# Clashing against Titans: Brazilian Nugali Challenges the International Premium Chocolate Industry

**Track: Strategies for Global Competitiveness**


## Abstract

Founded in 2004, Nugali produces premium chocolate. Located in little town Pomerode in southern Brazil, Nugali seeks to differentiate its products through quality, by working from the cocoa to the finished product. Besides, the company emphasizes its Brazilian origin, as a way to build a distinctive image from developed market competitors. Less than ten years after inception, Nugali expanded into international markets. The young Brazilian company faces several risks and challenges to establish a successful international position. This teaching case addresses the challenges of this small firm as it defies entrenched competitors in the industry, in Brazil and abroad.



**Keywords:** Nugali, strategic positioning, international business, international marketing, chocolate industry, teaching case.


## Introduction

The silver medal at the International Chocolate Awards - Americas & Asia in 2016 won by "Serra do Conduru" chocolate (named after a range of hills close to a cocoa farm in the Bahia State, Brazil) was received with enthusiasm by Nugali owners, Ivan Blumenschein and Maitê Lang – husband and wife (Fig.1). Nine years had gone by since the product had been launched in Brazil.

Founded in 2004, Nugali (http://www.nugali.com.br/eng/) is more than a chocolate producer, but rather a dream come true. Ivan and Maitê had both graduated as engineers and held senior technical positions with managerial responsibilities at Embraer – a well-known Brazilian manufacturer of commercial aircraft – who had long cultivated the dream of being masters of their own business. In fact, Maitê's family had a long history of entrepreneurial endeavors.

As Ivan's and Maitê's jobs involved frequent professional travels abroad, their friends and relatives always asked them to bring imported chocolates.  Since premium chocolate was not easily found in Brazil in the early 2000's, Ivan and Maitê thought this would be an interesting market to be explored. Besides, both of them were lovers of fine chocolates.

Ivan contended that "[back in 2000's], Brazilian chocolates were 'behind' European chocolates" because Brazilian producers employed several substitutes – e.g., hydrogenated fats instead of cocoa butter, vanillin instead of natural vanilla, and whey powder in lieu of whole milk powder – and less noble formulations – e.g., less cocoa and more sugar. He reasoned that the "fine" chocolate industry in Brazil would undergo a similar transformation as the wine industry, that is, it would go from a few (imported or locally produced) brands of not very high quality to a fierce competition among strong brands and high quality products, catering to an increasingly sophisticated pool of consumers.

In 2004, Nugali began to take shape. Maitê resigned from Embraer in order to devote all her time to the new business. Ivan, however, kept his job (as a way to secure a guaranteed income, while the new firm was not still able to generate profits) and divided his time between Embraer (on week days) and Nugali (on weekends). Maitê's hometown, Pomerode (located in the Santa Catarina State in southern Brazil), was chosen as headquarters. Pomerode is one of several little towns in the south of Brazil that were founded by German immigrants and are proud of their historical inheritance. As a small town, Pomerode offered a lower cost base (physical space, salaries, security); besides, the town was located relatively near to harbors (80 Km from Itajaí, the most important harbor in the south of Brazil), which could prove important in the future expansion of the business. They sold their apartment and invested every penny in the new business, which would not yield any revenue for several months, and in fact started making some profit only in the second year. It was then that Ivan also left his job at Embraer and embraced Nugali with heart and soul.

Since the very beginning of the business, Nugali's founders knew that they needed to be innovative – in product, processes and marketing – in order to differentiate their offer and craft a viable competitive position among well-entrenched competitors in the premium chocolate industry. Ivan contended that Brazilian chocolates were falling quality due to the "massive use of lower quality ingredients such as hydrogenated fats." Nugali's product, on the other hand, valued cocoa as the main raw material. In his words, "the consumer of fine chocolates is very similar to the consumer of wines who seeks unique experiences from distinctive 'terroirs'".

While fine ingredients, such as the cocoa nib, were sold only in very large packs to large buyers (like Cargill or ADM Cocoa Joanes), small producers would usually have access only to cocoa mass (the roasted and ground cocoa beans, containing roughly equal parts cocoa butter and solids, also known as cocoa liquor). However, Nugali founders decided to pay high (sometimes twice as much the price in the mercantile exchange) for small lots of cocoa nibs and Ivan sought direct access to exclusive suppliers of cocoa, such as producer João Tavares at *Fazenda* (Farm) São Pedro, in a co-production partnership. Ivan means to control every step of the process, "from [cocoa] bean to [chocolate] bar."

Ivan and Maitê visited several chocolate plants in Europe and learned that the production of specialty chocolate posed a challenge to the new company: the machinery available in Brazil was not appropriate for the specifics of the production process and the imported machinery was too expensive. So, Ivan resorted to his mechanical engineer's skills to design and manufacture the necessary equipment. Preliminary economic analyses and forecasts suggested that the new business made sense.

They had a daring dream, though: to tap international markets after building a solid position among Brazilian sophisticated chocolate consumers. They knew that this path was full of risks such as exchange rate volatility, differences in tastes and preferences across consumers, local legislation, and retaliation from established competitors, among others. They also knew that they had to learn about foreign trade, local consumer habits, competitors' configurations across countries, demand patterns and purchase power, logistics and import tariffs, among other issues.

Ivan and Maitê knew that the growth of 20%-25% per year the company had experienced in the first years in the Brazilian market was just the start of the success they aim at, through internationalization. As of 2016, Nugali had 30 fulltime employees.

## The Chocolate Industry

Cocoa is the main ingredient of chocolate. Turning cocoa beans into chocolate is a complex process. Variation of ingredients, time and temperature may lead to a great variety of unique recipes.

Although originated from the equatorial forest, cocoa is now produced in several parts of the world, including rainforests of Africa, Asia and Latin America (Callebaut, 2015). Africa is the leading global supplier of cocoa, with 75% of the world's production, while the largest cocoa producing countries are Ivory Coast, Ghana and Indonesia (Figures 2a and 2b).

While Africa leads cocoa production, the largest chocolate producers are located in Europe, the USA and Japan (see Table 1). European countries and the USA dominate exports of chocolate (Table 2). Brazil also exports chocolate, mainly to Latin American neighbors (Table 3) because of logistics costs.

According to market research firm Euromonitor (*apud Dinheiro Rural*, 2015), the global chocolate industry has a turnover of US$ 110 billion per year. The three largest consuming countries: Switzerland, with annual per capita consumption of 8.98 kg; Germany, with annual per capita consumption of 7.89 kg; Ireland and the United Kingdom, both with per capita annual consumption of 7.39 kg (Forbes, 2015). Figure 3 shows a list of the world's largest chocolate consumers.

**The chocolate industry in Brazil**

Cocoa arrived in Brazil in 1746 through the Amazon state of Pará, brought by the French Louis Frederic Warneaux. Later, the fruit was taken to Bahia, contributing to the economic development of the region (ABICAB, 2015a). With favorable (tropical) climate and abundant labor, Brazil became the world's largest cocoa exporter, with more than 70,000 tons sold abroad in 1880 (ABICAB, 2015a). However, in 1989, a plague known as "Witches Broom" infested Bahia and devastated cocoa plantations. As a result, several farmers turned to other crops or to livestock faming. In the next 15 years, Brazil's production of cocoa almost halved and the country became a net importer of the fruit.

Between the late 19th and early 20th century, the first Brazilian chocolate producers started, founded by European immigrants from countries such as Germany, Latvia and Switzerland. Neugebauer Brothers & Gerhardt, the first chocolate producer in the country, dating back to 1891, was established in Rio Grande do Sul, the southernmost state of Brazil. The factory belonged to German brothers Franz, Ernest and Max Neugebauer with a partner, also German, Fritz Gerhardt. At the beginning they employed traditional techniques for production, which was automated by 1920 (ABICAB, 2015a).

In 1912, Lacta established a business in in São Paulo, founded by Swiss consul Achilles Izella. Lacta, which used state-of-the-art equipment and was a pioneer in chocolate industrial production in the country. Nestlé was established in Araras (state of São Paulo) in 1921, that is, 55 years after its foundation in Switzerland; the company initially produced condensed milk *Moça* (Girl) and started chocolate production only in 1959. In 1928, Latvian immigrants Anna and David Kopenhagen founded the Kopenhagen Company. The factory was equipped with several machines for the production of fine chocolates, bonbons, Easter eggs and even marzipan – a confectionery made of sugar, almonds and eggs, very popular in Europe. In 1929, German businessman Henrique German Meyerfreund founded Chocolates Garoto, in Vila Velha (Espírito Santo state). The use of industrial equipment conferred features to their chocolate, which allowed its transportation and sale in farther away states. In 1940, politician and entrepreneur Adhemar de Barros bought Lacta, and his family ran the company until 1996, when it was sold US group Kraft Foods Group (Abicab, 2015b).

In terms of cocoa quality, Brazil is the world leader, owing to its resistant varieties, technological innovations in production systems and the development of post-harvest techniques (*Business Review Brasil*, 2012). About 60,000 farmers grow cocoa, in six Brazilian states, with Bahia state as the largest share (61% of national production) and Pará state as second (with 23%). The states of Roraima, Amazonas and Espírito Santo account for 15% in total. The Brazilian production has expanded in a sustainable way, as most of the production is made in agroforestry systems, which preserve the forests and comply with the Low Carbon Agriculture program (*Business Review Brasil*, 2012).

Production of "gourmet cocoa" has been increasing in Brazil. Nugali's supplier Fazenda São João harvests more than 200 variations of the fruit, spread over 650 hectares, and has won twice the major international cocoa award at *Salon du Chocolat* in Paris (Portal G1, 2014).

Brazil is the fourth largest chocolate producer and the consumption of chocolate in Brazil grew on average 11% per year between 2001 and 2010 (*Business Review Brasil*, 2012). In 2014, chocolate production in Brazil reached 781,000 tons, a 3.71% increase over 2013 (ABICAB, 2015b). While the major producers from Brazil export chocolate to more than 170 countries, a decline of in exports (3.5% in volume and 5% in revenues) and an increase in imports (17.8% in volume and

23.0% in revenues) in chocolate imports between 2013 and 2014 (with total exports at US$ 116 million and total imports at US$ 166 million, as of 2014) indicate that Brazilians are increasing their chocolate consumption and are moving towards finer chocolates. Nestlé, Kraft and Garoto serve about 90% of the Brazilian market, Mars has 3% market share and the remaining share is catered to by hundreds of small regional firms (Business Review Brazil, 2012).

However, Brazilians are not big consumers of chocolate, which is regarded by many as just a treat for children. People also claim that chocolate fattens, caused pimples, liver diseases and dental problems. Furthermore, chocolate has long been considered superfluous and unnecessary food (ABICAB 2015a).

Back in the 70's, chocolate consumer profile was extremely unattractive, since reluctance on the product was commonplace (ABICAB 2015a). At a meeting held in Ecuador in 1971, cocoa-producing countries decided to launch national campaigns in order to encourage the consumption of chocolate. In Brazil, the main objective of the institutional campaign was to create the habit of consumption, giving the product a new, permanent place on the market. In 11 years thereafter, Brazilian chocolate production grew relevant 163% (ABICAB, 2015).

## Premium Chocolate

Premium chocolates are estimated to represent about 1% (US$ 1.1 billion) of the total world's chocolate sales (US$ 110 billion) (*Dinheiro Rural*, 2015).

In the United States and Europe, premium chocolates have become the quality reference, with cocoa beans considered a delicacy with quality classification and origin identification. The cocoa in the chocolates, sold in luxury environments, is now evaluated by experts and gourmand consumers in a similar way as wine, from its "terroir", which reflects the results of environmental effects on the fruit. In short, different types of cocoa are unique in terms of aroma and flavor.

In Brazil, there are good prospects from the growth of consumption of premium chocolates (Pekic, 2014), driven by the middle class. Regarding the Brazilian chocolate market, Euromonitor (2015) reports that "[c]hocolate confectionery is projected a value CAGR [compound annual growth rate] of 5% at constant 2015 prices over the forecast period, with sales set to reach BRL17.7 billion [US$ 5.5 billion] by 2020. In retail volume terms, chocolate confectionery is projected a CAGR of 3% over the same period, with sales set to reach 385,900 tonnes in 2020, a lower than expected performance compared to the review period as the category is reaching a significant level of maturity, in addition to the ongoing economic uncertainty facing Brazil.". The fact that (at constant 2015 prices) revenue is projected to grow higher than volume means that real average prices are expected to go up.

## Nugali's History, Values and Productive Structure

Nugali is one of the few brands in Brazil whose production extends from the cocoa to the final product – the chocolate. The company pays close attention to details in order to guarantee high quality and exclusivity in ingredients, formulations and processes. In its first years, Nugali produced chocolate as raw material for other firms, which produced special lines, designed for chefs at confectionery stores, delicatessens and patisseries. After gaining experience in production, Nugali's founders decided to sell their own branded product to retailers. In the company's philosophy, the word innovation has a major role: they were the first in Brazil to produce 70% cocoa and 80% cocoa chocolates as well as to employ unique origin cocoa (Pomerode, 2016). Their chocolates are made from a blend of special cocoas with the purest cocoa butter, following the way of traditional Belgian and Swiss chocolatiers.

Nugali chocolates are all trans-fat free and do not contain lower ingredients such as hydrogenated fats or coconut fat. The only aroma added to the chocolates is the natural vanilla extract, which distinguishes Nugali's chocolate from those that contain synthetic vanillin as used by most producers. Nugali's formulations are less sweet, in a genuine attempt to highlight the cocoa flavors. The high cocoa content of Nugali chocolate (milk chocolate has 45% cocoa, while the bitter chocolates have between 60% and 80% cocoa) provide more intense flavors and accentuate the aromatic richness of the cocoa. In addition to the selection of ingredients and formulations, part of the secret of a great chocolate lies in the production process. The chocolates are refined at length, resulting in a smooth and velvety texture on the palate and a distinctive flavor of the final product. The catalog with more than 40 products features chocolate bars, filled chocolates and dragées (chocolate-covered fruit and nuts).

Nugali serves the Brazilian market through distributors and also direct sales. Nugali chocolates can be found in supermarket chains that offer products with gastronomic appeal, emporiums, delicatessens and some health food stores that offer dietary and higher cocoa content chocolates. As of 2016, Nugali sold to over 650 points of sale in Brazil. Distribution is concentrated in the main cities of the South, Southeast and Midwest of the country. The company also operates one wholly-owned monobrand store (Figure 4), in Pomerode, the same city where its plant is located.

**Nugali's Competitive Positioning**

The main competitors of Nugali, both in Brazil and abroad, are chocolate companies like Swiss Lindt & Sprüngli, French Valrhona, American Ghirardelli and Ecuadorian Pacari. In the USA, the largest competitors are Lindt & Sprüngli (which is considered a good price vs. benefit offer), Godiva and Ghirardelli; in France, Valrhona and Cotê D'Or; in other countries, also Pacari and Domini. See Figure 5.

Nugali seeks to position its main product as premium chocolate, with international quality but genuine Brazilian attributes. In Brazil, Nugali wants to compete against major international producers of fine chocolates, but with a competitive price. Except for specific information about the product and its ingredients in the packaging, very little promotion effort is conducted, but rather just negotiations as to shelf location in selected retailers. Actually, the very fact that the product is still a novelty functions as an eye-catching feature itself, in particular for more sophisticated consumers.

However, since its early history, the company has dreamed of the international markets. Nugali's founders believe that the Brazilianness (and the suggestion of an Amazon, nature-filled, forest atmosphere, appeal) is a relevant attribute of its product in the eyes of foreign consumers and provides it with a distinctive "personality" and a genuine origin. To differentiate against strong competitors such as traditional Swiss and Belgian chocolates, the company invests in genuine Brazilian ingredients such as cocoa of Bahia, and Amazon fruits (açaí, cupuaçu and castanha-do-pará) (Figure 6).

Overseas, Nugali products cost from US$ 4. In Brazil, the price ranges from BRL 10 (approximately US$ 3), for the 100g milk chocolate bar, to BRL 40 (approximately US$ 12), for the 200g box with assorted minitablets.

The packaging of Nugali chocolates (see Figure 7) are devloped by a design agency under Nugali management's guidance. The partnership with this agency dates back to 2006, and was sponsored by Sebrae (Brazilian Micro and Small Business Support Service, http://www.sebrae.com.br/sites/PortalSebrae/canais_adicionais/sebrae_english) in partnership with Abre (Brazilian Packaging Association (http://www.abre.org.br/eng/). The packaging was conceived to clearly convey to consumers the company's proposal (e.g., by highlighting the phrase "Cacau de Aroma do Brasil" ("Brazil's Aroma Cocoa")), so that it should stand out on the shelves and translate the superior quality of the chocolate.

**Nugali's Internationalization**

Although the company was founded back in 2004, already with the internationalization dream in mind (even the name was carefully chosen as to be easy to pronounce in different languages), it was only in 2012 that Ivan and Maitê felt that the company was prepared to begin the process of exporting their products. While Nugali founders had been visiting trade shows since 2010, it was the participation in an international confectionery fair in Germany (ISM - *Internationale Süsswaren Messe*) in 2012, where the company began to exhibit its products, that marked the kickoff of the internationalization process.

The founders sought information about international markets from government agencies – Apex Brasil (Brazilian Trade and Investment Promotion Agency, http://www.apexbrasil.com.br/en/home#) – and industry associations – FIESC (Federation of Industries of the State of Santa Catarina) and ABICAB (Brazilian Association of Chocolate, Cocoa, Peanut, Candy and Derivatives). The information provided by these institutions allowed the identification of promising markets for the sale of (premium) chocolates. A business plan for export was then formulated. Nugali management now conducts pre-fair preparations, which includes the identification of potential relevant distributors in target countries.

Nugali's first international sale took place in 2014, for an importer from Dubai, who had met Ivan and Maitê at a business roundtable in Santa Catarina, Brazil. In order to properly serve this client, the company adapted packaging, by redesigning labels and providing translations. As Nugali sought new customers overseas, the company continued participating in several international trade fairs, including the Fancy Food Show, an event held twice a year in the United States and considered one of the main entry points for gourmet, regional, organic and natural foods in the American market.

In October 2014, when Nugali started exporting, the dollar was quoted at around BRL 2.50, but the US currency greatly appreciated over the Brazilian currency (BRL) within two years. In order to increase productivity, the company adjusted its production costs and optimized production batches according to demand levels, balancing the use of human labor and equipment. The company also began to use indicators to measure waste and loss, inventory turns, failures, rework and production time. As a result, the company managed to increase profits, and in 2015 the margins (in BRL) further increased because the product has become more attractive to foreign customers given the devaluation of the Brazilian currency.

As part of its international expansion plan, Nugali invested BRL 1 million (approximately, US$ 300 thousand) in product development and adaptation of the production line. A plant expansion plan is underway, estimated at BRL 10 million over the next six years, 2016-2022 (*Diário do Comércio*, 2016). One of the product lines specially created for the foreign market is "Cacau em Flor" (Cocoa Blossom), which takes southern Bahia cocoa and ingredients like banana, açaí and other tropical fruits and nuts (Figure 8).

As of early 2016, Nugali exported to the United Arab Emirates, Japan, the USA and Peru and, in the second semester of 2016, the company started to distribute its products in France and Chile, while it is actively searching for (more) distribution partners in the USA and Canada as well as in South America (in particular, Chile and Peru) and Europe (specially, France).

Nugali prefers to enter international markets via partnerships with distributors, as a way to reduce risks compared to direct sales to retailers. Besides, several retailers abroad are small and would not be able to buy a cost-efficient lot; therefore, Nugali needs to deal with distributors that buy large lots and then fractionate them for local retailers. Nugali does not want to deal with representatives, but rather with distributors, which buy the company's products (not just intermediate their sale like representatives) and thus become much more committed to their success.

## The Company's Challenges

Nugali's export revenues now represent about 15% of its total revenues, but the founders mean to reach 50% in the near future. However, the challenges are not small. For each potential market the company has to adapt labeling, comply with the requirements of local health authorities and observe a whole bureaucratic process of foreign trade – all of which demand time and resources. In addition, trade issues such as cultural barriers, logistics, taxes, bureaucratic processes and even the lack of cost competitiveness of production in Brazil make the process of internationalization a challenge sometimes as bitter (though not pleasant) as an 80% cocoa chocolate bar.

Will Nugali be able to increase exports at the same time that the company goes after new customers in the domestic market? How should Nugali position its products in international markets and in the domestic arena?

What opportunities and threats does the macro-environment pose to Nugali's business?

How should the company select priority international markets? Is the participation in trade fairs and the consequent meeting of potential distributors the best way – or should the company employ more rigorous analysis of market potential, competitors' configuration, and country risks?

Which entry modes should Nugali employ in different international markets? Is the current indirect exporting (via foreign distributors) policy appropriate for the company to build a strong long-term position? Or should the company increase managerial involvement and resource commitment – e.g., by selling directly to key retailers or by opening up (wholly-owned or partnered) monobrand stores – at some point in the future?

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**Clashing against Titans: Brazilian Nugali Challenges the International Premium Chocolate Industry**

## TEACHING NOTES

These teaching notes – in particular, the analyses to the suggested questions – reflect the views of the authors of this teaching case and may not necessarily represent the opinions of Nugali's management.

Abstract

Founded in 2004, Nugali produces premium chocolate. Located in little town Pomerode in southern Brazil, Nugali seeks to differentiate its products through quality, by working from the cocoa to the finished product. Besides, the company emphasizes its Brazilian origin, as a way to build a distinctive image from developed market competitors. Less than ten years after inception, Nugali expanded into international markets. The young Brazilian company faces several risks and challenges to establish a successful international position. This teaching case addresses the challenges of this small firm as it defies entrenched competitors in the industry, in Brazil and abroad.

Learning objectives

This teaching case can be used in courses that address strategy and/or international business and/or market positioning.

Sources of Data for Case

Data came from a Skype interview with Nugali's founder, Ivan Blumenschein, conducted by the three authors of the case. The interview was recorded and later accessed for details.

Secondary data came from the company's website as well as inspection of material available on the Web (about the chocolate industry) from competitors, consulting firms and business magazines.

Suggested issues for discussion

1. What major challenges has Nugali faced (and how did the firm address them) in order to build and position a brand in the premium segment of the chocolate industry? Are such challenges different in its home country (Brazil) versus the foreign markets where the firms is selling its products?
2. What has motivated the firm to expand abroad when it still had a long way to grow and consolidate its position in its home country?
3. Which criteria should the firm employ to select countries?
4. Which entry modes and commercial model should the firm employ? Do you agree with the entry modes the firm is currently employing?

Suggested analysis

What follows are mere suggestions of possible paths for analysis. The instructor may find his/her own way through the case.

1. What major challenges has Nugali faced (and how did the firm address them) in order to build and position a brand in the premium segment of the chocolate industry? Are such challenges different in its home country (Brazil) versus the foreign markets where the firms is selling its products?

Since the very beginning, Nugali's founders conceived of the company as a producer of premium chocolate. In fact, when Nugali started its business in Brazil, the country was not well-served by premium chocolate brands. Except for Kopenhagen, no other Brazilian firms invested in the premium segment. There were, however, a few (but not many) foreign brands, that were sold through a few specialized stores and in the premium sectors of upscale supermarkets. Interestingly, the Brazilian consumer in the mid 2000's – in particular a segment that had reached upper middle class due to economic and social reforms after the Real Plan and the initial years of President Lula's government – was sophisticating their consumer habits and demanded little "treats" that reflected their new social position. Premium consumer brands satisfied these needs.

Nugali had to find a "blue ocean" (Kim & Mauborgne, 2015) in the middle of already established competitors. The company emphasized two aspects: differentiation by quality and differentiation by design (Mintzberg, 1988). In terms of quality, Nugali opted for "original" (though more expensive) ingredients instead of (cheaper) industrialized elements; however, clear communication of such characteristics (e.g., in the package) and sales in specialty stores (e.g., deli stores and chocolate confection stores) was paramount to attract consumers willing to pay higher for better chocolate. Such attributes would cater for sophisticated consumers, both in Brazil and abroad. In addition, for foreign consumers, Nugali chose to highlight the "Brazilianness" and the country origin – related to natural resources, including famous Amazon forest. As such, the company expected to set itself apart from tough competition, although it clearly understood that traditional countries-of-origin labels (such us, "Swiss", "Belgian" or "French") had their loyal consumers. On the other hand, the company believed that these consumers are also willing to try something new – just for the pleasure of novelty.

The instructor can lead the students though a SWOT analysis (Pickton & Wright, 1998), in order to identify Nugali's strengths and weaknesses over its main competitors and substitutes (in fact, defining the proper industry frontier (Day, 1997) – that is, the relevant competitors and substitutes of Nugali's products – is a relevant exercise also) and to assess opportunities and threats posed by the external environment – both in the home country as well as in potential foreign markets. Porter's (1980, 2008) five forces model of the industry structure is also a helpful analytical framework for this exercise.

The discussion of the firm's resources and competences and whether they fit the VRIO (Value-Rareness-non-Imitability-Organization) framework of the Resource-Based View (Barney, 1996; Barney & Hesterly, 2011) is also an interesting route of discussion.

2. What has motivated the firm to expand abroad when it still had a long way to grow and consolidate its position in its home country?

The instructor can take the chance and discuss different motivations that drive firms abroad. Cuervo-Cazurra et al.'s (2015) review of such motivations as well as Benito (2015) and van Tulder (2015) provide good materials to guide the discussion.

Nugali clearly saw the foreign arena as an opportunity to sell more – thus, a market-seeking strategy drove the firm into foreign markets.

The instructor may wish to discuss two approaches to strategy: causation-driven (formal, structured) planning and effectuation (Sarasvathy, 2001; Wiltbank, Read & Sarasvathy, 2006). Nugali management seems to be following an effectuation posture, whereby the founders rely on three “givens” – who they are, what they know and whom they know – and are (or at least have been) driven not by how much they expect to gain, but rather how much they may afford to lose.

3. Which criteria should the firm employ to select countries?

Since the motivation for Nugali to go abroad was to sell more, the company had to find countries where the market for premium chocolates was large and where the company’s positioning (in terms of product quality and brand image) might be attractive to sophisticated consumers – despite the fact that they probably were already well-served by well-entrenched producers. So, the interplay between demand versus supply had to be considered.

The countries that consume more premium chocolate are Switzerland, Germany, Ireland and the UK (Figure 3). Since opening mono-brand stores in these countries was not a viable option (see next question), Nugali had to find some space in multi-brand specialized stores. The company founders understood that the best way to reach such stores was through distributors.

That is the reason why the company exhibited its products at trade shows. Therefore, the countries where the company first sold to were those where their first foreign buyers – the distributors – had business themselves. In some way, this approach was one of “response to unsolicited orders” (Diamantopoulos et al., 1990), although the company, through its participation in trade shows, actively worked to make the opportunities arise.

The instructor can use the articles by Ozturk et al. (2015) and Papadopoulos & Denis (1988) to discuss different criteria for foreign market selection.

Also, there is the use of geographic distance and logistics costs. In addition, psychic distance (Johanson & Valhne, 1977) concerns (in particular, in terms of business practices and consumer tastes) should be addressed..

4. Which entry modes and commercial model should the firm employ? Do you agree with the entry modes the firm is currently employing?

The instructor can guide the discussion around the following lines (Dias et al., 2014; Hill et al., 1990):

- Producing in the home country and exporting vs. producing in the host country (the “L” of the OLI framework; Dunning, 1988)
- If producing in the host country, advantages / disadvantages of licensing vs. foreign direct investment (FDI) for the vs. equity-modes (FDI) (the “I” of the OLI framework; Dunning, 1988)
- If FDI, advantages / disadvantages of wholly-owned vs. partnered investment (the ownership structure; *cf.* Barkema et al., 1996)
- If FDI, advantages / disadvantages of acquisition vs. greenfield (the establishment mode; *cf.* Barkema et al., 1996)

The instructor may want to discuss whether the firms should somehow adapt its products to the tastes and habits of different international markets or should rather stick to a “global” positioning that reinforces the country origin and the technical attributes of the product.

For Nugali to exploit its country-of-origin attribute, the company must produce in Brazil and export. Direct exporting to retailers (e.g., deli stores) in the host country may be difficult, since each of those firms usually caters to a small proportion of the total demand and they are scattered around the country, without centralized ownership. Therefore, resorting to distributors, which already have relatiohsips with these dispersed points of sale, makes more sense – that is, indirect exporting seems more feasible. However, there some supermarkets may have a specialized sector where they sell premium products. Since supermarkets tend to belong to large chains, they may represent an opportunity for direct exporting by Nugali. The advantages of indirect exporting would be less effort in pursuing buyers (channels), cheap way to learn about consumer trends and about local legislation); the advantages of direct exporting would be: direct contact with the final seller (though, in the case of chocolates, the producer would not have direct contact with the end consumer), better control over the branding and promotion of the product at the point of sale, less (if any) dependence on an intermediary (the distributor).

Nugali might also consider direct operation of points of sale in the host country. However, operating monobrand stores is very expensive and may not pay off – although it would certainly help in strengthening the brand. The company would have much more control over the communication, promotion and branding efforts, but sales would have to be (much) higher than in the easier indirect exporting to distributions or direct exporting to retailers, in order to offset the much higher costs of owning and operating stores.

Suggested dynamics for managing discussion

Two suggested dynamics can be used:

- The instructor can organize a session of small groups where the students express their opinions to colleagues and listen to others. Arguments and ideas from diverse points of view enrich the analysis and understanding of possible decisions. Smaller groups have the advantage (as compared to the class as a whole) of helping the most timid students participate. After discussing the case in small groups, which should last about 15-20 minutes, a discussion involving the entire class can follow. It should be made clear that students are not required to reach consensus together with the other members of their small group. The idea behind the small-group discussion is to bring forth new perspectives that had not emerged when the students analyzed the case on an individual basis. However, in the open classroom discussion, each student should be encouraged to freely state his/her own opinions.
- Another dynamic is to ask the entire class who believes the company should opt for decision "X" and who believes they should choose decision "Y", as well as who does not have a completely formed opinion about the matter. Next, the students who recommended decision "X" can present their arguments and enter into debate with students supporting decision "Y". The idea is that as the discussion unfolds, which can be organized to allow 10 minutes for each question found in the case, the students who do not have a completely formed opinion can decide upon which group they agree with. At any moment, the students (including those who initially formed groups "X" and "Y") can change their support to either group, or to those without a completely defined opinion.

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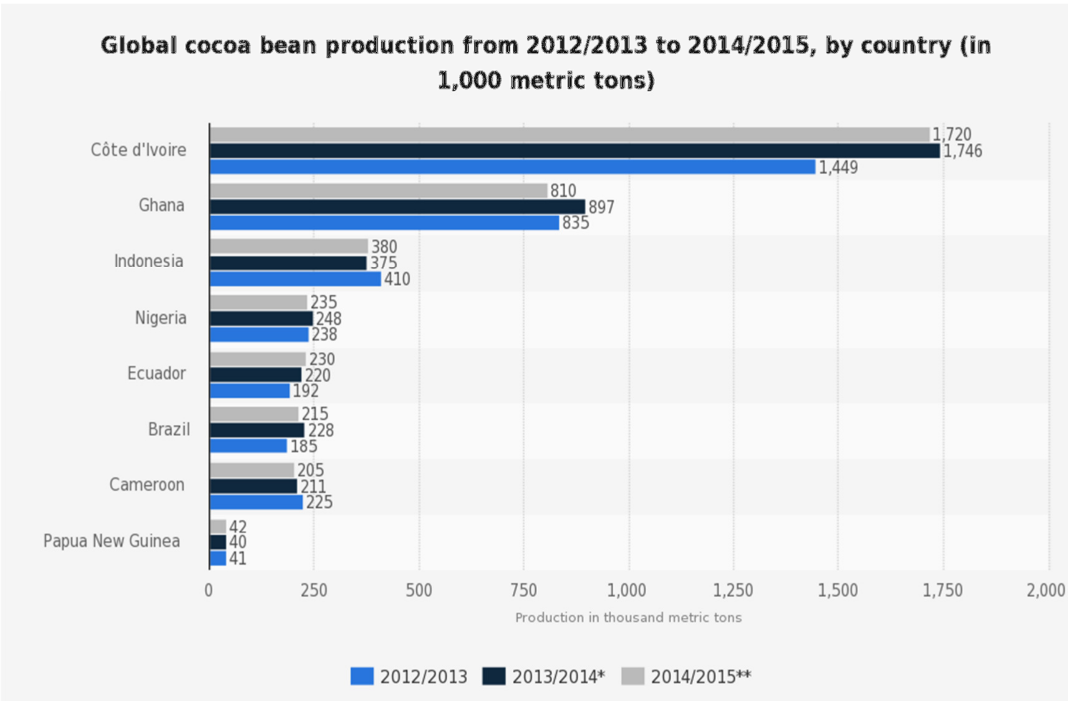
## Figures and Tables

Figure 1 – Maitê Lang and Ivan Blumenschein, Nugali's founders




Source: Statista (2015)

Figure 2a – The largest cocoa beans producers

**Production of cocoa beans**
(thousand tonnes)

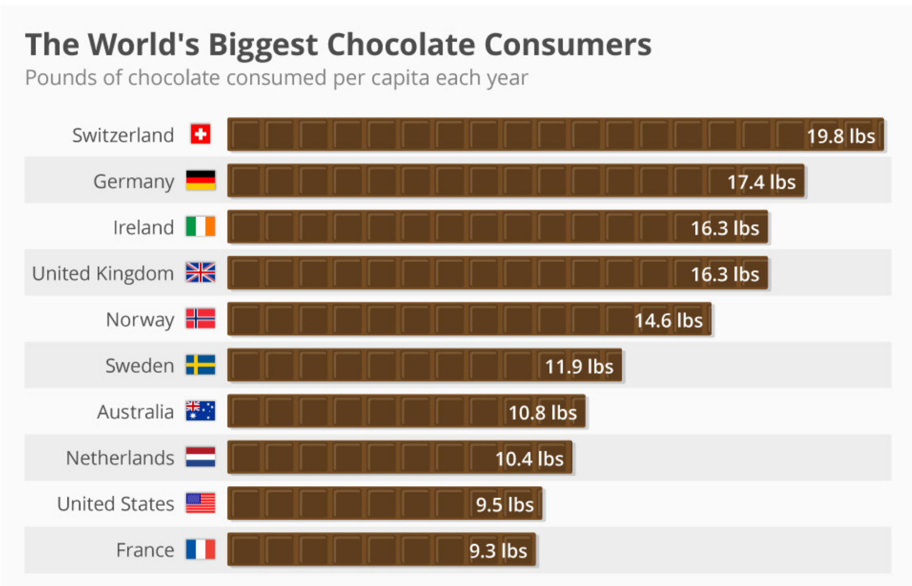
| | 2013/14 | | Estimates 2014/15 | | Forecasts 2015/16 | |
|---|---|---|---|---|---|---|
| **Africa** | **3199** | **73.2%** | **3068** | **72.5%** | **3063** | **73.7%** |
| Cameroon | 211 | | 232 | | 230 | |
| Côte d'Ivoire | 1746 | | 1796 | | 1690 | |
| Ghana | 897 | | 740 | | 840 | |
| Nigeria | 248 | | 195 | | 200 | |
| Others | 97 | | 105 | | 103 | |
| | | | | | | |
| **America** | **726** | **16.6%** | **760** | **18.0%** | **714** | **17.2%** |
| Brazil | 228 | | 230 | | 210 | |
| Ecuador | 234 | | 250 | | 230 | |
| Others | 264 | | 280 | | 274 | |
| | | | | | | |
| **Asia & Oceania** | **447** | **10.2%** | **401** | **9.5%** | **377** | **9.1%** |
| Indonesia | 375 | | 325 | | 300 | |
| Papua New Guinea | 36 | | 36 | | 36 | |
| Others | 36 | | 40 | | 41 | |
| | | | | | | |
| **World total** | **4372** | **100.0%** | **4230** | **100.0%** | **4154** | **100.0%** |

*Source: ICCO Quarterly Bulletin of Cocoa Statistics, Vol. XLII, No. 1, Cocoa year 2015/16*

*Published: 26-02-2016*

*Note: Totals may differ from sum of constituents due to rounding.*

Figure 2b - Production of cocoa beans




Source: Statista (2015)

Figure 3 – Largest Chocolate Consuming Countries.


Figure 4 – Nugali’s Factory Store

| | |
|---|---|
| Lindt MAÎTRE CHOCOLATIER SUISSE DEPUIS 1845 | Lindt & Sprüngli is recognized as a leader in the market for premium quality chocolate, offering a large selection of products in more than 120 countries around the world. During 170 years of Lindt & Sprüngli's existence, it has become known as one of the most innovative and creative companies making premium chocolate. Quality chocolate products by Lindt & Sprüngli are made at 12 own production sites in Europe and the USA. They are distributed by 24 subsidiary companies and branch offices, in more than 300 own stores, and also via a comprehensive network of more than 100 independent distributors around the globe. With over 13,000 employees, the Lindt & Sprüngli Group reported sales worth CHF 3.65 billion in 2015. |
| GODIVA Belgium 1926 | GODIVA brand is known – and loved – in over 80 countries around the world. Godiva owns and operates more than 450 boutiques and shops worldwide, where you can find a comprehensive selection of Godiva offerings. Godiva products are also available at finer department and specialty stores. Additionally, Godiva issues seasonal mail-order catalogs in North America and accepts phone and internet orders. From New York to Paris, Tokyo to Dubai, it is GODIVA that brings the best of Belgium to the world. |
| GHIRARDELLI CHOCOLATE | Ghirardelli started in San Francisco more than 160 years ago, it’s the us America’s oldest continuously operating chocolate maker. Ghirardelli is one of the few companies in America that controls the entire chocolate-making process from bean to bar; that is, from cocoa bean to finished product. |

| | |
|---|---|
| | Valrhona has been producing finest chocolate in the small village of Tain L'Hermitage, France since 1922. For almost a century, Valrhona has created a range of unique and recognizable aromatic profiles by perfecting techniques for enhancing the flavor of rare cocoa beans, grown on land masterfully selected for its terroir. In order to learn more about cocoa, oversee its quality, and guarantee its refinement, Valrhona decided to open and operate its own plantations, first in Venezuela, and more recently, in the Dominican Republic. |
| | "Cote d'Or" means the Gold Coast. Chocolate with that mark came in 1883 in Belgium when the master chocolatier Charles Neuhaus registered the trademark after a trip to Africa. The Cote d'Or chocolates have become a brand in the segment, carrying all Belgian tradition, quality and taste of the masters chocolatiers in the country. With a balanced mix of the best ingredients found in the world. The brand is always among the favorite of lovers of high-quality chocolate. Currently COTE D'OR brand, belongs to American Kraft Foods and is commercialised in almost 50 countries around the world, the main markets are Belgium, France, Italy, Holland, Germany, Canada and the United States. Every day, the plant COTE D'OR located in Halle, near Brussels, produces 1.3 million small bars of chocolates and bonbons 2 million. |
| | Pacari Chocolate is a family business founded in 2002 in order to change the history of chocolate in Ecuador. What began as a family business soon became a business that revolutionized the industry, not only in the country but throughout Latin America. Pacari works on a small scale using carefully selected ingredients to provide our products to prove an unforgettable experience. Pacari has as one of its fundamental characteristics process in origin. While much of the Ecuadorian cocoa is exported to other countries to be transformed into chocolate, Pacari preserves fine Ecuadorian cocoa flavor and takes the opportunity to create its recognized worldwide bars. The company prides itself on producing the best cacao made in Ecuador. |

Figure 5 – Main World Competitors in the Premium chocolate Industry


Figure 6 – Nugali's Chocolate Bars


Figure 7 – Nugali Packaging


Figure 8 – “Cacau em Flor” (Cocoa Blossom)

| Company | Net Sales 2015 (US$ millions) |
|---|---|
| Mars Inc (USA) | 18,400 |
| Mondelēz International (USA) | 16,691 |
| Nestlé SA (Switzerland) | 11,041 |
| Ferrero Group (Luxembourg / Italy) | 9,757 |
| Meiji Co Ltd (Japan) | 8,461* |
| Hershey Co (USA) | 7,422 |
| Chocoladenfabriken Lindt & Sprüngli AG (Switzerland) | 4,171 |
| Arcor (Argentina) | 3,000 |
| Ezaki Glico Co Ltd (Japan) | 2,611* |
| Yildiz Holding (Turkey) | 2,144 |

Source: ICCO (2016).

Table 1 – Largest Chocolate Sellers

| COUNTRY | EXPORT VALUE (US$ Billions) | EXPORT % |
|---|---|---|
| Deutsche | 4,74 | 17% |
| Belgium | 3,16 | 12% |
| Italy | 1,89 | 6.9% |
| Netherland | 1,71 | 6.3% |
| France | 1,64 | 6.0% |
| USA | 1,63 | 6.0% |
| Poland | 1,47 | 5.4% |
| Canada | 1,23 | 4.5% |
| Switzerland | 0,96 | 3.5% |
| Great Britain | 0,89 | 3.3% |
| Russia | 0,59 | 2.2% |
| Mexico | 0,55 | 2.0% |
| Austria | 0,51 | 1.9% |
| Turkey | 0,52 | 1.9% |
| Spain | 0,46 | 1.7% |
| Singapore | 0,42 | 1.6% |
| China | 0,33 | 1.2% |
| Ireland | 0,33 | 1.2% |
| Swedish | 0,31 | 1.1% |
| Ukraine | 0,28 | 1.0% |
| Brazil | 0,01 | 0.43% |

Source: OEC (2015a)

Table 2 – Chocolate Exports Worldwide

| COUNTRY | EXPORT VALUE (US$ MM) | EXPORT % |
|---|---|---|
| Argentina | 29,87 | 25% |
| Paraguay | 15,95 | 13% |
| Uruguay | 13,47 | 11% |
| Chile | 9,43 | 8.0% |
| Bolivia | 8,39 | 7.1% |
| Colombia | 5,41 | 4.6% |
| Angola | 4,55 | 3.8% |
| Ecuador | 3,16 | 2.7% |
| Peru | 3,16 | 2.7% |
| USA | 2,95 | 2.5% |
| South Korea | 2,29 | 1.9% |
| Venezuela | 1,57 | 1.3% |
| Thailand | 1,45 | 1.2% |
| Dominican Rep. | 0,99 | 0.83% |
| Japan | 0,85 | 0.72% |

Source: OEC (2015b)

Table 3 – Brazil exports of chocolates (as of 2014)