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Nestle Aims to Get Taste of the Premium Market – Company Sees Focus on Dark Chocolates as Way to Boost Sales

By Martin Gelnar, 18 April 2008, The Wall Street Journal Europe

ZURICH -- Swiss food and beverages company Nestle SA is planning to boost sales in its confectionary division by going into the premium chocolate market, but the process will need time and money, analysts say.

Citing annual growth rates of as much as 8% for high-end chocolate products -- twice the rate for the general chocolate market -- Nestle says it wants to lift the proportion of sales generated by dark and other luxury chocolate products from the current 4% of its total 108 billion Swiss francs (\$108.2 billion) in revenue.

This year, Nestle inaugurated its first luxury chocolate research center in western Switzerland and entered a pact with Belgian specialty chocolate maker Pierre Marcolini. Under the agreement, Nestle will receive creative input from Marcolini while helping the Belgian company expand.

"Dark chocolate is a still-accelerating trend. Even countries which have no dark chocolate tradition are successfully introducing such products," Nestlé's head of chocolate operations, Petraea Heynike, said in an interview. She declined to set a sales target for the company's effort, however.

Premium chocolate products are also typically more resilient in the face of a general downturn in consumer spending, analysts say.

But Nestlé's rivals, such as Switzerland's Chocoladefabriken Lindt & Sprüngli, long ago recognized this trend and already hold formidable positions in the premium chocolate market.

Nestle is No. 2 in the global 90 billion franc chocolate market with a market share of 12.5%, behind Mars Inc. with 14.8%. But it currently has very limited offerings in the premium chocolate market.

Its main chocolate product is the down-market KitKat brand, which it bought from U.K. confectionary company Rowntree 20 years ago. Its premium brands are small and localized: the company sells Cailler branded chocolate in Switzerland and Perugina branded chocolate in Italy, for example. It declined to bid when Campbell Soup Co. put its luxury chocolate brand Godiva on the block last year. The unit went to Turkey-based Yildiz Holding for \$850 million.

"Everyone wants to grow in the premium chocolate segment, and everyone probably thinks it's much easier to do than it actually is," Lindt & Sprüngli Chief Executive Ernst Tanner said last month at the company's annual media conference. He added that such a move takes more than simply repackaging a known brand.

Some analysts expect Nestle to focus on organic growth and possibly launch a global premium chocolate brand. Others say the company may be looking for a purchase deal. Nestlé's Ms. Heynike declined to elaborate on the company's possible next steps.

"So far there's no visible premium strategy," said **James Amoroso**, head of consultancy **Amoroso**. "Nestle would have to come up with a new premium concept for the mass market that is fundamentally different from Lindt, the benchmark for traditional Swiss premium chocolate, and Cadbury Schweppes PLC's Green & Blacks, which has occupied the organic chocolate segment," he said.

Smaller acquisitions are also a possibility, Zürcher Kantonalbank analyst Patrik Schwendimann said, adding that Toblerone, a Swiss chocolate brand owned by Kraft Foods Inc., could be a good fit.

However, there is no indication Nestle has made any moves toward the product so far. Officials from Kraft and Nestle declined to comment.

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