyday chocolate sold in 2009 through FDM distribution channels accounted for 70% of total chocolate sales, followed by seasonal chocolate with 24%. The remaining three product categories (novelty, gift box and sugar-free) had a combined market share of 6%. Over the past six years (2004 to 2009), every day chocolate has gained a 3% market share at the expense of gift box chocolate, while share growth in the other three categories was flat.

In 2009, chocolate dollar sales increased 3.4% carried solely by everyday and seasonal. Over the past five years, sales of novelty products, traditionally targeted at children, have steadily declined because of child obesity issues. Consumer interest in sugar-free products peaked in 2004, during the low-carb fad, and then plummeted -24% the following year. While sales in this category are still declining, the magnitude of these sales contractions is getting smaller. Sales growth in the gift box category is flat.

In contrast, 2009 sales volumes dropped -6.2%, with declines in almost every category. (The exception was seasonal with 0.7% growth.) In short, gains were achieved through price increases and product premiumization.

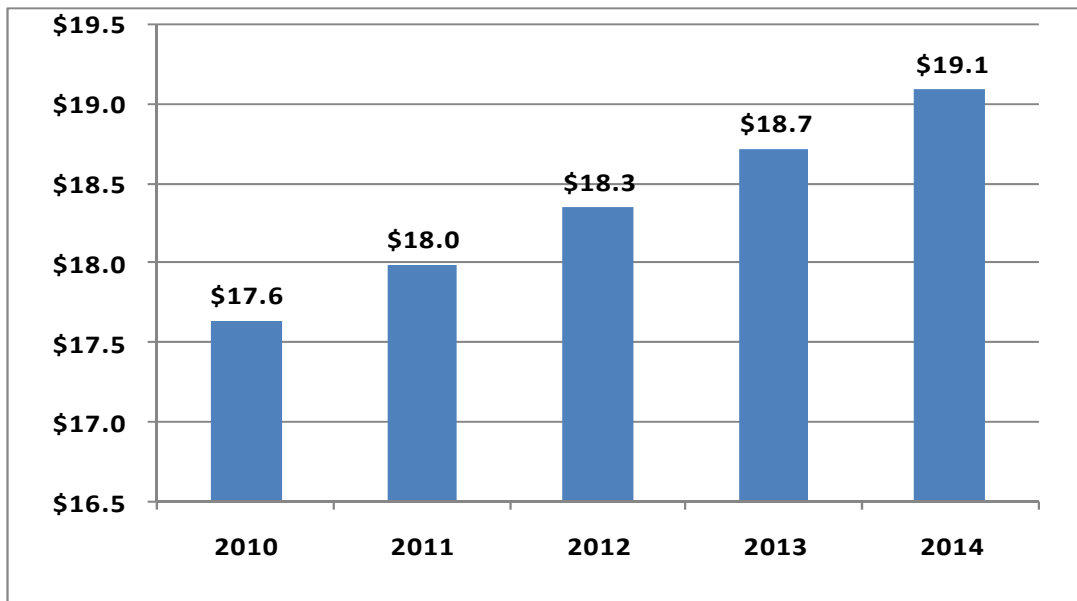
The value of U.S. per capita chocolate consumption in 2009 increased 1.9% to \$56.27. Americans generally spend more for chocolate each year. But while per capita chocolate dollar sales have been increasing six of the past eight years since 2002, Americans are buying smaller amounts of chocolate. Per capita chocolate consumption by quantity peaked at 12.6 pounds in 2005 and has since fallen -6.4% to 11.8 pounds in 2009.

Chocolate’s recession-resilience may be due to its “lipstick factor.” Economists have noted that lipstick sales tend to rise during economic recessions, as the relatively inexpensive purchase goes a long way to cheer women up. Eating chocolate might have the same affect. When times get tough and household budgets turn frugal, spending a few dollars on a good bar of chocolate becomes a terrific way to leverage a piece of indulgence.

Packaged Facts forecasts the U.S. chocolate market will increase an average 3.0% per annum through 2014, when sales will top \$19 billion, up 10.4% from \$17.3 billion in 2009. Below the surface, however, there will be sales currents that will favor some categories over others.

[Figure 1-2]

Figure 1-2
Chocolate Sales Forecast, 2010-2014
 (\$ millions)



Source: Packaged Facts.
 Note: Figures are projections from Census Bureau estimates.

Chocolate Manufacturers and Marketers

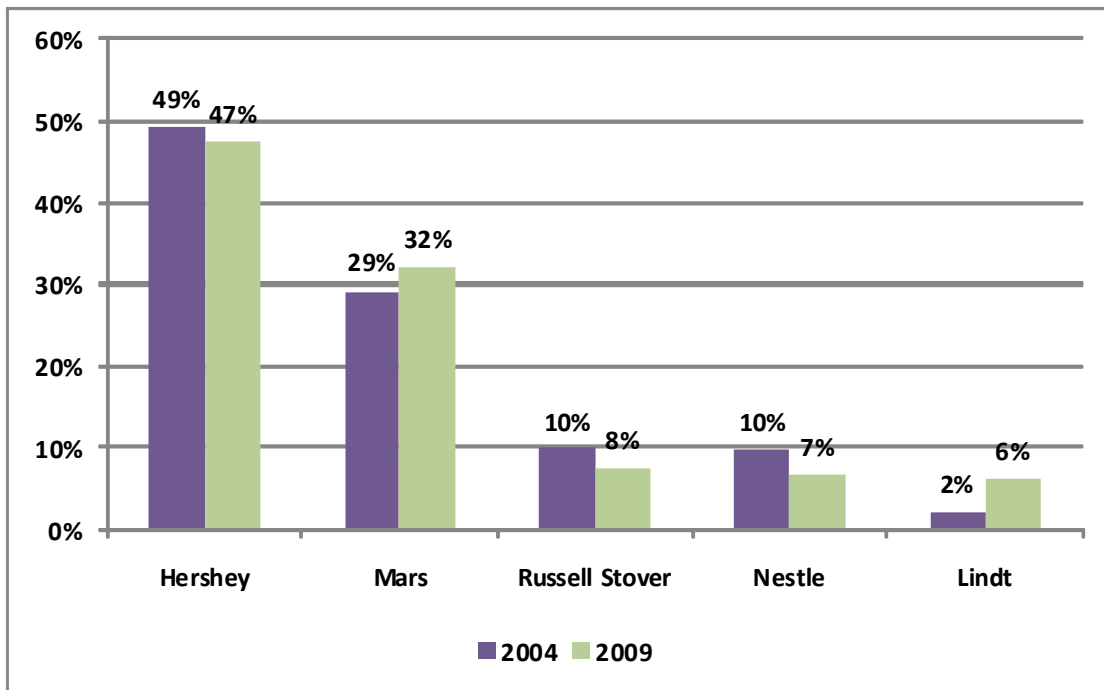
The global confectionery industry is relatively concentrated, with the top ten companies holding a 72% market share. The leading global confectioner is Mars (\$16.5 billion net sales) thanks to its acquisition of Wrigley in 2008. The next four largest companies are Nestlé (\$11.4 billion), Ferrero Group (\$9.0 billion), Cadbury (\$8.8 billion) and Kraft (\$8.3 billion).

The United States is the world's largest retail confectionery market, with a 19% share or \$30.6 billion of the \$161.9 billion global chocolate market. Hershey and Mars dominate the chocolate market, controlling a combined two-thirds of dollar sales through food, drug and mass merchant (FDM) channels. Hershey brands account for 41% of these sales or \$2.1 billion. Mars follows with a 28% market share or \$1.4 billion. Russell Stover brands are in third place with a 7% share of sales or \$337.6 million. Nestlé claims fourth place with 6% of sales or \$295.5 million and Lindt is fifth (5% or \$277.3 million).

In terms of sales growth among these top five chocolate companies, Lindt grew the most (13.7% between 2008 and 2009 with a 28.9% CAGR between 2004 and 2009). Mars has been growing at a steady pace, 5.2% and 5.0% growth, respectively. Hershey, Russell Stover and Nestlé experienced improved sales growth between 2008 and 2009, besting their five-year CAGR.

When this analysis is widened for the top 20 chocolate companies, then Cadbury (31.9%) achieved the distinction of achieving the greatest sales growth through FDM channels between 2008 and 2009. At the other end of the spectrum, Kraft experienced the largest decline, -31.7%.

Figure 1-3
Top 5 U.S. Chocolate Companies by Market Share, 2004 vs. 2009
 (percent)



Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. The information supplied by SymphonyIRI is based on data believed to be reliable, but is neither all-inclusive nor guaranteed by SymphonyIRI. Without limiting the generality of the foregoing, specific data points may vary considerably from other information sources. Any opinions expressed herein reflect the judgment of Packaged Facts at this date and are subject to change. Reproduction, resale or other distribution of this document is expressly prohibited without the written permission of Packaged Facts or SymphonyIRI. This material is reprinted with permission.

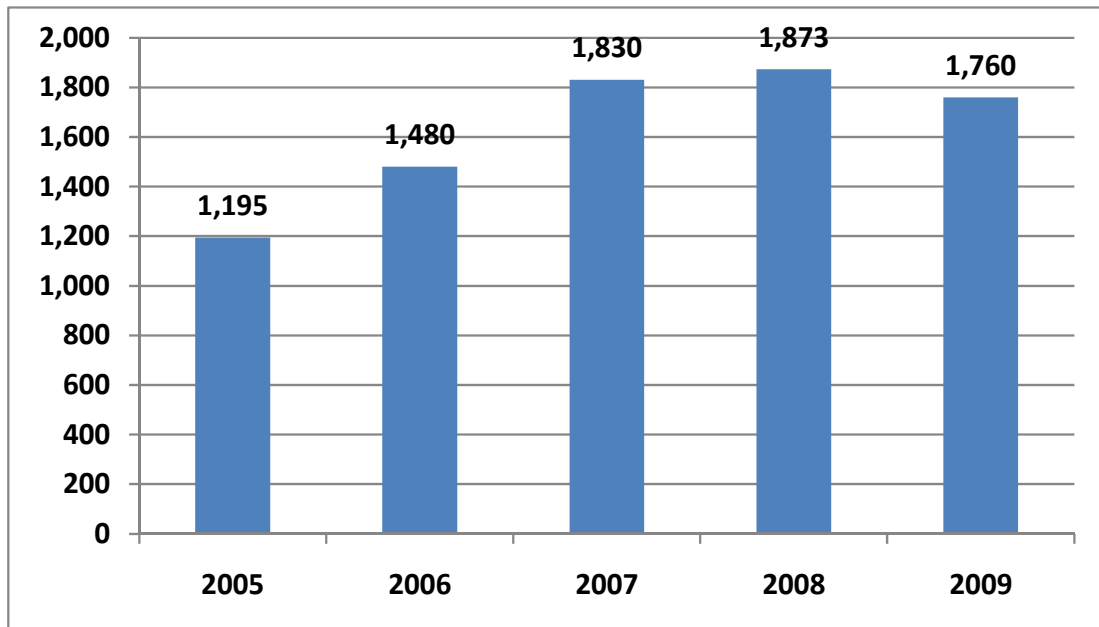
Note 1: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drugstores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Note 2: Each company's market share is based upon its percentage of sales of all five companies.

New Product Development

During recessions, confectioners – as do most manufacturers - traditionally cut their new product development (NPD) budgets to cope with declining sales. This recession was no different, with overall new confectionery product launches in 2009 dropping -15%. But apparently hard economic times do not necessarily mean hard choices for candy lovers, since this decline was exactly half the rate for the entire food and beverage industry.

Figure 1-4
New Chocolate Introductions, 2005-2009
(SKUs)



Source: Compiled by Packaged Facts based on data from Product Launch Analytics Online, a Datamonitor service. Reproduction, resale or other distribution of this content is expressly prohibited without the written permission of the publisher. This material is used with permission.

Within the confectionery industry, the chocolate market was the least affected. New chocolate product launches declined only -6% or less than half the confectionery industry's rate of contraction. NPD for sugar confectionery products, in contrast, dropped -25%, while gum tanked -37%.

Given the past half-decade with its good economic times and bad, the relative prominence of new chocolate product development has been arcing steadily upwards. In 2005, at the start of the premium and healthy chocolate trends, new chocolate products accounted for 43% of all confectionery product launches; by 2009, it was 62% (1,760). [Figure 1-4]

What were the manufacturer value propositions for these new chocolate products? In 2009, the top 20 product claims accounted for 85% of all claims. Using this data subset, product premiumization claims ("upscale" and "gourmet") claimed 26% of the top 20 claims. This is followed by "novelty" and "kids" with 12% each, an indicator of the importance of young chocolate consumers. In third position was "single serving" with 11%, an example of the portion control packaging trend. This was followed by ethical claims ("organic" and "fair trade") with 4% of claims.

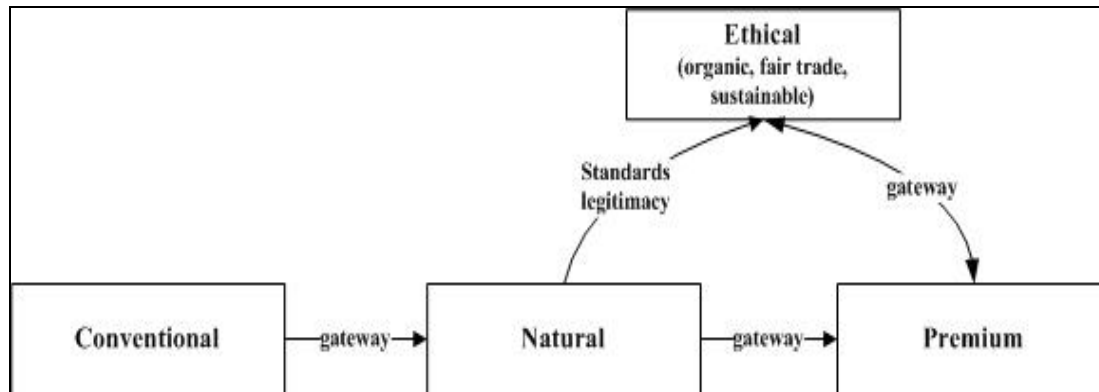
The most popular chocolate flavor profiles among new products change little over time. “Blend“, “milk“, “dark” and “chocolate” perennially place in the top four slots over the past five years. Minor chocolate flavor profiles show some variation driven by trends in the food and beverage industries. In 2009, for example, the flavors vanilla, coffee crisp and cherry displaced toffee, truffle, sweet, coconut and cinnamon.

The premium chocolate segment is a segment that continues to outperform the industry, despite the recession. The chocolate industry generally defines premium chocolate as product selling over 50¢/ounce (\$8/pound), although some manufacturers and data suppliers may use a different threshold. Packaged Facts estimates that premium chocolate sales in 2009 were between \$2.1 billion and \$2.4 billion and accounted for 12% to 14% of the total chocolate market, up from 9% in 2005. During the 2006 to 2009 period, sales of premium chocolate grew at almost five times the rate of conventional chocolate (10.1% versus 2.1% CAGR respectively).

Given more time and consumer education, Packaged Facts believes that demand for premium chocolate will continue as a leading growth trend in the U.S. chocolate industry, especially when the economy recovers. Or, as Choclatique’s co-founder Ed Engoron says, “Premium chocolate is an affordable luxury that people still want to indulge in. It remains an immediate reward that cures the blues.” Accordingly, by 2014, premium chocolate sales should add another 3% of market share (15% to 17% total) bringing the total to \$2.8 to \$3.0 billion.

NPD efforts in the ethical chocolate segment – organic, fair trade or sustainably produced - have been very active, increasing 26% CAGR in the five years (2003-2008) preceding the current recession. As the U.S. emerges from the recession, ethical chocolate makers are ramping up NPD activities. With first quarter launches achieving 80% of total 2009 results, Packaged Facts estimates 2010 ethical chocolate launches returning to the same upward projection rate.

Figure 1-5
Chocolate Segment Evolution



Source: Packaged Facts

Over the last decade chocolate makers have been responding to consumers' drive to live healthier lifestyles. Their efforts have brought us portion-controlled packaging, sugar-free sweets, heart-healthy dark chocolate and fortified confections of unbelievable variety and veracity. This trend should continue, as healthier confectionery options with "better-for-you" ingredients were identified by 88% of surveyed experts as the next big trend by the National Confectioners Association in its *Confectionery Industry Trend report 2009*.

Total all-natural chocolate sales hit \$85.2 million in 2009, increasing 1.8% over the prior year. However, there was a marked difference in sales performance based upon channel. Sales of all-natural chocolate through natural product channels increased a healthy 11.4% as compared with a -8.3% decline in conventional channels. All-natural chocolate's share grew to 56% of total chocolate sales from 51% in 2008.

NPD efforts in the natural chocolate segment have steadily increased 5% CAGR in the five years (2003-2008) preceding the current recession. In 2009, 3% of new chocolate products carried the "all natural" claim. This is the same percentage as the "organic" claim. Packaged Facts estimates 2010 natural chocolate launches shall return to their pre-recession projection rate.

Packaged Facts identified eleven active trends in the premium chocolate market:

- **Craft chocolate making:** This segment has several names: craft, bean-to-bar or micro-batch chocolate. In a sense, this trend follows precedents established elsewhere in the gourmet food world, where craft beers and specialty coffees helped jolt a commoditized product into another dimension of exciting differentiation.

- **Savory-inspired flavors:** Savory flavors, a cross-over from the culinary scene, started appearing in chocolate several years ago. Now, chocolatiers are experimenting with adding such kitchen cabinet ingredients as olive oil, bacon, cheese, curry and chipotle into their bonbons and truffles.
- **Exotic flavors:** Premium chocolatiers are setting off on culinary adventures, discovering new layers of flavor and textures. Some are experimenting with umami flavors; others are developing products to match consumers' moods. Why? As Bissinger's chocolatier Terry Wakefield explained, "People are wild about 'experiences' rather than 'consumption.'"
- **Raw cacao products:** The raw food segment literally exploded onto the confectionery product scene in 2005. The raw food movement is a reaction to what is perceived as super processed, over engineered food products.
- **Vegan chocolate:** Since then, new vegan labeled chocolate products have increased 52% per year (a 5-year CAGR) to a forecasted 32 new products in 2010, or 1% of all new product reports.
- **Wine-themed chocolate products:** Wine themed chocolate NPD activity has been especially creative, expanding beyond grocery store candy aisles and into liquor stores and wineries using very innovative presentations.
- **Upscale chocolate candy bars:** Candy bars have long been the nemesis of parents who dread running the gauntlet with their children through candy-laden checkout lines. But thanks to creative candy makers, bars are being introduced with healthier ingredients and are being targeted at female consumers.
- **Exotic delivery methods:** Chocolate delivery has gone airborne, thanks to Labo Group's aerosol-based product called Le Whif. The product's benefit is delivering the full flavor of chocolate without the calories.
- **Beyond bars:** The chocolate bar market is getting very crowded. So some aspiring artisan chocolatiers have done so by redesigning the bar shape. Two examples are elegant hand-crafted "tasting tiles" and disks whose shape was borrowed from food morsels given to wandering mendicant monks during the Middle Ages.

- **Extreme milk chocolate:** Dark milk chocolate – above 40% cocoa mass - combines two benefits: milk’s ability to soften or round out the chocolate flavor with the health benefits of dark chocolate’s antioxidants and lower sugar content.
- **Use of alternative distribution channels:** Mars’ Dove Chocolate Discoveries has tapped into the burgeoning market for home party businesses. Mars’ Pure Dark boutiques offer ardent chocolate lovers the ability to customize their chocolate bars.

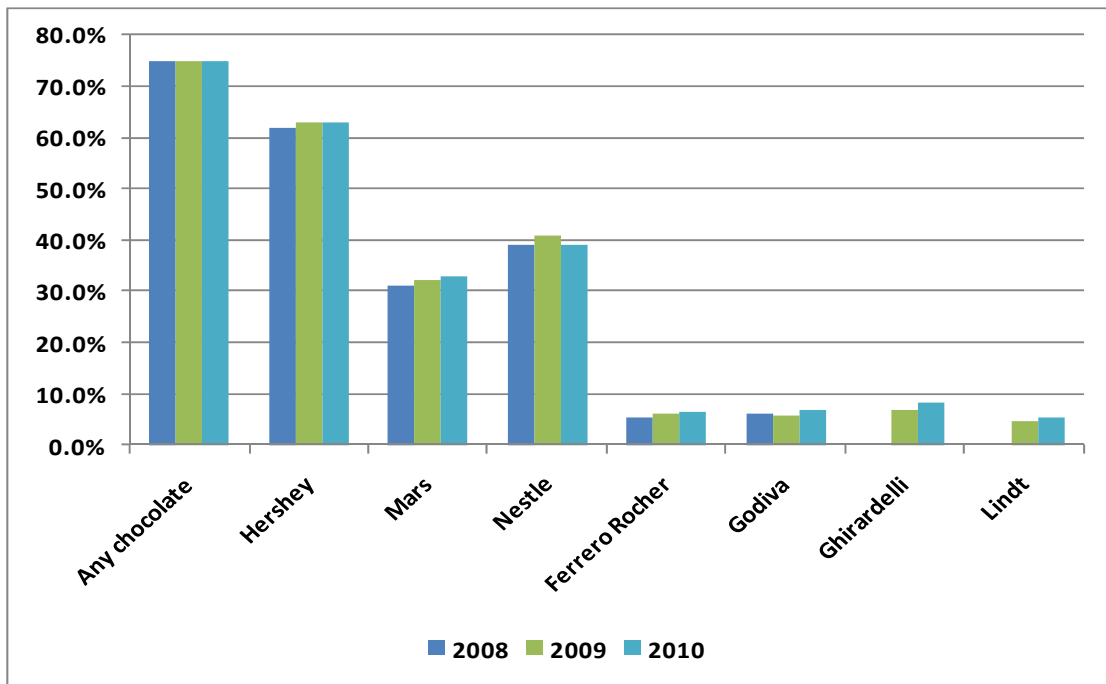
Two waning chocolate trends were identified:

- **Extreme dark chocolate:** America’s love affair with dark chocolate is slipping. After several years of rising popularity, the number of new dark chocolate products has started trending downward. Since 2008, dark chocolate launches are down -24% versus -6% for milk chocolate.
- **Single origin chocolate:** Since peaking in 2005, launches of single origin bars have cratered for a number of reasons: over-saturation of products, the manufacturer’s inability to expand beyond the bar category, the niche lost its luster and the recession pushed consumers into purchasing less-expensive chocolate options.

Consumer Trends

The percentage of Americans who purchase chocolate products has remained steady at 75% since 2008, despite economic expansions and recessions. Some brands have gained chocolate market share. Among conventional chocolate marketers, Mars gained the most market share between 2008 and 2010 (2%), followed by Hershey (1%), while Nestlé was flat. Among premium brands, Ghirardelli’s share increased the most (1.4%), followed by Ferrero Rocher (1.0%), Godiva (0.8%) and Lindt (0.7%). [Figure 1-6]

Figure 1-6
Chocolate Brand Preference Trends, 2008-2010
(Percent)



Source: Compiled by Packaged Facts based on data from Experian Simmons National Consumer Study, Winter 2010. This material is used with permission.
 Note 1: Indexes are based upon Packaged Facts cross-tabs of adult consumers who eat any of the above mentioned marketer's chocolate.
 Note 2: Data for Ghirardelli and Lindt not available for 2008.

Brand preferences between marketers show several key differences. Relatively speaking, the profile of conventional chocolate consumers is more uniform across brands. Among conventional marketers, the preference of Hershey chocolate products is almost the same across all profiles (e.g., age, gender, ethnicity, location, etc.), a great indicator of Hershey chocolate's universal appeal. Mars products tends to be appreciated more by Gen Xers, higher educated consumers, households with two or more children, professional/technical occupations and either \$40K-\$59K or over \$100K incomes. They are less appreciated by older Americans, less educated, single household units and retirees. Nestlé chocolate is preferred by Millennials, blacks, larger family units and people living in mobile homes; it is less popular with older Americans, Asians and people living in owned condos or co-ops.

Among premium chocolate marketers, preferences greatly vary. Millennials seem to prefer Ferrero Rocher, while older Gen Xers enjoy Ghirardelli and Boomers like Lindt. These preferences are most likely a reflection of product flavors, with Ferrero Rocher chocolate representing the classic recipe end of the spectrum and Lindt at the exotic other end (90% Dark Chocolate or Chili Excellence Bars) and Ghirardelli in the middle. White Non-

Hispanics enjoy Ghirardelli and Lindt chocolate, but Hispanics prefer only Ferrero Rocher. Chocolate lovers in the northeast and central regions of the country prefer Lindt; yet Hispanics in the southwest prefer both Ferrero Rocher and Godiva. Less educated consumers favor Ferrero Roche and better educated chocolate consumers reach for Ghirardelli and Godiva. Households with less income buy Ferrero Roche, while households with higher incomes prefer Godiva and Lindt.

Ferrero Rocher emerges as a more down-stream premium brand considering that its consumers are drawn from households with family members having less education, more and younger children, rented residences and lower individual incomes. Lindt and Ghirardelli, in contrast, count their customers among households with greater education and higher incomes who are often employed in management/financial operations.

Not surprisingly, the characteristics of premium chocolate buyers are markedly different from conventional chocolate consumers. They tend to be younger (Gen Y adults age 18-29), predominantly female, living in the northeast and holding a college or higher degree. A general profile for conventional chocolate consumers is an older male (age 45-54), living in America's heartland who graduated from high school. Premium and conventional chocolate buyers also differ based upon their ethnicity, with Asian (higher incomes) and Hispanic communities having a marked preference for premium chocolate; black (non-Hispanic) communities prefer conventional chocolate. Employment status is another factor, with homemakers and part-timers being more frequent purchasers of premium chocolate.

Both conventional and premium chocolate consuming populations exhibit markedly different attitudes toward food and their diets. Premium chocolate buyers are much more sensitive about nutrition, given that they consider calorie content and ingredients in their purchasing decisions. They also tend to shop for organic, natural and gourmet foods and they tend to avoid foods with artificial ingredients. Premium chocolate consumers are also much more adventuresome when it comes to experimenting, a trait that supports many of the new flavor and product trends. Their conventional chocolate counterparts, in contrast, do not consider calories when selecting chocolate and admit that "fast food fits my busy lifestyle."

Chapter 2 Market Size and Growth

Introduction

This chapter discusses the size of the U.S. chocolate market and its growth prospects. It starts with an overview of the global and U.S. confectionery industry to provide overall context. Then it focuses on the U.S. chocolate industry, providing an overview of historic sales trends (including exports and imports), per capita consumption and distribution channel issues. The chapter then drills down into an analysis by product sector of everyday, gift box, novelty seasonal, sugar-free and private label chocolate. It concludes with projected market growth.

Methodology and Scope

This report relies upon several data sources that track chocolate sales. These sources use different assumptions which, in turn, affect their degree of accuracy. Statistics on manufacturer shipments are collected annually by the U.S. Census Bureau, Manufacturing & Construction Division. The Census Bureau adds imports and subtracts exports to derive “apparent” domestic consumption estimates. The survey results are published annually as *Current Industrial Reports MA311D* (CIR). The CIR for the confectionery industry, for example, is published every July. The Census Bureau gathers product shipment data from surveys sent to manufacturers identified from IRS databases. It then approximates data for non-reporting manufacturers in order to derive an estimate of total shipments.

The upside of relying upon Census Bureau manufacturer shipment data is that it encompasses all distribution channels, including several key channels not covered by store scanning data. The downside is that the data reflects inventory movements - not necessarily end consumption - and that the data set is published at least a year later.

Retail chocolate sales data for this report have been provided under special arrangement with Information Resources, Inc. (IRI). IRI uses product purchasing scans from supermarkets, drugstores and mass-merchandisers excluding Wal-Mart (FDM). On the one hand, these data provide a detailed look at brand-level and product line sales through FDM channels. Additionally, the data is refreshed on a monthly basis so that new purchasing trends can be

quickly spotted. On the other hand, Packaged Facts estimates that FDM channel sales represent only about 30% of total retail chocolate sales.

International trade statistics come from the U.S. Census Bureau Foreign Trade Division. Domestic chocolate consumption data was derived from the Census Bureau for the United States. International consumption data was provided by CAOBISCO (Association des Industries de la Chocolaterie, Biscuiterie et Confiserie de l'E.U.) and ICA. CAOBISCO membership includes about 2,000 European Union-based manufacturers, while ICA members associations represent 3,000 companies in 30 countries. Taken collectively, it is estimated that the members of CAOBISCO and ICA represent 70% of global confectionery production.

Confectionery Industry

Global Confectionery Industry

In 2009, the global confectionery market was valued at \$161.9 billion by Euromonitor International. Western Europe holds 34% (or \$55.4 billion) of this market, followed by North America with 21% (\$33.8 billion) and Asia Pacific with 16% (\$25.4 billion). The developing regions of Latin America and Eastern Europe accounted for the greatest growth rates, 11.6% and 11.0% CAGR (2004 to 2009). (Quoted in "What Now, Candy World?" in *Candy Industry Magazine*, June 2010). The market research firm attributed the industry's poor economic performance to economic uncertainty in North America and Western Europe.

The global chocolate market dropped 2% in volume in 2009, according to Barry Callebaut CEO Juergen Steinmann. (Quoted in www.FoodNavigator.com, posted January 13, 2010). He noted that the chocolate market in Western Europe and U.S. had bottomed out, while in Eastern Europe, and especially Russia, it was still contracting. The Asian chocolate market was recovering. Chocolate sales in China rose 18%, estimated Mintel, but this robust increase may be more reflective of a small base of consumers.

In 2009, the chocolate producing powerhouse nation of Switzerland experienced a 6.4% drop in sales value and 5.9% in volume, the country's first sales decline in six years. The relatively smaller decline in volume indicates that consumers were trading down to lower priced products.

U.S. Confectionery Industry

In 2009, the U.S. confectionery industry racked up \$29.2 billion in sales, according to NCA. In terms of sales growth, non-chocolate led the industry with an 8.1% increase in sales, followed by chocolate (6.3%) and gum (-14.3%). With a 58% market share, chocolate is the largest category, followed by non-chocolate candy (32%) and gum (10%). The market shares for these three categories have remained relatively constant over the last 15 years, although chocolate sales have managed to steal 3% market share from gum, due to burgeoning interest in dark chocolate and a decline in per capita gum consumption. [Table 2-1 & Figure 2-1]

In 2009, confectionery placed second - behind refrigerated juice and drinks - in terms of sales growth, according to IRI sales data through FDM distribution channels. However, by sales growth the industry ranked in the middle of the top ten food categories.

U.S. Chocolate Industry

Historic Trends

In 2009, U.S. retail chocolate sales topped \$17.3 billion, a new record. These sales mark a 2.8% increase over 2008, but a percentage point lower than pre-recession 2007. One factor attributed to higher sales is manufacturer price increases, which IRI estimated at 11%¹, in response to higher commodity and transportation costs. Another factor is product premiumization and a rise in health claims that are discussed in greater detail in Chapter 4 Marketing & New Product Trends. Volume/quantity jumped 3.1%, not due to higher manufacturer shipments, but rather from a -10.3% drop in exports and 26.9% higher imports. Manufacturer shipments dropped -0.6%.

This chocolate sales growth differential between value and volume started six years ago in 2003². Since then, the value of chocolate sales has grown at a 2.5% compound annual growth rate (CAGR), while the quantity sold increased only 0.4% CAGR.

¹ Source: Symphony/IRI, *State of the Snack Industry 2009*.

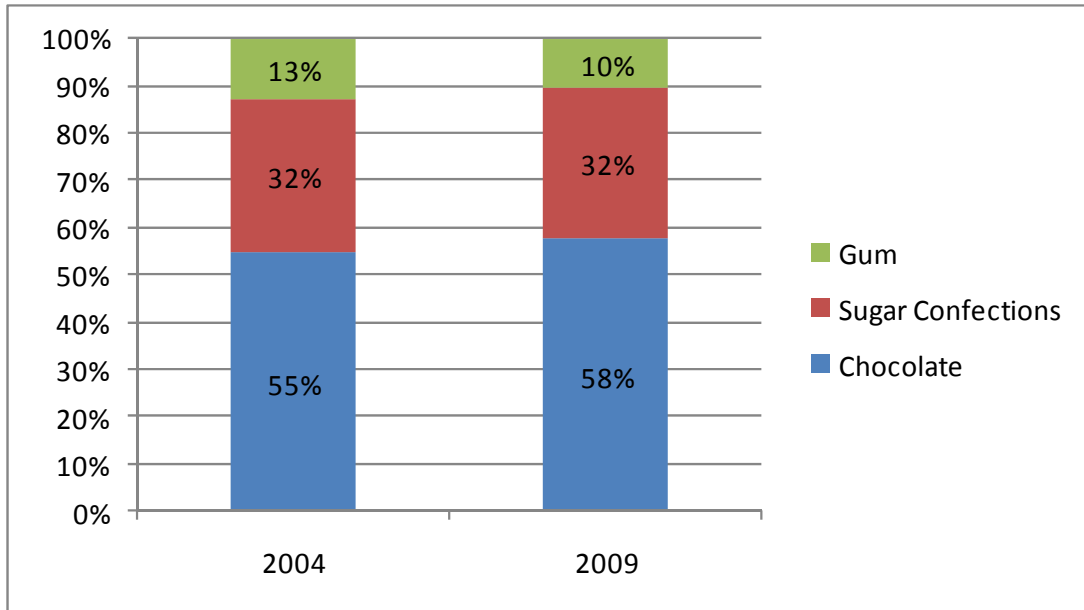
² The exception to this trend was in 2005. In 2006 both the value and volume of chocolate sold declined, a situation possibly caused by supply chain destocking.

Table 2-1
Confectionery Sales and Category Market Share, 2009
 (\$ billions and percent)

Category	2009	Change 2009 vs. 2008	2009 Market Share
Chocolate	\$16.9	6.3%	58%
Sugar Confections	\$9.3	8.1%	32%
Gum	\$3.0	-14.3%	10%
Total	\$29.2	4.6%	100%

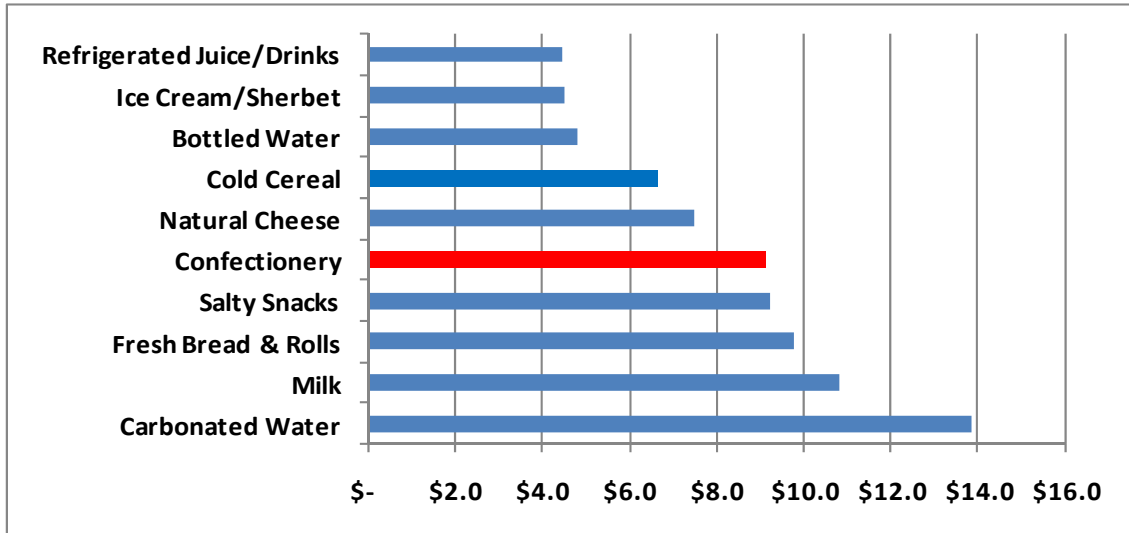
Source: National Confectioners Association

Figure 2-1
Confectionery Sales Market Share by Category, 2004 & 2009
 (Percent)



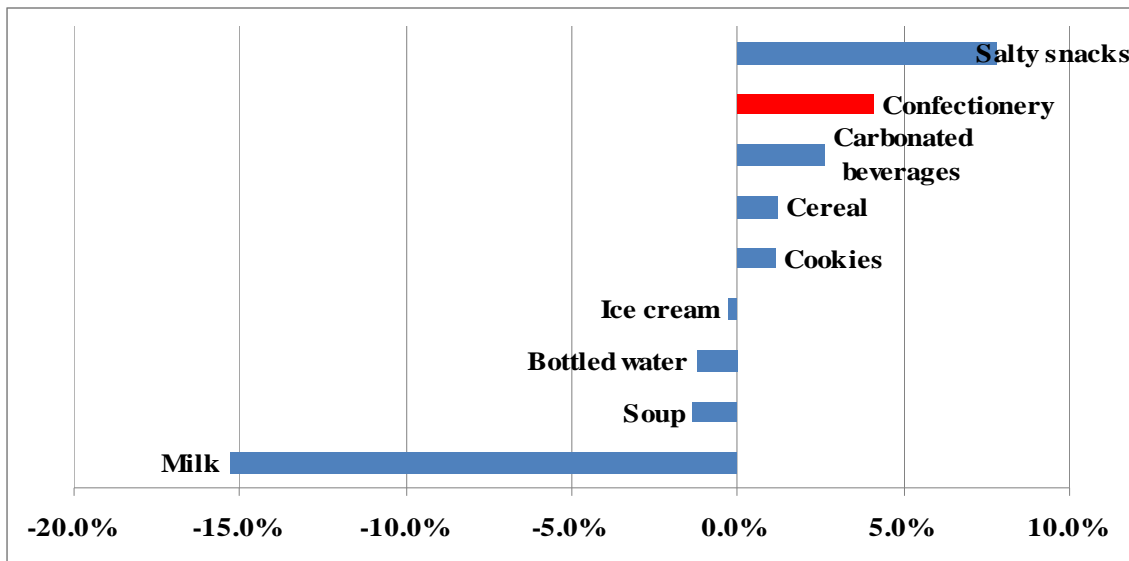
Source: National Confectioners Association, Year in Review

Figure 2-2
Food Categories Ranked by Sales, 2009
 (\$ billions)



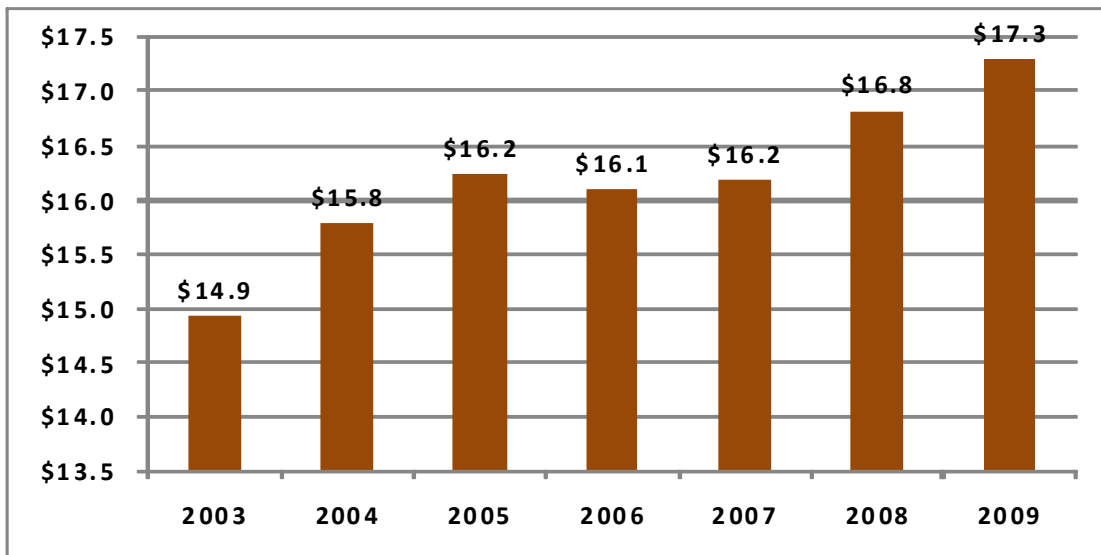
Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. The information supplied by SymphonyIRI is based on data believed to be reliable, but is neither all-inclusive nor guaranteed by SymphonyIRI. Without limiting the generality of the foregoing, specific data points may vary considerably from other information sources. Any opinions expressed herein reflect the judgment of Packaged Facts at this date and are subject to change. Reproduction, resale or other distribution of this document is expressly prohibited without the written permission of Packaged Facts or SymphonyIRI. This material is reprinted with permission.
 Note: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drugstores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Figure 2-3
Food Categories Ranked by Sales Growth, 2009



Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. This material is used with permission.
 Note: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drugstores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Figure 2-4
Retail Chocolate Sales, 2003-2009



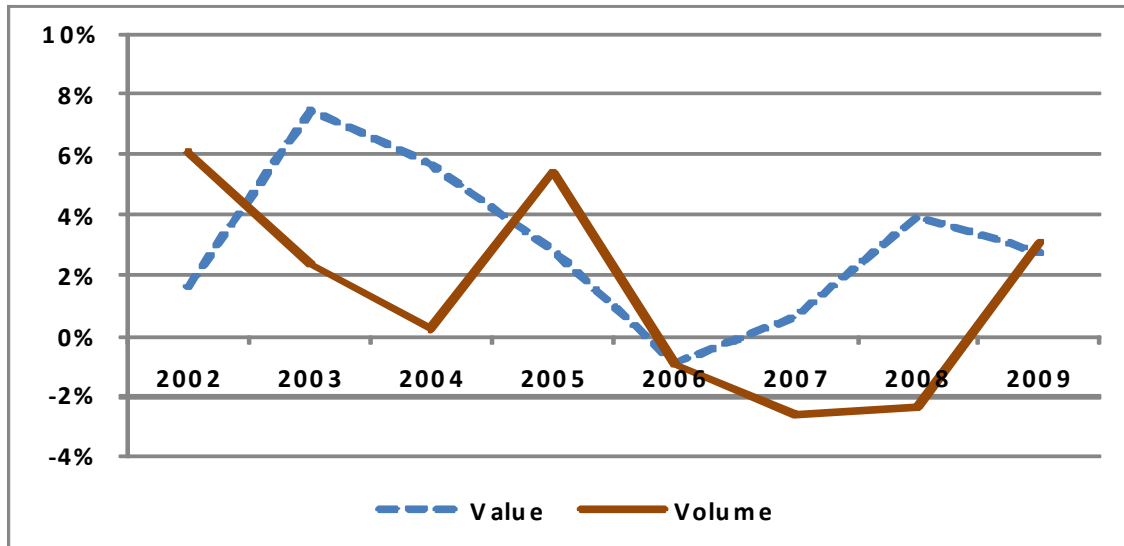
Source: Census Bureau, *Current Industrial Report 2009*; compiled by Packaged Facts

Table 2-2
Retail Chocolate Sales by Volume & Value, 2002-2009
(Millions pounds & dollars)

Year	Volume		Value	
	Total	% Change	Total	% Change
2002	3,459	6.1%	\$13,891	1.6%
2003	3,542	2.4%	\$14,934	7.5%
2004	3,550	0.2%	\$15,785	5.7%
2005	3,742	5.4%	\$16,234	2.8%
2006	3,706	-1.0%	\$16,086	-0.9%
2007	3,608	-2.6%	\$16,185	0.6%
2008	3,523	-2.4%	\$16,823	3.9%
2009	3,632	3.1%	\$17,288	2.8%

Source: Census Bureau, *Current Industrial Report 2009*; compiled by Packaged Facts

Figure 2-5
Retail Chocolate Sales Growth by Value & Volume, 2002–2009
(Percentage)



Source: Census Bureau, *Current Industrial Report 2009*; compiled by Packaged Facts

These growth rates characterize a mature industry with well-established marketers. Market analysts suggest that future market growth has shifted to emerging markets in the Asia-Pacific, Middle East and Africa. Barry Callebaut reported a 20.9% gain in volume and 21.6% in sales in the Asia Pacific region during the first nine months of its 2009/2010 fiscal year.

The slow decline - or flat growth - in domestic shipments marks a trend in manufacturers moving the production of chocolate off-shore to save labor costs. Will such outsourcing affect the quality of chocolate? Jim Greenberg believes that it will. In an interview with Packaged Facts the Co-President of Union Machinery rationalizes that manufacturers will balance their lower labor costs with higher quality ingredients in order to generate higher margins.

Export and Import Trends

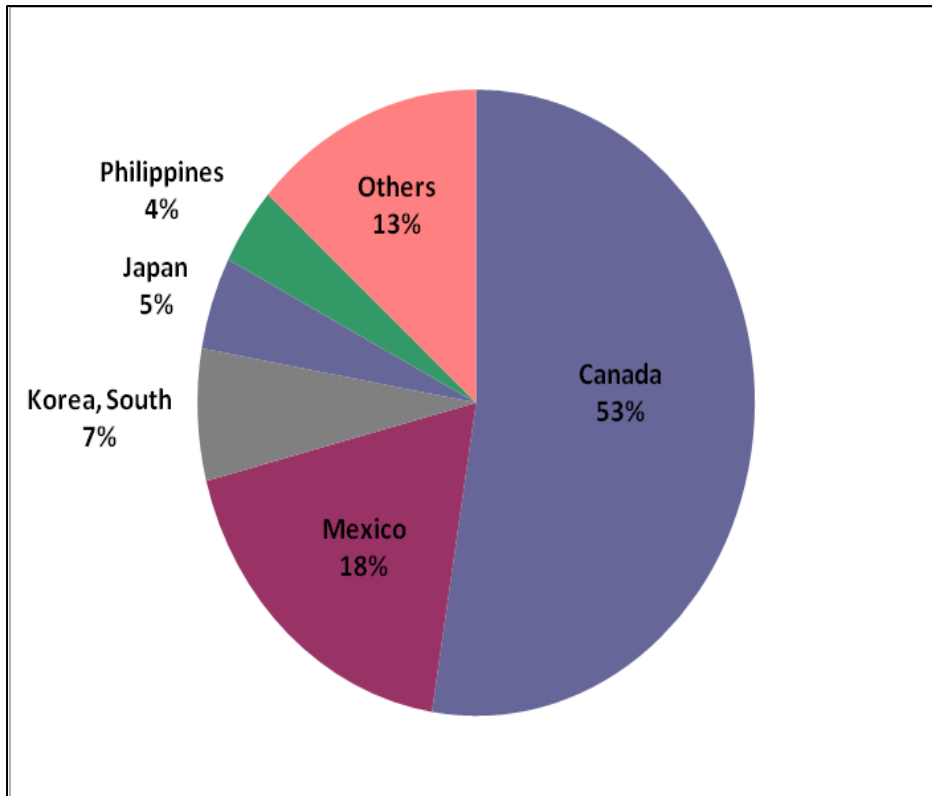
In 2009, chocolate exports were \$730.5 million - down -1% from the prior year - and accounted for an estimated 6.7% of total manufacturer shipments. The relatively small amount of exports (Switzerland in contrast exported 60% of its production in 2009) is an indication of how limited are the international sales of the U.S.’s largest marketer, Hershey.

Table 2-3
Top 15 Chocolate Export Destinations by Country, 2008–2009
(\$ Millions & percent)

Rank	Country	Year		% Change
		2008	2009	
1	Canada	291.0	308.3	6%
2	Mexico	145.4	108.2	-26%
3	Korea, South	33.5	39.9	19%
4	Japan	27.3	28.0	3%
5	Philippines	26.3	23.6	-11%
6	Singapore	16.8	19.2	14%
7	Taiwan	14.1	19.1	36%
8	Peru	11.5	15.4	33%
9	United Arab Emirates	10.9	13.1	21%
10	Panama	16.1	12.0	-25%
11	Colombia	14.2	11.9	-16%
12	Hong Kong	13.5	11.7	-13%
13	Saudi Arabia	5.6	9.8	75%
14	Venezuela	5.8	9.4	61%
15	Australia	7.1	9.4	32%

Source: US Census Bureau, Foreign Trade Division, compiled by Packaged Facts

Figure 2-6
Top 10 Chocolate Export Destination Market Share by Country, 2009



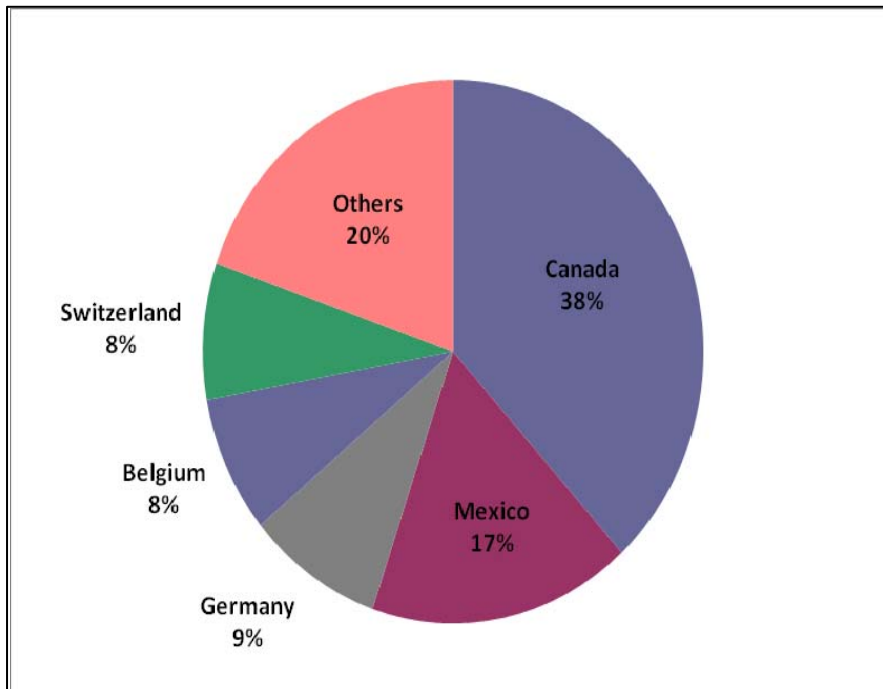
Source: US Census Bureau, Foreign Trade Division, compiled by Packaged Facts

Table 2-4
Top 15 Chocolate Import Originations by Country, 2008–2009
(\$ Millions & percent)

Rank	Country	Year		% Change
		2008	2009	
	World Total	879.1	781.3	-11%
1	Canada	302.5	266.6	-12%
2	Mexico	259.5	118.0	-55%
3	Federal Republic of Germany	60.2	60.8	1%
4	Belgium	45.6	57.1	25%
5	Switzerland	45.5	56.7	24%
6	United Kingdom	16.9	37.4	122%
7	Italy	23.3	35.2	51%
8	France	28.2	33.3	18%
9	Brazil	10.2	15.8	54%
10	Poland	14.4	15.7	9%
11	China	7.6	12.1	59%
12	Netherlands	8.1	10.7	31%
13	Austria	7.9	8.2	4%
14	Israel	7.2	7.0	-3%
15	Ireland	5.0	5.4	9%

Source: US Census Bureau, Foreign Trade Division, compiled by Packaged Facts

Figure 2-7
Top 10 Chocolate Import Origination Market Share by Country, 2009



Source: US Census Bureau, compiled by Packaged Facts

Hershey's situation will be discussed in greater detail in Chapter 3: The Marketers. Canada and Mexico were the top two destinations, accounting for 71% of total U.S. exports. The decline in chocolate exports can be attributed to the -26% drop in exports to Mexico. [Table 2-3 & Figure 2-6]

Chocolate imports were \$781.3 million, an -11% decline over the prior year. Imports accounted for 7.2% of total manufacturer shipments. Canada and Mexico again were the top two originating countries, accounting for 55% of total U.S. imports. The decline in chocolate imports can be attributed to the -55% drop in imports from Mexico and -12% from Canada. [Figure 2-7]

Chocolate Category Trends

Since each data collection entity maintains its own definitions, unfortunately, there is no standard set of chocolate category definitions. This section will analyze data using categories developed by the Census Bureau and IRI, two major providers of chocolate sales.

The Census Bureau separates chocolate categories by product ingredients using NAIC product classification codes. This process yields six product categories for chocolate: solid;

solid with inclusions; enrobed or molded with candy, fruit, nut, or granola centers; enrobed or molded with bakery product centers; panned and assortments/other. These categories are defined as follow:

- **Solid:** Hollow molded chocolate containing no additional foods of any kind. Examples are chocolate stars, Easter bunnies, hollow chocolate Santas and solid chocolate candy bars.
- **Solid with inclusions:** Solid chocolate mixed with other foods, such as dried fruits, nuts and rice.
- **Enrobed or molded with candy, nuts or fruit center:** Examples are chocolate-covered cherries and candy bars covered in chocolate with centers of nougat, caramel and peanuts.
- **Enrobed or molded with bakery product center:** Molded or enrobed chocolate exterior with a baked cookie or wafer center. May or may not have additional confectionery layers or ingredients.
- **Panned:** Products manufactured using the panning process. Examples are bridge mix, sugar panned chocolate centers, chocolate-covered nuts and dried fruit.
- **Assortments and others:** Assortments of two or more of the above products and products that do not fall into any of the above categories. Examples are packages or boxes containing combinations of product types.

The top three categories both in terms of value and volume shipped in 2009 were enrobed with candy center, panned and solid. Enrobed with candy center comprised 35% of all categories by value and volume. Category market shares have been undergoing significant changes in recent years. Since 2004, solid bars and panned have taken 2% each of market share in value from enrobed with candy centers and solid with inclusions. These categories' success can be attributed to new panned product development, price hikes and solid bars' success in the premium market. These trends are discussed greater detail later in this chapter and in Chapter 4. [Figure 2-8, Figure 2-9 & Figure 2-10]

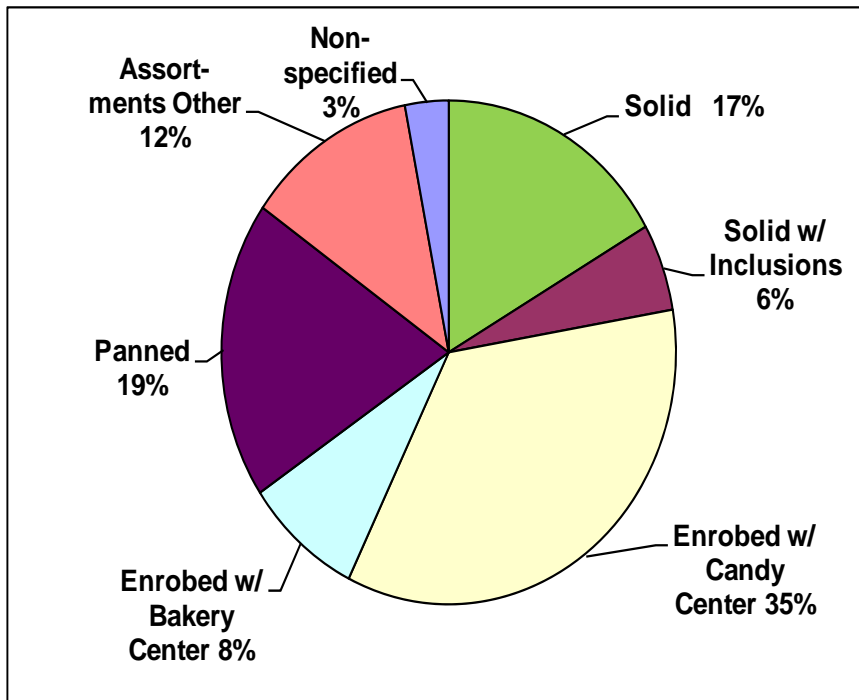
IRI differentiates chocolate by packaging type and use/occasion. This classification has produced seven product categories: bars < 3.5 ounces, box/bag/bar > 3.5 ounces, snack size,

gift box, novelty, seasonal and sugar free. Since sales of the first three categories generally perform together, they have been combined into one category called everyday chocolate.

While IRI data is reliable, it is not all-inclusive. Data missing from the company’s collection process are sales from Wal-Mart (the company doesn’t publically report its sales), warehouse clubs, dollar stores, vending machines, bulk, military PX, company direct sales and Internet sales. Taken collectively, these omissions can account for as much as 70% of all chocolate sales.

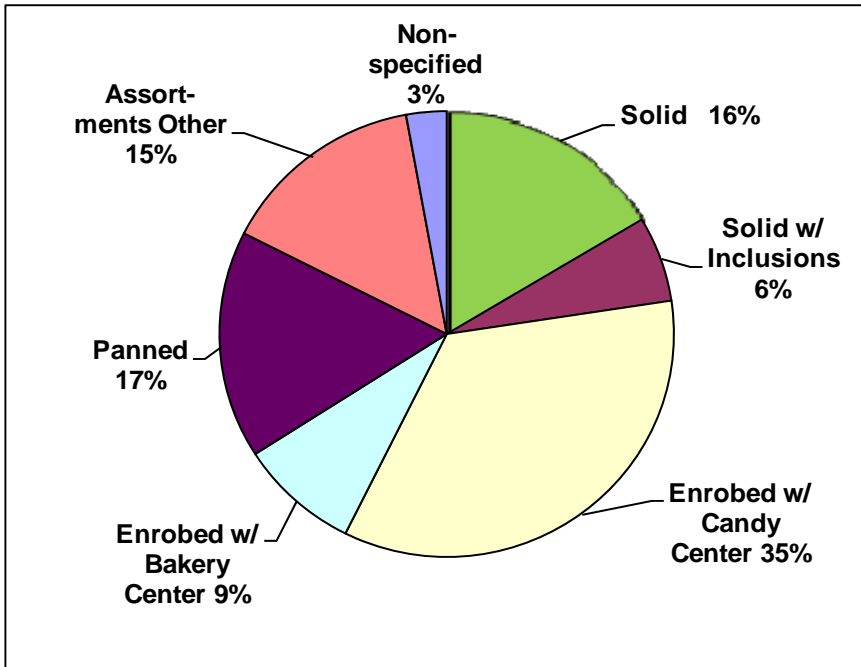
Accordingly, IRI-based data should be used only as a basic indicator of industry growth, not unlike the use of the Dow Jones Industrial Average in financial reporting. That said, IRI data provides a great window into comparative product usage, either by occasion (every day, seasonal) or function (gift box, novelty or sugar-free).

Figure 2-8
Chocolate Market Share by Category and Value, 2009
 (percent)



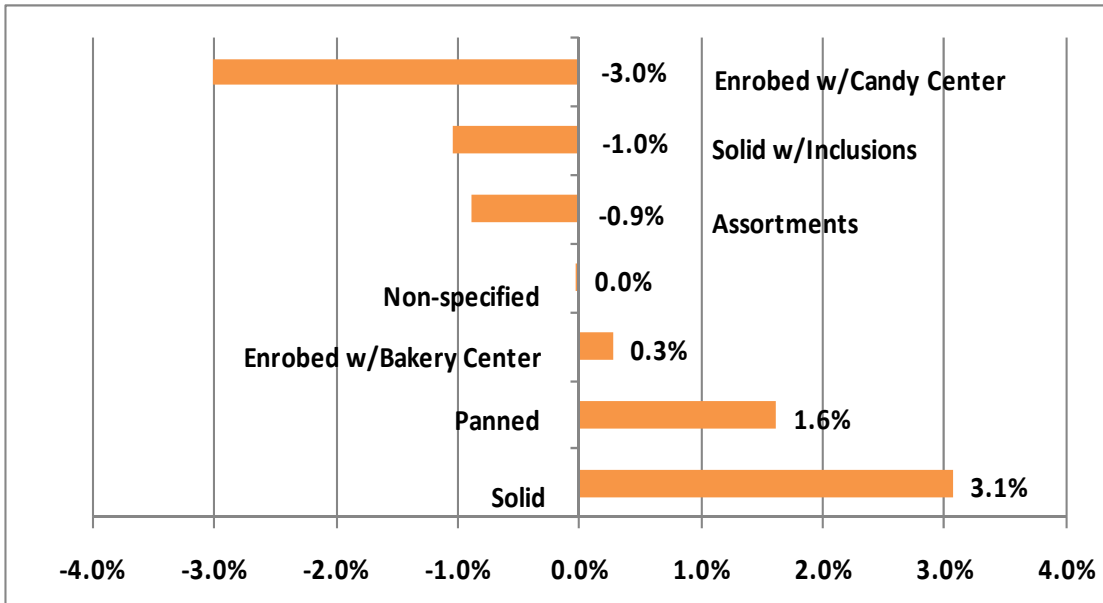
Source: Census Bureau, *Current Industrial Report 2009*; compiled by Packaged Facts

Figure 2-9
Chocolate Market Share by Category & Volume, 2009
 (percent)



Source: Census Bureau, *Current Industrial Report 2009*; compiled by Packaged Facts

Figure 2-10
Chocolate Market Share Change by Category & Value, 2004 vs. 2009
 (Percent)

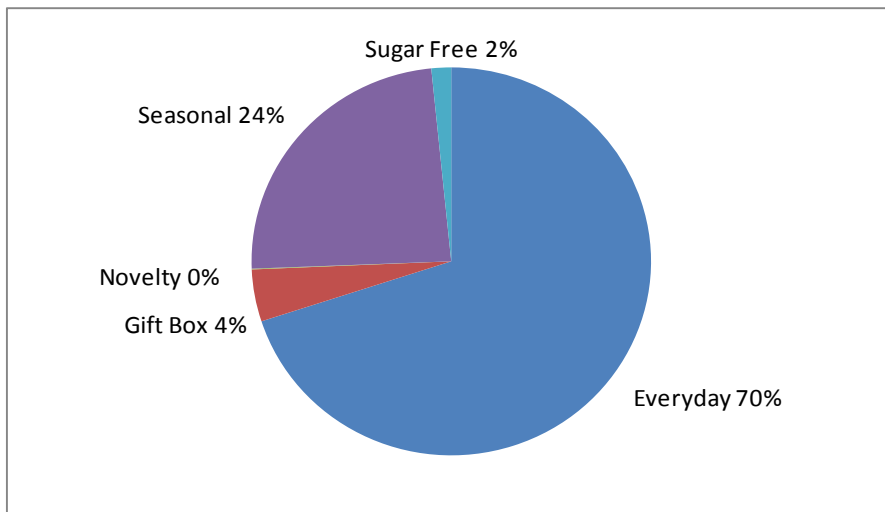


Source: Census Bureau, *Current Industrial Report 2009*; compiled by Packaged Facts

Everyday chocolate sold in 2009 through FDM distribution channels accounted for 70% of total chocolate sales, followed by seasonal with 24%. The remaining three categories (novelty, gift box and sugar-free) had a combined market share of 6%. Over the past six years (2004 to 2009), every day chocolate has gained a 3% market share at the expense of gift box chocolate, while growth in the other three categories was flat. [Figure 2-11 & Figure 2-12]

In 2009, chocolate dollar sales increased 3.4% carried solely by everyday and seasonal. Over the past five years, sales of novelty products, traditionally targeted at children, have steadily declined due to child obesity issues. Consumer interest in sugar-free products peaked in 2005, during the low-carb fad, and then plummeted -24% the following year. While sales in this category are still declining, the magnitude of these sales contractions is getting smaller. Growth in the gift box category is flat. [Table 2-5, Table 2-6 & Figure 2-12]

Figure 2-11
Chocolate Market Share by Product Category, 2009
(Percent)



Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. This material is used with permission.

Note 1: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drugstores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Note 2: Novelty chocolate market share was < 1%.

Table 2-5
Chocolate Sales Growth by Dollar and Volume, 2009
 (\$ million & percent)

Category	Dollar		Unit	
	Sales	% CHG	Sales	% CHG
Every Day	\$3,608	3.9%	2,353	-7.9%
Gift Box	\$223	(1.8%)	48	(4.2%)
Novelty	\$3	(26.8%)	1	(28.6%)
Seasonal	\$1,238	3.9%	604	0.7%
Sugar Free	\$82	(5.2%)	36	(7.5%)
Total	\$5,155	3.4%	3,042.9	(6.2%)

Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. This material is used with permission.

Note: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drugstores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

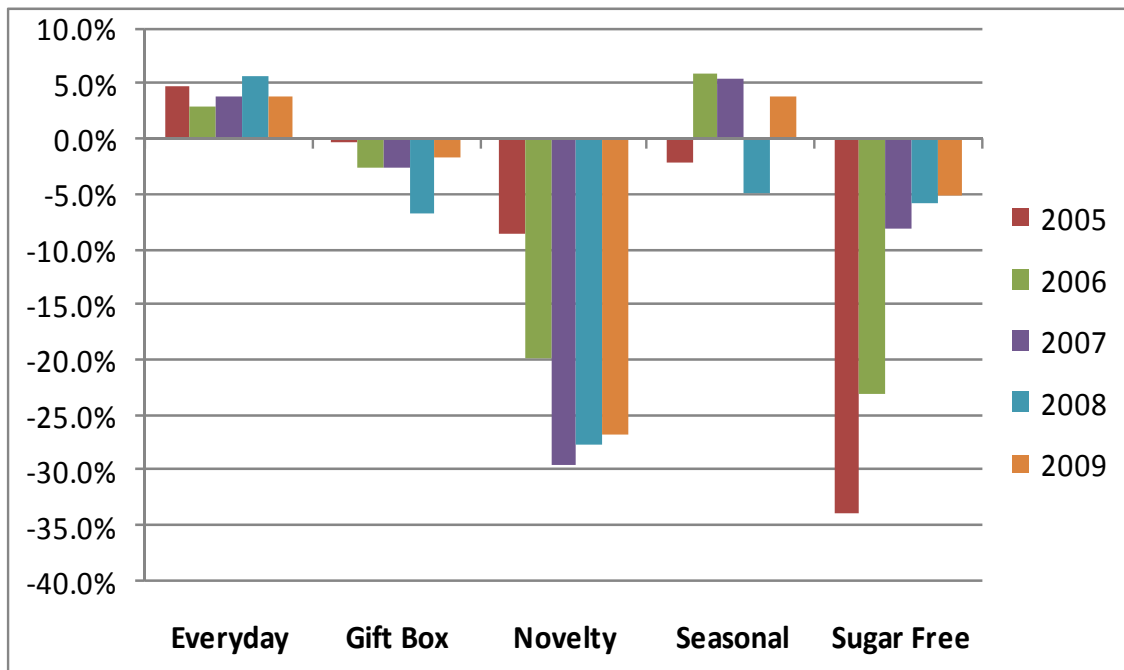
Table 2-6
Chocolate by Dollar and Product Category, 2005–2009
 (\$ millions)

Category	2005	2006	2007	2008	2009
Everyday	\$3,080	\$3,172	\$3,291	\$3,474	\$3,608
Gift Box	\$258	\$251	\$244	\$227	\$223
Novelty	\$11	\$9	\$6	\$5	\$3
Seasonal	\$1,122	\$1,189	\$1,253	\$1,192	\$1,238
Sugar Free	\$131	\$100	\$92	\$87	\$82
Total	\$4,602	\$4,721	\$4,886	\$4,984	\$5,155

Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. This material is used with permission.

Note: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drugstores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Figure 2-12
Chocolate Sales Growth by Dollar and Product Category, 2005-2009
(Percent)



Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. This material is used with permission.

Note: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drugstores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

In contrast, 2009 sales volumes dropped 6.2%, with declines in almost every category. (The exception was seasonal with 0.7% growth.) In short, gains were achieved through price increases and product premiumization, results that track with Census Bureau data.

Per Capita Consumption

In 2008 (the most recent year for CAOBISCO’s publically available data), the top 10 per capita chocolate consuming countries in decreasing order were: Switzerland (23.7 lbs), United Kingdom (22.2), Romania (21.7), Norway (21.6), Germany (20.5), Belgium (17.5), Denmark (16.9), Estonia (16.5), Finland (14.7) and Austria (14.4). [Table 2-7]

According to the Census Bureau, in 2009 the value of U.S. per capita chocolate consumption increased 1.9% to \$56.27. In fact, Americans generally spend more for chocolate each year. While per capita chocolate dollar sales have been increasing six of the past eight years since 2002, Americans are buying smaller amounts of chocolate. Per capita chocolate consumption by quantity peaked at 12.6 pounds in 2005 and has since fallen -6.4% to 11.8 pounds in 2009.

Perhaps this is another indication of the premiumization of the chocolate market. [Figure 2-13]

Distribution Channel Issues

Chocolate is sold in dozens of venues from push cart peddlers clustered around tourist attractions to exclusive Madison Avenue boutiques. Not surprisingly, the traditional IRI-tracked FDM channels, whose figures are widely quoted in the press, account for only 30% of retail sales. Nearly 43% of chocolate sales occur in the non-traditional channel, the largest component of which is specialty chocolatiers (e.g., Godiva, Sees, etc.), estimated James Corcoran, NCA's former VP of Trade Relations in an interview with Packaged Facts. The next largest component is cash-and-carry vendors (e.g., bodegas, wholesalers, fund raisers, etc.). Chocolate is also merchandised at military PXs and on the Internet.

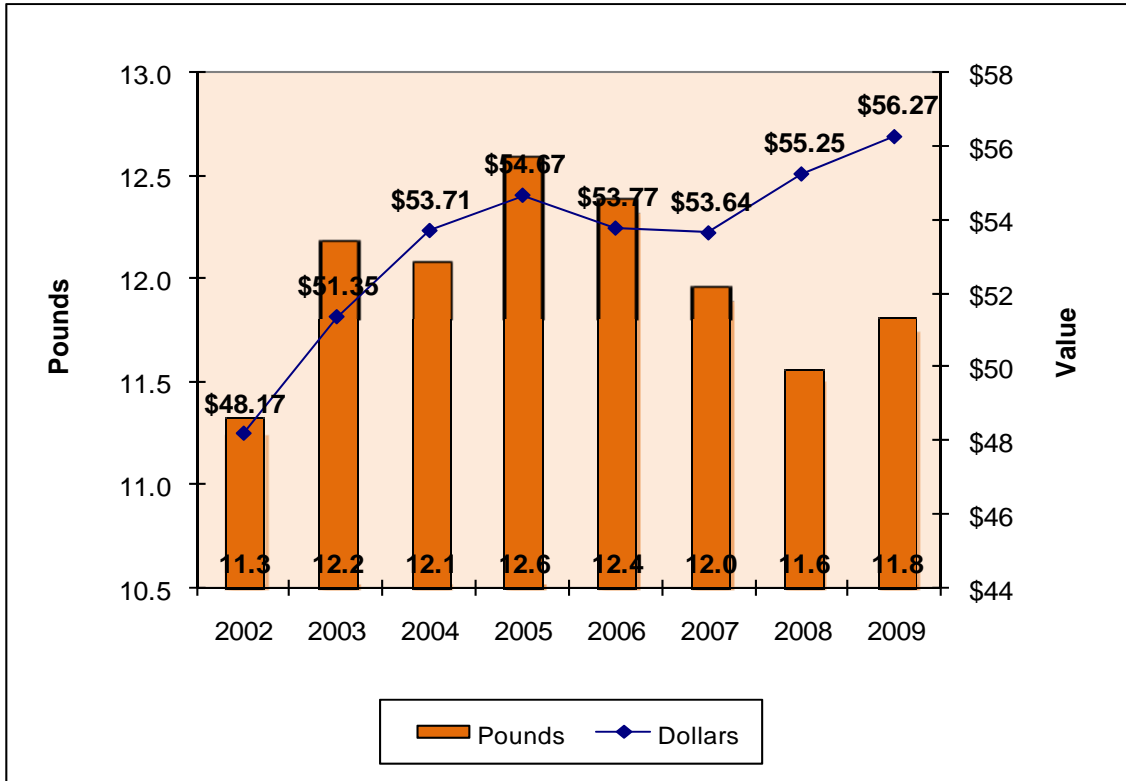
Candy sales through alternative retail channels have been growing steadily, as retailers like the product's impulse purchase nature and relatively high margins. Candy and snack products are now stocked in 29% to 65% of all traditionally non-food retail stores, including gas stations (94%), furniture (22%) and clothing (16%) stores. These results were collected by a research team from Tulane University School of Public Health, New Orleans and published in the *American Journal of Public Health* (December 17, 2009).

Table 2-7
Chocolate Per capita Consumption by Country, 2008
(Pounds)

Rank	Country	2008	% CHG
1	Switzerland	23.7	4.0%
2	United Kingdom	22.2	-0.2%
3	Romania	21.7	2.6%
4	Norway	21.6	2.4%
5	Germany	20.5	-0.7%
6	Belgium	17.5	-24.2%
7	Denmark	16.9	6.8%
8	Estonia	16.5	-2.7%
9	Finland	14.7	-7.7%
10	Austria	14.4	-3.5%
11	Australia	13.1	4.8%
12	Lithuania	13.0	-4.8%
13	Total E.U.	10.8	n.a.
14	France	9.5	5.6%
15	Portugal	8.0	n.a.
16	Greece	7.7	33.6%
17	Hungary	7.4	-1.9%
18	Ireland	5.7	n.a.
19	Italy	5.7	-2.3%
20	Spain	5.2	-0.8%
21	Bulgaria	4.5	-26.2%
22	Japan	3.9	-1.3%
23	Brazil	3.0	4.7%
24	Poland	2.8	-24.9%

Source: CAOBISCO/ICA

Figure 2-13
Chocolate Per Capita Consumption in U.S., 2002–2009
(Pounds and Dollars)



Source: Census Bureau, *Current Industrial Report 2008*; compiled by Packaged Facts

In short, chocolate marketers have become very creative in merchandising their products in a variety of channels and thus significantly increasing chocolate buying opportunities. Such creativity, however, complicates market forecasting.

Projected Market Growth

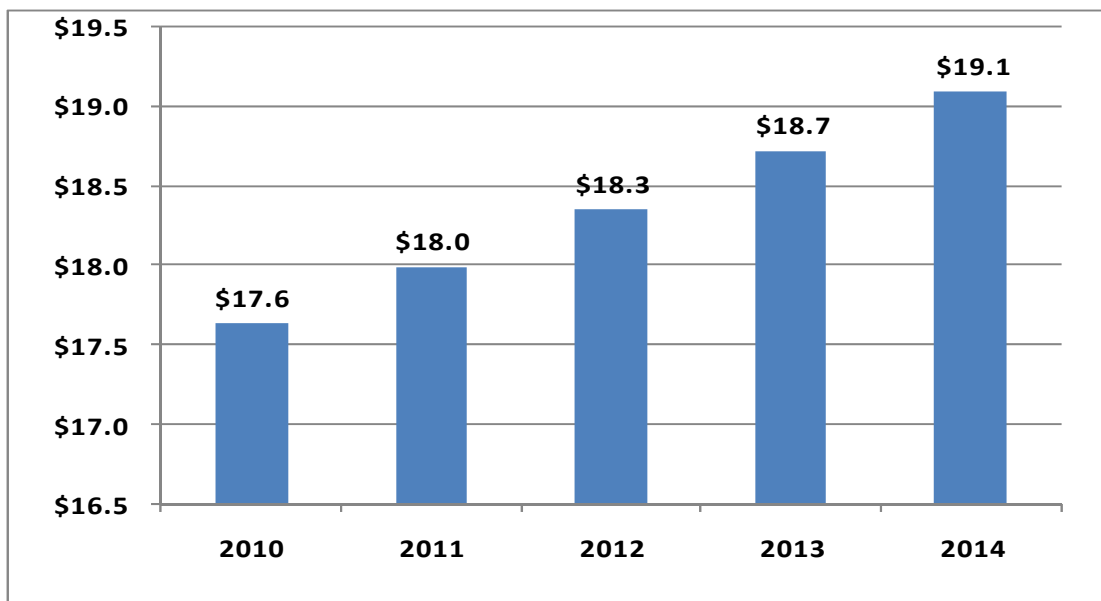
Chocolate’s recession-resilience may be due to its “lipstick factor.” Economists have noted that lipstick sales tend to rise during economic recessions, as the relatively inexpensive purchase goes a long way to cheer women up. Eating chocolate might have the same affect. When times get tough and household budgets turn frugal, spending a few dollars on a good bar of chocolate becomes a terrific way to leverage a piece of indulgence.

Global demand for chocolate is expected to rise in 2010. “We’ll see some increases in demand in 2010 as the economy picks up, as people start going back to the stores,” says NCA President Larry Graham. “In talking to my members and visiting candy companies, everybody seems to be looking forward to a stronger 2010.” (Quoted in *Bloomberg News*,

posted, January 14, 2010) Blommer Chocolate, the country’s largest cocoa processor, is “running full out”, about 4% of plan (June-September), according to company President and COO Peter Blommer. (Quoted in *Candy Industry*, November 2009). Barry Callebaut anticipates growth through 2012 to be in the 6% to 8% range in both value and volume, according to CEO Juergen Steinemann. (Quoted in FoodNavigator, posted January 13, 2010)

Packaged Facts forecasts the U.S. chocolate market to increase an average 3.0% per annum through 2014 when sales will top \$19 billion, up 10.4% from \$17.3 billion in 2009. However, below the surface, there will be sales currents that will favor some categories over others, which is the subject of Chapter 4.

Figure 2-14
Chocolate Sales Forecast, 2010-2014
 (\$ millions)



Source: Packaged Facts.
 Note: Figures are projections from Census Bureau estimates.

Chocolate Category Analysis

Everyday Chocolate

In 2009, everyday chocolate sold through FDM channels hit \$3.6 billion, according to IRI. Over the past five years (since 2005) this has been the only category to produce consistent sales increases. It has gained market share as well, moving up 3% to 70% of total chocolate sales in 2009 by taking 2% market share from gift box and 1% from sugar-free categories.

Within the everyday chocolate category, the sub-category box/bag/bars >3.5 oz have a 56% share of sales, followed by bars < 3.5 oz with 27% and snack size with 17%.

Product premiumization is behind the growth in this category, a trend which is discussed in greater detail in Chapter 4. Packaged Facts estimates that much of the future growth in chocolate sales will come from this category. Accordingly, everyday chocolate market share will increase to 72% by 2014 from 70% in 2009, taking a percentage point each from the gift box and sugarfree/sugarless categories.

Gift Box Chocolate

Although \$223 million gift box chocolate was sold through FDM channels in 2009, this category has lost a lot of momentum over the past five years. Its share of the total chocolate market slid to 4% in 2009 from 6% in 2005. To rev up sales, savvy marketers have responded by replacing the image of grandmother's big box of chocolates with a hipper and more premium product. Additionally, they are targeting the young professional with a rising income and an inclination toward self-indulgence. Such a consumer is most likely a female who may already treat herself to chocolate on a daily or at least weekly basis.

Packaged Facts estimates that gift box chocolate sales will shrink to 3% market share in 2014 from its current 4%.

Novelty Chocolate

With 2009 sales of \$3 million through FDM channels and less than 1% market share, novelty chocolate is the smallest IRI product category. Over the past five years, novelty chocolate sales have sunk 67%. Marketers of novelty chocolates are running into an unfavorable demographic headwind. The population of kids age five to nine, the biggest consumers of novelty products, is expected to decrease 1% between 2010 and 2015, according to U.S. Census Bureau forecasts. Additionally, marketers of novelty chocolate face parental concerns about obesity. The Centers for Disease Control estimates that 17% of children between two and nineteen years old are obese.

Despite marketers' best efforts, however, Packaged Facts estimates that the novelty category will continue to lose market share and stay at the <1% level through 2014.

Seasonal Chocolate

Generally speaking, seasonal chocolate sales are influenced by the day on which the holiday falls. Holidays falling on weekends have a mixed affect on chocolate sales. On the one hand, Halloween falling on a weekend has a positive effect on sales, as families are more likely to participate in trick-or-treating. If Valentine's Day falls on a weekend, on the other hand, this is a potential disincentive, since couples may be tempted to forgo candy purchases and splurge on weekend trips or an expensive dinner.

Seasonal chocolate sales are also influenced by the number of days between major holidays; the marketing logic being that the longer the timeframe, the greater the retail sales or "burn" rate, as some consumers will shop well in advance of the holiday date. For example, Halloween has a relatively long shopping window; thus, encouraging more sales. It has been estimated that 40% of all Halloween sales occur two weeks before October 31. Candy sales at other holiday times tend to be at the last minute. Successful merchandisers take these trends into consideration by stocking Halloween candy starting in late September just after the back-to-school rush. Christmas candy then replaces Halloween or Thanksgiving candy.

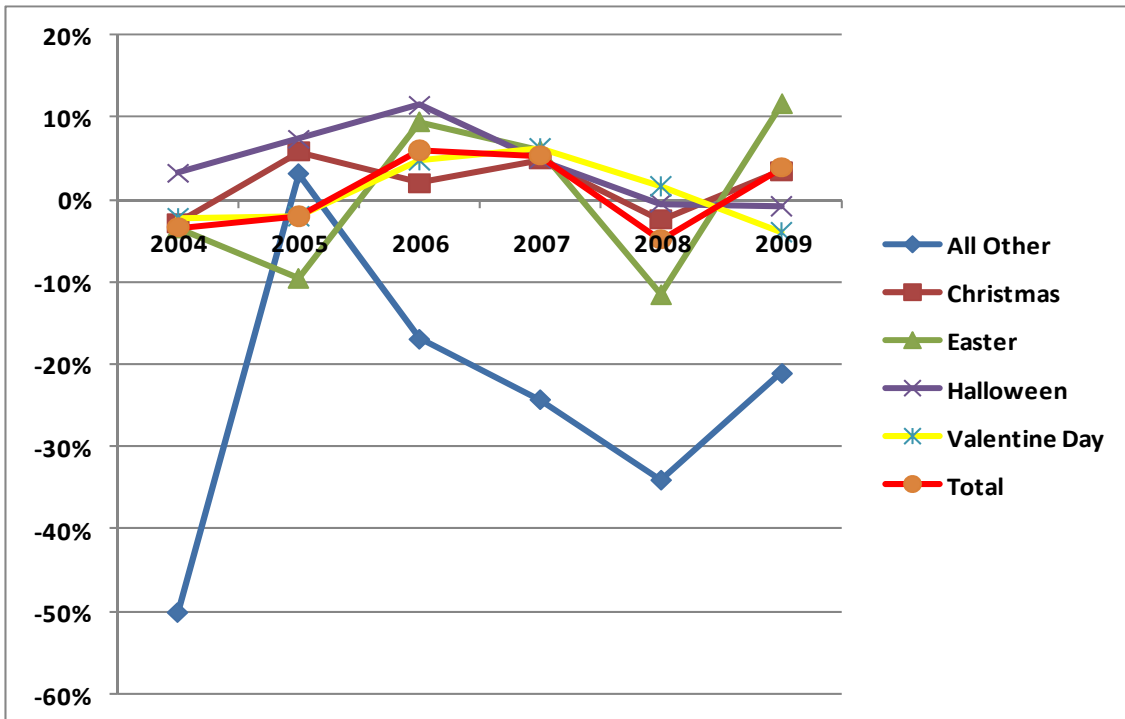
IRI classifies seasonal chocolate as that which contains specific seasonal packaging. However, analysis of sales by best-selling items reveals that as much as 50% of candy sales at Halloween, for example, are of year-round snack-size candy. To gain a more accurate picture of seasonal sales, the NCA and some manufacturers take the incremental change from sales of year round packaged candy sold during the holiday shopping window and aggregate it with seasonally packaged product sales.

Table 2-8
Seasonal Chocolate Sold Through FDM Channels by Holiday, 2009
 (\$ millions and percent)

Season	8 weeks ending	2009	1 YR % CHG	CAGR (5 Year)
All Other	--	\$4	-21%	-19.3%
Christmas	12/31/09	\$360	3%	2.7%
Easter	4/12/09	\$465	12%	0.7%
Halloween	11/5/09	\$104	-1%	4.4%
Valentine Day	2/15/09	\$305	-4%	1.3%
Total	--	\$1,238	4%	1.6%

Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. This material is used with permission.
 Note: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drug-stores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Figure 2-15
Seasonal Chocolate Sold Through FDM Channels by Holiday, 2004-2009
 (percent)



Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. This material is used with permission.
 Note: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drug-stores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

With 38% market share of a \$1,238 million category, Easter dominates seasonal chocolate sales through FDM channels. This holiday is followed by Christmas (29%), Valentine's Day (25%), Halloween (8%) and "all other" (0.3%). These market shares have remained relatively constant over the past five years, except for Easter, which took a 1% market share each from Valentine's Day and all other holidays.

In 2009, Easter sales hit \$465 million through FDM channels, a 12% increase over the prior year, influenced by the longer purchasing window. The number two ranked season was Christmas, which fell on a Friday, a day of the week having a neutral affect on sales. Christmas chocolate purchases hit \$360 million, up 3%. Valentine's Day was ranked third with \$305 million, down 4% partly because the holiday fell on Saturday. Halloween chocolate sales ranked fifth, at \$104 million, down 1%, possibly also caused by falling on Saturday. [Table 2-8 and Figure 2-14]

Packaged Facts estimates that seasonal sales through 2014 will fluctuate, but not expand beyond its current 24% market share.

Sugarfree/Sugarless Chocolate

Rising rates of childhood obesity and diabetes incidence have placed the confectionery industry in the hot seat. Since 1980, obesity rates have doubled for children and tripled for adolescents, amounting to nine million overweight children. The Institute of Medicine has identified childhood obesity as "the most common serious contemporary public health concern faced by young people in the United States."

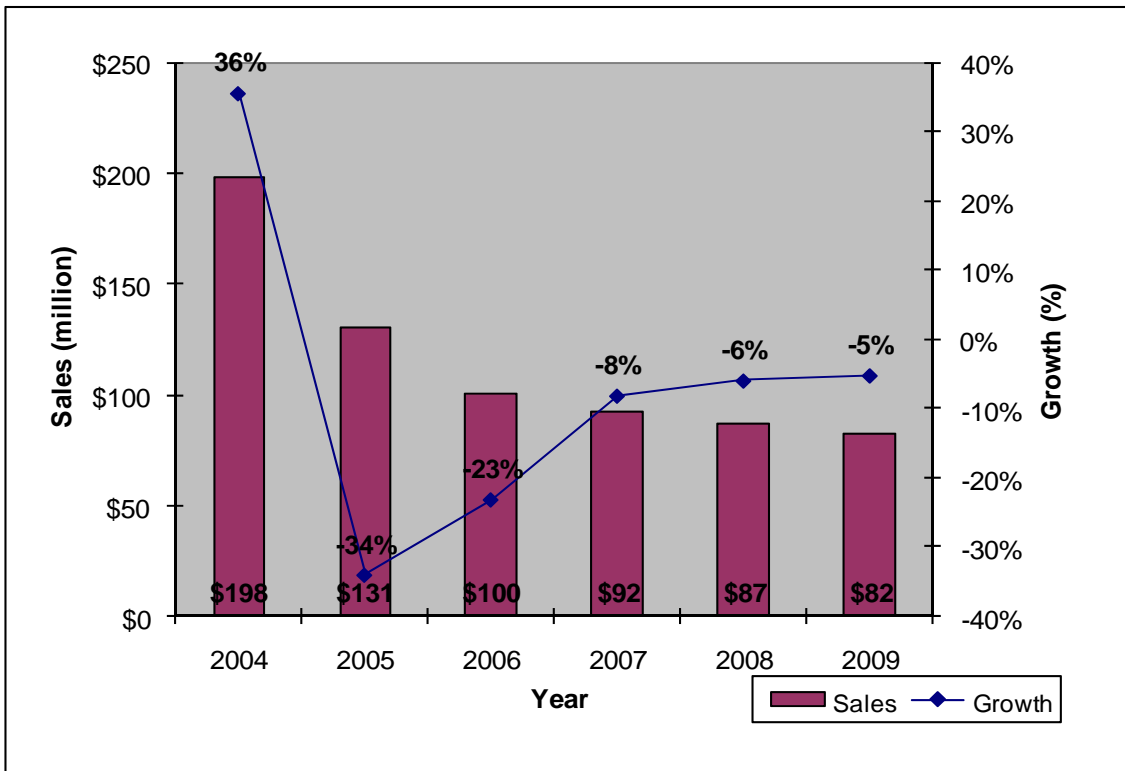
If, as Michelle Obama says, it is possible to turn the obesity problem around in one generation, it will not happen by government mandate alone. Revamping school cafeteria menus and making sugary soft drinks and candy in vending machines less available are part of the solution. Many states have responded by proposing or enacting legislation to restrict vending machine sales of candy.

In 2009, sugarfree/sugarless chocolate sales through FDM channels were \$82 million. The category now accounts for only 2% of total chocolate sales, the trend having crested in 2004 when the category held a 4% market share. Diet-conscious consumers have replaced their chocolate cravings with dark chocolate, which doesn't compromise on taste as it minimizes sugar content. [Figure 2-15]

Sales of non-chocolate sugar-free candy have also trended downward in response to consumer health issues. Total sales in 2009 are down 5.8% from a year prior and the category’s market share has dropped from 3.4% in 2007 to 2.6% in 2009.

Packaged Facts estimates that sales of sugarfree/sugarless chocolate will continue their downward trend. By 2014, the category will count for 1% of total chocolate sales, down from 2% in 2009.

Figure 2-16
Sugar-free Chocolate Sold Through FDM Channels by Sales and Growth Rate, 2004-2009
 (\$ million & percent)



Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. This material is used with permission.
 Note: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drug-stores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Private Label Chocolate

In 2009, private label chocolate rang in \$82 million in sales, down 4% over the prior year, a surprising outcome given that consumers generally turn to value shopping and cheaper store brands during recessions. This category accounts for 2% of total retail chocolate sales.

Private label confectionery products have a much higher market share, 5.1%, according to Nielsen FDM data (including Wal-Mart) for the 52-week sales ending October 3, 2009. Except for those store brands sold by private label dedicated retailers such as Trader Joe’s, Aldi and Tesco, American consumers aren’t ready to accept generic chocolate substitutes.

Table 2-9
Private Label Chocolate Sold Through FDM Channels by Sales & Growth Rate, 2004-2009
 (\$ million & percent)

Indicator	2004	2005	2006	2007	2008	2009
Sales	\$53	\$70	\$77	\$81	\$85	\$82
Growth Rate	13%	34%	10%	4%	5%	-4%
Market Share	1%	2%	2%	2%	2%	2%

Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. This material is used with permission.

Note: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drug-stores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Table 2-10
Private Label Chocolate Sold Through FDM Channels by Category, 2004-2009
 (\$ million)

Category	2004	2005	2006	2007	2008	2009
Everyday	\$39	\$55	\$61	\$62	\$62	\$64
Gift Box	\$1	\$2	\$3	\$4	\$3	\$1
Novelty	\$0	\$0	\$0	\$0	\$0	\$0
Seasonal	\$13	\$13	\$13	\$15	\$20	\$16
Sugar-free	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$53	\$70	\$77	\$81	\$85	\$82

Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. This material is used with permission.

Note: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drug-stores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

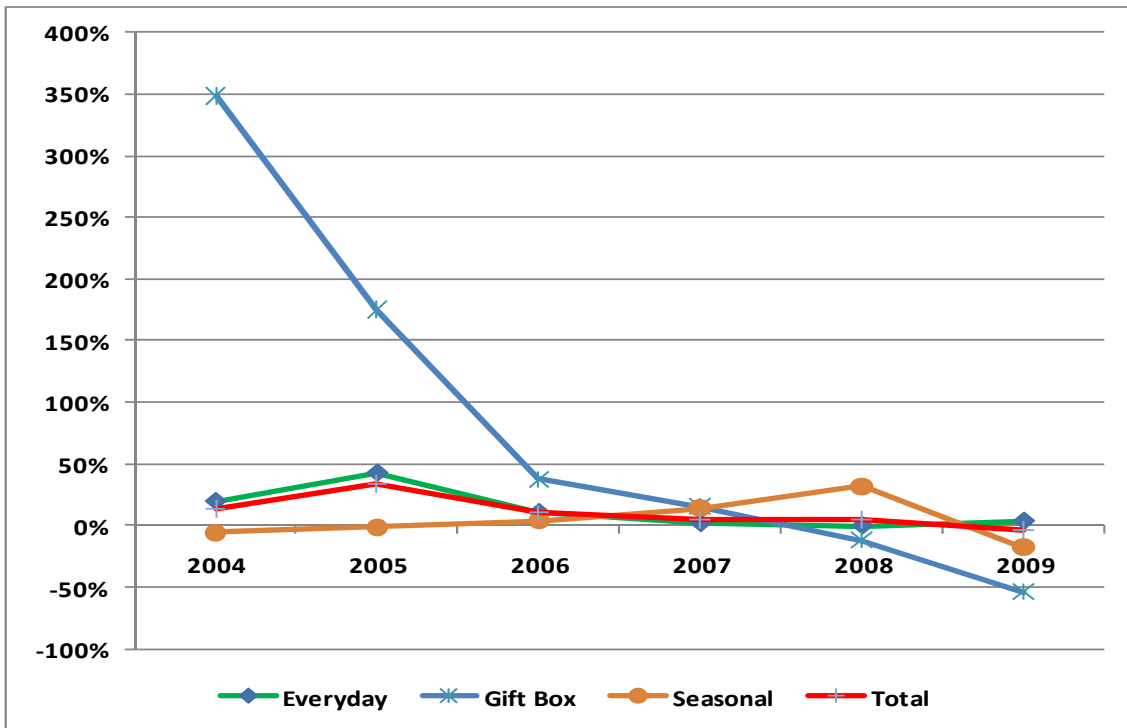
Table 2-11
Private Label Chocolate Sold Through FDM Channels by Growth & Category, 2004-2009
(Percent)

Category	2004	2005	2006	2007	2008	2009
Everyday	20%	43%	11%	2%	-1%	3%
Gift Box	348%	175%	38%	15%	-12%	-54%
Novelty	103%	-84%	-99%	25107%	-100%	205052%
Seasonal	-6%	-1%	4%	14%	32%	-18%
Sugar-free	0%	0%	0%	0%	0%	0%
Total	13%	34%	10%	4%	5%	-4%

Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. This material is used with permission.

Note: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drug-stores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Figure 2-17
Private Label Chocolate Sold Through FDM Channels by Growth & Category, 2004-2009
(Percent)



Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. This material is used with permission.

Note 1: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drug stores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Note 2: The gift box sub-category was excluded because its small size was skewing its percentage increase value.

Additionally, manufacturers invested heavily in marketing their core brands - through promotional campaigns, coupons, price discounts and on-self messaging - to support their market share. Hershey, for example, increased its investment in its core brands by 50% in the third quarter of 2009.

Most private label chocolate sales are either for everyday (78% market share) or seasonal (20%) sub-categories, with shares of the gift box, novelty and sugar free sub-categories being negligible or non-existent. Everyday private label chocolate posted a 3% increase in sales, while seasonal private label chocolate melted by -18%. Among seasonal private label chocolate, the most popular purchase opportunities were Easter (40% market share), Valentine's Day (30%) and Christmas (28%). These market shares almost match branded seasonal chocolate sales; that is, Easter is the most important chocolate buying season, but followed by Christmas and the Valentine's Day. [Table 2-9, Table 2-10, Table 2-11, and Figure 2-17]

Package Facts estimates that private-label sales in the gift box and bars >3.5 ounces sub-categories will experience the most growth in the years ahead.

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Chapter 3 The Marketers

Introduction

This chapter discusses major chocolate company manufacturers. It starts with identifying the leading global confectionery companies and U.S. chocolate companies. It concludes with an analysis of sales by brands.

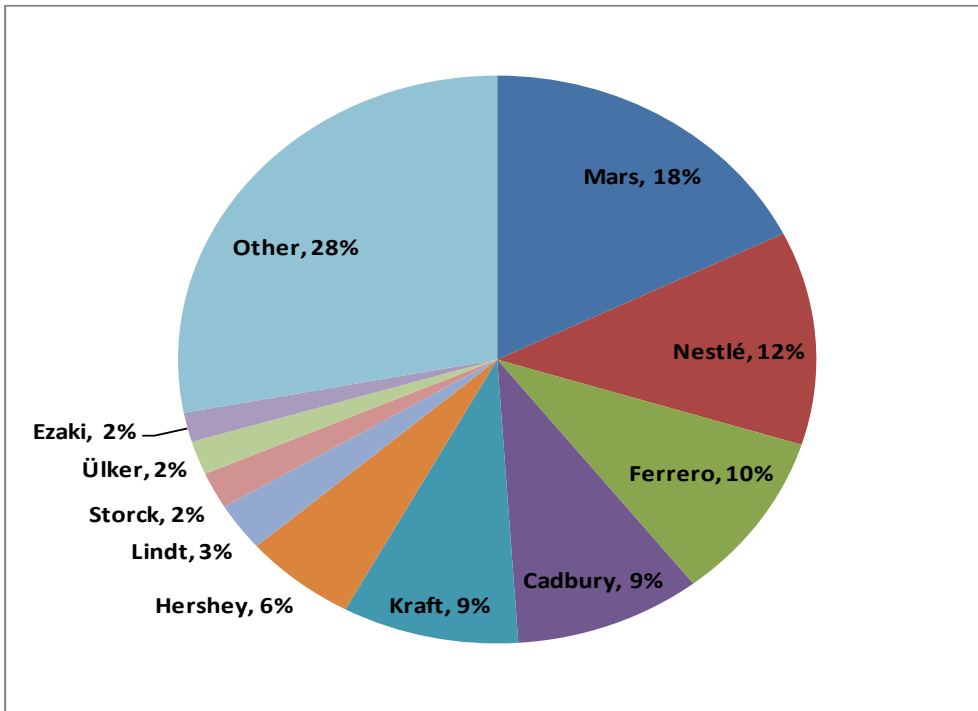
Methodology & Scope

The discussion of leading global confectionery manufacturers is drawn from *Candy Industry Magazine's* annual global confectionery report. U.S. chocolate company and brands sales data have been provided under special arrangement with Information Resources, Inc. (IRI). IRI uses product purchasing scans from supermarkets, drugstores and mass-merchandisers excluding Wal-Mart (FDM). On the one hand, these data provide a detailed look at brand-level and product line sales through FDM channels. Additionally, the data is refreshed on a monthly basis so that new purchasing trends can be quickly spotted. On the other hand, Packaged Facts estimates that FDM channel sales represent only about 30% of total retail chocolate sales.

Leading Global Chocolate Companies

Candy Industry Magazine annually ranks the top 100 global confectionery companies. In January 2010 edition, 81% of these companies produced chocolate products as part of their confectionery portfolio, while 19% manufactured only non-chocolate candy and/or gum. This percentage remains unchanged from 2006 when Packaged Facts analyzed these data for its last U.S. Chocolate Market Report. Twenty-six percent of these 81 top global confectionery companies make a full line of chocolate products: bars (solid and enrobed bars, biscuits and wafers); filled (truffles, pralines and other filled chocolates); molded (including figures and shapes); and panned. Among those companies that specialize, 89% manufacture bars, 83% make filled bars, 60% panned chocolate and 42% molded bars. [Figure 3-1 & Table 3-1]

Figure 3-1
Top 10 Global Confectioners That Manufacturer Chocolate by Market Share,
2010
(percent)



Source: *Candy Industry Magazine*, January 2010. Printed with permission

Note 1: The companies represent confectioners that include chocolate among their product portfolios.

Note 2: All sales, plant and employee estimates are for confectionery operations only, unless otherwise noted. Candy Industry has attempted to factor out industrial chocolate and confectionery sales and plants. Revenues and facilities apply only to consumer confectionery operations, unless otherwise noted.

Note 3: The combined market value in 2010 of all 81 companies was \$93.5 billion.

The global confectionery industry is relatively concentrated, with the top ten companies holding a 72% market share. The leading global confectioner is Mars (\$16.5 billion net sales) thanks to its acquisition of Wrigley in 2008. Mars is followed by Nestle (\$11.4 billion), Ferrero Group (\$9.0 billion), Cadbury (\$8.8 billion) and Kraft (\$8.3 billion).

Table 3-1
Top Global Confectioners That Manufacturer Chocolate, 2010

Rank	Company Name Headquarters	Number of Plants		Number of Employees		Net Sales (\$ Millions)	Market Share	Bars	Filled	Molded	Panned
1	Mars Inc McLean, VA	135	1	65,000	1	\$16,500	17.7%	X	X	X	X
2	Nestlé SA Vevey, Switzerland	456	1	283,000	1	\$11,393	12.2%	X	X	X	X
3	Ferrero Group Alba, Italy	18		21,600		\$8,997	9.6%	X	X	X	X
4	Cadbury PLC London, England	64		47,000		\$8,819	9.4%	X	X	X	X
5	Kraft Foods Inc. Northfield, IL	168	1	98,000	1	\$8,332	8.9%	X	X	X	X
6	The Hershey Company Hershey, PA	8		12,800		\$5,319	5.7%	X	X	X	X
7	Chocoladefabriken Lindt & Sprüngli Kilchberg, Switzerland	8		6,788		\$2,560	2.7%	X	X	X	X
8	August Storck KG Berlin, Germany	5		4,500		\$1,950	2.1%	X	X		
9	Ülker Group Istanbul, Turkey	14	1	25,000	1	\$1,785	1.9%	X	X	X	X
10	Ezaki Glico Co. Osaka, Japan	4	1	4,882	1	\$1,567	1.7%	X	X		
11	Meiji Holdings Inc Tokyo, Japan	6		4,531	1	\$1,560	1.7%	X	X		
12	Arcor Group Buenos Aires, Argentina	41	1	20,000	1	\$1,400	1.5%	X	X	X	X
13	United Confectioners Moscow, Russia	15		17,000		\$1,260	1.3%	X	X		
14	Morinaga & Co. Tokyo, Japan	12	1	3,152	1	\$1,053	1.1%	X	X		
15	Barcel S.A. de C.V. (group Bimbo) Lerma, Mexico	9	2	102,000	1	\$824	0.9%	X	X		X
16	Roshen Confectionery Co. Kiev, Ukraine	6		10,000		\$800	0.9%	X	X		X

(continued)

Table 3-1 [cont.]
Top Global Confectioners That Manufacturer Chocolate, 2010

Rank	Company Name Headquarters	Number of Plants		Number of Employees		Net Sales (\$ Millions)	Market Share	Bars	Filled	Molded	Panned
17	Bahlsen GmbH & Co. Hanover, Germany	5		2,838		\$796	0.9%	X			
18	Leaf International Oosterhout, Netherlands	11		2,700		\$768	0.8%	X	X		
19	Lotte Confectionery Co. Seoul, Korea	7		4,867		\$748	0.8%	X	X	X	X
20	Barry Callebaut AG Zurich, Switzerland	40	3	7,525	1	\$747	0.8%	X	X		
21	Henry Lambertz GmbH & Co. Aachen, Germany	7		3,500		\$727	0.8%	X			
22	Crown Confectionary Co. Seoul, Korea	14		6,224		\$702	0.8%	X			X
23	Orion Corp. Seoul, Korea	11		2,039		\$647	0.7%	X			X
24	Groupe Cemoi Perpignan, France	12	3	3,000		\$643	0.7%	X	X	X	X
25	Farley's & Sathers Candy Co Round Lake, MN	6		2,900		\$600	0.6%				X
26	Russell Stover Candies Inc. Kansas City, MO	4		3,000		\$525	0.6%	X	X	X	X
27	Tootsie Roll Industries Inc. Chicago, IL	7		2,200		\$503	0.5%	X	X		X
28	Bourbon Corp. Nilgata, Japan	10	1	5,000	1	\$487	0.5%	X	X		
29	PepsiCo Americas Foods Mexico City, Mexico	310		198,000		\$485	0.5%	X	X		
30	Orkla ASA Oslo, Norway	6		31,541		\$463	0.5%	X	X		X
31	Colombina SA Cali, Colombia	7		7,200		\$456	0.5%	X	X	X	

(continued)

Table 3-1 [cont.]
Top Global Confectioners That Manufacturer Chocolate, 2010

Rank	Company Name Headquarters	Number of Plants	Number of Employees	Net Sales (\$ Millions)	Market Share	Bars	Filled	Molded	Panned	
32	Alfred Ritter GmbH & Co. KG Waldenbuch, Germany	1	800	\$425	0.5%	X	X		X	
33	See's Candies Inc. South San Francisco, CA	2	n.a.	\$421	0.5%	X	X		X	
34	Empresas Carozzi SA Santiago, Chile	4	9,522	1	\$409	0.4%	X	X	X	
35	Konti Group Donetsk, Ukraine	4	n.a.	\$408	0.4%	X	X	X	X	
36	Fazer Confectionery Helsinki, Finland	3	950	\$404	0.4%	X	X		X	
37	Chocolate Frey AG Buchs/Aarau, Switzerland	2	773	\$400	0.4%	X	X	X	X	
38	Ferrara Pan Candy Co. Forest Park, IL	5	950	\$389	0.4%		X	X	X	
39	Grupo Nacional de Chocolates SA Medellin, Colombia	5	3,800	\$389	0.4%	X	X		X	
40	Thorntons plc Derbyshire, UK	1	4,479	\$336	0.4%	X	X	X	X	
41	Natra SA Valencia, Spain	5	950	\$309	0.3%	X	X	X		
42	Tangerine Confectionery Ltd Blackpool, UK	7	1,500	\$250	0.3%	X	X			
43	Toms Confectionery Group A/S Ballerup, Denmark	3	700	\$250	0.3%	X	X	X	X	
44	Universal Robina Corp. Quezon City, Philippines	15	4	8,783	4	\$248	0.3%	X	X	X
45	Josef Manner & Co. AG Vienna, Austria	3	770	\$243	0.3%	X	X		X	

(continued)

Table 3-1 [cont.]
Top Global Confectioners That Manufacturer Chocolate, 2010

Rank	Company Name Headquarters	Number of Plants		Number of Employees		Net Sales (\$ Millions)	Market Share	Bars	Filled	Molded	Panned
46	AVK Co. Donetsk, Ukraine	4		6,183		\$230	0.2%	X	X		
47	Elah Dufour SpA Novi Ligure, Italy	3		250		\$221	0.2%	X	X		
48	US Nutrition (NBTY Inc.) Ronkonkoma, NY	15	1	13,760	1	\$218	0.2%	X			
49	Kras Food Industry Zagreb, Croatia	4		2,538		\$210	0.2%	X	X	X	
50	Tiger Brands Ltd. Sandton, South Africa	n.a.		11,967	1	\$209	0.2%	X	X		X
51	A. Loacker SpA Auna di Sotto, Italy	2		385		\$200	0.2%	X	X		
52	Jutrzenka Holding SA Bydgoszcz, Poland	6		2,000		\$193	0.2%	X	X		X
53	Wawi-Schokolade AG Pirmasens, Germany	9		700		\$192	0.2%	X		X	
54	Strauss Group Petach Tikva, Israel, Israel	17	1	11,633	1	\$185	0.2%	X	X		
55	Zetar plc London, England	3		932	1	\$185	0.2%	X	X	X	X
56	Dulces De la Rosa Guadalajara, Mexico	4		1,780		\$182	0.2%			X	X
57	Solen Cikolata Gida San. Ve Tic. Gaziantep, Turkey	3		800		\$180	0.2%	X	X	X	X
58	Jelly Belly Candy Co Fairfield, CA	3		700		\$175	0.2%				X
59	Cloetta AB Ljungsbro, Sweden	2		464		\$155	0.2%	X	X		X
60	R.M. Palmer Co Reading, PA	4		600		\$150	0.2%		X	X	
61	The Promotion in Motion Cos. Closter, N.J.	1		400		\$150	0.2%				X

(continued)

Table 3-1 [cont.]
Top Global Confectioners That Manufacturer Chocolate, 2010

Rank	Company Name Headquarters	Number of Plants	Number of Employees	Net Sales (\$ Millions)	Market Share	Bars	Filled	Molded	Panned
62	Parfimmo (Campagne du Bois Sauvage) Viezenbeek, Belgium	2	685	\$147	0.2%	X	X		
63	Ion SA Piraeus, Greece	2	989	\$145	0.2%	X	X	X	X
64	Raunch Schokoladen GmbH Berlin, Germany	2	550	\$139	0.1%	X		X	
65	Kambly SA Trubschachen, Switzerland	2	420	\$135	0.1%	X			
66	Chocolates Valor SA Villajoyosa, Spain	1	225	\$125	0.1%	X	X		X
67	Dulces Vero SA de CV Guadalajara, Mexico	5	3,500	\$121	0.1%				X
68	Wawel SA Krakow, Poland	1	700	\$105	0.1%	X	X		X
69	Chocolats Halba AG Wallisellen, Switzerland	2	230	\$101	0.1%	X	X	X	
70	Frankford Candy & Chocolate Co. Philadelphia, PA	1	250	\$100	0.1%		X	X	
71	Standard Candy Co Nashville, TN	1	550	\$100	0.1%	X			
72	Fannie May (1800Flowers.com) Chicago, IL	1	1,000	\$98	0.1%	X	X	X	
73	New England Confectionary Co. Revere, Mass.	1	650	\$98	0.1%	X	X		X
74	World's Finest Chocolate Inc. Chicago, IL	1	280	\$97	0.1%	X	X		X
75	Zentis GmbH & Co. Aachen, Germany	1	1,300	\$95	0.1%	X	X		
76	Gertrude Hawk Chocolates Inc. Dunmore, Pa.	1	475	\$91	0.1%	X	X	X	X

(continued)

Table 3-1 [cont.]
Top Global Confectioners That Manufacturer Chocolate, 2010

Rank	Company Name Headquarters	Number of Plants	Number of Employees	Net Sales (\$ Millions)	Market Share	Bars	Filled	Molded	Panned
77	Glisten plc Leeds, UK	6	684	\$91	0.1%	X	X		X
78	Confiserie Léonidas SA Brussels, Belgium	3	380	\$90	0.1%	X	X	X	
79	Van Netten GmbH Dortmund, Germany	1	260	\$85	0.1%	X	X		X
80	Chocolates Kopenhagen Ltd Sao Paulo, Brazil	2	1,150	\$81	0.1%	X	X	X	X
81	Mieszko SA Warsaw, Poland	2	900	\$77	0.1%		X	X	

Source: *Candy Industry Magazine*, January 2010. Printed with permission.

Note 1: Includes all plants & personnel; confectionery & non-confectionery; retail, wholesale & manufacturing.

Note 2: Includes Barcel, Ricolino and Park Lane Confectionery plants, but no other Bimbo facilities.

Note 3: Includes cocoa processing facilities.

Note 4: Includes only Universal Robina's consumer food operations.

Candy Industry analyst Paul Rogers noted that mergers and acquisition activity in 2009 was muted because the lingering recession. It was a quiet year, with no major or minor buyouts among the members of the list. The only significant change in ranking since 2009 was Ferrero overtaking Cadbury for the number three slot. But with Kraft's purchase of Cadbury in late 2009, Kraft should move to up to number one or two in *Candy Industry's* 2011 report. (Source: "The Calm Before an M&A Whirlwind?," in *Candy Industry Magazine*, January 2010).

Leading U.S. Chocolate Companies

The United States is the world's largest retail confectionery market, having a 19% share or \$30.6 billion of the \$161.9 billion global chocolate market.³

In the U.S., Hershey and Mars dominate the chocolate market, controlling a combined two-thirds of dollar sales through IRI-tracked FDM channels. Hershey brands (including Dagoba, Scharffen Berger and Mauna Loa) accounts for 41% of these sales or \$2.1 billion. Mars follows with a 28% market share, or \$1.4 billion. Russell Stover (including Whitman's and Pangburn) is in third place with a 7% share of sales or \$337.6 million. Nestlé (including

³ See Chapter 2 for more information on the global confectionery market.

Perugina) claims fourth place with 6% of sales or \$295.5 million and Lindt is fifth (5% or \$277.3 million). [Table 3-2]

In terms of sales growth among these top five chocolate companies, Lindt grew the most (13.7% between 2008 and 2009 and 28.9% CAGR between 2004 and 2009). Mars has been growing at a steady pace, 5.2% and 5.0% growth respectively. Hershey, Russell Stover and Nestlé experienced improved sales growth between 2008 and 2009 over their five-year CAGR.

Considering market share growth of the top five chocolate companies, during the five-year period (2004 and 2009), Lindt captured the greatest market share growth (4.2%) and Mars moved up 3%, capturing market share from Nestlé (-3.0%), Russell Stover (-2.3%) and Hershey (-1.9%). [Figure 3-2]

When this analysis is widened for the top 20 chocolate companies, then Cadbury (31.9%) achieved the distinction of achieving the greatest sales growth through FDM channels between 2008 and 2009. At the other end of the spectrum, Kraft experienced the largest decline, -31.7%. These percentages should be taken with caution given that Cadbury's and some of the other companies' sales were calculated on small bases. [Figure 3-3]

Sales by Brand

In the chocolate candy box/bag <3.5-oz. category, *Reese's* is the top selling brand with \$340.9 million in sales through IRI-tracked FDM channels in 2009 and a 13% market share. *M&M's* with \$328.4 million (12.6% share) and *Snickers* with \$309.9 million (11.9%) are the second and third ranked brands. These three top ranked brands account for almost 40% of the entire category. The brand with the greatest sales growth in 2009 was *Snickers* (43.0% increase), followed by *Hershey's Cookies 'N Creme* (18.8%) and *Reese's* (12.2%).

Snickers' sales were aided by the success of the “snacklish” campaign created by TBWA, a major advertising agency. Sales growth of Hershey brands was aided by “increased levels of in-store programming and merchandising, as well as execution at the retail level,” explained CEO David West following the release of Hershey's third quarter 2009 results.

The <3.5-oz category experienced a 9.7% increase in sales and was the category leader. The Hershey Company dominates the box/bag < 3.5 oz. category, capturing 47% market share on \$1,231 million in sales, while Mars claims another 39.7%. Private label brands had the

largest sales increase, 34.5%, most likely because of value shopping during the recession and better quality store brands. [Table 3-3]

In the chocolate candy box/bag >3.5oz. category, *M&M's* is the category leader with \$308.2 million in sales. Unlike the box/bag <3.5-oz category, the top three brands have only a 27% market share. The *Lindt Lindor* brand achieved the greatest sales growth (19.4%) and helped push up Lindt & Sprungli's top ranked 22% growth rate. Some of these sales successes are due to the company's stepped-up investment in marketing and advertising. Hershey and Mars products combined control 69% of the market. [Table 3-4]

Table 3-2
Top 5 Chocolate Companies by Sales and Percent Growth, 2004-2009
(\$ millions & percent)

Rank	Company	2008	2009	% Change (2008-2009)	CAGR (2004-2009)
1	Hershey	\$2,021.6	\$2,104.7	4.1%	2.2%
2	Mars	\$1,359.1	\$1,429.3	5.2%	5.0%
3	Russell Stover	\$329.6	\$337.6	2.4%	-2.3%
4	Nestle	\$288.5	\$296.5	2.8%	-4.4%
5	Lindt	\$244.0	\$277.3	13.7%	28.9%

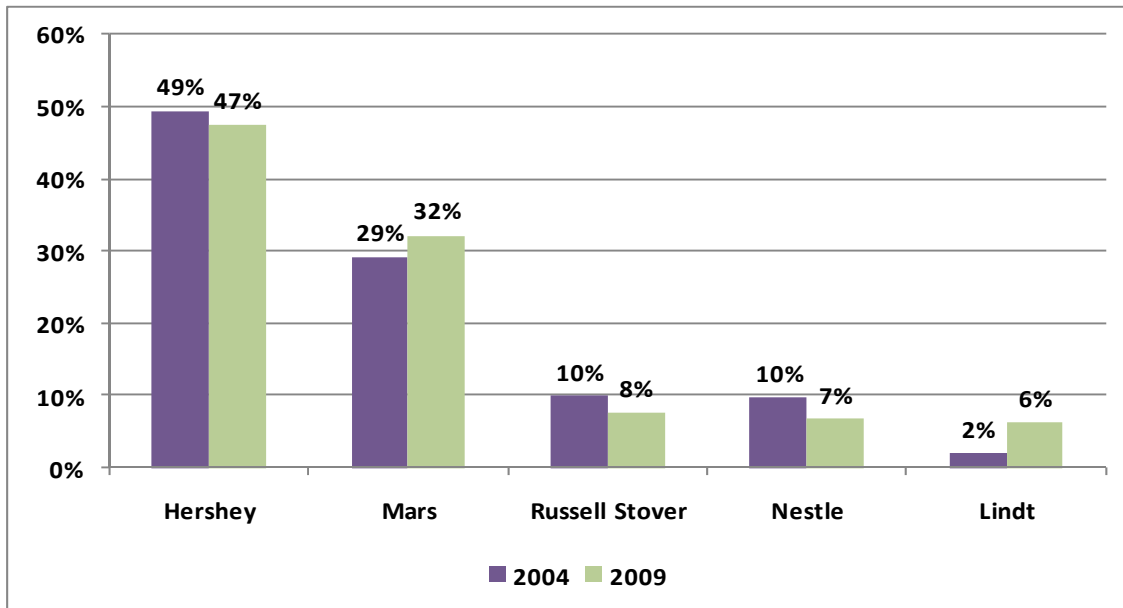
Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. This material is used with permission.

Note 1: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drugstores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Note 2: Packaged Facts was not able to collect 2007 data.

Note 3: Each company's market share is based upon its percentage of sales of all five companies.

Figure 3-2
Top 5 U.S. Chocolate Companies by Market Share, 2004 vs. 2009
 (percent)



Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. This material is used with permission.

Note 1: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drugstores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Note 2: Each company's market share is based upon its percentage of sales of all five companies.

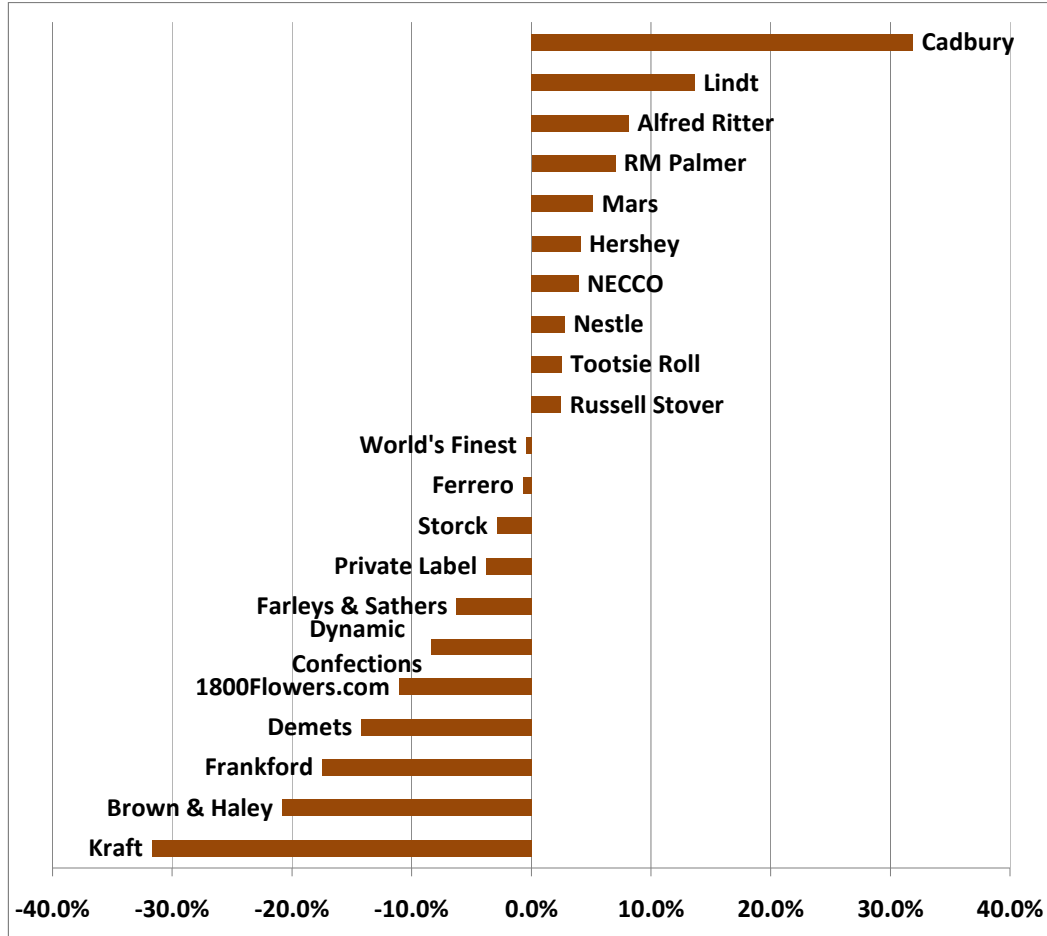
The top three brands in the chocolate candy snack/fun size were *Reese's* (\$87.7 million), *Snickers* (\$81.0 million) and *M&M's* (\$52.4 million). Tenth place *Twix* brand attained the largest sales increase 11.7%. The entire category is served by only three manufacturers: Mars, Hershey and Nestlé. [Table 3-5]

The gift box chocolate category is dominated by the *Russell Stover* brand with 39.4% market share. The brand with the greatest sales gain was Lindt Petits Desserts with 29.0%, followed by two Ferrero brands: *Rocher* (17.4%) and *Prestige* (16.6%). As discussed in Chapter 2, the gift box chocolate category has lost a lot of momentum over the past five years. [Table 3-6]

The sugarfree/sugarless chocolate category performed the worst in 2009, dropping -4.7%. This category now accounts for only 2% of total chocolate sales, the trend having crested in 2004 when the category held a 4% share. Diet-conscious consumers have replaced their chocolate cravings with dark chocolate, which doesn't compromise on taste while still minimizing sugar content. *Whitman's* (\$1.4 million and 45.0% increase) and *Russell Stover* (\$49.5 million and 4.6%) were the only two brands with growth. There are only five

manufacturers servicing this category: Russell Stover, Hershey, Whitman’s, Mars and Demet’s. [Table 3-7]

Figure 3-3
Top 20 Chocolate Companies Ranked by Sales Growth Through FDM Channels, 2008-2009 (percent)



Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. This material is used with permission.
 Note: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drugstores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Table 3-3
Top 10 Chocolate Candy Brands Box/Bag/Bars <3.5-oz, 2009
(\$ million & percent)

Rank	Brand	\$ Sales	% CHG Yr Prior	% of Category
1	Reese's	\$340.9	12.2%	13.0%
2	M&M's	\$328.4	7.9%	12.6%
3	Snickers	\$309.9	43.0%	11.9%
4	Hershey's	\$241.1	-2.6%	9.2%
5	Twix	\$156.4	13.7%	6.0%
6	Kit Kat	\$145.4	19.3%	5.6%
7	Three Musketeers	\$99.0	-0.7%	3.8%
8	Hershey's Cookies 'N Crème	\$72.6	18.8%	2.8%
9	Peter Paul Almond Joy	\$50.8	8.6%	1.9%
10	Milky Way	\$47.9	10.7%	1.8%
	All Other Brands	\$821.3	n.a.	31.4%
	Total Category	\$2,613.7	9.7%	100.0%

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Note 1: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drugstores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Note 2: Based on a 52-week period ending February 21, 2010.

Table 3-4
Top 10 Chocolate Candy Brands Box/Bag/Bars >3.5-oz, 2009
(\$ million & percent)

Rank	Brand	\$ Sales	% CHG Yr Prior	% of Category
1	M&M'S	\$308.2	5.7%	13.5%
2	Hershey's	\$195.0	1.7%	8.5%
3	Reese's	\$112.2	11.8%	4.9%
4	Dove	\$109.9	-5.4%	4.8%
5	Hershey's Kisses	\$101.2	-6.7%	4.4%
6	Lindt Lindor	\$66.6	19.4%	2.9%
7	Snickers	\$65.5	-59.8%	2.9%
8	Hershey's Nuggets	\$62.3	5.1%	2.7%
9	Private Label	\$61.3	6.7%	2.7%
10	Kit Kat	\$50.3	13.8%	2.2%
	All Other Brands	\$1,154.3	n.a.	50.5%
	Total Category	\$2,286.8	-1.3%	100.0%

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Note 1: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drugstores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Note 2: Based on a 52-week period ending February 21, 2010.

Table 3-5
Top 10 Chocolate Candy Brands Snack/Fun Size, 2009
(\$ million & percent)

Rank	Brand	\$ Sales	% CHG Yr Prior	% of Category
1	Reese's	\$87.7	-5.4%	14.2%
2	Snickers	\$81.0	8.5%	13.1%
3	M&M'S	\$52.4	-2.5%	8.5%
4	Nestlé Butterfinger	\$45.1	9.2%	7.3%
5	All Hershey Products	\$43.8	-3.2%	7.1%
6	Milky Way	\$38.1	6.6%	6.2%
7	Hershey's	\$35.2	6.2%	5.7%
8	Three Musketeers	\$31.8	1.5%	5.2%
9	Kit Kat	\$26.4	2.3%	4.3%
10	Twix	\$25.2	11.7%	4.1%
	All Other Brands	\$150.1	n.a.	24.3%
	Total Category	\$616.8	2.2%	100.0%

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Note 1: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drugstores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Note 2: Based on a 52-week period ending February 21, 2010.

Table 3-6
Top 10 Chocolate Candy Brands Gift Box, 2009
(\$ million & percent)

Rank	Brand	\$ Sales	% CHG Yr Prior	% of Category
1	Russell Stover	\$88.6	5.9%	39.4%
2	Whitman's Sampler	\$34.5	7.1%	15.3%
3	Hershey's Pot of Gold	\$26.8	-13.2%	11.9%
4	Queen Anne	\$16.4	4.5%	7.3%
5	Ferrero Prestige	\$13.3	16.6%	5.9%
6	Fannie May	\$7.7	-26.0%	3.4%
7	Ferrero Rocher	\$6.6	17.4%	2.9%
8	Lindt Petits Desserts	\$4.0	29.0%	1.8%
9	Esther Price	\$3.7	-0.3%	1.7%
10	Lindt	\$3.4	11.5%	1.5%
	All Other Brands	\$20.2	n.a.	8.9%
	Total Category	\$225.2	-1.6%	100.0%

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Note 1: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drugstores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Note 2: Based on a 52-week period ending February 21, 2010.

Table 3-7
Top 8 Chocolate Candy Brands Sugarfree/Sugarless, 2009
(\$ million & percent)

Rank	Brand	\$ Sales	% CHG Yr Prior	% of Category
1	Russell Stover	\$49.5	4.6%	60.4%
2	Hershey's	\$7.4	-9.4%	9.0%
3	Dove	\$5.1	-22.9%	6.2%
4	Reese's	\$4.4	-10.4%	5.4%
5	Whitman's Sampler	\$4.4	-0.2%	5.4%
6	York Peppermint Patty	\$3.2	-10.8%	3.8%
7	Whitman's	\$1.4	45.0%	1.7%
8	Demet's Turtles	\$1.3	-54.0%	1.6%
	All Other Brands	\$5.3	n.a.	6.5%
	Total Category	\$82.0	-4.7%	100.0%

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Note 1: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drugstores, and mass merchandisers (including Target and Kmart, but excluding Wal-Mart) with annual sales of \$2 million or more.

Note 2: Based on a 52-week period ending February 21, 2010.

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Chapter 4 Marketing & New Product Trends

Introduction

This chapter discusses trends and opportunities sweeping the chocolate market. It starts with an evaluation of new product introductions, claims and flavors. Then the chapter evaluates three major chocolate market segments that experienced significant market share gains: premium, ethical consumerism and healthy/functional. It concludes with an analysis of active and waning trends.

Methodology & Scope

Data regarding new product introductions, claims and flavor came from Product Launch Analytics, a division of DataMonitor. Trend analysis of the artisan premium chocolate segment is based upon surveys undertaken by special agreement with the Fine Chocolate Industry Association (FCIA) and TheChocolateLife.com. Additional information was drawn from discussions posted on several online confectionery special interest groups.

Founded in 2007, FCIA represents professionals in the fine chocolate segment of the chocolate industry. The association's goal is to "promote the artistry and craftsmanship of the chocolate professional focused on producing superior products made from premium chocolate and natural ingredients." It does so through creating standards, raising public awareness and educating its members. FCIA has about 180 members worldwide, including growers/producers, chocolatiers, pastry chefs, chocolate manufacturers, marketers, writers, educators and specialty retailers. Fifty-seven members responded to Packaged Facts' survey.

TheChocolateLife.com is an online community with an international membership and includes cocoa growers, chocolate makers and chefs. It is hosted by author and chocophile Clay Gordon.

New Product Development

Product Introductions

During recessions, confectioners – as do most manufacturers - traditionally cut their new product development (NPD) budgets to cope with declining sales. This recession was no different, with overall new confectionery product launches in 2009 dropping -15%, according to Product Launch Analytics. But apparently hard economic times do not necessarily mean hard choices for candy lovers, as this decline was -30%, half the rate for the entire food and beverage industry, according to market research firm Mintel.

Within the confectionery industry, the chocolate market was the least affected. New chocolate product launches declined only -6% or less than half the confectionery industry's rate of contraction. NPD for sugar confectionery products, in contrast, dropped -25%, while gum tanked -37%. Chocolate's recession-resilience may be due to its "lipstick factor." Economists have noted that lipstick sales tend to rise during economic recessions, as the relatively inexpensive purchase goes a long way to cheer women up. Eating chocolate might have the same affect. When times get tough and household budgets turn frugal, spending a few dollars on a good bar of chocolate becomes a terrific way to leverage a piece of indulgence. [Table 4-1]

Given the past half-decade of good and bad economic times, the relative prominence of new chocolate product development has been arcing steadily upwards. In 2005, at the start of the premium and healthy chocolate trends, new chocolate products accounted for 43% of all confectionery product launches; by 2009; it was 62% (1,760). [Figure 4-1 & Figure 4-2]

NPD activities with FCIA members have remained slightly up through the recession. On average there were 5.6 new launches per company in 2008, 6.0 in 2009 and 6.6 estimated for 2010. Despite reports of consumer flight to value products during this recession, new premium chocolate introductions were up 10% between 2008 and 2009, in contrast to the -6% drop in overall chocolate introductions.

New Product Claims

What were the manufacturer value propositions for these new chocolate products? In 2009, the top 20 product claims accounted for 85% of all claims, as tracked by Product Analytics. Using this data subset, product premiumization claims ("upscale" and "gourmet") claimed 26% of the top 20 claims. This is followed by "novelty" and "kids" with 12% of the claims,

an indicator of the importance of young chocolate consumers. In third position is “single serving” with 11%, an example of the portion control packaging trend. This is followed by ethical claims (“organic” and “fair trade”) with 4% of claims. [Table 4-2]

New chocolate product claims over the past five years reveal several patterns. The “upscale” and “single serving” claims appear in the top two positions every year. Other perennial favorites are “novelty”, “natural”, “kids”, “gourmet”, “organic”, and “licensed” (all five years); “organic” (four of five years); and “licensed” (two years). The high-antioxidant claim of dark chocolate dropped to eighteenth place in 2009 from eighth place in 2006. [Table 4-3 & Table 4-4]

To what degree do labels currently influence consumers’ attitudes? Apparently 54% of consumers often consult label information when buying a product for the first time, according to the FDA’s *Health and Diet Survey 2008* version. That response was 10% higher than recorded in the 2007 survey. An even larger percentage of consumers (72%) recognize healthy symbols or icons while 67% use these icons either often or sometimes to make purchasing decisions. Of those who consult product labels, 41% use the information to decide on what brand to purchase while 66% use it to check calories, salt or fat content.

Thirty-one percent of surveyed consumers use labels to validate whether the product’s advertised claims match its nutrient content. And a discouraging 56% believe these claims to be inaccurate. “We feel consumer skepticism measured today would be even higher because people strained by the recession have no tolerance for purchase mistakes,” reports an editorial in the *Lempert Report*. “The days are gone when CPG [consumer product group] manufacturers and retailers could put one over on consumers.” (Posted at www.supermarketguru.com on March 4, 2010).

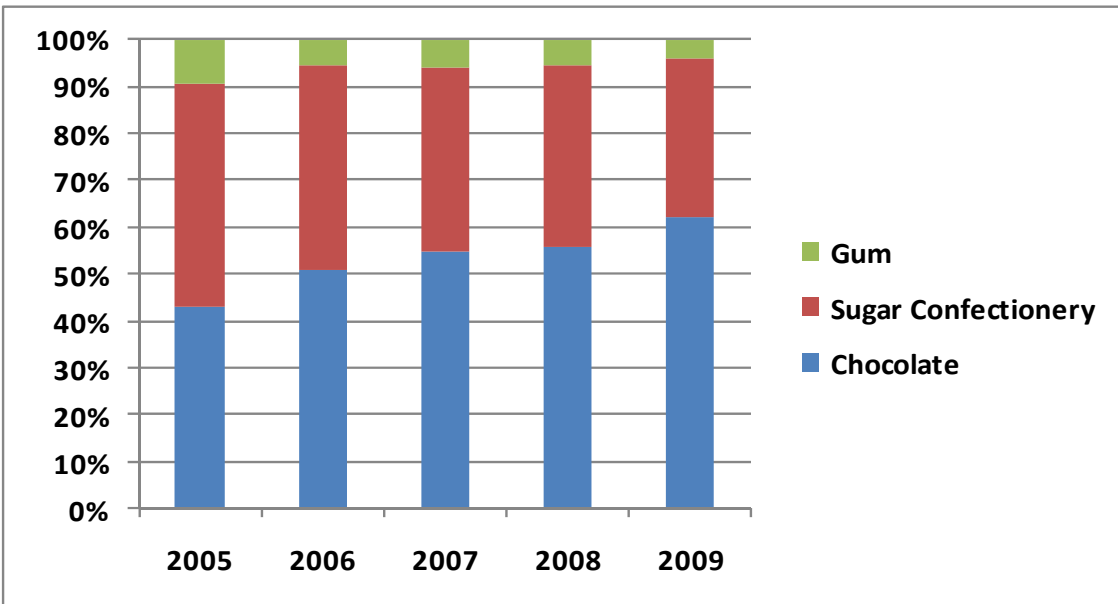
In response to concerns over rising rates of obesity and the Obama administration’s goal of encouraging Americans to eat a healthier diet, the federal government is scrutinizing claims more closely. In 2009, a federal working group proposed both nutritional labeling rules and limiting advertising that targets children to only healthy products. In March 2010, the U.S. Food and Drug Administration notified 16 food and beverage manufacturers that their product claims did not adhere to federal labeling guidelines.

Table 4-1
New Confectionery Product Introductions, 2005-2009
(SKUs)

Category	Year					% Change (2008 vs. 2009)
	2005	2006	2007	2008	2009	
Chocolate	1,195	1,480	1,830	1,873	1,760	-6.0%
Sugar Confectionery	1,323	1,272	1,299	1,291	969	-24.9%
Gum	257	160	200	181	114	-37.0%
Total	2,775	2,912	3,329	3,345	2,843	-15.0%

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Figure 4-1
New Confectionery Product Introduction Market Shares, 2005-2009
(SKUs)



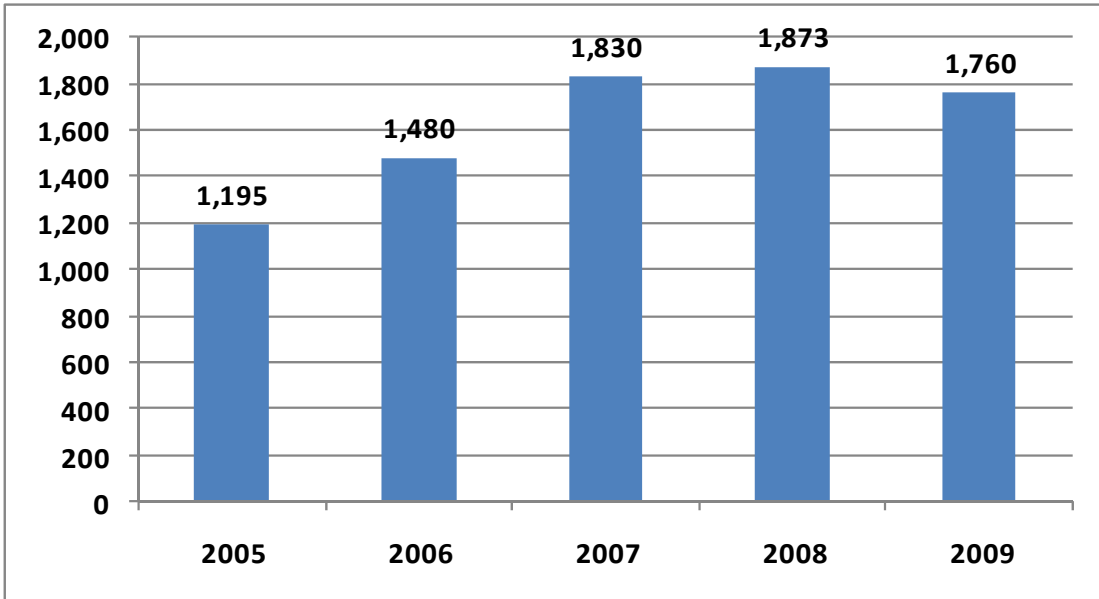
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Table 4-2
Top 20 New Chocolate Product Claims, 2009
(# Reports & percent)

Rank	Claims / Tags	No. of Reports	%
1	Upscale	212	22%
2	Single Serving	106	11%
3	Novelty	61	6%
4	Natural	57	6%
5	Kids	55	6%
6	Gourmet	43	4%
7	Organic	31	3%
8	Pure	22	2%
9	Licensed	20	2%
10	Fresh	17	2%
11	No Gluten	15	2%
12	No Preservatives	15	2%
13	Double Trademark	14	1%
14	Low Calories	13	1%
15	No Artificial Flavor	13	1%
16	Real	13	1%
17	Private Label	12	1%
18	High Antioxidants	12	1%
19	Fair Trade	12	1%
20	Vegan	10	1%

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Figure 4-2
New Chocolate Introductions, 2005-2009
(SKUs)



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Table 4-3
Top 10 New Chocolate Product Claims, 2005-2009
(# Reports)

Rank	2005	2006	2007	2008	2009
1	Upscale	Upscale	Upscale	Upscale	Upscale
2	Single Serving	Single Serving	Single Serving	Single Serving	Single Serving
3	Natural	Natural	Gourmet	Natural	Novelty
4	Novelty	Novelty	Natural	Novelty	Natural
5	Gourmet	Gourmet	Novelty	Gourmet	Kids
6	Kids	Organic	Kids	Kids	Gourmet
7	Licensed	Kids	Fresh	Organic	Organic
8	Double Trademark	Pure	Organic	Fresh	Pure
9	Real	High Antioxidants	Pure	Licensed	Licensed
10	Pure	Licensed	Licensed	Double Trademark	Fresh

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Table 4-4
Select New Chocolate Product Claims, 2005-2009
(# Reports and percent)

Claim	2005	2006	2007	2008	2009	% CHG
Upscale	175	258	363	350	212	-39%
Ethical	19	37	40	47	37	-21%
Organic	19	32	37	43	31	-28%
Fair Trade	0	0	6	9	12	33%
High antioxidant	9	24	17	15	12	-20%

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Note: Ethical claims include organic, fair trade and sustainable.

New Product Flavors

The most popular chocolate flavor profiles among new products change little over time. “Blend“, “milk”, “dark” and “chocolate” perennially placed in the top four slots over the past five years. Minor chocolate flavor profiles show some variation driven by trends in the food and beverage industries. In 2009, for example, the flavors vanilla, coffee crisp and cherry displaced toffee, truffle, sweet, coconut and cinnamon. [Table 4-5]

Table 4-5
Top 20 New Chocolate Product Flavors, 2009
(# Reports)

Rank	Flavor	No. of Reports	% of Total
1	Blend	284	13.8%
2	Milk Chocolate	217	10.5%
3	Dark Chocolate	182	8.8%
4	Chocolate	119	5.8%
5	Caramel	60	2.9%
6	Peanut Butter	51	2.5%
7	Almond	41	2.0%
8	White Chocolate	41	2.0%
9	Hazelnut	35	1.7%
10	Peanut	22	1.1%
11	Raspberry	22	1.1%
12	Vanilla	22	1.1%
13	Orange	20	1.0%
14	Creamy	20	1.0%
15	Cream	19	0.9%
16	Coffee	18	0.9%
17	Crisp	17	0.8%
18	Cherry	16	0.8%
19	Mint	16	0.8%
20	Sweet	16	0.8%
	Total	1,238	60.1%

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The choice which chocolate flavor consumers prefer seems to be a dynamic decision. That is the conclusion of a survey conducted in early 2010 by Lindt & Sprüngli (USA). For 61% of surveyed consumers, they purchased chocolate based upon the weather, occasion or time of day, while for 46%, it depended upon their mood. If seeking an escape, 55% of consumers chose milk chocolate, 44% chocolate with nuts, 36% dark chocolate and 23% white chocolate.

Market Segment Analysis

Premium Segment

The U.S. chocolate market is a mature, differentiated and exacting market. Being a part of the overall food industry, innovation within this industry is often influenced by rapidly changing product developments in the beverage and food sectors. Interest in super fruits and other functional ingredients are two examples of trends borrowed from the beverage industry, where there is rapid turnover (some experts estimate 18 months) in product development lifecycles. Savory and ethnic flavor influences have been adopted from the restaurant and pastry trades and sensationalized by The Food Network.

In addition to the expanding palette of flavor choices from which chocolatiers can dabble, consumers have become more sophisticated regarding their chocolate choices. Just as over the last ten years the specialty coffee industry has spawned a vast array of product origins and roasting ranges, so too have artisan chocolatiers discovered the sublime nuances of micro-roasting, selecting fine flavor beans from specific estates and vintages. The result of all this creativity is that below the chocolate surface, there is a host of specialized niches to service a wide spectrum of consumer tastes and budgets.

The premium chocolate segment is one such segment, and one that continues to outperform the industry, despite the recession. Co-President of Union Machinery Jim Greenberg opined in Chapter Two that manufacturers' continued outsourcing of production might lead to better chocolate quality. His rationale is that manufacturers will balance their lower labor costs with higher quality ingredients in order to generate higher margins.

The chocolate industry generally defines premium chocolate as product selling over 50¢/ounce (\$8/pound), although some manufacturers and data suppliers may use a different threshold. It can be merchandised as bars, boxed or individual pieces and includes mint patties, truffles, bonbons and chocolate-covered fruit. Irrespective of product type, premium

chocolate is marketed using upscale positioning, the degree to which, not surprisingly, varies depending on product price.

The premium segment thrives on dark chocolate, single origins and inclusions of healthy ingredients, such as lavender and blueberry. Product claims usually note natural ingredients and, to an increasing degree, ethical certification. Premium chocolate manufacturers aim for higher quality presentations. Packaged Facts divides the premium chocolate category into three segments based upon price points. [Table 4-6]

Table 4-6
Premium Chocolate Segments by Price
(\$/ounce & \$/pound)

Segment	\$/ounce	\$/pound
Everyday gourmet or affordable luxury	\$0.50 - \$1.00	\$ 8.00 - \$15.99
Upscale premium	\$1.01 - \$1.50	\$16.00 - \$23.99
Super premium (über-premium)	>\$1.50	>\$24.00

Source: Packaged Facts

At the lower end of the premium price spectrum are products marketed as “everyday gourmet” or “affordable luxury.” This segment acts as an entry port for consumers desiring to upgrade their tastes from budget-priced and often overly sweet, mass-marketed products. Everyday gourmet products carry a price premium over conventional products, but are positioned at the lower end of the premium segment’s price range.

Leading everyday gourmet chocolate brands include Fannie May, Whitman’s, Ferrero, Harry London, Esther Price and Mona Loa in the gift box category and Dove, Hershey Cacao Reserve, Russell Stover, Ghirardelli, Endangered Species and Lindt in the bar category, all of whom sell through food, drug, and mass channels.

The next segment is upscale premium chocolate, which is sold through company-owned stores and kiosks, specialty stores and some websites. Manufacturers of such chocolate include Godiva, See’s, Ethel M and many of the small retail chocolatiers who are members of the Retail Confectioners International (RCI). RCI has 360 members from among the estimated 1,500 to 2,000 retail chocolatiers. Green & Black’s, Vosges, Scharffen Berger, Theo, TCHO and Chuao sell upscale premium chocolate bars through their own stores and FDM channels.

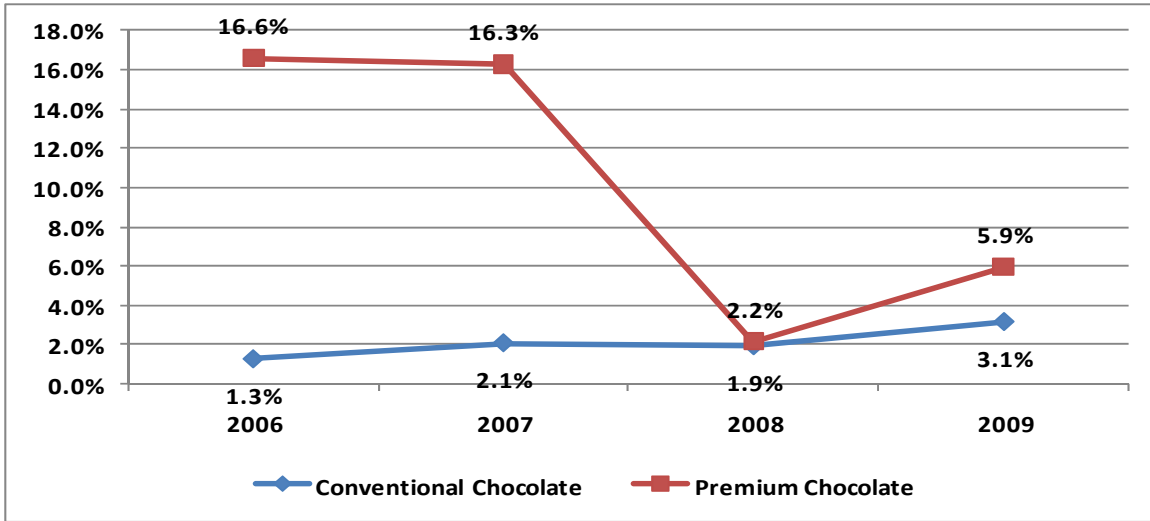
As consumers' preferences have become more sophisticated and they have become more willing to pay higher prices for their chocolate fix, they have spawned the super or über premium segment. Such chocolate starts at \$25 per pound and can climb to \$100 per pound at exclusive chocolate boutiques.

Many of the producers are artisan chocolatiers who hand craft in small batches using all natural, high quality ingredients, such as real vanilla (rather than vanillin) and fresh dairy products (particularly in ganache), which have very short shelf lives (under three weeks) that would bedevil the supply chains of high-volume mass-produced product. These chocolatiers, some of whom were trained as pastry chefs, incorporate the latest flavor trends into their bonbons and bars. They are sold at exclusive boutiques, direct from the chocolatier, and over the Internet. In this realm, the items are sold by the piece rather than by weight. Many of these artisan chocolatiers are members of the Fine Chocolate Industry Association.

America's top über chocolatiers include Jacques Torres Chocolates (New York, NY), Fran's Chocolates (Seattle), Knipschildt (South Norwalk, CT), Recchiuti (San Francisco, CA), Norman Love (Fort Myers) and Burdick (Walpole, NH). New über artisan chocolatiers are selected at the Next Generation Chocolatier Competition, a national chocolate competition held in New York City every two years. Winners of the 2008 Next Generation Chocolatier Competition were Ambrosius Chocolatier (Madison WI), William Dean Chocolates (Largo, FL), Bon Bon Bakery & Chocolates (San Diego, CA), Alma Chocolate (Portland, OR), CoCo-Luxe Confections (Sausalito, CA) and Chocolations (Mamaroneck, NY).

Packaged Facts estimates that premium chocolate sales in 2009 were between \$2.1 billion and \$2.4 billion. This accounted for 12% to 14% of the total chocolate market, up from 9% in 2005. During the 2006 to 2009 period, sales of premium chocolate grew at almost five times the rate of conventional chocolate (10.1% versus 2.1% CAGR respectively). None-the-less, premium chocolate sales growth, which dipped to 2.2% or just a few percentage points ahead of conventional chocolate in 2008, are not recession-proof. But by 2009, the category bounced back to outpace conventional chocolate sales by a 2:1 ratio. [Figure 4-3]

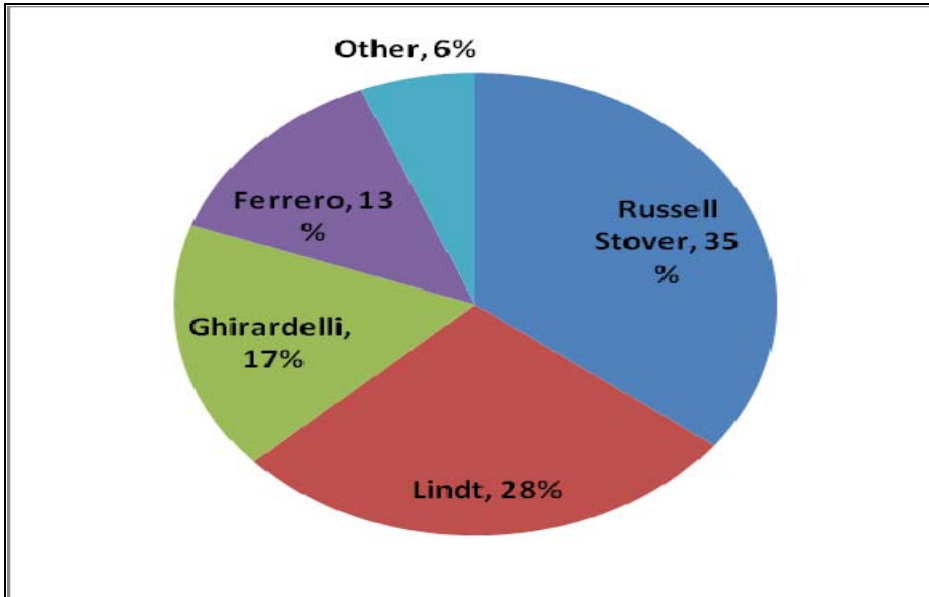
Figure 4-3
Premium & Conventional Chocolate Sales Growth Through FDM Channels, 2006-2009
 (percent)



Source: Compiled by Packaged Facts based on data from SymphonyIRI Group. The information supplied by SymphonyIRI is based on data believed to be reliable, but is neither all-inclusive nor guaranteed by SymphonyIRI. Without limiting the generality of the foregoing, specific data points may vary considerably from other information sources. Any opinions expressed herein reflect the judgment of Packaged Facts at this date and are subject to change. Reproduction, resale or other distribution of this document is expressly prohibited without the written permission of Packaged Facts or SymphonyIRI. This material is reprinted with permission.

Note: Figures are based on SymphonyIRI sales tracking through U.S. supermarkets and grocery stores, drugstores, and mass merchandisers (including Target and Kmart, but excluding Walmart) with annual sales of \$2 million or more.

Figure 4-4
Top 10 Premium Chocolate Marketers sold Through FDM Channels, 2009
 (percent)



Source: Compiled by Packaged Facts based upon data from SymphonyIRI. This material is used with permission.

Note: Percentages do not add up to 100% due to rounding.

Post-recession sales growth among FCIA members is more robust than both the premium segment and overall chocolate market. According to FCIA survey results, the median response for sales growth was flat in 2008, 10% in 2009 and a wide difference ranging between 10% and 50% forecast for 2010.

Premium chocolate sold through food, drug and mass merchant (FDM) channels is heavily concentrated, with two of the top ten marketers accounting for 80% of all sales. Lindt (includes Ghirardelli) has a 45% market share and Russell Stover a 35%. In third place Ferrero has 13% and the remaining seven manufactures have 6% (Green & Black's, Ritter Sport, Endangered Species, Scharffen Berger, Chocolive, Newman's Own Organics and Nestlé (Perugina). [Figure 5-4]

Four of the top ten premium chocolate marketers through FDM channels sell organic and/or fair trade chocolate. This is very significant. "People are becoming more savvy about what premium means and increasingly people want their purchases to say something about who they are," Lee Linthicum, head of global food research at Euromonitor said. "Premium on its own just isn't good enough anymore. A company has to have a message that resonates with people." (Quoted by Shelley Emling "In a Time of Cutbacks, Organic Chocolate Maker Looks to Expand", *New York Times*, November 17, 2009)

The premium segment continues to receive significant NPD efforts. In fact, the "upscale" product claim has remained as the most prominent new product claim for the past five years. The percentage of total new product introductions carrying this claim moved up to 22% in 2009 from 20% in 2005, according to Product Launch Analytics.

Some FCIA survey members responded to the recession by ratcheting up their marketing efforts. Examples given were promoting chocolate workshops, reworked their web sites, expanding social marketing activities (e.g., Facebook, twitter, etc.), offering new retailer welcome packages, in-store demos and improving their ratings on food sites (e.g., yelp.com). Several others mentioned creating more of an "experience around their brand." Forte Confections targeted integrating chocolate "into a complete dining arc: as appetizer, main-course and alternative dessert types."

Theo Chocolate's recession strategy was to introduce a *Classic Collection* "addressed consumer price sensitivity as well as longer shelf life." Other survey respondents defined consumer price sensitivity as being under \$20 for boxed chocolate sold on the Internet or under \$5/item in-store.

Theo's *Classic Collection* was also created using flavor profiles that were "more accessible to the consumer." These "comfort" flavors included mint, orange and cherries. Coco-Luxe Confections interpreted comfort products as chocolate covered cookies and marshmallows. Alma Chocolate offered vegan-based comfort foods which meant confections using coconut milk and oil.

Others, following their creative instincts, introduced exotic flavor combinations, including *Pisco Liqueur Pralines* (made by Lovon Chocolat), *Peppered Rosemary Orange* (Dolce Bella Chocolates), *Dark Chocolate with Green Tea and Ginger* (Shaman Chocolates) and *Anasazi Drinking Chocolate* circa 1000AD (World Tree Chocolates).

Another recession-defensive measure by FCIA members has been adding points of product differentiation to their premium products, such as organic, fair trade and sustainably-produced products.

Several major premium chocolatiers have managed to expand during the recession. Boulder-based chocolatier Chocolove, which is distributed in over 7,000 stores nationwide, moved in the spring of 2010 to an 80,000 square foot facility that doubles its existing manufacturing space. The extra room will be used for developing new products and adding new equipment.

Somerville, Massachusetts chocolatier Taza Chocolate is also doubling its manufacturing space. The micro-batch maker that produces stone-ground chocolate sold nationally from beans sourced directly from organic growers will use the new space to accommodate more equipment and a retail showroom.

In April 2010, Chocopologies announced that it is expanding to the United Arab Emirates. International investors are spending \$4 million to license the South Norwalk, Connecticut-based company's name and open a 3,400 square foot retail store in Dubai. "They Googled 'world's most expensive chocolate,' and we come up as that," Fritz Knipschildt explained. (www.courant.com, posted April 26, 2010). The company may expand within UAE over the next few years. Other investors been approached Knipschildt to expand into other gulf coast countries.

A number of FCIA members commented how crowded the premium chocolate segment has become. "New companies come and go. We are still standing," reports Shaman Chocolates. In addition to more competition, the consumers have become more educated. "They can tell the difference. Large companies with huge margins and poor quality chocolate cannot fool this consumer," believes Aubrey Lindley of Cacao LLC. But Cacao Atlanta's Kristen Hard

says that there is room for improvement. “Most consumers are not yet educated about cocoa bean origins, flavor profiles and bean-to-bar.” This education gap allows for the segment to be “invaded by brands taking advantage of the hype of fine chocolate,” notes Chloe Doutré Rousel of Chloe Chocolat. And a lack of regulatory discipline permits an environment where “all brands tell the same story” resulting in the consumer “facing a [marketing] chaos.”

Given more time and education, Packaged Facts believes that demand for premium chocolate will continue as a leading growth trend in the U.S. chocolate industry, especially when the economy recovers. Or, as Choclatique’s co-founder Ed Engoron says, “Premium chocolate is an affordable luxury that people still want to indulge in. It remains an immediate reward that cures the blues.” Accordingly, by 2014, premium chocolate sales will add another 3% of market share (15% to 17% total) and generate \$2.8 to \$3.0 billion in sales.

Ethical Consumerism Segment

Overview

The Ethical Consumerism Report 2008 by the Co-operative Bank Plc, Manchester, U.K. defines ethical consumerism as “personal allocation of funds, including consumption and investment, where choice has been informed by a particular issue—be it human rights, social justice, the environment or animal welfare.” (posted at www.co-operativebank.co.uk)

Packaged Facts defines ethical products as those that are positioned and marketed on the basis of meeting ethical standards. Based on their levels of interest to the highest percentages of consumers, key ethical issues affecting consumer packaged goods (CPGs) are:

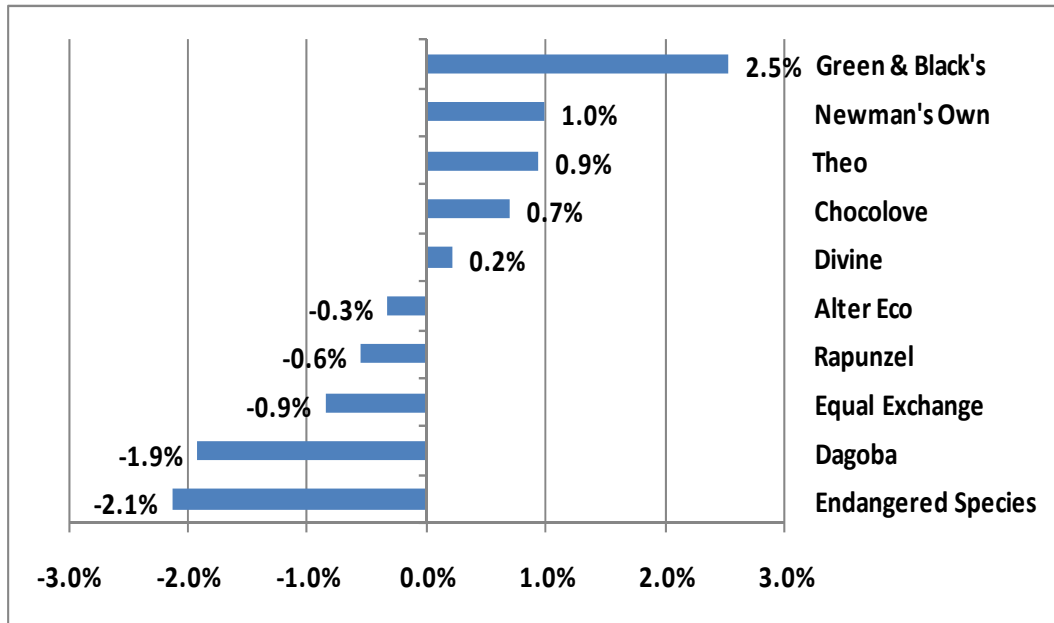
- Organic (in the case of foods and beverages).
- Locally grown (foods and beverages).
- Humane treatment of animals (foods and beverages)
- Fair trade or ethically sourced (foods and beverages and personal care products).
- Green/eco-friendly, chemical-free and non-toxic appeals.
- Biodegradable/recycled/recyclable (for all product types, usually having to do with packaging).

Table 4-7
Top 10 Ethical Chocolate Companies Sold Through Natural Channels, 2008-2009
(Dollars & percent)

Rank	Brand	Market Share			% Sales Change
		2008	2009	Difference	
1	Green & Black's	13.1%	15.6%	2.5%	52.3%
2	Endangered Species	12.2%	10.1%	-2.1%	5.6%
3	Chocolove	8.0%	8.7%	0.7%	38.7%
4	Newman's Own	4.0%	4.9%	1.0%	59.4%
5	Dagoba	6.3%	4.4%	-1.9%	-11.4%
6	Divine	3.3%	3.5%	0.2%	36.0%
7	Equal Exchange	3.4%	2.5%	-0.9%	-4.7%
8	Theo	1.3%	2.2%	0.9%	122.6%
9	Rapunzel	1.6%	1.1%	-0.6%	-15.7%
10	Alter Eco	1.4%	1.0%	-0.3%	-3.6%

Note: United Natural Foods, Inc. (UNFI) is the leading independent national distributor of natural, organic and specialty foods in the United States. Figures are based on wholesale distribution by volume to the supermarket channel for the 52 weeks ending October 7, 2009.
 Source: UNFI national wholesale data. This material is used with permission.

Figure 4-5
Ethical Chocolate Company Market Share Sold in Natural Channels, 2009 vs. 2010
(Percent)



Note: United Natural Foods, Inc. (UNFI) is the leading independent national distributor of natural, organic and specialty foods in the United States. Figures are based on wholesale distribution by volume to the supermarket channel for the 52 weeks ending October 7, 2009.
 Source: UNFI national wholesale data. This material is used with permission.

Other ethical issues include the use of hormones and genetic modification/engineering in foods and beverages, concerns over carbon footprint (i.e., the amount of carbon dioxide or other greenhouse gasses resulting from the actions of a company or individual) and corporate social responsibility.

The entire U.S. ethical products market (food and non-food) is estimated at \$38 billion and growing at 8.7% between 2008 and 2009, according to the *Ethical Food and Beverage, Personal Care and Household Products in the U.S.* published by Packaged Facts in October 2009. “More shoppers understand the environmental, social and economic implications of their choices. The result is a sizable number of consumers who will purchase typically more expensive ethical products even in economically challenging times,” explains publisher Don Montuori.

Total U.S. ethical chocolate sales are difficult to calculate, as many products carry multiple claims. For example, most certified fair trade chocolate is also organic certified. On a global basis, the Tropical Commodity Coalition calculated 2009 ethical cocoa bean production product categories was divided up as 20,000 MT organic, 20,000 MT sustainable (Rainforest Alliance and Utz) and 10,000 MT fair trade. The Dutch NGO coalition forecasts 2010 ethical cocoa bean production at 26,000 MT organic (30% increase), 13,000 MT fair trade (30% increase) and 61,000 MT sustainable (205% increase). (*Cocoa Barometer 2009*, Tropical Commodity Coalition)



Alter Eco Noir Intense bar from France carries three certifications: organic, fair trade and carbon-neutral. It also lists the cooperative and country of origin (Peru).

The top five leading ethical chocolate marketers are Green & Black's, Endangered Species, Choclove, Newman's Own and Dagoba in decreasing order, according to UNFI, the leading independent national distributor of natural, organic and specialty foods and related products. With a 123% increase, Theo topped ethical chocolate marketers in sales growth, while Dagoba with -11% tanked the most. [Table 4-7 & Figure 4-5]

NPD efforts in the ethical chocolate segment have been very active, increasing 26% CAGR in the five years (2003-2008) preceding the current recession. As the U.S. emerges from the recession, ethical chocolate makers are ramping up NPD activities. With first quarter

launches achieving 80% of total 2009 results, Packaged Facts estimates 2010 ethical chocolate launches returning to the same upward projection rate. [Figure 4-6]

Recognizing that environmental and economic considerations need to be addressed in a holistic way, some marketers have been pushing for an all-encompassing certification. The ingredients supplier Global Organics has introduced the umbrella certification label “EcoSocial” incorporating economic, social and environmental criteria. It is currently being used for the company’s organic sugar cane sold in North America.

Fair Trade

A poster child for ethical consumerism is the fair trade movement. Companies consider fair trade as representing both good stewardship and a competitive edge; that is, offering products that are more virtuous than the competition’s. The purchase of fair trade products is presented as a small solution to the developing world’s issues of social injustice, environmental concerns and economic inequities.

In 2009, imports of certified fair trade cocoa declined -32% to 1,193 metric tons. According to Transfair’s Director of Public Relations Katie Barrows, this steep drop in cocoa imports can be attributed to two causes. On the supply side, importers working off large inventories stockpiled in 2008 when cocoa prices were skyrocketing (2008 imports had vaulted 97%). On the demand side, consumers continued buying fair trade chocolate despite the economy, another example of the lipstick factor with an ethical attitude. Fair trade certified chocolate sold through the natural product channel increased 14.5% to \$16 million during a 52-week period ending March 20, 2010, as measured by SPINS. [Table 4-8]

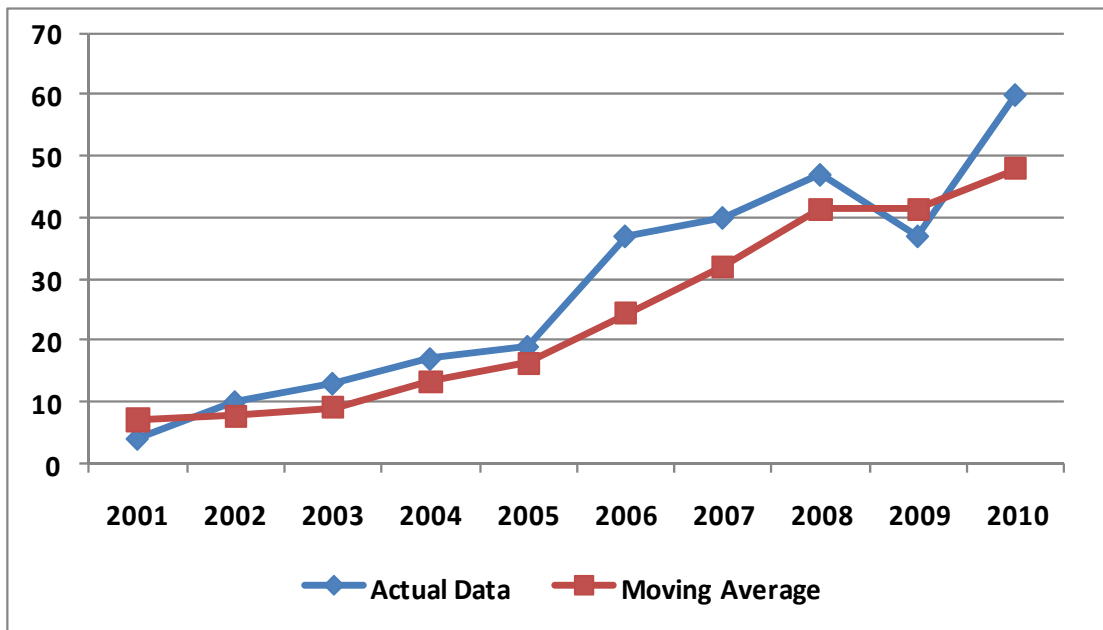
Most certified fair trade cocoa is also certified organic. Over the past eight years, It is interesting to note that 91% of fair trade certified cocoa also carries an organic certification. More than three-quarters of all fair trade certified cocoa beans end up in consumer products (chocolate bars 69% and drinking chocolate 7%) and the rest in composite products. [Figure 4-7 & Table 4-9]

Table 4-8
Organic and Fair Trade Chocolate Sales Sold Through Natural Channels, 2008-2009
(Dollars & percent)

Chocolate Sales	2008	2009	% Change
Organic (>70% content)	\$23,851,494	\$24,766,849	3.8%
Fair Trade Claim	\$14,043,547	\$16,073,985	14.5%

Source: SPINSScan data compiled by Packaged Facts. This material is used with permission.
 Note 1: Figures are based on SPINS sales tracking through U.S. natural supermarkets with annual sales of \$2 million or more; Whole Foods and Trader Joe's are excluded.
 Note 2: Sales are a 52-week period ending March 20, 2010

Figure 4-6
Ethical Chocolate New Product Launches, 2001-2010
(# Reports)



Source: Compiled by Packaged Facts based on data from Product Launch Analytics Online, a Datamonitor service. Reproduction, resale or other distribution of this content is expressly prohibited without the written permission of the publisher. This material is used with permission.
 Note 1: Data includes organic, fair trade, recycled materials or reduced packaging claims.
 Note 2: 2010 data is estimated.

Barry Callebaut’s Chief Information Officer Hans Vriens estimated that his company’s demand for fair trade chocolate leaped 50% in 2009. “These growth rates are significantly ahead of chocolate market growth rates,” he reported. (Quoted in ConfectioneryNews.com posted January 29, 2010).

Cadbury’s mid-2009 agreement with the Fairtrade Foundation to replace all the beans used in its iconic *Dairy Milk* bars with fair trade certified beans marked the first mass market brand to go fair trade. Since then, Cadbury’s Green & Black’s brand has committed to converting

its entire cocoa supply chain to fair trade. How Kraft handles the cocoa bean sourcing needs of its new acquisition, Cadbury, will act as a bellwether for fair trade chocolate's march to mainstream.

Other chocolate manufacturers have followed Cadbury's lead. In December 2009, Nestlé U.K. announced its intent to convert *Kit Kat*, its leading brand in the U.K. and Ireland, to fair trade certified. The company has not indicated that it would switch to fair trade chocolate for any of its other brands. Whole Foods converted its 365 product line of chocolates to fair trade.

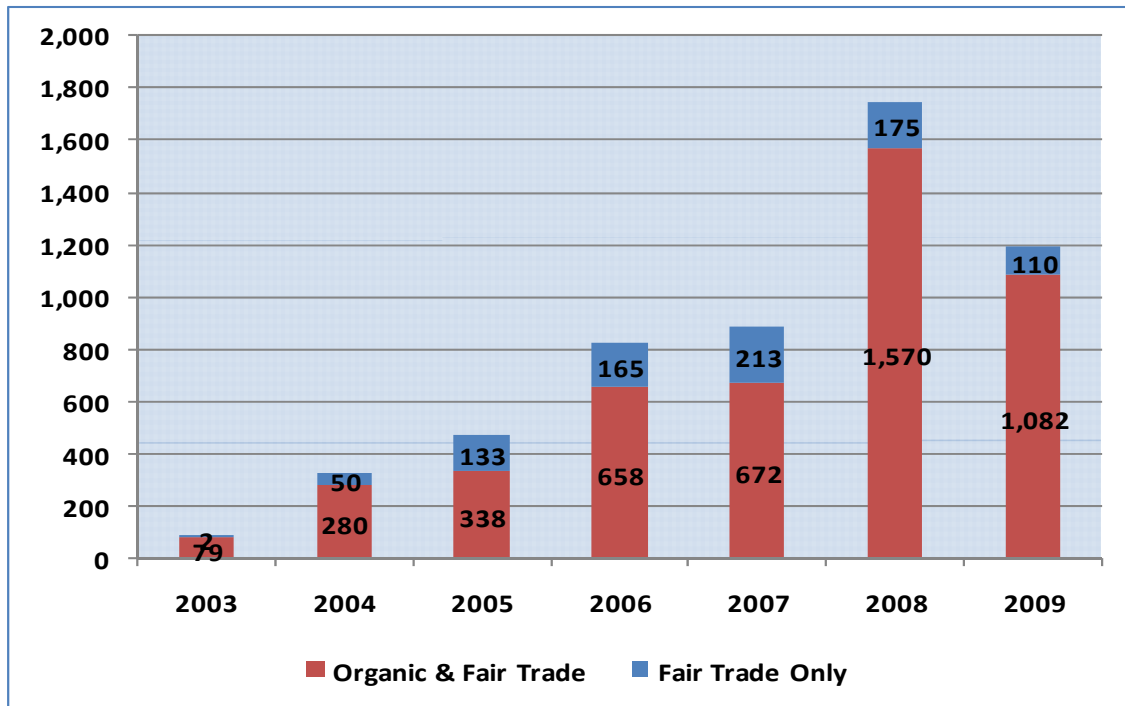
Fair trade products first appeared in 2005 and by 2009 they accounted for one percent of all new launches, according to Product Launch Analytics.

In 2009, cocoa ranked sixth in the number⁴ of certified producer organizations, according to the Fairtrade Labeling Organization (FLO). There are 85 licensees of fair trade products, up 9% from the prior year. The pricing of fair trade certified products consists of two components, a minimum price and a premium, both set by the FLO. The minimum price is set at a level to cover the producer's cost of sustainable production. The premium is based upon product quality and conditions and is given directly to the producer community development fund. This democratically elected group of either cooperative workers or farm workers and managers can use the funds to build schools and health clinics or provide micro-grants or medicines.

To become fair trade certified, companies must commit to purchasing cocoa at a minimum price (currently \$1,750/metric ton). If cocoa prices on the Board of Trade move above this minimum level, then the companies agree to pay a premium of \$150/metric ton for fair trade and \$200/metric ton for fair trade and organic certification.

⁴ It falls behind coffee, tea, produce, bananas and wine, respectively.

Figure 4-7
Certified Organic & Fair Trade and Fair Trade Only Bean Imports, 2003-2009
(Metric Tons)



Source: Compiled by Packaged Facts based on data from Fairtrade Labeling Organization. This material is used with permission.

Table 4-9
Certified Fair Trade & Organic and Fair Trade Only Cocoa Bean Imports, 2002-2009
(Metric tons & percent)

Year	Total		Fair Trade Only		Organic + Fair Trade		
	MT	Growth	MT	Growth	MT	Growth	% Organic
2002	6	n.a.	3	n.a.	3	n.a.	51%
2003	81	1,173%	2	-23%	79	2,337%	97%
2004	330	307%	50	1,952%	280	256%	85%
2005	470	42%	133	167%	338	20%	72%
2006	823	75%	165	25%	658	95%	80%
2007	885	8%	213	29%	672	2%	76%
2008	1,745	97%	175	-18%	1,570	134%	90%
2009	1,193	-32%	110	-37%	1,082	-31%	91%

Source: Compiled by Packaged Facts based on data from Fairtrade Labeling Organization.

The first fair-trade certified chocolate product was UK-based Green & Black's *Maya Gold* chocolate bar introduced in 1994. Today, 34 brands sell fair trade certified chocolate in the U.S., with the leading marketers being Green & Black's, Theo, Divine, Alter Eco, Equal Exchange and Shaman. Ingredient suppliers include Barry Callebaut, Blommer, Cargill, Guittard, Tradin, Pronatec and Valrhona. According to Cate Baril, Transfair's Director of Business Development, there are currently 355 chocolate bars/bonbons, 55 hot chocolate mixes, 50 energy bars and 36 baking chocolate products on the market.

Organic

In 2009, organic food sales were \$24.8 billion, according to the Organic Trade Association's *Organic Industry Survey 2010*. This market grew 5.1%, a third of the 15.7% rate achieved in 2008, as cost conscious consumers traded down to less expensive conventionally produced products. Although unimpressive by historic standards - the peak was in 2006 when organic food sales grew 21.1% - this growth rate was considerably better than the total food market's 1.6% growth in 2009. And the market penetration of organic foods continued expanding to 3.7% in 2009 from 3.6% in 2008.

Organic chocolate sales through natural product channels (excluding Whole Foods and Trader Joe's) were \$24.7 million for a 52-week period ending March 20, 2010, as measured by SPINS. Sales through the natural product channel increased 3.8% over the prior year, a rate slightly ahead of the 3.4% estimated for total chocolate sales in Chapter 2. Organic chocolate has a 50% penetration rate in the natural food channel. Most organic chocolate is everyday gourmet chocolate, while the seasonal and gift box categories are undeveloped. [Table 4-8]

Although these sales statistics are based upon the best available information, they should be used with caution. Retail chocolate sales data for this report draw from SPINS product purchasing scans from the natural supermarket and cooperative channels. While these data sources are reliable, they are not all-inclusive. Missing are sales scans from Whole Foods, specialty markets, company direct and the Internet, which when included can account for approximately 70% of total sales.⁵

The top four organic chocolate companies in the natural channel in descending order are Green & Black's, Equal Exchange, Dagoba and Newman's Own Organics, and Rapunzel.

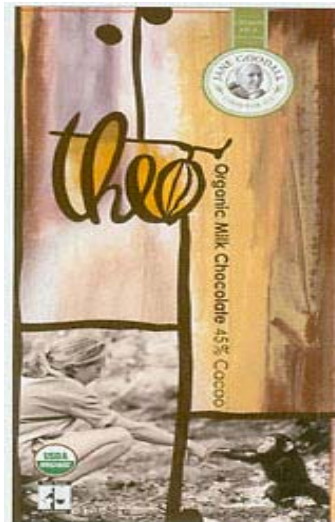
⁵ See Chapter Two for further discussion.

“Organic” has appeared in the top ten claims for chocolate products since 2006. In 2010, 3% of all new product chocolate launches were organic.

In addition to decelerating sales, the organic industry was rocked by debate over whether organic foods are nutritionally superior to conventionally grown food. The debate started in mid- 2009 when a study commissioned by the British Food Standards Agency concluded that organic food products had no nutritional superiority. That article prompted a blizzard of criticism from other food scientists who pointed out two significant flaws in the British report. The researchers had overlooked other attributes of organic products (such as, being pesticide-free, genetically-modified organism-free, etc.) and that the study included 50-year-old data with unclear parameters. A month later, the French Agency for Food Safety responded with its own study, concluding that organic food generally is more nutrient dense and contains significantly lower amounts of harmful chemicals, such as nitrates, pesticides and fungicides.

Another major medical finding published in the journal *Pediatrics* in May 2010 adds more evidence to support organic products’ nutritional superiority. Researchers at the University of Montreal, linked the prevalence of organophosphate pesticides with attention deficit hyperactivity (ADHD) in children. The report concluded that children between the ages of eight and fifteen who had above-average levels of the pesticide were twice as likely to be diagnosed with ADHD. The importance of such a finding should not be underestimated. After a 2007 study conducted by Somerset University (UK) linked artificial colors with ADHD, there was a very concerted effort by the food industry to replace artificial with natural food colors.

The problem organic products increasingly face, according to the natural products industry market research firm Hartman Group, is that it has become absorbed into a generic attribute for quality. “Our research clearly reveals that while organics are still an important cue to millions of consumers for products that contribute to healthy lifestyles, conventional culture is now including organic as but one of many symbolic distinctions of equal importance beneath the overall moniker of ‘quality’.” [Quoted from *The Many Faces of Organic*, Hartman Group, July 2008]



Theo Chocolate's Theo/Jane Goddall brand chocolate bar incorporates organic and fair trade certifications with another value-add: "produced sustainably [by] small scale cocoa farmers [and benefitting] indigenous wild life and you."

In short, organic chocolate marketers need to add other points of differentiation, such as sustainable or fair trade, to build up their value proposition, particularly in these economically uncertain times. That is a conclusion offered by Amarjit Sahota, director of the market research firm Organic Monitor. By publicizing their environmental credentials, organic companies can counter-balance their bad rap for being pricy and of questionable nutritional superiority (thanks to the British Food Standards Agency study. “Sustainability has been built into the corporate DNA of many organic firms.” They just need to communicate their green initiatives better. (Quoted in *Organic Brand Turn to Sustainability to Recapture Growth*, posted in www.FoodNavigator.com, on April 14, 2010).

Sustainability

Sustainability is a broad social responsibility term that can encompass the entire supply chain including production practices in cocoa plantations, more energy efficient manufacturing processes and less wasteful packaging. Along each step in the process, the goal is the same: to minimize the environmental impact of the product.

The drive for sustainability may influence corporate growth. That is the conclusion of a survey undertaken by the *Economist* and sponsored by the software developer SAS and published in early 2010. Surveyed executives reported that 78% of their sustainability initiatives are important to their current business strategies and that this focus will expand to 87% within five years.

Another survey indicates that the drive for sustainability is recession-proof. A survey undertaken by market analyst IGD and published in December 2009 determined that 85% of grocery suppliers in ten countries indicated that their investment in sustainability has increased or stayed the same. “Manufacturers are looking further into the future, increasing investment in sustainable solutions and anticipating that shopper interest in green products is still in its formative stages. It is set to be a major feature in the marketplace in the coming new decade,” explains IGD chief executive Joanne Denney-Fitch. (Jess Halliday, “Sustainability No Less Important in Recession”, FoodNavigator.com, posted December 3, 2009)

At the start of the supply chain in the cocoa producing origin countries, two organizations have been setting standards and certifying products. The organizations are Utz, based in the Netherlands, and Rainforest Alliance, headquartered in the U.S. Both organizations set

standards on farm and food safety, including healthy production practices, good labor practices and protection of natural resources.

Utz has been working with cocoa cooperatives in the Ivory Coast in conjunction with a half dozen major companies: Cargill, Mars, Nestle, Heinz Benelux, Ecom and Ahold. Since September 2009, two Ivory Coast farmer cooperatives have received \$400,000 in premiums. A target of 10,000 MT of Utz certified beans has been set for 2010.

On the production end of the supply chain, in October 2009, Kraft announced its intention to purchase cocoa beans certified by Rainforest Alliance for its *Cote d'Or* and *Marabou* brands, a commitment which should amount to 30,000 tons by 2012. The company has been working since 2005 with Rainforest and the cocoa dealer Armajaro on certifying farms in the Ivory Coast.

Blommer, North America's largest processor of cocoa and ingredient products, has made a major commitment in cocoa sustainability. "Sustainability is a growing trend, a way to the future; not a fad," believes Bob McCullough, Blommer's Director of East Coast Sales & Signature Line Brand Manager. The company has been working with Rainforest Alliance since mid-2008, and currently announced a major initiative in Ghana's Cocoa Livelihoods Program, which has been funded by the Bill & Melinda Gates Foundation. In May, the company announced its investment in a new \$3 million cocoa sustainability partnership in the Ivory Coast. This project, called the Processors Alliance for Cocoa Traceability and Sustainability, is being developed in conjunction with Cemoi Chocolatier (France) and Petra Foods (Southeast Asia). The project intends to establish 30 fermentation centers that will improve the consistency of product for approximately 10,000 cocoa farmers.

Mars Global Chocolate is actively involved with improving the certification for sustainability. The company has created the Certification Plus program to bring consensus on cocoa sustainability and productivity goals. The program's goal is to raise cocoa productivity by at least three times, according to director of communications Marlene Machut. [Figure 4-8 and Table 4-10]

Healthy/Functional Segment

Over the last decade chocolate makers have been responding to consumers' drive to live healthier lifestyles. Their efforts have brought us portion-controlled packaging, sugar-free sweets, heart-healthy dark chocolate and fortified confections of unbelievable variety and

veracity. This trend should continue, as healthier confectionery options with “better-for-you” ingredients were identified by 88% of surveyed experts as the next big trend by the National Confectioners Association in its *Confectionery Industry Trend report 2009*.

Several major chocolate manufacturers have made considerable investments in this segment. For example, Barry Callebaut has been jointly working with Mars Incorporated to promote enhanced cocoa flavanol products. Barry Callebaut’s product *Acticoa* contains three times the flavanol content as typical dark chocolate, 460 ORAC values per one gram, as compared with 160 ORAC values with standard dark chocolate. “It’s a great tasting product with benefits,” Richard Benson, Barry Callebaut’s Director of Business Development told Packaged Facts.

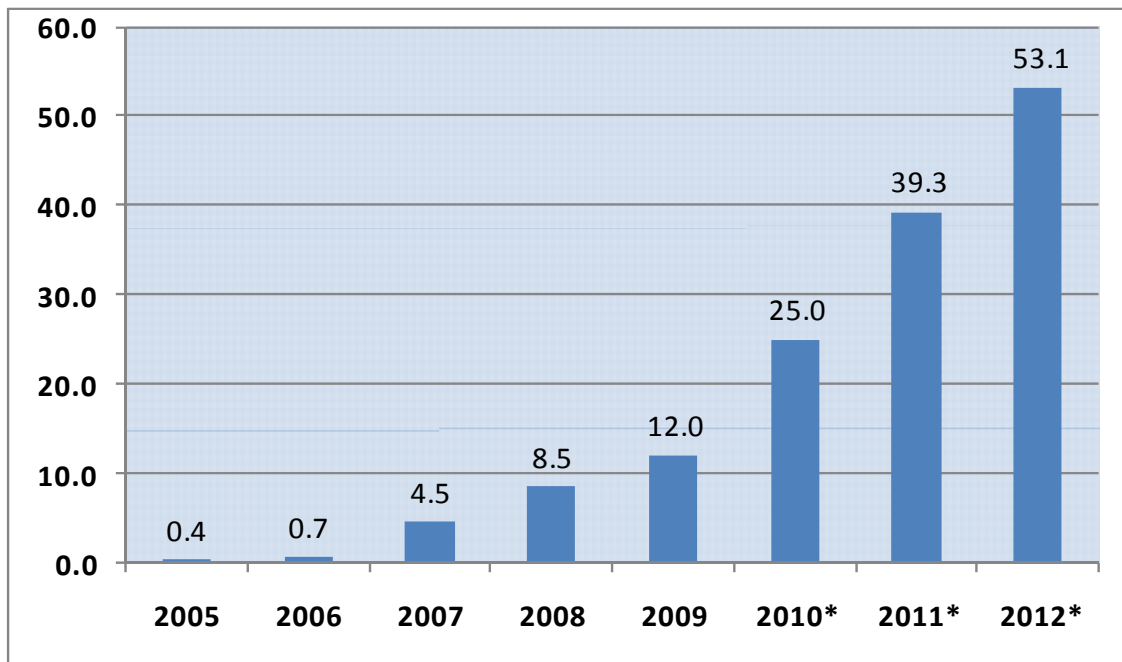
Each year seems to bring more information about the health benefits of eating chocolate. In addition to its reported beneficial cardiovascular properties, a medical report published in 2009 suggested that chocolate can help fight wrinkles. Apparently, consuming a 20 gram chocolate bar containing 600mg of cocoa flavanols significantly increases the elasticity of the skin, according to the SIT Research Centre in Germany. Hans Vriens, Barry Callebaut’s Chief Innovation Officer said in a company press release: “The impressive results of this study add further weight to the anti-aging properties of *Acticoa* cocoa and chocolate, one of the richest known sources of flavanols. We are now closer to understanding how these flavanols nourish the skin from the inside and protect it against damaging environmental influences such as exposure to the sun”.

Table 4-10
Rainforest Alliance Certified Cocoa Value, 2005-2009
(\$ millions)

Year	Cocoa	% CHG
2005	\$0.35	n.a.
2006	\$0.65	85%
2007	\$4.50	592%
2008	\$16.75	272%
2009	\$26.00	55%

Source: Compiled by Packaged Facts based on data from Rainforest Alliance. This material is used with permission.

Figure 4-8
Rainforest Alliance Certified Cocoa, 2005-2012
(Thousand Metric Tons)



Source: Compiled by Packaged Facts based on data from Rainforest Alliance. This material is used with permission.

In Europe, where *Acticoa* has been available since 2006, three dozen cocoa and chocolate companies are marketing products, including Thorntons, Guylian and Stollwerck. In April 2010, Barry Callebaut introduced it to the U.S. market and already *Acticoa*-based chocolates are being sold as a private label product and it will soon be in the market place under a number of labels.

In addition to better-for-you chocolate bars, Barry Callebaut has been supplying the first industrial-scale probiotic chocolate product containing gastro-intestinal benefits since 2008. “Chocolate makes an excellent delivery vehicle for probiotic bacteria because it allows for better absorption than many other probiotic foods,” says Joseph Maroon, MD, author of *The Longevity Factor*. The survival rate of *Lactobacillus Helveticus* and *Bifidobacterium* is three times greater than with dairy products, such as yogurt.

Maramor Chocolates uses Barry Callebaut chocolate for its new line of probiotic chocolates. This Columbus-based company has become a leading marketer of functional chocolate since its introduction in 2008 of *Omega-3 Chocolate Squares*. “Thanks to the efficiency of chocolate as a delivery vehicle for probiotics, fewer calories are needed to balance the bacteria in the gut and optimize the health benefits,” explains company vice president Barry

Galloway. Other relatively new functional chocolate products include a soon-to-be-released calcium and vitamin D₃ bar. The company offers convenient carrying packs with a one-week supply of these products.

The general better-for-you chocolate segment is getting crowded with creative and tasty products. Below is a selection of products introduced between 2009 and 2010.

- **Azure Chocolat:** *Beauty Bark* containing dark chocolate, walnuts, wild blueberries, cocoa nibs, golden flax and sea salt.
- **Burdick Chocolate:** *Healthy Bar* with dark chocolate available in three flavors: goji berry, blueberry and cocoa nibs; hazelnut, flaxseed and raisin; and apricot, pumpkin seed and pink peppercorn.
- **Navitas Naturals:** *Superfruit Chocolate Kits*, made from organic and raw superfruits including cocoa, maca, lucuma, mesquite and super berries.
- **NewTree:** *Omega-3 Alpha Bar* with Belgium Biscuit, containing dark chocolate, biscuit and flax seeds.
- **Protos Foods:** *Gimme Chocolate*, a line of chocolate candy available in five formulations: vitamin D₃, Omega-3, probiotics, calcium and Omega-3 with salba (a whole grain grown in Peru).

Medical studies appearing in mid-2010 on the beneficial effect of chocolate on wrinkles might spur development of chocolate marketed for the beauty-from-within niche. The nutricosmetic market is valued at \$1.5 billion globally, but very underdeveloped in the U.S.⁶, according to The Kline Group. Inventive chocolate makers might try to tap into this market, and if they are successful, it adds another accolade to how versatile the Food of the Gods really is.

All-Natural Segment

Total all-natural chocolate sales hit \$85.2 million in 2009, increasing 1.8% over the prior year, according to SPINS. However, there was a marked difference in sales performance based upon channel. Sales of all-natural chocolate through natural product channels

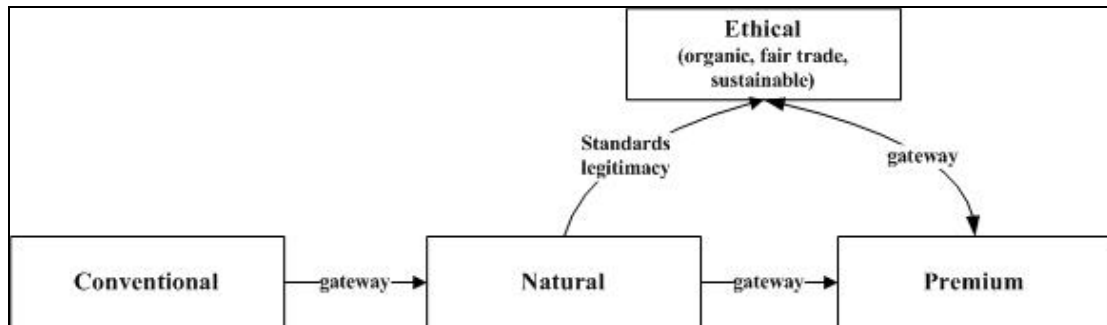
⁶ The Kline Group estimated nutricosmetic market share sales in 2008 as 55% Europe, 41% Japan and 3% U.S.

increased a healthy 11.4% as compared with a -8.3% decline in conventional channels. All-natural chocolate’s share grew to 56% of total chocolate sales from 51% in 2008.

NPD efforts in the natural chocolate segment have steadily increased 5% CAGR in the five years (2003-2008) preceding the current recession. In 2009 3% of new chocolate products carried the “all natural” claim, the same percentage as the organic claim. Packaged Facts estimates 2010 natural chocolate launches shall return to their pre-recession projection rate. [Table 4-11 & Figure 4-10]

Several new entrants are big iconic conventional candy marketers, such as Necco and Jelly Belly, who envision the all-natural segment as a gateway to higher value-add confectionery products. A more cynical interpretation is that the claim lacks regulatory muscle, allowing for the simple replacement of vanillin with vanilla to recast a chocolate bar as an all-natural gourmet product. Or maybe the down-market economy has encouraged some budget-conscious chocolate buyers to switch to less expensive all-natural rather than organic chocolate. In any event, the chocolate market consists of a moveable feast of differing points of product differentiation. [Figure 4-9]

**Figure 4-9
Chocolate Segment Evolution**



Source: Packaged Facts

Standards exist for organic (USDA), fair trade (TransFair) and sustainably-produced chocolate (Rainforest Alliance and Utz). Lack of any regulatory activity on the part of the USDA to set specific criteria has caused manufacturers to rely upon Whole Foods’ and Trader Joe’s guidelines. On the one hand, there is a danger that an all-natural claim slapped on products with almost stereotypic junk candy personas will dilute the claim’s inherent health benefits.

On the other hand, the increasing popularity of the all-natural claim indicates that confectioners, and mainstream consumers who buy these products, have started reappraising

their preference for value over quality. In any case, natural ingredients typically cost about 8% to 10% more than their conventional counterparts and ethically traded chocolate sells for 20% to 50% more than regular chocolate. But regardless of the reason, buyers will benefit from consuming candy without artificial flavors and colors that have reported serious medical side effects, such as ADHD in children and other health concerns.⁷

Interest in the all-natural segment might be influenced by the rising wave of consumer concern over products containing genetically modified organisms (GMO). That's the opinion of Jeffrey Dryfoos, publisher of *Dessert Professional*. "The movement, if you can call it that, is in response to a consumer call for action," he said in an



interview with Packaged Facts. In response to this concern, an organization has been established to independently verify non-GMO claims and increase consumer awareness of the consequences of such products. The Non-GMO Project was founded in 2008 by such heavy-hitters in the natural products industry as Nature's Path, Whole Foods, UNFI, White Wave, Eden, Lundberg and Annie's Homegrown. Endangered Species in April 2010 became the first chocolate company to obtain "Non-GMO Project Verified" status.

While an all-natural claim is almost a given claim these days for gourmet foods, its importance is expected to drop, according to *The State of the Specialty Food Industry 2010* study published by the National Association for the Specialty Food Trade. Based upon the manufacturer's point of view, the claim currently influences 80% of consumers, but this percentage will drop to 51% within the next few years as other food issues – local (52%), eco-friendly (50%) and sustainable (47%) – gain greater consumer attention.

Trend Analysis

Active Trends

Chocolate is a remarkable food. It can be served as an indulgent reward for the food connoisseur, a snack for the health conscious or an inexpensive treat for a child. It can meet the highest ethical standards of the organic and fair trade consumer communities. Chocolate has the incredible ability to shape-shift into an array of products suitable for the confectionery, beverage, restaurant, hospitality and personal care industries.

⁷ See Center for Science in the Public Interest, *Food Dyes: A Rainbow of Risks*, for more information.

When Julia Child was asked if she ever got tired of cooking, she responded, “No. Never. Food is a boundless resource for the imagination. And the real joy is in the doing. There’s always so much to experiment with, so many ways to explore one’s passions in food.”⁸ The same can be said for working with chocolate.

Packaged Facts has identified eleven active trends in the premium chocolate market:

1. Craft chocolate making
2. Savory-inspired flavors
3. Exotic flavors
4. Raw cacao products
5. Vegan chocolate
6. Wine-themed chocolate products
7. Upscale chocolate candy bars
8. Exotic delivery methods
9. Beyond bars
10. Extreme milk chocolate
11. Use of alternative distribution channels

Two waning chocolate trends were identified:

1. Extreme dark chocolate
2. Single origin chocolate

Each trend is described below.

⁸ Quoted in Nicole Alper, “Pearls from Julia”, *Food Arts*, July/August 2010.

Craft Chocolate Making

This segment has several names: craft, bean-to-bar or micro-batch chocolate. TheChocolateLife's Clay Gordon prefers the term craft, as it implies a parallel with the craft beer movement. Each year more craft chocolate makers enter this niche spurred, in part, by the Internet and its informal fraternity of participants who readily share information. TheChocolateLife.com lists 19 U.S. chocolatiers making bean-to-bar producers in its chocolate maker database.

While making chocolate from scratch is what a number of large manufacturers have been doing for decades, much of their products are derived from bulk grade beans and are destined for the mass market. This situation changed in 2005 when Steve Devries took some cocoa beans and decided to make premium, carefully crafted products. Others followed in his footsteps, and now a dozen American craft chocolate makers are actively scouring the globe for the best beans --- often single origin or plantation select -- and shipping them back to their small factories or workshops to roast, conch and process into exquisite bars.

The goal of these chocolate makers is to create the best, most pure chocolate. By controlling the manufacturing process, rather than purchasing couverture and remolding, "there is an opportunity to think outside the box, which may lead to some real innovative new products," says Theo founder Joe Whinney in an interview with Packaged Facts. They seek heirloom cacao varieties and experiment with fermentation and roasting temperatures to tease out more desirable flavor components.

In a sense, this trend follows precedents established elsewhere in the gourmet food world, where craft beers and specialty coffees helped jolt a commoditized product into another dimension of exciting differentiation. And it leads consumers to take interest in their products' sources and the welfare of the growers who produce them. "When people start to taste chocolate with flavors unlike anything they have ever experienced, they start to get it. [Next] they want to learn more, taste more, and there is no turning them back," says owner/chocolatier Alan McClure of Patric, in an interview with Packaged Facts.

"We are in the midst of a food revolution," adds Gary Guittard, President of Guittard. "Consumers are interested in knowing where their food comes from; how it is processed; most importantly, what its ingredients are. And they want to know why one product may taste different from another."

Producing craft chocolate poses several significant hurdles. Sourcing a consistent supply of high quality beans is a constant concern. To secure supplies of beans grown and fermented to their specifications, most craft producers have developed direct purchasing relationships with select growers. Quantity is another issue. Often supplies are limited and insufficient to fill a container, thus driving up shipping costs. The availability of suitable educational materials scaled down to craft production levels is another constraint.

Working on such a small scale creates a challenge of finding equipment, as most manufacturers have long since stopped making the machines with such limited capacities. For some chocolate maker/owners, like Timothy Childs (Tcho), that meant sourcing vintage equipment from Europe. Others used their engineering backgrounds to build equipment from scratch. Amano's Art Pollard, owner of a software company, designed both his refiner and conch. Still others on smaller budgets have creatively adapted kitchen appliances like Indian lentil grinders used to make *dosa* batters.

Table 4-11
All-Natural Chocolate Sold by Channel, 2008-2009
(\$ Millions & percent)

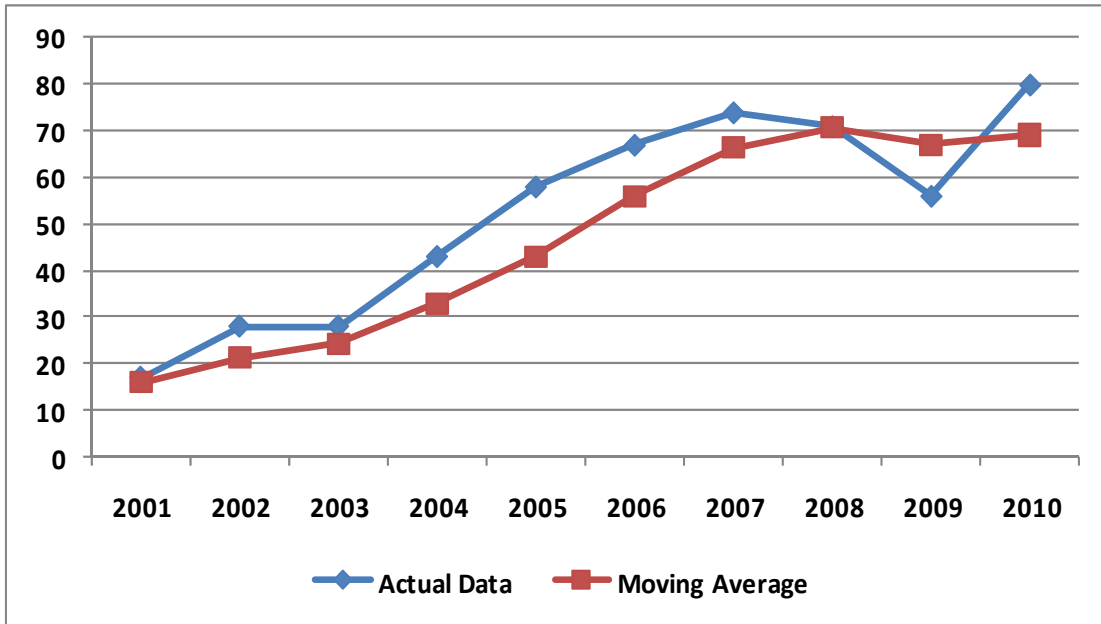
Channel	2008	2009	% CHG
Natural	\$42.8	\$47.7	11.4%
Conventional	\$40.9	\$37.5	-8.3%
Total	\$83.7	\$85.2	1.8%

Source: Compiled by Packaged Facts based on SPINSscan data. This material is used with permission.

Note 1: Figures are based on SPINS sales tracking through U.S. natural supermarkets with annual sales of \$2 million or more; Whole Foods and Trader Joe's are excluded. Conventional sales exclude Walmart.

Note 2: Sales are a 52-week period ending February 20, 2010

Figure 4-10
Natural Chocolate New Product Launches, 2001-2010
 (# Reports)



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The above mentioned challenges are slowly being addressed and greater supplies of excellent craft chocolate enter the marketplace each year. Certainly, the potential for craft chocolate in the U.S. is huge. Or, in the words of Mr. Gordon, “Ultimately, I believe that any city or town that is large enough to support a craft brewer or brewpub is also large enough to support a craft chocolate maker.”

As the craft chocolate market expands, chocolatiers will specialize in specific niches. Mr. Gordon predicts that the “overall market for high end chocolate is growing, so these craft chocolate makers will differentiate themselves based on the origins of the beans they choose and whether or not they choose to blend. Another key point of differentiation is whether or not a chocolate maker presses their own cocoa butter and grinds their own cocoa powder. In order to make a true origin chocolate, any added cocoa butter has to come from the same beans.”

Savory Inspired Chocolate

Savory flavors, a cross-over from the culinary scene, started appearing in chocolate several years ago. Now, chocolatiers are experimenting with adding such kitchen cabinet ingredients

as olive oil, bacon, cheese, curry and chipotle into their bonbons and truffles. “People are discovering that chocolate doesn’t have to be sickeningly sweet. Less sugar is healthier and pairs better with wine and beer. What’s not to like?” asks Mike Ashamalla, who owns a retail chocolate and gelato shop in Agoura Hill, CA.

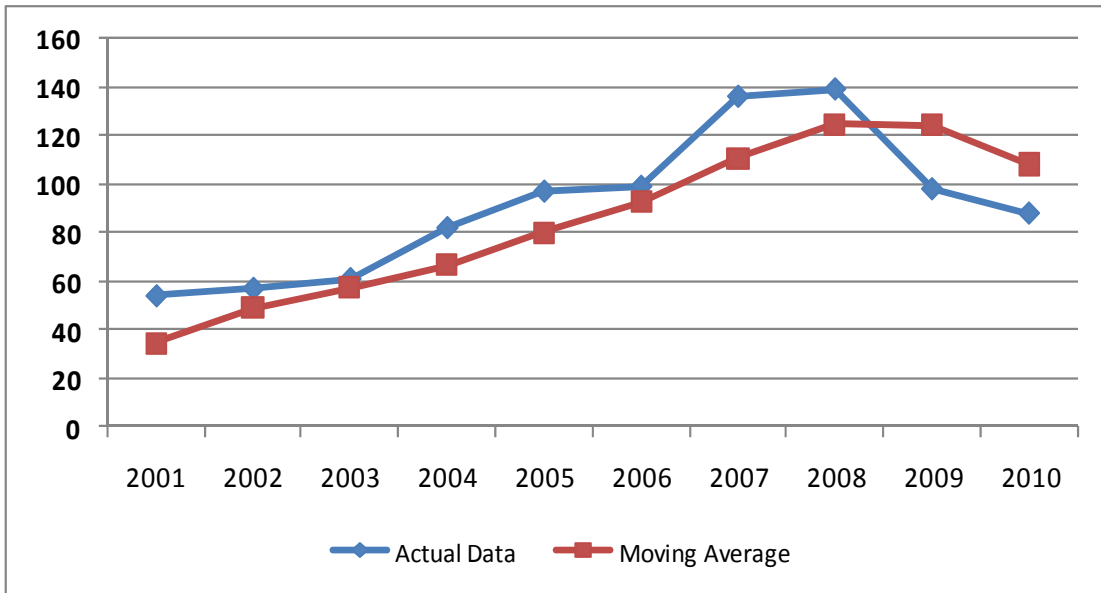
Launches of savory-inspired chocolates had been increasing at an 18% CAGR for a five-year period ending in 2008. The subsequent onset of the recession, however, has nicked interest in this untraditional flavor category and has resulted in a drop in 2009 in new savory chocolate introductions, twice the rate of the decline in total new chocolate introductions (-37% versus -15%). Packaged Facts anticipates a continued decline in overall savory chocolate introductions, although some savory flavor combinations will continue to generate NPD interest. [Figure 4-11]

Bacon and chocolate, a good riff on sweet and savory flavors, is one popular savory flavor combination with strong market legs. This flavor burst on the national chocolate scene in 2007 with the launch of Vosges Haut-Chocolat’s *Mo’s Chocolate Bacon Bar*. The chocolate has since extended the product into a line of six SKUs, including with apple wood bacon and alder wood salt.



Winners in the Savory Category at the First Annual (2010) Hawaii Cacao Festival, Oahu illustrate how chocolate has expanded its role into entrée selections: 1st Place Lan Thai (Crab Cake Citrus Salad with Waialua Dark Chocolate); 2nd Place: Christine Watanabe (Waialua Estate Chocolate with Cacao Nibs Panko Seared Beef with Waialua Chocolate/pozu jus); 3rd Place Arlene Boyd (Auntie Arleen’s Oahu Chicken Cacao.)

Figure 4-11
Savory Chocolate New Product Launches, 2001-2010
 (# Reports)



Source: Compiled by Packaged Facts based on data from Product Launch Analytics Online, a Datamonitor service. Reproduction, resale or other distribution of this content is expressly prohibited without the written permission of the publisher. This material is used with permission.

Note 1: Includes olive oil, bacon, cheese, mushrooms, chipotle chile pepper, peppercorn, salt, thyme, rosemary and savory chocolate claims.

Note 2: 2010 data is estimated.

A creative chocolatier from New Zealand managed to create a meat-lover’s chocolate by blending dark chocolate with dried salty venison. She served these sausage-shaped sweet morsels at a New Zealand Meat Industry Association function. “There’s this smoky taste to start, then a strong chocolate flavor comes in, and at the end you have this wonderful taste of salami,” Chocolatier Hanna Frederick explained. Apparently, the salami bonbons were better appreciated by the male Kiwi guests. “Women tend to love their chocolate more fruity, more feminine, and I guess meat doesn’t have that feel to it.” (“Meat Flavored Chocs Hit With Men”, posted in the *New Zealand Herald* on September 16, 2010)

Expect more bacon and chocolate creations to grace the market. The Food Channel selected this savory combination as one of its top 10 dessert trends for 2010.

New salt-forward chocolate products were very much in evidence at the 2010 NYC NASFT Fancy Food Show, including four products that won prestigious Sofi Awards (Specialty Outstanding Food Innovation). These included Poco Dolce’s *Sesame Toffee Tiles* with grey sea salt (gold-chocolate), Knipschildt Chocolatier’s *Burnt Caramel with Hawaiian Sea Salt* (silver-chocolate), Éclat Chocolate’s *Assorted Caramel Box* with fleur de sel, and Olive &

Sinclair Chocolate Company's *Salt & Pepper* bar (silver-new product). Other notable examples of new salty-sweets on display included Chocolove's *Almond & Sea Salt* dark chocolate (55%), Vosges Haut Chocolat's *Black Salt Caramel* filled caramel bar (with black Hawaiian sea salt) and Shaman Chocolates' *Milk Chocolate with Hawaiian Sea Salt and Macadamia*.



Olive & Sinclair's stone ground Salt & Pepper bar, a riff on southern cooking.

Mushrooms and chocolate sprouted up in chocolate collections in 2009 with eleven new SKUs launched, including Bissinger's porcini mushroom truffle "best served as a finish to a meal when paired with an old Portuguese port", Chocolatier Terry Wakefield told *Packaged Facts*. Vosges Haut Chocolat sells an *Organic Enchanted Mushroom* bar.

"The marriage of the 'food of the gods' [cacao] and 'milk's leap toward immortality' [cheese] is an unqualified success," declares Jan Fialkow, managing editor of *Cheese Connoisseur*. (quoted in *Cheese Connoisseur*, Winter 2009/2010) The pairing has become so accepted in the artisan cheese world that the American Cheese Society devoted an entire workshop to it at its 2009 annual conference.

Cheese and chocolate first appeared in 2007 with two new SKUs, then six launched in 2008 and eleven in 2009. One of the first cheese chocolate truffles to achieve national stardom was Lillie Belle Farm's *Smokey Blue Truffles*. This Central Point, Oregon chocolatier used Rogue Creamery's award winning Smokey Blue Cheese, organic milk chocolate and toasted almonds. "It's an appetizer or a dessert," explains Chocolatier Owner Jeff Sheperd.



Bissinger's Porcini Mushroom Truffles and Olive Oil Truffles expand chocolate's appeal into savory realms.

"Saint Basil is our most popular flavor and best seller. That was a bit of a shock, to me as well as to everyone who tastes it! It's so familiar, but the context completely changes the

experience in a wonderful way”, says Aaron Barthel, chocolatier/owner at Seattle-based Intrigue Chocolates.

Exotic Flavors

Chua Chocolatier/owner Michael Antonorsi (and Katrina Markoff from Vosges Haut-Chocolat) seems to be picking up the mantle from Dagoba’s founder Frederick Schilling of pushing the flavor envelope with products retailed nationally. This artisan chocolate company is rearranging its product line around three themes, each evoking a particular consumer mood. The first mood is comforting and is based upon the need for balance, being centered. Chua products that fit this space are the *Panko* bar and the new *Honeycomb* Bar (dark chocolate with caramelized honey). The second mood is intriguing, for the more culinary adventurous, discovering new layers of flavor and textures. Chua product examples are the new *Coffee & Anise* (dark chocolate infused with espresso and star anise) and *CoCo* (dark chocolate with toasted coconut, almond, cinnamon & coriander) bars. The third mood is fiery, when one is seeking heat and fun, or needs a pick-me-up. Examples of fiery products are the *Firecracker* bar and *Spicy Maya* drinking chocolate. In addition to the products mentioned above, he is exploring a line extension of Spicy Maya products to include brownie mix and gelato.

A surprising confectionery foray into new ethnic flavor territory has been attempted by South Portland, ME-based Sweet Marguerites. In the fall 2009, chocolatier Marguerite Swoboda introduced *Umami Chocolate* based upon the principles of umami, the fifth sense that captures mouth feel. The result is a line of five bonbons, four of which are heavily influenced by Asian cuisine: *Plum Sake*, *Sesame Tahini*, *Green Tea & Ginger* and *Sweet Potato Caramel* (contains garum masala).

Umami Chocolates are a great example of how America’s culinary exploration of international flavors has elevated Asian foods as a hot trend for 2010, according to Packaged Facts’ *Food Flavor and Ingredients Outlook 2010*. The underlying cause of this trend is the growth of the Asian population, the fastest growing ethnic segment in the U.S., and by many Asian dishes having moved into the culinary mainstream.

What else is driving new flavor trends? “Sales are up significantly this year, being driven by a mixture of the traditional (e.g., bear claws) and the unique (e.g., olive oil truffles, wine-infused, etc.),” Bissinger’s chocolatier Terry Wakefield told Packaged Facts. “People are wild about ‘experiences’ rather than ‘consumption’. Our customers love discovering their

own palates and learning how to really taste things. I have developed 80 different flavors of chocolate truffles so far to help them out,” explains Seattle-based Intrigue Chocolate’s Chocolatier Owner Aaron Barthel.

Raw Cacao Products

The raw food segment literally exploded onto the confectionery product scene in 2005. (By definition, processing temperatures for raw foods cannot exceed 118°F.) The raw food movement is a reaction to what is perceived as super processed, over engineered food products.



“Most raw confectionery products are snack bars. However, one early cross-over into the chocolate category was Nature's First Law founded by the author

of *Naked Chocolate: the Astounding Truth about the World's Greatest Food*, David Wolf. His company’s product is *Raw Chocolate* brand includes the following selling points on its sales sheet: "Naked chocolate has 30 times the antioxidant levels of green tea and are 100% vegetarian, 100% vegan and 100% pure love". Additionally, it contains “high anti-oxidants, magnesium and monoamine oxidase enzyme inhibitors (MAO inhibitors). Some people believe that MAO inhibitors facilitate ‘youthening’ and rejuvenation”, again according to Mr. Wolf.

Flow Foods Choclatl line contains raw chocolate and “a powerful and unique blend of health-building, rejuvenating, & energizing superfoods.” It is vegan, fair trade and low glycemic.

Other birthday suit cacao products soon flooded the market, fanned by celebrity endorsements. A typical web posting from Frederic Patenaude (www.therawsecrets.com) offers the following supposed benefits of the power of raw foods:

[It] is not only one of the most well-known "rejuvenation" secrets of celebrities and Hollywood stars (such as Demi Moore, Pierce Brosnan, Sting, Edward Norton, Carol Alt and many others), it is also a concept that has the potential of giving you what you're looking for: incredible health, increased energy, and a youthful and slim body.

With such non-scientific backing, raw chocolate sales have sky-rocketed. As a result, raw chocolate sold through the natural product channel increased 81% to \$1.3 million during a

52-week period ending March 20, 2010, as measured by SPINS. There have been twelve raw chocolate new product introductions since 2005.

In 2010, Gnosis Chocolates introduced *OrigiNib*, reportedly the first collection of raw, vegan and organic cacao nibs. Products include Bali (with palm sugar, turmeric and salt), Grenada (with nutmeg) and Madagascar (with peppercorn and vanilla). The company also released its Spring Truffle Collection that includes raw vegan chocolate with a “spring” cleanse of superfruits in hibiscus, açai, strawberry ‘n’ crème and vanilla berry flavors.

Fortunately, the passage of time and experience has allowed more reasonable views to emerge such as that by Paul Nison, author and raw food chef. He warned in a post entitled “Raw Toxic Chocolate” that eating raw cacao can cause damage to the liver, kidneys and adrenal glands; ultimately causing “extreme mood swings, angry outbursts, violence, depression, paranoia and dizziness.” (Posted on www.living-foods.com as of May 9, 2010)

Vegan Chocolate

The market for vegan and vegetarian food was pegged at \$2.8 billion in 2006, up from \$646 million in 1998, estimated the market research firm Research and Markets. The firm’s 2009 *Vegetarian Foods Market Assessment* characterized this market as having “moved from being a niche sector ... to becoming a mature and mainstream sector.”

In 2008, about 3.2% of American adults followed a vegetarian (6.3 million) or vegan (1 million) diet, according to *Vegetarian Times*. The percent jumps to 10% of U.S. adults who follow a vegetarian-inclined diet. The consumer profile for vegetarians and vegans are predominantly female (2/3 of the total) and younger (half are under the age of 35). “This skew toward younger people may account for this segment’s greater interest in humane and environmental issues, as opposed to health, which is more important to older age groups,” explains Vegan Mainstream president Stephanie Redcross. Indeed, a 2003 survey by imanager.net found that 77% of vegans cited ethical/moral drivers for their conversion, followed by 19% for dietary/health and 4% for religious reasons.

The market for vegan chocolate introductions gained its legs in 2004 when four new products were introduced. Since then, new vegan labeled chocolate products have increased 52% per year (a 5-year CAGR) to a forecasted 32 new products in 2010, or 1% of all new product reports. [Figure 4-12]

Wine Themed Chocolate

Wine and chocolate pairings have been on the market for some time, driven by a great natural flavor synergy and by mutual health benefits. Demand for them started in 2005 with a burst of new product launches, but has since trended somewhat downward. [Figure 4-13]

However, wine themed chocolate NPD activity has been especially creative, expanding beyond grocery store candy aisles and into liquor stores and wineries using very innovative presentations.

An excellent example of out-of-the-box product presentation is Milwaukee-based Cholive Company's *Cholive*, a chocolate garnish for chocolate martinis. The milk chocolate truffles come with a skewer to hold the product on the side of the glass. The pick is branded with the company's name, a very clever way to boost sales. "We are finding that people were passing up desserts in bars and restaurants," explains company president Joshua Gentine in an interview with Packaged Facts. "So we decided to bring a traditional chocolate, branded and marketed like a liquor company." Since their launch at the 2008 Restaurant Show, these milk chocolate truffles have spawned a new food category: dessert cocktails.

Sometimes creative development requires simply co-locating two suitable products in the same specially-designed display rack. For example, Dove Chocolate partnered with E. & J. Gallo winery in early 2009 to create an in-store display pairing chocolate with the appropriate wine. Each pairing rack holds 16 bottles alongside an assortment of Dove Chocolate. "More consumers are entertaining at home rather than expensive restaurants and they're experimenting with flavorful wine pairings", a Dove press release explains. "Premium pairing" tasting cards developed with the campaign provide guidance, to wit: *Dove Silky Smooth Dark Chocolate Roasted Almonds* with *Gallo Family Vineyards Cabernet Sauvignon*.

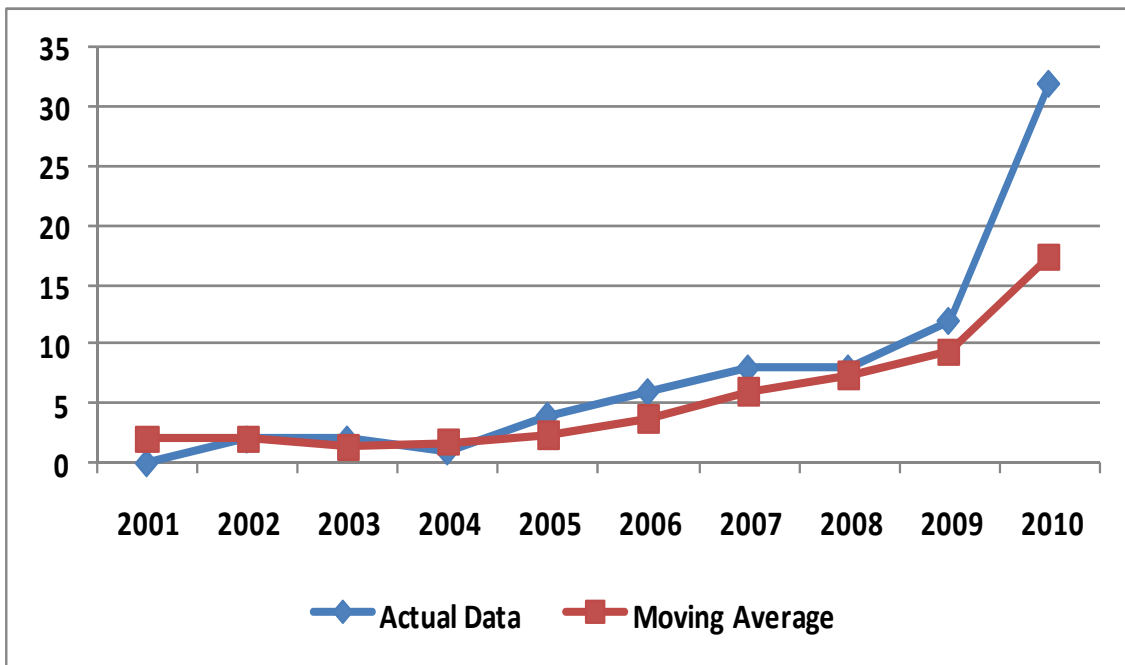
For its wine-themed product display development, Brix Chocolate borrowed the cheese course concept typically served at the end of a meal at a European restaurant. But the Youngstown, OH chocolate company replaced the cheese with a block of chocolate and kept the wooden cutting board and serving knife. "The block is designed to be broken into large, rough pieces whose flavors explode faster in the mouth," says Brix Director of Sales Bruce Barber.

Chocolatque differentiates its wine-infused chocolate bonbons - *Napa Valley Wine Collection* - by using distinctive molds designed by the chief designer of Ferrari Motors. "They are a romantic marriage of Grand Prix automobiles and the grand cru of chocolate," explains co-

Founder Ed Engoron. Such creativity got attention in nearby Tinsel Town and since June 2010, the line became a regular feature on the TV show *The Price is Right*.

And lastly, circling back to the source, in April 2010 Saint Louis-based Bissinger’s launched *Chocolate-Covered Wine Grapes* using Muscat grapes infused with Shiraz wine and dipped in 60% dark chocolate. “A sip in every bite”, according to a review in the *New York Times* (March 2010), each serving contains less than 0.5% alcohol. It is sold at liquor stores, Napa Valley wineries and other locations.

Figure 4-12
Vegan Chocolate New Product Launches, 2001-2010
(# Reports)



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Figure 4-13
Wine Themed New Product Launches, 2001-2010
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 Note: 2010 data is estimated.

Upscale Chocolate Candy Bars

Candy bars have long been the nemesis of parents who dread running the gauntlet with their children through candy-laden checkout lines. But thanks to creative candy makers, bars are being introduced with healthier ingredients. One example is *Q.bel*, a line of all-natural chocolate wafers and rolls containing chocolate plus a handful of natural ingredients (“without a laundry list of nasty chemicals and ingredients”, according to company marketing literature). They are also very female-friendly. “Because they are wafer-based, they have a light connotation to them. The one-ounce size is just big enough to satisfy without feeling over-indulged,” says *Q.bel*’s president Bahram Shirazi in an interview with Packaged Facts.

Another healthier-alternative candy bar is the *Crispy Cat* brand from Tree Huggin’ Treats. Launched in 2007, the company claims to be the first organic candy bar and won Product of the Year and Best of Show awards by *VegNews* in the same year. *Crispy Cats* are available in *Mint Coconut*, *Toasted Almond* and *Chocolate Marshmallow*.

Exotic Delivery

Labo Group's Le Whif is "the world's first breathable food", according to the Paris-based company's marketing literature. The immediate benefit is delivering the full flavor of chocolate without the calories. The device is essentially an inhaler and was invented by Harvard professor David Edwards, who retreaded one of his earlier inventions, inhaled insulin. The chocolate particles are greater than 50 microns, which are small enough to be aerosoled but too big to get into your lungs. The product, which retails for \$2.50, provides eight to ten puffs per inhaler and is available in three flavors: raspberry, chocolate and mint. A coffee Whif is also available. "If you whiff your chocolate, you become a whiffer," says COO Tom Hadfield, riffing on the Frenglish origin of the French company's name.



Poco Dolce's Sesame Toffee Tiles are a creative way to redesign the chocolate bar.

Beyond Bars

The chocolate bar market is getting very crowded. When coupled with supermarkets cutting back on product selection as a cost-cutting measure, chocolate makers need to look beyond bars to create more purchase opportunities. Some aspiring artisan chocolatiers have done so by redesigning the bar shape. San Francisco-based Poco Dolce's 2010 Sofi gold award winning chocolate, *Sesame Toffee Tiles*, are beautifully hand crafted and presented tasting squares.

Another example of inspiring chocolate shapes is Éclat Chocolate's *Mendiant*s line. According to the West Chester, PA chocolatier/owner Christopher Curtin, the shape was borrowed from food morsels given to wandering mendicant monks during the Middle Ages. The company sells three types (*Tanzanian*, *Alto El Sol* (Peru) and *Melange*) packed in a clear tube.



Éclat Chocolate's Mendiant line borrows a medieval religious device to create chocolate that is both visually beautiful and single-portioned.

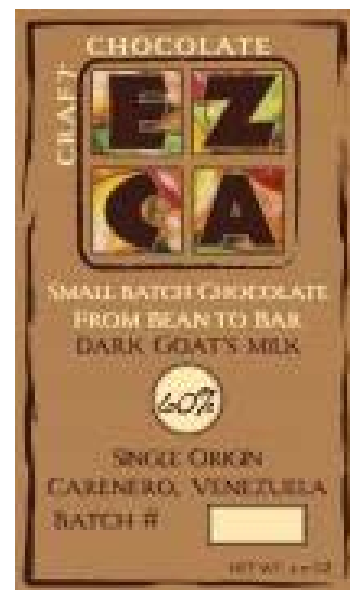
Others expanded/diversified beyond boxed chocolate and bar sales into baked goods, hot drinks and impulse-purchase treats. For example, Cocoa Dolce Artisan Chocolates expanded its chocolate lounge to offer gelato, specialty coffees, wine and beer. Cacao Atlanta introduced “bean-to-bar bars, bean-to-bar brownies and chocolate salami.” The Original Hawaiian Chocolate Factory has targeted the hotel and restaurant amenities market.

Bridge Brand Chocolate has grown from four lines in 2005 to ten to fifteen in 2010. The San Francisco-based chocolate maker has been extended beyond “the big bar of chocolate” and into pairing tins (for coffee, tea and wine), brownies, sipping straws (retreading an old 1970s product), s’mores kits and gift sets with mugs and plush cows. Sales have been doubling ever since, especially by families, reports Sales Manager Diana Pardini. Additionally, Bridge Brands’ *Got Milk* brand of milk chocolate products has become very successful since it was debuted in 2001.

Extreme Milk Chocolate

“Milk chocolate gets short shrift. It’s more of a confection, while dark chocolate is more like a food,” says Guittard president Gary Guittard. Luckily for milk chocolate lovers, it is finally getting some respect, although its resurgence borrowed from dark chocolate’s play book. Dark milk chocolate combines two benefits: milk’s ability to soften or round out the chocolate flavor with the health benefits of dark chocolate’s antioxidants and lower sugar content. The typical premium milk chocolate bar has about 35% cocoa content, a percentage considerably higher than the 15% minimum standard. The cocoa content needs to hit 40% to have sufficient boldness to be considered dark milk chocolate.

Omanhene was one of the first U.S. small producer chocolate companies to create a dark milk bar. Its Dark Milk bar, made exclusively with Ghanaian beans at 48% cocoa content, was released in 1994. “Our intent was to provide a transitional recipe that would appeal to the American consumer, a customer raised on very sweet (low cocoa content) milk chocolate,” Omanhene’s President Steve Wallace told Packaged Facts.



Escazu Artisan Chocolates innovative goat's milk and single origin chocolate bar; a serious milk chocolate bar with character to spare

Several other premium chocolate makers have followed Omani's lead, including Theo Chocolate's 45% Dark Milk and TCHO's Serious Milk Chocolate line featuring two organic/fair trade SKUs: Classic (38% cacao content from Peruvian and Ecuadorian beans) and Cacao (53% cacao content, also from Peruvian and Ecuadorian beans). "We have broadened our investigation of the flavors of chocolate to milk," stated CEO Louis Rossetto in an interview with Packaged Facts. "Just as there isn't only one style of dark chocolate, milk chocolate doesn't have just one flavor note. Milk chocolate is actually composed of multiple primary flavors notes derived from the ingredients and process of making milk chocolate itself: cacao, cream and caramel."

One chocolatier has taken a novel approach by experimenting with milk sources. Escazu Artisan Chocolates' EZCA Goats Milk, a 60% cacao content bar with goat's milk. Explains Hallot Parsons, chocolatier/co-founder of the Raleigh, NC artisan company in an interview with Packaged Facts, "I found that using the Venezuelan Carenero Superior beans with the goats' milk gave a really great depth of flavor and complimented each other well. The goats' milk brings a tangy finish, and also a slight barnyard flavor that is really nice. I think that a lot of times a milk chocolate will get formulated with a somewhat inferior bean, and at a low percentage. We wanted to keep the percentage at no less than 60%, and wanted the bar to appeal to real chocophiles who wanted a milk bar that has complex chocolate flavors."

Alternative Distribution Channels

In an industry otherwise known for its conservatism, mildly inspiring line extensions and most creative product development efforts "outsourced" through company acquisitions, Mars Snack Foods has broken the (chocolate) mould. Over the last several years, the company has undertaken innovative steps to build its premium chocolate portfolio through alternative distribution methods. Two examples of these efforts are Dove Chocolate Discoveries and Pure Dark.

Mars created Dove Chocolate Discoveries in 2007 to develop a brand using the home party business model pioneered by Tupperware and Mary Kay. Aspiring entrepreneurs, mostly women (a shrewd decision in that women tend to purchase more chocolate than men), supply chocolate making supplies, mixes and drinks to aspiring chocolatiers. These chocolatiers, in turn, host chocolate tasting parties at home and invite their friends to sample and purchase freshly made products and designed exclusively for them. As an editor of The Food Channel

noted, “Who can resist an evening among friends tasting heavenly chocolate treats?”⁹ Or resist the sweet siren’s call of the headline in *Woman’s World* magazine “Stephanie is putting her son through college – with chocolate!” (Printed March 24, 2010).

With the recession putting a crimp in dining-out budgets, Dove Chocolate Discoveries concept of at-home entertaining is very timely. It also taps into a world of an estimated 50 million women (a Dove estimate) who run their own home party businesses, selling everything from food to candles to jewelry. The company reports that it has sales associates, called “chocolatiers”, in 48 states.

Kim Kormos Lucak is a Dove Chocolatier in the Cleveland/Akron, Ohio area. She told Packaged Facts that she does about four to five home presentations per month, but “I am involved in so many other events. Most of my events are at wine festivals, spas (pampering their clients) or at wine fundraisers for non-profits.”

The Pure Dark brand was launched in 2008 from one retail location in New York City’s trendy East Greenwich Village. Using a foundation of small batch premium chocolate, customers could select 21 toppings to create their personalized confectionery masterpiece, which was then priced at \$20 for six ounces. On one level, this concept tapped into the new marketing zeitgeist of personalized products, not unlike how ice cream is customized at Cold Stream Creamery. On another level, the shop acted as an unofficial urban laboratory to engage premium chocolate lovers into developing the brand’s future product portfolio. On June 25, 2010, the company closed its retail store, replaced build-a-bark with finished products and moved all distribution through The Food Emporium’s Fine Chocolate Shops available at three locations in New York City.

Waning Trends

Extreme Dark Chocolate Bars

America’s love affair with dark chocolate is slipping. After several years of rising popularity, the number of new dark chocolate products has started trending downward. Between 2005 and 2007, dark chocolate introductions increased at more than three times the rate of milk chocolate introductions (103% versus 35%) driven by the popularity of high cocoa content, single origin and anti-oxidant rich claims. Since then, while the recession has cut back NPD

⁹ Non-dated post at: <http://www.foodchannel.com/stories/1214-dove-chocolate-discoveries-dips-into-at-home-sales-business>.

activities overall, dark chocolate launches are down -24% versus -6% for milk chocolate. [Figure 4-14]

The artisan chocolate niche exhibits much more creativity. Several years ago tea-infused chocolate was a big rage, inspired by increased demand in anti-oxidant rich green tea. Tea-infused chocolate was the theme for the 2006 Next Generation Chocolatier competition, the country's only national artisan chocolatier competition. In 2008, the competition's theme was chocolate and salt, given a nod to the rise in popularity in single origin and artisan salts.

Single Origin Bars

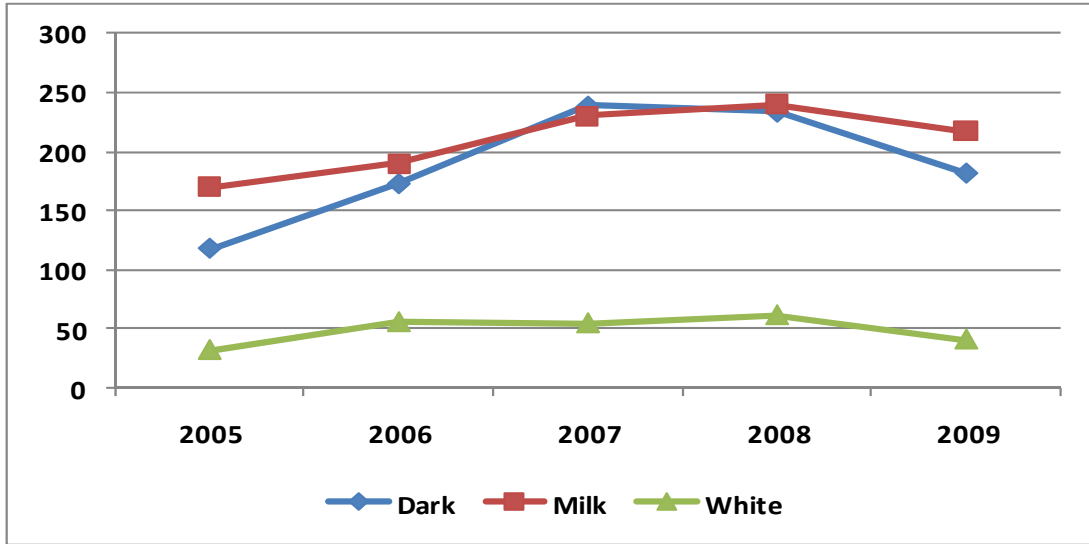
Launches of new single origin chocolates had been ramping up since 2003, but peaked in 2005 when 28% of all the new origin chocolates launched during the past ten years were introduced. "Since then from the large processor's standpoint, the demand for single origin chocolate dropped off the face of the earth, from a few million pounds a year to [being relegated] to the specialty market", explains Bob McCullough, Blommer Chocolate's Eastern Regional Sales Manager in an interview with Packaged Facts. "There are still some good brands out there, but they are bean-to-bar processors." He attributes single origin chocolate's steep fall from favor to a litany of woes:

- Single origin products were all clustered in the bar category; thus limiting their market potential.
- There was an over-saturation of products, resulting in too many choices and the entry of some bigger brands contributed to oversaturation of the market.
- The segment lost its newness and single origin consumers could not sustain it.
- Other products entered the market, such as organic, ethically traded and natural, that competed for the same customer base.
- The recession made some buyers turn to cheaper options.

Packaged Facts forecasts this niche will continue to trend downward, although chocolate makers will continue to expand their product lines. Three such chocolate companies based in Ecuador are trumpeting that country's cacao heritage: Pacari, Kalari and Hoja Verde. The latter company goes one step further by marketing Arribe beans, an heirloom fine flavor bean

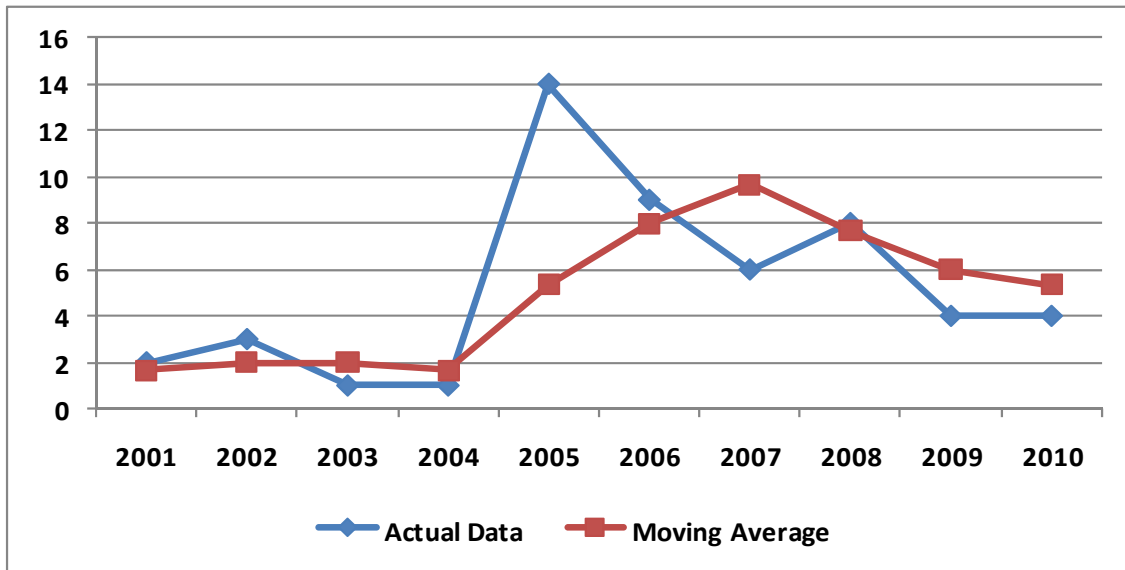
only found in Ecuador. Another new single origin chocolate of note is Scharffen Berger’s *Ben Tre*, a 72% single origin from Viet Nam. [Figure 4-15]

Figure 4-14
Dark, Milk and White Chocolate New Product Launches, 2005-2009
 (# Reports)



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Figure 4-15
Single Origin New Product Launches 2001-2010
 (# Reports)



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 Note: 2010 data is estimated.

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Chapter 5 The Consumer

Introduction

This chapter discusses consumer purchasing patterns, behaviors and trends. It opens with a trend analysis of brand preferences and consumer satisfaction ratings of major confectionery companies. The discussion then turns to an evaluation of consumer demographic (age and gender) and psychographic (attitudes and opinions) data differentiating between conventional and premium chocolate variables. The chapter concludes with a literature review of current consumer behavior studies.

Methodology & Scope

This chapter relies on data compiled by Experian Simmons (New York, NY). Utilizing biennial surveys of a large sample of consumers selected to represent a statistically accurate cross-section of the U.S. adult population, Simmons is able to construct detailed demographic profiles of consumers across markets and categories. This chapter is based upon Simmons' winter 2009 survey, which is based on 220,000 respondents.

In addition, Simmons has developed an index system to calibrate the usage of a product by a given segment of the population, as compared with usage by the population as a whole. If, for example, 10% of the overall surveyed adults report use of a product, compared with 5% of adults age 75 or older and with 20% of those ages 18-24, the senior age group would have a usage index of 50, and the younger age group an index of 200. Generally speaking, Packaged Facts considers an index of 110 or higher to be significant, or an indicator of above-average usage rates. This discussion treats as "not significant" any indexes falling below this level, or any findings that Simmons has classified as statistically unreliable because of the small number of positive responses.

The literature review includes surveys conducted by the Pew Research Center, National Grocers Association and The Hartman Group. The consumer satisfaction ratings are published by the University of Michigan as the American Consumer Satisfaction Index.

Brand Preferences

The percentage of Americans who purchase chocolate products has remained steady at 75% since 2008, despite economic expansions and recessions, according to the Experian Simmons National Consumer Survey. Some brands have gained chocolate market share. Among conventional chocolate marketers, Mars gained the most market share between 2008 and 2010 (2%), followed by Hershey (1%), while Nestlé was flat. Among premium brands, Ghirardelli's share increased the most (1.4%), Ferrero Rocher (1%) – followed by Godiva (0.8%) and Lindt (0.7%). However, given that Packaged Facts was only able to collect data for two years for Ghirardelli and Lindt, these results should be viewed with caution. [Figure 5-1 and Table 5-1]

Brand preferences between marketers show several key differences. Relatively speaking, profiles of conventional chocolate consumers are more uniform than among premium chocolate consumers. [Table 5-2]

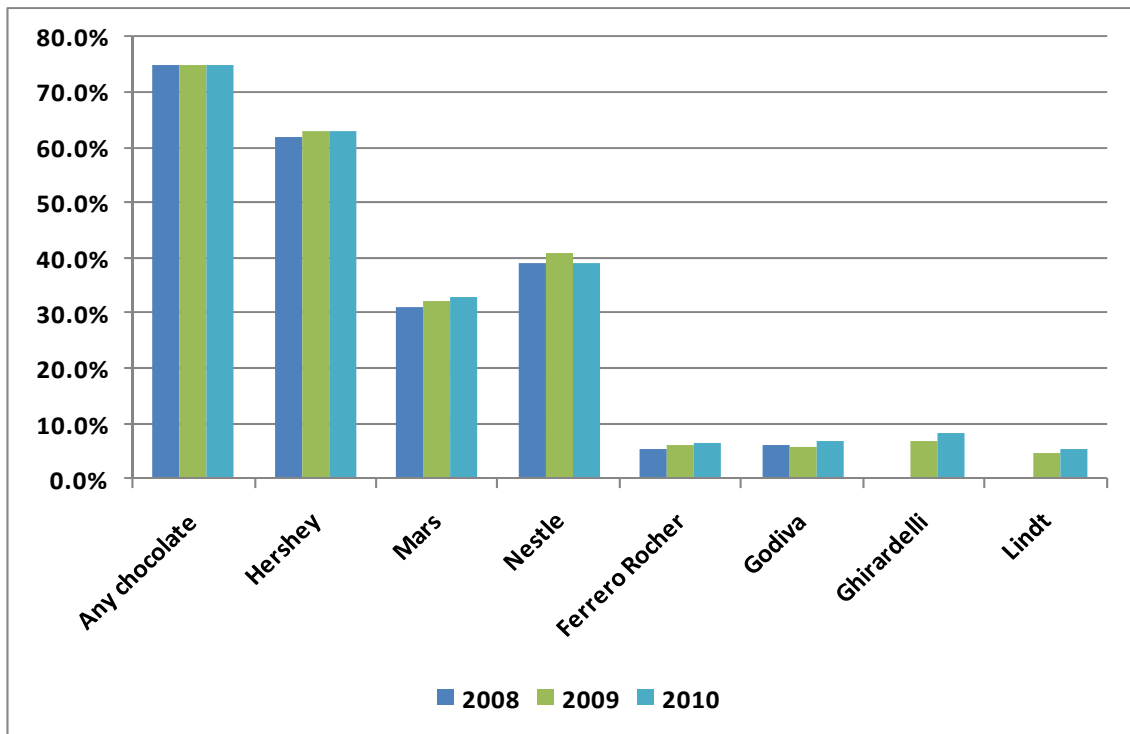
Among conventional marketers, the preference of Hershey chocolate products is almost the same across all attributes (e.g., age, gender, ethnicity, location, etc.), a great indicator of Hershey chocolate's universal appeal. Mars products tends to be appreciated more by Gen Xers, higher educated consumers, households with two or more children, professional/technical occupations and either \$40K-\$59K or over \$100K incomes. They are less appreciated by older Americans, less educated, single household units and retirees. Nestlé chocolate is preferred by Millennials, blacks, larger family units and people living in mobile homes; it is less popular with older Americans, Asians and people living in owned condos or co-ops.

Younger Americans (under 34 years old) prefer Mars and Nestlé products; while members of the Silent Generation don't. Blacks have a preference for Nestlé chocolate, while Asians don't. Whites, Hispanics and alternate minorities have no specific preference for one conventional chocolate brand over another. Households with at least two children favor Mars and Nestlé products.

Among premium chocolate marketers, preferences greatly vary. Millennials seem to prefer Ferrero Rocher, while older Gen Xers enjoy Ghirardelli and Boomers like Lindt. These preferences are most likely a reflection of product flavors, with Ferrero Rocher chocolate representing the classic recipe end of the spectrum, Lindt at the exotic other end (*90% Dark Chocolate* or *Chili Excellence Bars*) and Ghirardelli in the middle. White Non-Hispanics

enjoy Ghirardelli and Lindt chocolate, but Hispanics prefer only Ferrero Rocher. Chocolate lovers in the northeast and central regions of the country prefer Lindt; yet Hispanics in the southwest prefer both Ferrero Rocher and Godiva. Less educated consumers favor Ferrero Roche and better educated chocolate consumers reach for Ghirardelli and Godiva. Households with less income buy Ferrero Roche while households with higher incomes prefer Godiva and Lindt.

Figure 5-1
Chocolate Brand Preference Trends, 2008-2010
(Percent)



Source: Compiled by Packaged Facts based on data from Experian Simmons National Consumer Study, Winter 2010. This material is used with permission.
 Note 1: Indexes are based upon Packaged Facts cross-tabs of adult consumers who eat any of the above mentioned marketer's chocolate.
 Note 2: Data for Ghirardelli and Lindt not available for 2008.

Table 5-1
Chocolate Brand Preference Trends, 2008-2010
(Index & Percent)

Brand	2008	2009	2010	Difference (2008 - 2010)
Any chocolate	75.0%	75.0%	75.0%	0.0%
Hershey	62.0%	63.0%	63.0%	1.0%
Mars	31.0%	32.0%	33.0%	2.0%
Nestlé	39.0%	41.0%	39.0%	0.0%
Ferrero Rocher	5.4%	6.3%	6.5%	1.0%
Godiva	6.0%	5.8%	6.8%	0.8%
Ghirardelli	n.a.	6.8%	8.1%	1.4%
Lindt	n.a.	4.5%	5.2%	0.7%

Source: Compiled by Packaged Facts based on data from Experian Simmons National Consumer Study, Winter 2010. This material is used with permission.

Note 1: Indexes are based upon Packaged Facts cross-tabs of adult consumers who eat any of the above mentioned marketer's chocolate.

Note 2: Data for Ghirardelli and Lindt not available for 2008.

Table 5-2
Purchasing Index for Adult Chocolate Buyers by Marketer, 2010
(Index)

Variable	Hershey	Mars	Nestlé	Ferrero Rocher	Godiva	Ghirardelli	Lindt
Age							
18-24	1	5	11	62	15 *	-29	-67 *
25-34	0	18	-1	7	4	17	-7 *
35-44	1	10	3	5	-2	11	14
45-54	0	4	6	-13	-21	-18	20
55-64	0	-5	-3	-26	-2	-3	12
65-74	-1	-20	-9	-26 *	19	25	7 *
75+	-2	-41	-17	1 *	4 *	1 *	-11 *
18-29 (Gen Y Adults)	0	10	7	45	20	-7	-49 *
30-44 (Gen X)	1	12	1	4	-5	11	11
45-64 (Boomers)	-1	0	1	-19	-13	-12	16
(Alternate) Age 65+	-1	-29	-12	-13	13	14	-1
Gender							
Male	0	-2	0	4	-6	3	0
Female	0	2	1	-4	5	-3	0
Ethnicity							
White Non-Hispanic	1	3	-4	-37	-3	18	11
Hispanic	-2	-7	5	150	-35	-60	-71
Black (Non-Hispanic)	-1	-5	21	26 **	35 **	-14 **	42 **
Asian (Non-Hispanic)	-3	-1	-13	19 **	45 *	-46 **	-8 **
(Alternate) Minority	-2	-6	9	84	8	-41	-24
Location							
Northeast	0	-1	-5	7	12	-25	24
Southeast	0	-1	7	12	0	11	2
Central	1	3	-2	-35	-14	11	21
Southwest	-1	-3	4	32	16	-16	-56 *
Pacific	-1	-1	-2	9	-4	7	-23
Top 25 DMAs	-1	-1	1	8	0	-9	2
Top 26-100 DMAs	1	5	-1	-16	-1	12	-6
not Top 100 DMAs	1	-9	-3	11 **	2 **	4 **	6 **
Education							
Non High School Grad	-2	-17	5	52	-8 *	-16 *	-39 *
High School Grad Only	0	-6	0	19	-8	-10	29
Attended technical/vocational school	2	-2	0	-7	-3	-13	15
Some College	2	4	3	2	3	-11	-18
Undergraduate College Degree (Only)	-1	16	-4	-50	25	17	-15
Graduate Degree	-1	3	-8	-69 *	-9	59	19
(Alternate) College Grad or More	0	12	-5	-51	11	32	4

(continued)

Table 5-2 [cont.]
Purchasing Index for Adult Chocolate Buyers by Marketer, 2010
(Index)

Variable	Hershey	Mars	Nestlé	Ferrero Rocher	Godiva	Ghirardelli	Lindt				
Marriage Status											
Never Married	1	10	11	36	13	0	-15				
Presently Married	0	2	-6	-16	-8	3	3				
Divorced	1	-8	6	-4	*	10	-22	*	47	*	
Widowed	0	-37	-8	1	*	-3	*	11	**	-38	**
(Alternate) Not Married (Any)	0	-3	7	20		10		-4		-4	
Household Unit											
# of People in HH: One	1	-15	2	-5	*	4	*	-15	*	-1	*
# of People in HH: Two	-1	-4	-2	-23		0		33		16	
# of People in HH: Three-Four	1	4	-3	14		-5		-18		-6	
# of People in HH: Five Or More	0	11	7	26		9		-18		-20	
# of Adults in HH: One	1	-10	5	2	*	11		-9	*	7	*
# of Adults in HH: Two	0	2	-3	-18		-4		14		7	
# of Adults in HH: Three or More	0	2	2	33		1		-21		-18	
# of Children in HH: None	-1	-5	-1	-8		7		10		2	
# of Children in HH: One or More	1	8	2	14		-10		-16		-2	
# of Children in HH: One	2	2	1	10		-22		-32		18	
# of Children in HH: Two	3	12	-3	12		-26		-7		-1	
# of Children in HH: Three or More	-1	14	11	24		30	*	-8	*	-33	*
Age of Children in HH: Under 6	1	8	4	20		-27		-39		13	
Age of Children in HH: 6-11	3	18	5	18		-14		1		-6	
Age of Children in HH: 12-17	3	6	0	3		2		-17		-7	
Residence Ownership											
Owned House	0	0	-2	-23		-4		6		-3	
Owned Condo or Co-Op	0	-6	-13	-35	*	-4	*	3	*	37	*
Rented House	0	9	4	33		-14	*	-28	*	-1	*
Rented Apartment	0	-7	8	76		22		-20	*	-15	*
Mobile Home	-2	-9	16	15	**	-30	**	7	**	45	**
Live Rent Free	-2	5	-4	56	**	51	**	69	**	49	**
Residence Value											
Under \$100K	0	-9	5	4		-12	*	-5	*	19	*
\$100K-\$199K	1	-2	-4	-26		-19		13		-10	
\$200K-\$299K	-1	10	-5	-12		10		5		2	
\$300K-\$499K	0	-3	-3	-28		11		3		6	
\$500K-\$750K	-1	6	-11	-73	**	-7	*	28	*	-7	*
\$750K-\$999K	-1	-4	-4	-80	**	9	**	-24	**	25	**
\$1M+	-10	-5	7	-55	**	23	**	-12	**	-28	**
(Alternate) Value of Residence: \$750K+	-5	-4	2	-68	**	16	*	-18	*	0	**

(continued)

Table 5-2 [cont.]
Purchasing Index for Adult Chocolate Buyers by Marketer, 2010
(Index)

Variable	Hershey	Mars	Nestlé	Ferrero Rocher	Godiva	Ghirardelli	Lindt
Employment Status							
Employed Full-Time (30+ Hours)	0	6	-1	-19	1	6	-6
Employed Part-Time (<30 Hours)	-2	4	2	37	29	4	14
Self-Employed	0	6	-9	28 *	21 *	-9	8 **
Homemaker	-2	2	-8	-32	-29 *	-43 *	43 *
Retired	-1	-23	-9	8	-5	11	0
Occupation							
Management/Financial Operations	0	7	5	-47 *	-22 *	-1	39 *
Professional/Technical	0	19	-4	-35	25	44	-5
Sales	-2	-8	-6	1 *	25 *	-7	-20 **
Office & Administrative Support	1	13	4	-34 *	22 *	39 *	-46 *
Labor	-1	-2	1	40	8	-20	-12 *
Income Individual							
Under \$20K	-1	2	3	54	9	-4	1
\$20K-\$39K	1	3	1	4	16	5	-27 *
\$40K-\$59K	-1	15	-4	-49 *	-16	22	-14 *
\$60K-\$74K	0	-1	-5	-50 **	18 **	4	19 **
\$75K-\$99K	1	5	0	-54 **	-12 **	-7	61 **
\$100K+	-2	15	-1	-73 **	25 *	10	37 *
Employed Adults in Household							
None	0	-17	0	14	-18	1	14
One	0	3	2	5	-1	2	-4
Two	0	7	-4	-22	-4	10	-6
Three or More	-1	7	4	16	32	-19	-5
Income Household	0	-11	8	94	-5	2	2
Under \$25K							
\$25K-\$49K	1	-6	5	12	1	-22	-15
\$50K-\$74K	2	1	-3	-17	-17	10	1
\$75K-\$99K	0	8	-4	-32	-6	5	14
\$100K-\$149K	-1	9	-3	-42	21	32	-9
\$150K+	0	10	-5	-47	16	-15	23

Source: Compiled by Packaged Facts based on data from Experian Simmons National Consumer Study, Winter 2010. This material is used with permission.

Note 1: Conventional chocolate proxy is based upon select Hershey, Mars and Nestlé products (any one product); premium chocolate proxy is based upon select Ferrero Rocher, Lindt, Ghirardelli and Godiva (most often purchased product).

Note 2: Read data as follows: Adults who eat chocolate are 14% more likely than average (index of 114) to chose any Nestlé chocolate product.

Note 3: * Denotes a low sample size <61.

Note 4: ** Denotes a low sample size <31.

Note 5: Color key: blue = index > 20; pink = index < -20; and yellow = 20.

Ferrero Rocher emerges as a more down-stream premium brand considering that its consumers are drawn from households with family members having less education, more and younger children, rented residences and lower individual incomes. Lindt and Ghirardelli, in contrast, count their customers among households with higher incomes and greater education who are often employed in management/financial operations.

Brand Reputation

How satisfied are American consumers with the food brands they purchase? Questions such as this one are tracked by the American Consumer Satisfaction Index (ACSI) compiled quarterly by the University of Michigan. Using a 1 to 100 scale, various ACSI indices track 10 economic sectors, 44 industries (including e-commerce and e-business), and more than 200 companies and federal or local government agencies. The indices for non-durable consumer products such as food provide a good measure of consumers' level of satisfaction because they can easily switch brands if needed and the products do not require servicing. [Table 5-3]

Table 5-3
Consumer Satisfaction Index for Top Food Manufacturers, 2005-2009
(Index & Percent)

Rank	Company	2005	2006	2007	2008	2009	% CHG 2009 vs. 2008
1	H.J. Heinz Company	91	87	90	89	89	0.0%
2	Hershey	86	86	87	85	87	2.4%
3	Quaker Foods	88	85	86	87	87	0.0%
4	Mars	83	86	86	86	87	1.2%
5	Kellogg Company	81	85	83	85	85	0.0%
6	Nestle S.A.	83	84	83	83	85	2.4%
7	Sara Lee	81	85	82	84	85	1.2%
8	Dole	81	82	83	83	84	1.2%
	Food Manufacturing	82	83	81	83	83	0.0%
9	Kraft Foods	84	86	84	85	83	-2.4%
10	General Mills	82	84	83	84	83	-1.2%
12	All Others	82	83	81	83	82	-1.2%
13	Tyson Foods, Inc.	79	78	78	80	82	2.5%
14	Campbell Soup	81	80	83	80	82	2.5%
15	ConAgra Foods	86	83	83	84	78	-7.1%

Source: American Customer Satisfaction Index, Fall 2009. This material is used with permission.

Four of the top ten companies listed in the 2009 ACSI for food manufacturers are major chocolate marketers. Hershey and Mars tie for second place, followed by Nestlé in sixth and Kraft in ninth place. Except for Kraft, all these companies placed above the average for food manufacturers. Consumers' satisfaction improved 2.4% for both Hershey and Nestlé, but dropped 2.4% for Kraft. These improvements in customer satisfaction boosted the average index for all confectionery companies to an all-time high of 86. It may also reflect a general higher satisfaction with comfort foods during trying economic times. "The same thing happened in 2001 in the midst of the previous recession and also in 2004 when concern over the Iraq war and rising fuel prices," explains ACSI Director Professor Claes Fornell

Consumer Demographics & Psychographics

Not surprisingly, the characteristics of premium chocolate buyers are markedly different from conventional chocolate consumers. They tend to be younger (Gen Y adults age 18-29), predominantly female, living in the northeast and holding a college or higher degree. A general profile for conventional chocolate consumers is an older male (age 45-54), living in America's heartland who graduated from high school. Premium and conventional chocolate buyers also differ based upon their ethnicity, with Asian (higher incomes) and Hispanic communities having a marked preference for premium chocolate; black (non-Hispanic) communities prefer conventional chocolate. Employment status is another factor, with homemakers and part-timers being more frequent purchasers of premium chocolate. [Table 5-4]

Both conventional and premium chocolate consuming populations exhibit markedly different attitudes toward food and their diets. Premium chocolate buyers are much more sensitive about nutrition, given that they consider calorie content and ingredients in their purchasing decisions. They also tend to shop for organic, natural and gourmet foods, while avoiding foods with artificial ingredients. Premium chocolate consumers are also much more adventuresome when it comes to experimenting, a trait that supports many of the new flavor and product trends discussed in Chapter 4, Marketing & New Product Trends. For example, they enjoy foreign foods and foods "presented as art forms." They are usually the first to try new food products. Their conventional chocolate counterparts, in contrast, do not consider calories when selecting chocolate and admit that "fast food fits my busy lifestyle." [Table 5-5]

Table 5-4
Purchasing Index for Conventional and Premium Chocolate Adult Buyers, 2010
(Index)

Variable	Conventional	Premium	Difference
Age			
18-24	103	132	29
25-34	104	127	23
35-44	104	113	9
45-54	103	76	-27
55-64	95	91	-4
65-74	92	82	-10
75+	92	76	-16
18-29 (Gen Y Adults)	102	130	28
30-44 (Gen X)	105	117	12
45-64 (Boomers)	100	83	-17
(Alternate) Age 65+	92	79	-13
Gender			
Male	91	67	-24
Female	108	131	23
Ethnicity			
White Non-Hispanic	101	89	-12
Hispanic	92	143	51
Black (Non-Hispanic)	102	62	-40
Asian (Non-Hispanic)	93	212	119
not White Non-Hispanic)	97	125	28
Location			
Northeast	100	131	31
Southeast	100	91	-9
Central	105	82	-23
Southwest	103	103	0
Pacific	92	101	9
Top 25 DMAs	97	116	19
Top 26-100 DMAs	103	93	-10
not Top 100 DMAs	103	58	-45

(continued)

**Table 5-4 [cont.]
Purchasing Index for Conventional and Premium Chocolate Adult Buyers, 2010
(Index)**

Variable	Conventional	Premium	Difference
Education			
Non High School Grad	97	93	-4
High School Grad Only	100	79	-21
Attended technical/vocational school	102	91	-11
Some College	104	97	-7
Undergraduate College Degree (Only)	101	135	34
Graduate Degree	93	135	42
(Alternate) College Grad or More	97	132	35
Marriage Status			
Never Married	100	111	11
Presently Married	101	100	-1
Divorced	97	94	-3
Widowed	97	77	-20
(Alternate) Not Married (Any)	99	100	1
Household Unit			
# of People in HH: One	93	77	-16
# of People in HH: Two	99	96	-3
# of People in HH: Three-Four	103	106	3
# of People in HH: Five Or More	102	114	12
# of Adults in HH: One	96	78	-18
# of Adults in HH: Two	101	103	2
# of Adults in HH: Three or More	100	107	7
# of Children in HH: None	97	94	-3
# of Children in HH: One or More	105	109	4
# of Children in HH: One	105	115	10
# of Children in HH: Two	103	108	5
# of Children in HH: Three or More	106	103	-3
Age of Children in HH: Under 6	106	119	13
Age of Children in HH: 6-11	107	95	-12
Age of Children in HH: 12-17	105	113	8

(continued)

Table 5-4 [cont.]
Purchasing Index for Conventional and Premium Chocolate Adult Buyers, 2010
(Index)

Variable	Conventional	Premium	Difference
Residence Ownership			
Owned House	100	104	4
Owned Condo or Co-Op	91	169	78
Rented House	102	73	-29
Rented Apartment	98	101	3
Mobile Home	102	92	-10
Live Rent Free	97	81	-16
Residence Value			
Under \$100K	106	83	-23
\$100K-\$199K	102	95	-7
\$200K-\$299K	99	106	7
\$300K-\$499K	98	128	30
\$500K-\$750K	87	181	94
\$750K-\$999K	87	118	31
\$1M+	80	121	41
(Alternate) Value of Residence: \$750K+	83	119	36
Employment Status			
Employed Full-Time (30+ Hours)	101	99	-2
Employed Part-Time (<30 Hours)	100	134	34
Self-Employed	92	88	-4
Homemaker	113	169	56
Retired	92	76	-16
Occupation			
Management/Financial Operations	94	112	18
Professional/Technical	107	135	28
Sales	105	116	11
Office & Administrative Support	106	126	20
Labor	98	84	-14

(continued)

**Table 5-4 [cont.]
Purchasing Index for Conventional and Premium Chocolate Adult Buyers, 2010
(Index)**

Variable	Conventional	Premium	Difference
Income Individual			
Under \$20K	103	115	12
\$20K-\$39K	101	94	-7
\$40K-\$59K	105	113	8
\$60K-\$74K	98	80	-18
\$75K-\$99K	99	104	5
\$100K+	85	126	41
Employed Adults in Household			
None	97	78	-19
One	98	95	-3
Two	104	116	12
Three or More	100	117	17
Income Household			
Under \$25K	101	91	-10
\$25K-\$49K	98	79	-19
\$50K-\$74K	100	81	-19
\$75K-\$99K	104	121	17
\$100K-\$149K	100	110	10
\$150K+	96	147	51

Source: Compiled by Packaged Facts based on data from Experian Simmons National Consumer Study, Winter 2010. This material is used with permission.

Note 1: Conventional chocolate proxy is based upon select Hershey, Mars and Nestlé products (any one product); premium chocolate proxy is based upon select Ferrero Rocher, Lindt, Ghirardelli and Godiva (most often purchased product).

Note 2: Read data as follows: Adults who eat premium chocolate are 32% more likely than average (index of 132) to be between 18-24 years old.

Note 3: Color key: blue = index > 20; pink = index < -20; and yellow = 20.

Table 5-5
Food Attitudes & Opinions Index for Conventional and Premium Adult Chocolate
Buyers, 2010
(Index)

Variable	Conventional	Premium	Difference
Diet & Health			
Consider my diet to be very healthy	93	114	21
I think of the calories in what I eat	97	118	21
Like to know about the ingredients before buying the food	97	120	23
Work at eating a well-balanced diet	100	110	10
Try to eat healthier food these days	101	111	10
I treat myself to foods not good for me	108	103	-5
About Food			
I often snack between meals	107	99	-8
I feel guilty when I eat sweets	101	108	7
Normally count calories of food I eat	98	130	32
I enjoy eating foreign foods	101	125	24
Prefer food presented as art form	93	164	71
Nutritional value most important in food I eat	97	109	12
Prefer foods cooked with lots of spice	100	105	5
I frequently eats sweets	117	110	-7
I try to eat gourmet food whenever I can	100	146	46
Most snack foods are not healthy	103	103	0
I like to try out new food products	104	115	11
Often swayed by coupons to try new foods	110	115	5
Eat foods I like regardless of calories	106	92	-14
Fattening food makes me feel guilty	102	115	13

(continued)

**Table 5-5 [cont.]
Food Attitudes & Opinions Index for Conventional and Premium Adult Chocolate Buyers, 2010
(Index)**

Variable	Conventional	Premium	Difference
I'm usually first to try new food products	102	139	37
Look for freshest ingredients when I cook	100	119	19
Eat several small meals during the day	102	108	6
Usually only snack on healthy foods	89	109	20
Nothing wrong with indulging on fatty foods	105	109	4
I am currently dieting	99	111	12
Prefer food without a lot of spices	101	98	-3
Fast food fits my busy lifestyle	108	90	-18
Like trend toward healthier fast food	103	116	13
Shop for food/I look for organic/natural	92	151	59
Prefer foods without artificial additives	96	122	26
Cents-off coupons; type you use: grocery/food products	107	105	-2

Source: Compiled by Packaged Facts based on data from Experian Simmons National Consumer Study, Winter 2010. This material is used with permission.

Note 1: Conventional chocolate proxy is based upon select Hershey, Mars and Nestlé products (any one product); premium chocolate proxy is based upon select Ferrero Rocher, Lindt, Ghirardelli and Godiva (most often purchased product).

Note 2: Read data as follows: Adults who eat premium chocolate are 14% more likely than average (index of 114) to consider their diet as being very healthy.

Note 3: Color key: blue = index > 20; pink = index < -20; and yellow = 20.

Table 5-6
Relative Importance of Grocery Store Shopping Attributes
(Percent)

Attribute	Very	Somewhat	Not Too	Not at All
Low price	51%	45%	4%	0%
Nutrition and health information available to shoppers	37%	40%	20%	4%
Private label or store brands	25%	44%	24%	6%
Good selection of ethnic or cultural foods	21%	45%	25%	8%
Organic products	26%	36%	26%	13%
Being active or involved in the community	17%	44%	26%	14%
Offers locally grown produce and other local packaged foods	41%	42%	12%	5%

Source: National Grocers Association 2010 Consumer Survey Report. This material is used with permission.

Literature Review of Consumer Surveys

Consumer Shopping Behavior

The National Grocers Association annually conducts a national consumer survey. The association represents retail and wholesale grocers that comprise the independent sector of the food distribution industry. The 2010 survey contained 74 questions regarding consumer shopping experiences, behaviors and sentiments. Seven of these questions were relevant for measuring consumer attitudes toward shopping for chocolate. [Table 5-6]

Low price was considered by 51% of respondents as “very important”, an outcome to be expected during recessions. None-the-less, this percentage is seven points higher than in pre-recession 2008 and ten points higher than 2003. Clearly, competitive product pricing is even more critical for chocolate marketers selling through grocery stores.

The availability of nutrition and health information ranked as “very important” jumped to 37% from 31% the prior year. The survey authors attributed this increase to two health factors: the desire of boomers - a growing age bracket - to eat a healthier diet and “the trust

consumers have in their preferred retail stores as educational sources on foods and beverages.”

The percentage of shoppers considering the availability of private label or store brands as “very important” dropped to 25% from 27%. Perhaps this is a nascent sign of economic recovery or of consumers deciding that they have sacrificed enough by trading down from dining-out to eating-in. However, the percentage of “very important” and “somewhat important” responses collectively remained the same at 69%.

Sixty-six percent of shoppers consider a good selection of ethnic or cultural foods as either “very important” or “somewhat important.” This matches pre-recession findings and is 5% higher than the 2009 survey. The availability of a good selection of ethnic foods can be considered an indicator of the importance to cater of the tastes of local ethnic communities. Additionally, as Millennials are more open to experimenting and browsing through world flavor combinations¹⁰, having a wider array of ethnic products helps build the shopping experience. Lastly, there has been an increasing drum beat of media reports discussing diets (such as the Mediterranean diet) that are much healthier than the typical American diet. Ethnic choices can allow consumers access to these diets.

The importance of organic products (72%) is at an all-time high, meaning that the recession and talk of “value consumers” is over-rated. A large majority - nearly three out of four people - are committed to eating a healthier diet, despite being on tighter household budgets. And each food recall can drive more folks into the organic camp.

Being active or involved in the local community is considered important by 61% of surveyed shoppers, three points higher than the prior year. Among demographic groups, more mature shoppers, especially Boomers (50-64 years old) with the greatest lifetime experiences, were the greatest proponents of supporting their local grocers.

Offering locally grown produce and packaged goods was identified by 83% of consumers as being “very” or “somewhat important”, four points higher than the prior year. To these consumers, local products imply fresh and less processed attributes. The study notes that as the desire to buy local products becomes a mainstream purchasing consideration, the definition of what should be considered local is open to debate. Could the “brand” also include locales such as U.S.-grown tomatoes or Maine-grown blueberries?

¹⁰ See discussion below on marketing to Millennials.

Millennials: A Portrait of Generation Next

The Pew Research Center is a self-described nonpartisan “fact tank” that researches contemporary issues, attitudes and trends. In February 2010, the Center published *Millennials: A Portrait of Generation Next*, one of the most complete studies of the millennial generation. Born after 1980, the Millennials are the first generation to come of age in the new millennium. The subtitle of this report – and a thumbnail descriptor of Millennials - is *Confident. Connected. Open to Change*. Three generational attitudes/values/behaviors are relevant for understanding how Millennials might act as consumers: their sense of identity, technology usage and green consciousness. Each behavior is described below.

When asked how they see themselves as different from older generations on matters of identity and priorities, the top ranked answer was “in technology usage.” This selection was not unique - Gen Xers also ranked it first - but the percentage is very telling: 24% of Millennials versus 12% for Gen X. Millennials third ranked generational differentiator was being “liberal/tolerant” (7%), a characteristic that contrasts directly with Gen X’s third choice, “conservative/traditional” (also 7%). Millennials also consider themselves “smarter”, but so do the three other generational groups. And lastly, in a very telling differentiator of generational attitudes, “work ethic” was not included in Millennials’ top five attributes, but was included in the three other generational groups, including first place by boomers. [Table 5-7]

The take-away, according to the authors, is that “Millennials and Gen Xers are more likely than older generations to see factors having to do with behavior and lifestyle as setting their generations apart. Boomers and Silents are more likely than the younger generations to point to historical experiences.”

On technology usage, Millennials are far more cyber-savvy than older generations. A majority of them have created social networking profiles and connect via wireless internet while away from home. Their usage of posting videos and Twitter is double or triple the rate of older generations. The take-away: reaching this demographic group requires strong technology and social media channels. [Table 5-8]

On lifestyle issues, Millennials are slightly less likely than other generations to recycle, buy green products or organic foods. However, the cause might lie more with their life stage than lack of commitment to the environment, the report concludes. The take-away: Millennials are just as interested in sustainability and ethical causes as are older generations. [Figure 5-2]

Marketing to Millennials

Given the above description of Millennials, how does a company market successfully to them? This question was explored by The Hartman Group and posted February 3, 2010, at the company's online newspaper *Hartbeat*. The following discussion is a summary of that article.

Millennials are generally brand-averse and increasingly skeptical of conventional marketing efforts. Accordingly, current marketing concepts must be transformed, "perhaps quite radically, if [they are] to prove effective in the years to come."

Table 5-7
What Makes Your Generation Unique?

Rank	Millennials (18-29)	Gen X (30-45)	Boomers (46-64)	Silent (65+)
1	Technology use (12%)	Technology use (24%)	Work ethic (17%)	WWII, Depression (14%)
2	Music/Pop culture (11%)	Work ethic (11%)	Respectful (14%)	Smarter (13%)
3	Liberal/Tolerant (7%)	Conservative/Trad'l (7%)	Values/morals (8%)	Honest (12%)
4	Smarter (6%)	Smarter (6%)	"Baby Boomers" (6%)	Values/Morals (10%)
5	Clothes (5%)	Respectful (5%)	Smarter (5%)	Work ethic (10%)

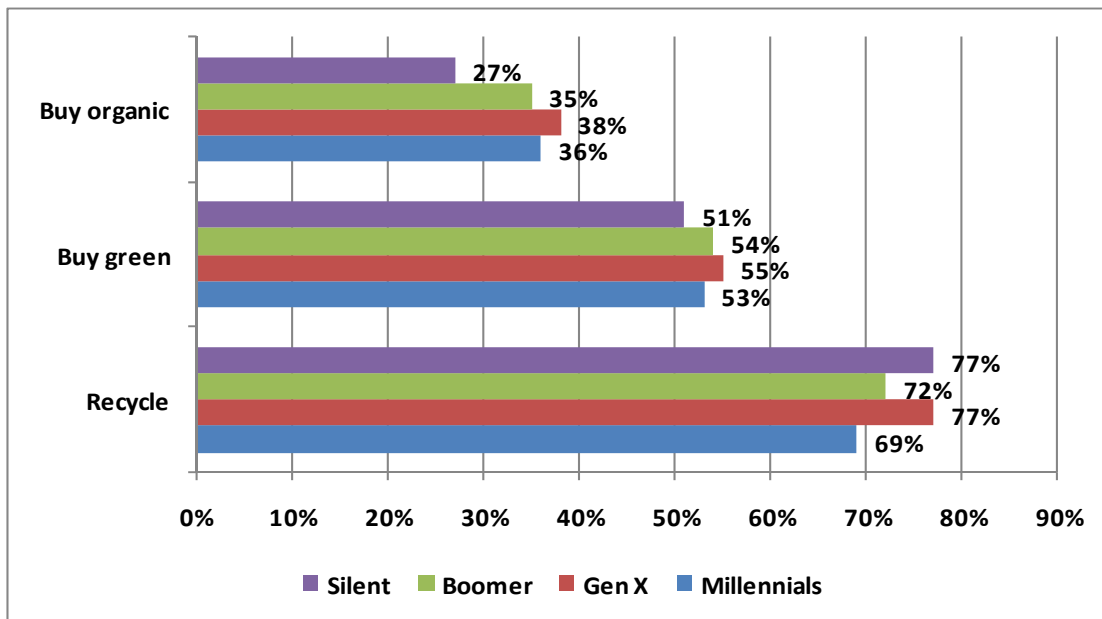
Source: Pew Research Center, *Millennials: A Portrait of Generation Next*. This material is used with permission.
Note: Based on respondents who said their generation was unique/distinct. Items represent individual, open-ended responses. Top five responses are shown for each age group. Sample sizes for sub-groups are as follows: Millennials, n=527; Gen X, n=173; Boomers, n=283; Silent, n=205.

Table 5-8
Use of Technology by Generation

Internet Behavior	Millennials (18-29)	Gen X (30-45)	Boomers (46-64)	Silent (65+)
Created social networking profile	75%	50%	30%	6%
Wireless internet away from home	62%	48%	35%	11%
Posted video of themselves online	20%	6%	2%	1%
Use Twitter	14%	10%	6%	1%

Source: Pew Research Center, *Millennials: A Portrait of Generation Next*. This material is used with permission.

Figure 5-2
Environmentally Conscious Behavior by Generation



Source: Pew Research Center, *Millennials: A Portrait of Generation Next*. This material is used with permission.

Given that they are very adept at internet usage, they view the web as a reliable source of information and outlet for self-expression. The take-away: online social networks carry comparable suasion to conventional media channels.

“Millennials are masters of customization and self-expression. Encouraged to express their opinions from the time they were children, Millennials are highly vocal about their needs and desires.” They are great proponents of do-it-yourself projects. Additionally, they value their ability to research the Internet – from their ubiquitous iPhones – to gain knowledge about “real” products. The take-away: the option for product customization (e.g. Pure Dark’s Build-a-Bar) and desire for product authenticity (e.g., origin, producer, chocolatier, etc.) drives their purchasing decisions.

Their resistance to conventional advertising and the inundation of product choices pushes Millennials to prefer irreverent, user-created limited editions and simple products. The takeaway: given that product preference is a moving target among Millennials, develop shorter marketing and product life cycles.

“As master re-mixers, Millennials use grocery retail as a reimagined food court, sampling a variety of flavors and brands daily.” To Millennials, eating is about experimentation. They can be very playful in their snack selections, bouncing from impulsive purchases of limited-

edition flavor items (M&Ms Coconut) to comfortably negotiating through the latest world cuisine (Chocolat Moderne's *Cocoa Casbah Kama Sutra* drinking chocolate containing coconut, cardamom and clove). The takeaway: the culinary experience is important - creating confectionery products with fresh, seasonal and natural ingredients and out-of-this-world flavor combinations, such as those developed by the beverage and restaurant trades.

Appendix: Addresses

Adams & Brooks

1915 S. Hoover St.
Los Angeles, CA 90007
(213) 749-3226
www.adams-brooks.com

Alpine Confections, Inc.

119 E. 200 North
Alpine, UT 84004
(801) 756-6916
(800) 288-8002
www.maxfieldcandy.com

Ames International, Inc.

4401 Indsutry Dr. East, Bldg. A
Fife, WA 98424
(253) 946-4779
(888) 469-2637
www.amesinternational.com

Annabelle Candy Co., Inc.

27211 Industrial Blvd.
Hayward, CA 94545
(510) 783-2900
(888) 451-2848
www.annabelle-candy.com

Arcor USA

552 Biltmore Way PH-A
Coral Gables, FL 33134
(305) 592-1081
(800) 572-7267
www.arcor.com.ar

Asher's Chocolates

80 Wambold Rd.
Souderton, PA 18964
(215) 721-3149
(800) 223-4420
www.ashers.com

Atkins Nutritionals, Inc.

2002 Orville Dr. N., Ste. A
Ronkonkoma, NY 11779-7661
(631) 738-7370
www.atkinscenter.com

Brach's Confections, Inc.

4120 Jersey Pike
Chattanooga, TN 37421
(423) 899-1100
(800) 999-0204
www.brachs.com

Brown & Haley, Inc.

PO Box 1596
Tacoma, WA 98421-1596
(253) 593-3000
(800) 426-8400
www.brown-haley.com

Cap Candy

(Hasbro, Inc.)
50 Technology Ct.
Napa, CA 94558-7519
(707) 251-3700
www.capcandy.com

**Chocoladefabriken Lindt
& Sprüngli A.G.**

U.S. Office Box 276
1 Fine Chocolate Pl.
Startham, NH 03885-0276
(603) 778-8100
www.lindt.com

Chocolates Turin SA de CV

701 January Dr.
Plano, TX 75205
(972) 517-9949
www.turin.com.mx

Dagoba Organic Chocolate

1105 Benson Way
Ashland, OR 97520
(800) 393-6075
www.dagobachocolate.com

Double Play Foods

60 E. 42nd St., Ste. 1529
New York, NY 10165
(212) 682-4611
www.overloadcup.com

Elmer Candy Corp.

401 N 5th St.
Ponchatoula, LA 70454-0788
(985) 386-6166
(800) 843-9537
www.elmercandy.com

Endangered Species Chocolate Co.

5846 West 73rd Street
Indianapolis, IN 46278
(317) 844-2886
www.chocolatebar.com

Fannie May/Fannie Farmer

(Alpine Confections, Inc.)
8550 West Bryn Mawr Ave.
Chicago, IL 60631
(800) 444-FMAY
www.fanniemay.com

Farley's & Sathers Candy Co., Inc.

One Sather Plaza
Round Lake, MN 56167
(507) 945-8181
(800) 533-0330
www.farleysandsathers.com

Ferrero USA, Inc.

(Ferrero S.p.A., Italy)
600 Cottontail Lane
Somerset, NJ 08873
(732) 764-9300
(800) 337-7376
www.ferrerousa.com
www.rocherusa.com

Frankford Candy & Chocolate Co.

2101 Washington Ave.
Philadelphia, PA 19146-2532
(215) 735-5200
(800) 523-9090
www.frankfordcandy.com

Ghirardelli Chocolate Co.

(Lindt & Sprüngli (USA), Inc.)
1111 139th Ave.
San Leandro, CA 94578-2631
(510) 483-6970
(800) 877-9338
www.ghirardelli.com

The Ginger People

2700 Garden Rd., Ste. G
Monterey, CA 93940
(800) 551-5284
(831) 645-1094
www.gingerpeople.com

Godiva Chocolatier, Inc.

(Campbell Soup Co.)
355 Lexington Ave.
New York, NY 10017
(212) 984-5900
(800) 946-3482
www.godiva.com

Gray & Co.

PO Box 218
Forest Grove, OR 97116
(503) 357-3141
www.queenannecandy.com

Grupo Lorena

(acquired by Hershey Foods)
16017 Kaplan Ave.
City of Industry, CA 91744
(626) 968-8911
www.grupolorena.com.mx

Guittard Chocolate Co.

10 Guittard Rd.
Burlingame, CA 94010
(800) 468-2462

Guylian USA, Inc.

560 Sylvan Ave.
Englewood Cliffs, NJ 07632
(201) 871-4144
(800) 803-4123
www.guylian.be

Hershey Foods Corp.

100 Crystal A Dr.
Hershey, PA 17033-0810
(717) 534-6799
(800) 539-0261
www.hersheys.com
www.reesespb.com

Kraft Foods, Inc.

3 Lakes Dr.
Northfield, IL 60093
(847) 646-2000
www.kraftfoods.com

King Leo Candy

PO Box 92036
Julian, CA 92036
(760) 765-1891
www.kingleocandy.com

Lindt & Sprüngli (USA), Inc.

(Chocoladefabriken Lindt
& Sprüngli AG)
1 Fine Chocolate Pl.
Stratham, NH 03885-0276
(603) 778-8100
www.lindt.com

Madelaine Chocolate Novelties, Inc.

9603 Beach Channel Dr.
Rockaway Beach, NY 11693-0166
(718) 945-1500
(800) 322-1505
www.madelainechocolate.com

Mars, Inc.

6885 Elm St.
McLean, VA 22101
(703) 821-4900
www.mars.com
www.m-ms.com
www.snickers.com

Morgan Confections

1225 Wall Ave. 8
Ogden, UT 84404-5656
(801) 363-2050

Nestlé USA, Inc.

(Nestlé S.A., Switzerland)
800 N. Brand Blvd.
Glendale, CA 91203
(818) 549-6000
www.nestle.com
www.nestleusa.com
www.baciperugina.com

NECCO

(New England Confectionery)
254 Massachussetts Ave.
Cambridge, MA 02139
(800) 225-5508
www.necco.com
www.clarkbar.com

Niche Import Co.

45 Horsehill Rd, Ste. 105A
Cedar Knolls, NJ 07927-2009
(973) 993-8450

nSpired Natural Foods

(Cloud Nine, Tropical Source)
14855 Wicks Blvd.
San Leandro, CA 94577
(510) 686-0126
www.nspiredfoods.com

R.M. Palmer Co.

PO Box 1723
Reading, PA 19603
(610) 372-8971
www.rmpalmer.com

Russell Stover Candies, Inc.

4900 Oak St.
Kansas City, MO 64112
(816) 842-9240
(800) 477-8683
www.russellstover.com

Scharffen Berger Chocolate Maker, Inc.

914 Heinz Ave.
Berkeley, CA 94710
(510) 981-4050
(800) 930-4528
www.scharffen-berger.com

Seattle Chocolate Co.

8620 16th Ave. S.
Seattle, WA 98108-4816
(206) 624-8989
www.seattlechocolate.com

See' s Candies, Inc.

(Berkshire Hathaway, Inc.)
210 El Camino Real
South San Francisco, CA 94080
(650) 583-7382
(800) 915-7337
www.sees.com

Storck USA L.P.

(Storck Group)
500 N. Michigan Ave.
Chicago, IL 60611
(312) 467-5700
www.august-storck-kg.com

Sweet'n Low Candy

74 Mall Dr,
Commack, NY 11725
(631) 543-9600
www.sweetnlowcandy.com

Tootsie Roll Industries, Inc.

7401 S. Cicero Ave.
Chicago, IL 60629
(773) 838-3400
www.tootsie-roll.com

Whitman's Candies, Inc.

(Russell Stover Candies, Inc.)
4900 Oak St.
Kansas City, MO 64112-2702
(816) 471-1669
www.whitmans.com

World's Finest Chocolate

4801 S. Lawndale
Chicago, IL 60632
(800) 366-2462
www.worldsfinestchocolate

Zachary Confections, Inc.

2130 W. State Rd. 28
PO Box 219
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Acronyms

ACSI	American Consumer Satisfaction Index
CMA	Chocolate Manufacturers Association
CAIBISCO	Association des Industries de la Chocolaterie, Biscuiterie et Confiserie de l'E.U
CAGR	Compound annual growth rate
CIR	Current Industrial Report
DOC	Department of Commerce
EU	European Union
FDA	Food & Drug Administration
FDM	Food, drug, and mass-merchant
FLO	Fairtrade Labeling Organization
ICCO	International Cocoa Organization
IFOAM	International Federation of Organic Agricultural Movements
IRI	Information Resources, Inc.
NCA	National Confectioners Association
RCI	Retail Confectioners International
SUCCESS	Sustainable Cocoa Enterprise Solutions for Smallholders
USAID	US Agency for International Development
USDA	U.S. Department of Agriculture
WFC	World Cocoa Foundation

Terms & Definitions

Apparent consumption	Derived by subtracting exports from the total manufacturers' shipments plus imports.
Cacao	Cacao refers to the tree; cocoa refers to the products produced by the tree.
Cocoa mass	The percentage of chocolate (chocolate, butter, and powder) in a chocolate product.
Cotyledons	Cotyledons are the first pair of leaves in the embryo; in this case, the interior of the cocoa bean.
Couverture	A chocolate product with high cocoa butter used to coat a truffle, piece of fruit, or other food object.
Criollo	One of the three major cacao types and considered having the finest flavor.
Forastero	One of the three major cacao types, considered bulk or filler in quality, and comprising 96% of world production.
Nib	Cocoa beans that have been roasted and cracked.
Organoleptic	Organoleptic research analyses how food affects the sensory organs.
Terroir	A product's attributes that can be derived from its place, e.g., soil, climate, etc.
Trinitario	One of the three major cacao types, a cross between Criollo and Forastero, and considered a flavor cacao.

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