

# Mandyle

## Objective

Mandyle Chocolate is one of the most famous premium fine chocolate manufacturers and chain stores in the world. As a consultant in a leading consulting company, you need to work with your team to develop a strategic plan for how to expand in the Chinese market.

## Background

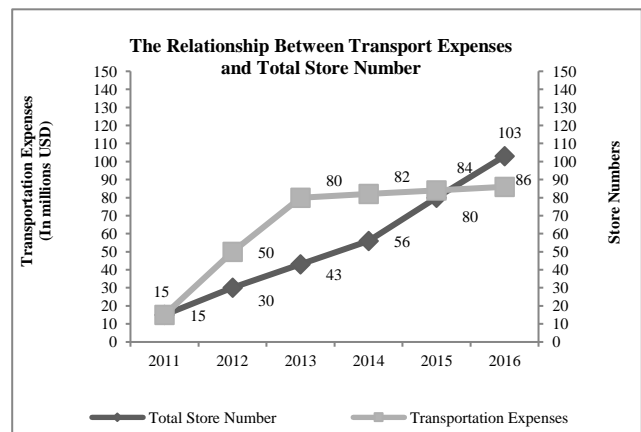
Founded in 1956, Mandyle owns 10,000 specialty retailers across the world. In addition to chocolates Mandyle also sells truffles, coffee, cocoa, biscuits, dipped fruits and sweets, chocolate liqueur, shakes, wedding and party favors and other items arranged in gift baskets. Since Mandyle entered the Chinese market in 2010, they have developed 103 stores, with an average annual increase of nearly 20 stores in China. Mandyle would like to increase its market share and profitability over the next five years. At present their total market share in the Chinese market is 12% and is much less than expected. In the first-tier cities they have a market share of 17%, which decreased sharply when a competitor came into the Chinese market. In second-tier cities, it has a market share of 5%. They were dominated by common chocolate brands. With the promotion of brand awareness in some second-tier cities, such as Ningbo and Suzhou, the average sales growth in second-tier cities surpassed the first-tier cities for the first time in March.

The following table shows the annual revenue, gross profit, total operating expenses of Mandyle China among 2011 and 2016.

(Millions of USD)	2016	2015	2014	2013	2012	2011
Revenue/收入	339.9	256	174	94.6	63	34
Cost of sales/成本	221	154	87	32	26	17
Gross Profit/毛利	118.9	102	86.6	62.6	37	17
Total Operating Expenses/总运营费用	124	107	91	66	40	18
Total Operating Profit/总运营利润	(5.1)	(5)	(4.4)	(3.4)	(3)	(1)

With the increase of new stores, operating expenses have increased and the following is the information about the Operating Expenses:

Five expenses in Operating Expense in 2016	Percentage
Transportation Expense	31%
Recruiting Expense	23%
Research & Explore new catalogue	21%
Marketing Expense	18%
Admin Expense	9%



To deliver the ultimate chocolate experience and respect heritage, Mandyle do not have a chocolate factory in China. All chocolates are shipped in refrigerated trucks from abroad. Because of strict requirements for transportation and preservation, they have to use professional shipping companies at very competitive costs. Transportation expenses tend to fluctuate very little with an increasing number of stores. For stores in the same regions, the more the new stores operate, the lower the average transportation cost. Mandyle is hiring more senior people in different functions, so the salaries of management are much higher than the industry average. The stores are located in central business districts in all selected cities and the rental cost is relatively high.

Mandyle have chosen to develop corporate-owned chains since they entered the Chinese market. This means Mandyle runs the day-to-day operations and owns the profits and losses of each store. There is another choice for expanding, which is franchising(特许经营店). Each franchised store must follow certain guidelines set up by the parent company, which include the types of products that can be sold, operating procedures and the prices they can charge. In exchange for the time-tested business plan, marketing power and brand name, the franchisor takes a cut of profits. For reference, the following are some popular modes for franchising, with conditions and profit distribution varying according to different companies.

Conditions of various Modes	Profit Distribution	Supplement
The franchisor manages the investment and all operating expenses except transportation. Unified pricing and distribution, and sale of parent company products only	Parent company takes a proportion from the sale of products	Besides the operating revenue, the parent company subsidizes the profits (补贴) according to performance of franchisor
The parent company invests and takes a stake in the business, independent pricing by stores and they take ownership of goods close to the store. They're also allowed to sell other products other than competitors' goods and they can arrange their own branding	Take a proportion of the profits of the operation	

Mandyle did not choose to expand via franchised units at the start of its entry into the Chinese market; instead, they began with company-owned units. This was because they were worried about the poor infrastructure and the inadequate legal framework for preventing the sale of fake products via unapproved outlets. In their future expansion plans, the management is open to proposed solutions for corporate or franchise options. The following are the locations which Mandyle has chosen for its expansion of chain stores in China.

Already Opened stores	NO. Of Stores	Types Of Cities
Shanghai	28	First-tier city
Hangzhou	16	Second-tier plus (二线发达城市)
Ningbo	9	Second-tier city (二线中等城市)
Wuxi	5	Second-tier
Suzhou	11	Second-tier
Nanjing	14	Second-tier city plus
Beijing	13	First-tier city
Tianjin	7	First-tier city

Nominated Cities For Opening New Stores	Types Of Cities
Nanjing	Second-tier city plus
Wuhan	Second-tier city
Changsha	Second-tier city
Zhengzhou	Second-tier city
Shenzhen	First-tier city
Qingdao	Second-tier city plus
Dalian	Second-tier city plus
Chengdu	Second-tier city

All retailers are in the process of change. There are two business strategies which are useful as reference:

**Lifestyle strategy:** An American coffee company and coffeehouse chain, Starbucks, markets its products of services in a way that embodies the interests, attitudes and opinions of a group or a culture. They sell handbags, digital news etc. Last year, Starbucks launched their "new food" program in 12 provinces and cities in China, introducing 38 new food items, with prices ranging from 15-32 Yuan for the new meals. They found that adding new categories and adjusting their business model and format plus retailing mixed lifestyle foods and beverages can improve store sales and profits, but will also increase the operating expenses.

**E-Commerce strategy:** Some retailers have closed their stores and developed an e-Commerce business. For example, a fashion retailer is exploring strategic alternatives for its besieged business and plans to close all 170 of its stores and focus solely on its e-Commerce operations going forward. Luxury brand Kenneth Cole is the most recent example of this online shift, saying in November 2016 that it would close all 63 of its stores to concentrate on its e-Commerce site and wholesale business.

### Tasks

You are to participate in an 80-minute activity. Mandyle are planning to increase its market share and profitability. You are required to work with you team to develop a strategic plan for the Chinese market. By the end of your discussion time, you need to achieve team consensus on your strategy for presentation and:

- Present your strategic play about how to expand in the Chinese market, what challenges the company will encounter in implementing your plan and how you would handle them. It is suggested that you consider the following aspects (including but not limited to) : The business mode, the expansion strategy (franchising or company-owned chain), location selected, prioritizing the choice of cities.
- Highlight how to increase market share and profitability. Be specific with you suggestions.

Timing	Activity	Output
10min	Material Reading	
40min	Group Discussion(CN)	Work as a team to develop a proposal with the corresponding actions.
20min	Presentation(EN)	Everyone should participate in presenting your proposal in English.
10min	Assessor Debriefing	
<b>80min in total</b>		