

## **Mayhem: A Hands-on Case Playing Activity for Teaching Porter's Five Forces to Undergraduate Business Students**

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To provide a theoretical foundation for beginning undergraduate entrepreneurship students, most early entrepreneurship courses include instruction on higher level strategic management concepts. Such instruction leaves some students lost at an early point in the course, due to their lack of prior courses in advanced business theory. Case studies and role playing have been used for decades in management courses to give students practice in strategic decision-making. Accreditation organizations and curriculum improvement efforts have recently added emphasis on experiential learning as a way to promote deep understanding of business principles through practice. This article provides an entertaining case playing alternative to traditional lectures and case teaching of Porter's Five Forces. In the game of Mayhem, students role play each of the players in the Five Forces framework, while the instructor interjects challenging environmental shifts.

One of the most difficult ironies to contend with in undergraduate entrepreneurship education starts with the problem that even introductory entrepreneurship courses contain sizeable amounts of business strategy theory in the curriculum. Typical undergraduate business core curricula purposefully place an integrative course in business strategy at the end of the students' experience so that students enter with knowledge of all parts of the corporate system: finance, marketing, management, law, accounting, and economics. In some schools, students are not allowed to take strategy in any semester other than their final one, just to ensure that they have the information needed to integrate during the course. However, students entering an entrepreneurship course series rarely have this full exposure to all parts of a business school's curriculum. More often than in other Business School majors, early entrepreneurship students have not had business courses at all, as just as many students interested in entrepreneurship hail from other disciplines at the university than do from business colleges (Shinnar, Pruett & Toney, 2010). Due to this lack of exposure, students are poorly prepared to comprehend strategy topics, yet most introductory entrepreneurship textbooks deliver strategic management theory within the first third of their content.

The purpose of the Mayhem role playing activity is to lessen the shock of difficult strategy theory by immersing the student in an actual small business's environment and market situation. It combines action-based learning with real-world situational information provided by case analysis, within a single class meeting and with a reasonable level of outside-of-class preparation by the student. Students who are in their first semester of business curriculum can use the tools provided by the assignment to "case-play," acting on the motivations of the industry players within the Porter's Five Forces framework, and they shortly begin to attempt strategic decisions that would be made by each player in the industry, given a set of environmental shocks. By separating the class into groups representing each of these five forces and an entrepreneurial focal firm, students can see how decisions made by one industry player could render another industry player's decision a positive one, or a detriment to the company. Most importantly, students can be engaged while learning.

This paper begins by describing the rationale behind the teaching of Porter's Five Forces in the entrepreneurship and strategic management disciplines. Background information on the effectiveness of case study and role playing methodologies in entrepreneurship pedagogy is then provided. A description of the game and the requisite instructor's preparation is then outlined, followed by a suggested structure of the game in class. Lastly, pilot outcomes of the game are enumerated and implications for future research and pedagogical design in case playing are offered.

## TEACHING THE FIVE FORCES IN ENTREPRENEURSHIP

Michael Porter originally constructed the Five Forces framework to explain why the structures of some industries lead to exceptional profitability, and others' structures do not (Kiechel III, 2010). Developed from the field of industrial organization economics (IOE), the Five Forces framework incorporated issues of number and size of firms in an industry with switching costs, exit and entry barriers, and potential substitution (Porter, Argyres, & McGahan, 2002). The concept of the framework is that choices of industry, choices of market position, and choices with respect to network relationships can vary performance. Thus, the perspective of the framework is external-environmental in nature and requires a significant understanding of a business's surrounding industry environment.

An additional benefit of the Five Forces framework, specifically for beginning business students, is that it gives students an opportunity to understand the actors' perspectives in a vertical chain of industry activity (Brandenburger, 2002). Through the framework, students can begin to see the motivations of a business to maintain competitive cost structures and high margins. They can understand the supplier as another business, aiming for profit maximization, as opposed to the contrarian player that a cursory memorization of framework "threats" implies. They can understand how a business at the center of the supplier/customer lineage can better serve customers while simultaneously increasing prices for increasingly valuable product. In this way, the framework can actually help students practice the decisions that business owners, as strategists, make every day in a low-risk setting (Brandenburger, 2002).

The Five Forces framework is introduced to students early in the entrepreneurship curriculum. In the most widely used entrepreneurship textbooks for introductory classes, the framework is presented as a part of industry analysis and opportunity recognition within in the first half of the book, which usually corresponds to the first half of the semester (Barringer & Ireland, 2012; Hisrich, Peters, & Shepherd, 2010; Scarborough, 2014). Likewise, the introductory course that uses this textbook, often entitled Entrepreneurship or Introduction to Entrepreneurship, is typically a second or third-year designated course, ensuring that most who enroll in the course have not progressed through upper-division business coursework.

The idea behind inclusion of this framework in entrepreneurship coursework at such an early stage is to help students understand how they can determine if there is viability in the selection of a particular business model within a certain industry. However, students must already have an understanding of several higher-level industrial/organizational and business policy principles (supply and demand, barriers to entry and exit, economies of scale, resource-based theory of the firm, switching costs, and supply chain management and integration, just to name a few), before truly being able to analyze and predict how the Five Forces framework will actually play out in any one industry situation. Michael Porter himself asserts that if a manager studies these forces, they have to make sense within his own industry (Porter *et al.*, 2002). First-year entrepreneurship students simply do not have these competencies. Students who have not studied specific industries in depth may not have anywhere near the conceptual sophistication to comprehend industry-related problems that is required to internalize and ever apply these forces. All that is left as an option is a rote memorization of a list of five factors, at the ready for regurgitation on a short answer question.

This problem is not at all limited to the Five Forces framework, but extends to a number of bodies of classic strategy theory. Resource-based view (RBV) concepts such as core competencies and the VRIO framework as they relate to competitive advantage are also lost on many students who have not previously been exposed to a business mindset (Schneider & Lieb, 2004).

It is easy to ring the alarm and call for the restructuring of strategy textbooks and classrooms across the board, but this is not practical nor even desirable. Opportunity identification is certainly a necessary introductory topic for discussion when teaching students how to get started on business idea generation. It is impossible to adequately teach even the most basic of opportunity recognition concepts without the use of strategy theory (Fiet, 2000b; DeTienne & Chandler, 2004). Therefore, the more appropriate question to ask is not *whether* strategy should be integrated into early entrepreneurship curriculum, but *how* this can be done more successfully.

### **EXPERIENTIAL LEARNING IN POST-SECONDARY BUSINESS EDUCATION**

AACSB International, the primary accrediting body of post-secondary programs of business, asserts in its 2013 Standard 13 that pedagogical practice is a critical addition to classroom-centered curriculum, as it promotes student engagement (AACSB International, 2013). These experiential engagements include simulations such as the role playing exercise presented in this paper. Experiential learning theory describes this educational system in part as process-based, conflict-based, and centered in the interactions between the person and the environment (Kolb and Kolb, 2005). The learner experiences, reflects, thinks, and reacts, and the multi-sensory placement of the student into a three-dimensional learning environment promotes understanding that a one-dimensional lecture cannot replicate. This immersive environment places the student in a momentary position of replication of the environment they are studying and practicing to work within.

### **CASE STUDIES IN BUSINESS SCHOOLS**

The origin of the use of case studies in business schools traces back to the 1950s and 1960s. A nationwide, multi-faceted, academic response developed when the Ford and Carnegie Foundations scathingly reviewed colleges of business as barely more than vocational schools (Schneider & Lieb, 2004). As a part of the reaction, case methodology was created to educate students on application of theory that would develop greatly in size and scope over the next 40 years. Even when Porter's Five Forces were gaining traction among practitioners and were disdained by his colleagues in the 1970s, the design of the pedagogy for teaching the framework was case analysis (Kiechel III, 2010). As could almost be predicted, the same academic response that began the race to develop theory has been criticized by some as causing an overemphasis on theory and a neglect of skill development through practice that case teaching provides (Greiner, Bhambri, & Cummings, 2003). Thus, there has been a call to return back to the case as a major pedagogical method for teaching strategic management.

In the entrepreneurship discipline, case work and experiential exercise as a part of a training program in idea generation has been shown as a powerful intervention in decision-making skills, eliciting growth in both the number of opportunities identified by entrepreneurship students and the innovativeness of the opportunities generated by the same (DeTienne & Chandler, 2004; Porter *et al.*, 2002; Solomon, Weaver, & Fernald, Jr., 1994). In this particular study, no effect was found of an interaction between levels of innovativeness before the training, and how well the training worked on an individual. All students benefitted equally from training in opportunity recognition, such as that found in experiential exercise. Experiential learning exercises have also been shown to increase conceptual understanding in the classroom, over lecture methods (Specht, 1985; Rasmussen & Sorheim, 2006).

### **ROLE PLAYING IN BUSINESS SCHOOLS**

An alternative to case study that similarly places the student in the context of the decision-maker is role playing. Role playing is any "dynamic process that involves participants assuming specific roles and acting out specific events (Solem, 1960)." As opposed to case analysis, wherein the discussion places

the student as a third-party, omniscient viewer, role playing places the student in the role of the decision-maker, and gives the student varying levels of information on which to base his or her actions. Like case playing, role playing has been studied in a variety of contexts such as training and classroom exercises. It has been shown to allow students to develop a larger number of higher quality solutions to given problems (Colgrove, 1968). Role playing has been shown to increase the empathy and affinity of the participant to the role assigned, allowing for attitude change toward the assignment (Kidron, 1977). Role playing allows for the student to escape the tedious theory lecture and create: create solutions, personalities, and imaginary entrepreneurs pursuing potential ideas (Fiet, 2000a; Carrier, 2007). The use of the creative portion of the brain is a welcome change to note-taking and listening. These are all strong benefits, but in the absence of detailed case information on a firm's situation and environment, role playing would seem to produce student decisions and output that would be more directed by their professional intuition. In the case of an undergraduate student with little work experience, such intuition would not be fully formed.

### **CASE PLAYING AS AN ALTERNATIVE**

Strategic theory pedagogy in today's courses relies heavily on a teacher-to-student flow of communication and education (Schneider & Lieb, 2004). A great deal of emphasis is placed on discourse on theory and techniques such as SWOT or the Five Forces framework, but with the exception of simulation gaming, younger students rarely go beyond these borders into the area of management decision-making practice. Games such as the case playing exercise described in this work allow for undergraduate students, with or without work or ownership experience, to finally dialogue with success among themselves about the theory being applied.

The nearest pedagogical method to case playing would be the in-basket exercise, typically a writing or communications activity wherein students would be given a series of memos or a situation and would be asked to produce a memo in response (Stearns, Ronald, Greenlee, & Crespy, 2003). Such activities would contain a case study primary activity, with a decision-making and communications process based upon the information provided in the case. Upon participating in the activity, students tend to report greater understanding of the types of information an executive would use to make a decision.

Case playing is defined here as role playing within the context and actors of a business case. Students are first given a case and are encouraged to learn all about the business from news articles, internet blogs and sources, and videos posted on the company and its competitors. This alone is a diversion from traditional case teaching, wherein the student is advised to stick only to the confines of the case and not to confuse oneself with outside information. Once students have had time to prepare, class time is invested to allow the student to take on the role of a player in the case that was studied. The instructor's job is to provide a practical framework for the discussion that has its foundation in theory. The applications of case playing could be an entrepreneur studying opportunities for startup, a business selecting suppliers and negotiating terms with them, or a manager training employees on ethics. Regardless of the theoretical application, the object is to get the student to kinesthetically engage in a decision-making activity while possessing some degree of confidence that he or she is fairly well-informed from the case reading on the real-world variables that enter into the decision under focus.

One criticism of exposing students to this type of activity is that it could oversimplify the level of sophistication required and variables inherent to real-world strategic decision making (Schneider & Lieb, 2004). It is possible that even with the outside-of-class preparation, the mindset required to make major strategic decisions for an organization is simply not developed, and requires more coursework and more theory to grow. However, in the experience of the author in a piloting of case playing, that does not occur regularly. While students are hesitant during the first few iterations of the game to make a

decision and communicate it loudly to the rest of the class, by the third iteration, even the most reluctant students seem to be absorbed into the social fray of competing with the rest of the “industry players,” and are very engaged in the learning process. The practice of decision-making while repeatedly applying theoretical principles is the point of case playing, not the correctness of the decisions made, themselves. The following example provides insight into Mayhem, a game of applying Porter’s Five Forces to decisions small businesses would need to make in the context of a specific industry.

### **PREPARATION: ASSEMBLING THE CASE FOR MAYHEM**

One of the most rewarding parts of the Mayhem game is the instructor’s preparatory work with a local small business. To begin the process of the game, the instructor should contact a local business that preferably has a tangible supply chain. Knowledge-based businesses have shown anomalies to these five forces that would challenge upper level undergraduates and graduate students, but could seriously confuse and undermine the confidence of an undergraduate (Sheehan, 2005). For the pilot exercise, the instructor contacted a local gourmet chocolate manufacturer who has grown rapidly in the five years since startup. Fortunately, the media buzz surrounding this local manufacturer also allowed for a number of professionally designed videos on the business to be posted to YouTube. Several of these videos showed the inner workings of the business, and were narrated by the owner as he told the story of the company’s inception and early growth. Similar videos could be made by one class section in preparation for the next semester’s Mayhem exercise if they did not already exist, and could be tailor-made to the class exercise.

Initial contact with the entrepreneur should lead to a request for a one-hour interview, preferably conducted at the entrepreneur’s business location. Interviewing the entrepreneur at the location allows for the instructor or case writer to understand the business’s atmosphere, employee behaviors and relationship to the owner, physical plant, and proximity to resources and network members. Once the interview has been set, data can be collected to design the Mayhem game case for the students. Appendix A shows a list of questions that would elicit a suitable amount of information for a case of this magnitude.

Once the data have been collected, the instructor should begin to assimilate the information into a detailed three to four page document that students can use to prepare for the Mayhem game the night before the class when it is played. An example case is provided in Appendix B. The idea is not to overburden the student with an enormous amount of dilemmas, but to give him or her enough information to feel comfortable with who this focal firm is. The student should be able to reasonably step into the shoes of not only the entrepreneur, but also the entrepreneur’s top two or three suppliers, their largest customers, their closest competition, other substitutes or businesses producing alternative products, and lastly other potential entrepreneurs who might decide to carve a niche of their own in this part of the industry. Information on industry history, structure, growth, profitability, rigor of competition, demand, materials and supply, pricing, channels, product lines, elasticity, and major competition should be given, as well as relevant characteristics about the focal firm itself: its history, mission, growth, venture team, employees, product lines, pricing, cost structure, suppliers, major customer segments, largest individual customers or distributors, channel structure, financing, strategy, culture, and atmosphere. Care should be taken to eliminate jargon and clutter in the design of this short situational report, to ensure that students are well-informed but not bombarded with information that exceeds their understanding. Volunteers from the group of students least well-trained in the preparation class could assist in proofreading and testing of the document.

### IMPLEMENTATION: PLAYING MAYHEM

Students are given the Mayhem case situation several days before the game is to be played, and the instructor is to request that if at all possible, students should review the case the night before the Mayhem class session so that they are sharp on the details of the case and feel comfortable in the roles of the actors. When students arrive at class, tables or desks should be shifted so that five to seven students can be placed on one of six teams. The teams are divided into each of the five forces, plus a focal firm team who will play the role of the small business floating in this industry environment. If a video has been prepared, students then watch a short 10 to 15 minute video on the company that allows them to see some of the characters they have read about in the case and then visualize the physical business. They can suddenly see the office area, the loading dock, the manufacturing equipment, the product being assembled, and the owner working and talking with the employees. This sensory experience is designed to increase their comfort in acting in the role of the players in this story. After the video there is time for a few questions and a short discussion and clarification session of student reactions.

The groups are then assigned and instructed. The first group is designated the Focal Firm Group. They play the part of the entrepreneur, trying to grow his or her firm in an established industry. The second group is called the Competitors and is seated at another group of desks or tables. This group takes on the role of the most salient competitor to the focal firm, who has been described in some detail as to its market position and strategy in the short case. The third group is called the Suppliers. The focal firm's most critical supplier, outlined in the case, interacts with the firm in both a cooperative and self-motivated way simultaneously. This supplier is also a source of competitive intelligence for the firm and its competitors. The fourth group is called the Customers. This group will vary from distribution to retail outlets to end consumers depending on the focal firm chosen, but will be described in the short case as a single entity: a single, existing distributor, retailer, or target market. This description will allow the student group portraying the customer to have some level of comfort in predicting the customer's likely decisions, given a situation. The fifth group, the Substitutes, operate as a business in an adjacent industry. For example, as our focal firm was a chocolate manufacturer, our substitute company was a company that produced mainly mass-marketed corn syrup and cane-sugar based candies containing little or no chocolate. The sixth group, the Wannabes, are the new potential entrants. These students are the only ones not given an existing company to portray; rather, they are a group of partners considering startup in this industry. They keep a watchful eye on demand, supply, and the industry to determine whether opportunity might exist with each proposed Mayhem change.

At this point, the stage is set, and Mayhem calls the game to order. "Mayhem" is the name given to the instructor who plays a master of ceremonies character similar to the recent series of Allstate Insurance Company advertisements. In these promotions, which every student has likely seen, Mayhem is a fellow who breaks car windows, smashes through sides of homes, bursts water heaters, and allows nature's creatures into the house. The character takes everything one hopes will not happen and facilitates it. The role of Mayhem in this case play game is to take some of the toughest environmental shifts a fledgling company could experience and present them to the groups, simultaneously, for them to develop a response. Each group must develop a response to the environmental shift at the same time as the others, then all groups are called together after five minutes or after conversation dwindles and answers are ready. "Wait and see" can be considered a valid response, but cannot be repeated by the same group more than once.

Some of the examples of environmental shifts given during the pilot exercise were a crop blight on the world cocoa market, causing supply to dip 40%, a World Trade Organization, multinational arrest of cocoa cartel operatives that frees up supply, the bankruptcy and folding of the U.S.'s largest chocolate

confectionary, and the publication of a study showing that chocolate is causing autism in children who also take allergy medicine. Many of these shifts are nonsensical, but allow each group to first, consider the implications of the specific shift on the entire industry. Next, the group tries to predict the strategic responses of the other groups. Finally, it decides upon what its best course of action would be.

The last step in an iteration of the game would be the reveal of decisions. One-by-one, each group reveals what they decided to do, given the shift, and the instructor moderates by having the class keep score, as to whether the response makes sense and would be a good response in light of all of the others in the industry as you go around the class. After three to five iterations and environmental shifts, depending on the length of the class period, students should be debriefed on what entrepreneurial strategy theories you heard them apply to their decisions. Students should go around the room one last time to repeat the primary motivations of their team, and offer one revelation that surprised them during the activity. At this time, the game is over.

### **PRACTICAL IMPLICATIONS**

The implications of using this game are numerous. The primary implication is that students will understand how to apply Porter's Five Forces much more thoroughly after playing the game than before. Knowing the motivations of each of the forces can help students work through new industry applications of the framework, to determine the effect on profitability of the forces at play. Another benefit of using this game is that RBV is not lost in the midst of so much IOE. By pausing to allow the focal business group to speak about their decisions as small business owners, and conducting the activity as revolving around this business's perspective, careful attention may be paid to resources the firm has as a critical component of the strategic decisions and competitive moves the firm makes. Such interpretation requires the student to perform within the focal firm's means, and allows students to consider what resources outside their means they might pursue as entrepreneurs

The secondary implication is that students will understand a complex concept – that of the supply chain – after playing this game. If students have not been in the workforce long, or have not had exposure to the purchasing function or to distribution, the concept of marketing channels may be unclear for them. This game allows them to learn by doing, in a classroom reenactment of the relationships between buyers and suppliers.

The third and most important implication of the game is that students will be engaged while learning about theory through experiential learning. As accrediting bodies are beginning to emphasize, one of the best ways to promote student learning is through immersion into an environment of decision-making based on the theories in the class. Addition of innovative class activities helps to support institutional compliance, specifically with AACSB Standard 13, and allows the student to engage in ways lecture cannot replicate (Kolb & Kolb, 2005). Rather than sitting at their desks taking notes, every single student in the classroom during the pilot run of this game was excited and engaged. As no grade was taken on the output, students felt free to generate interesting alternatives. Even the least confident students, simply with the physical presence of the instructor in their corner during the first couple of decision reveals, gain enough confidence to start operating independent of the professor. Through its achievement of class objectives in an entertaining medium, the Mayhem game creates a win-win-win situation for students, instructors, and future employers and community alike.

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### Appendix A. Sample Informational Interview Questions

<u>Industry Environment Force</u>	<u>Questions to Ask Entrepreneur</u>
Bargaining Power of Buyers	Who are your customers? Do you use distributors? Who? Do you have individual consumers? Who are your largest or most loyal customers? What percent of your business would you say relies on their purchasing? How many customers would you say you work with? How would you describe your relationship with your customers? How demanding are these buyers? How sensitive to quality are they? Could you give an example of a recent customer situation that you feel captures your relationship with your customers? What feedback has the company received about pricing? What kind of markup is the company able to achieve? What is the likelihood that any of these customers would start to produce your product and compete? How commoditized is this market in the eyes of the buyer?
Bargaining Power of Suppliers	Who are your major suppliers of inputs to your process? What challenges do you have in finding adequate quality at a price you can afford? What trends are you seeing with your suppliers? How many other suppliers could you choose from to obtain your product? Why do you use this one/these suppliers? How hard is it to switch from using one supplier to using another? Are there any substitutes for what your suppliers offer that you could reasonably use? Is there any hint that your current suppliers would ever try to start producing what you produce? How dependent do you feel on your suppliers? Does your supplier provide you with industry information? Do you trust your supplier(s)?

### Threat of New Entrants

What is a good estimate of how much it would take to start up a business of your size in your industry?  
Do you feel any disadvantage due to larger competitors' economies of scale/lower costs?  
Are there some companies in your market who intimidate new startups due to their loyal customer base or age?  
How tough is it to get distributors to carry your product?  
How hard is it to get shelf space with retailers in your industry?  
Are there any technologies that your industry uses that are especially hard for entrepreneurs to get their hands on?

### Threat of Substitutes

Are there any products outside of your industry that customers might buy instead of yours, to get the same benefit?  
How closely does that product meet the same needs that yours meets?  
Do you have a strategy for addressing that substitute?  
Have you changed the way you do business to avoid a situation where customers choose an alternative product?

### Rivalry of Existing Firms

Who would you consider to be your top two or three largest competitors?  
What are a few major strengths and weaknesses of both of those players?  
Does competition force pricing down in your industry? How badly?  
Do competitors cooperate on building your industry, or is the relationship sour between competitors?  
Are there many competitors in your industry, or just a few?  
Is there an established market leader that others benchmark?  
How much does your industry grow each year in sales?  
Are more businesses opening or closing in your industry?  
What is your level of fixed cost to variable cost in your cost structure? How does this affect your pricing?  
How do you see yourself positioned among your competition?

### General Information

How did this business start?  
How has the business grown since startup?  
Were there difficult times in your growth?  
What made you want to start this business?  
How is product made in your business?  
How do you decide how to price your product?  
What media and strategies do you use for promotion?  
What do your employees think about working here?  
What is the environment like?  
What are your plans for the business for the next few years?

## Appendix B. Sample Case



### Olive and Sinclair Chocolate Company Nashville, TN

The niche of gourmet chocolate may be hundreds of years old, but lately, new entrants to this market space have found the ability to breathe new life into a long-loved treat. One of the newest, most interesting companies to enter the market space is Nashville's own Olive and Sinclair. The dream of entrepreneur and master chef Scott Witherow, Olive and Sinclair launched product to the public in 2009 at the East Nashville Tomato Art Fest. The company currently produces more than 60,000 pounds of chocolate per year and is embarking on international expansion.

Witherow was one part wanderer and several parts genius as he grew out of his small town, Columbia, TN upbringing, received his Bachelor's degree from Middle Tennessee State University, and moved to London, U.K. There he studied at the prestigious Cordon Bleu culinary college, worked at the inventive St. John restaurant, and performed an internship at The Fat Duck, the most globally acclaimed restaurant in London. It was not until he spent time in Canada with a chocolatier that he found his calling. For the next couple of years, he experimented with several types of recipes until he found the putting brown cane sugar into the chocolate would make a unique, rich tasting result. Today, his company boasts many flavors of its artisan gourmet chocolate bars, including Buttermilk White Chocolate, Bourbon Nib Brittle, Salt and Pepper Chocolate, Mexican Style Cinnamon Chili Chocolate, and its newest Duck Fat Caramels. Each 2.75-ounce bar retails for a whopping \$6.99 MSRP.

Olive and Sinclair built its brand slowly around its old-fashioned, Southern approach to chocolate making. Witherow received financial and operational help from his father and a line of credit from a local bank to start the business. The label for the bars was created by Bryce McCloud, a Nashville printer, to exude the company's dedication to the handmade manufacturing quality of yesteryear.

The company decided to purposefully use some of the oldest equipment it could find to produce (including stone mills to grind the cocoa nibs), and maintained high control over its value chain, lovingly roasting cocoa beans in-house and producing the chocolate bars by hand. Witherow even chose an old Nashville factory location for a recent expansion and gutted it to perfect the historic, bare bones atmosphere. The company keeps its partnerships local, and has reached out to form interesting alliances with Terrapin Beer Company, Allan Benton's Country Hams, and Pritchard's Distillery. The partners create cocoa-infused products, roast beans for O&S, and help to create the Bourbon Nib Brittle so many enjoy.

Competing in the artisanal chocolate space requires effort. Competitors often travel personally to the homelands where their supplies are grown to hunt down the best cocoa beans in the world. Artisanal chocolatiers believe that working directly with farmers or farmers' cooperatives, they can increase their level of control over the end quality of the product. Mass-market chocolatiers typically purchase their

cocoa from cartels that source from poverty-stricken West Africa, where two-thirds of the world's cocoa is produced. In these areas, child labor is used widely to harvest product. New regulations fighting child labor, droughts, and rising world demand are predicted to result in future shortages. On the contrary, Olive and Sinclair and other artisanal producers participate in the fair trade movement by using cooperatives such as Conacado (the National Confederation of Dominican Cocoa Producers) from the Dominican Republic and from Ghana as suppliers to source their cocoa beans. Conacado is a confederation of over 9000 farmers that provides technical assistance, training, and interest-free loans to small farmers, who are subsequently able to cut out the cartel middlemen of the global cocoa market to trade directly with companies like Olive and Sinclair.

The entire U.S. chocolate industry, mass-produced and artisanal, is around \$21 billion in size. There are over 60 artisanal chocolatiers in the United States, and this niche of the industry, at least in the U.S., has only developed in the last decade. Even though gourmet chocolate has been produced in Europe for centuries, the recent artisanal movement there is even smaller and younger than in the U.S. The small scale with which these competitors operate is actually a backward movement from mass production. This small-scale operation, however, earns high return, as high-end customers are happy to participate in the rebellion against mass food production. Assuming a bar of chocolate costs about \$0.25 in materials, that same bar can be sold for \$7. Profit margins are high, which allows for a large amount of materials price fluctuation. Consumers are also willing to pay the high price because they view artisanal chocolate much like fine wine – something that is single-sourced and distinguished with a trained palate.

The current artisanal chocolate market is fragmented, with many competitors of small size, just like Olive and Sinclair. Plenty of industry space exists for new entrants to start up in this market. One of the early pioneers of the market, Scharffen Berger, was bought quickly by Hershey brands in 2005. This company is known as one of the best chocolatiers in the world, and is located in San Francisco. Their point of differentiation is their carefully sourced cocoa beans, which produce an impeccable quality of cacao when ground. Their add-in flavors include raspberries, coconut, and pistachios. Three-ounce bars from Scharffen Berger sell for \$3.75.

Another competitor in the artisanal space is Chuao Chocolatier. This San Diego-based company goes wild with add-in flavors, including strawberry waffle, cinnamon toast cereal, bacon, and popcorn chocolate bars. Their 2.8-ounce bars sell for \$6 and reflect their Venezuelan-born founders' desire to arouse consumers' senses with wild flavors of chocolate treats.

Olive and Sinclair is one of many small chocolatiers in a young and growing industry niche. Their organic growth strategies have included several new product line introductions, as well as international expansion. The brand that started out at the Tennessee tomato festival is now available nationwide through Whole Foods and select retailers and coffee houses; in London, U.K., through Selfridges, a high end department store; in Singapore, and in Japan at FRESCA, an online marketplace for fine foods. Time will tell who moves to dominate this fledgling market space, but this local favorite has a great advantage with its Southern flair.

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