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TOPLINE

Delfi adapts its chocolates to modern tastes

The confectionery manufacturer's focus is in South-east Asia, with Singapore, Malaysia and Thailand as secondary markets. BY LEILA LAI

Singapore

PICKING up some sweets on impulse while grocery shopping was probably a common practice for many people before the pandemic.

But the shift to online grocery shopping has reduced the number of opportunities for confectionery companies to tempt shoppers with strategically placed, attractive store displays.

Such changes in consumer behaviour, especially due to technology and better access to information, have been happening more quickly in recent years, said John Chuang, the group chief executive of chocolate confectionery manufacturer and distributor Delfi.

"Everybody has a cellphone and can Google what is good chocolate and where it comes from. So the young consumers today are much more curious. They want to look at the label, where it's made, what are the ingredients," Mr Chuang said.

"What this means is that people today and in the future can cross-check everything we say. The challenge is how do we make our products and brands relevant to today's consumers, what they are particular about, what they are concerned with, what they are interested in? And for consumers in the future, even more so."

Mr Chuang says healthier chocolates, novelty products and more sustainable business practices are just a few of the areas Delfi is working on to cater to the modern consumer. BT PHOTO: NG SOR LUAN

Healthier chocolates, novelty products and more sustainable business practices are just a few of the areas Delfi is working on to cater to the modern consumer, Mr Chuang told *The Business Times* in an interview.

Making chocolate healthier is not as simple as formulating healthier versions of existing products, he explains, because consumers will notice even subtle taste differences. It is particularly challenging to reduce sugar content without compromising on taste.

In addition, the products and existing brand perceptions could be conflicting since chocolate has been regarded as an unhealthy indulgence for so long.

This is where Delfi will use its rights to the Van Houten brand – acquired in 2018 – in certain markets in Asia and Oceania. Mr Chuang said Delfi will leverage the brand's strong reputation while revamping it to market new, healthier products.

"It's a long-established, credible brand globally. In Singapore, it used to be famous, but not so much now. That's a good thing for us, because the young generations do not know much about Van Houten," he said. "In other words, we can tell a new story."

Novelty products, such as chocolates coupled with collectible items, toys and access to online experiences and games, are another growing segment that Delfi has been eyeing for the last 15 to 20 years, but only started pursuing in earnest recently.

Delfi has beefed up its product line with new products and brand collaborations to include Disney character designs on the toys.

Mr Chuang is excited about incorporating games, the Internet and educational tools into aspects of these products too.

"This is a new frontier, and I think as people have fewer children, the parents will want to buy the best for their kids. Anything to do with stimulating the mind, that is great."

Going green

Along with these new projects, Delfi has been working on going green. It is exploring ways to reduce the amount of plastic packaging used for its products, and has managed to reduce its palm oil use by replacing it with other fats like soya oil.

Rising income levels have also resulted in greater demand for real chocolates, as opposed to the cheaper compound chocolate products that use vegetable oil substitutes for cocoa butter.

Mr Chuang noted that many oil palm plantation owners are aware of the need to farm responsibly, and Delfi's sourcing team ensures that it buys only from suppliers that conform to recycling waste and planting more trees, and do not use child labour.

Delfi's share price has risen 36.4 per cent since the beginning of this year to S$0.955 as at last Friday, near a 52-week high of S$0.97 achieved on June 15.

Although its 2020 net profit fell 38.1 per cent to US$17.5 million from US$28.2 million the previous year, the net impact of the pandemic was "not as bad as what I would expect", Mr Chuang said.

Delfi had formulated an emergency plan for pandemics, based on its experience with the Sars outbreak, and implemented it quickly.

It also invested nearly US$2 million in infrastructure to segregate zones in its manufacturing plants and improve air filtration and air flow, and continues to hold weekly meetings to review the situation.

The overall impact to operations has been "very minimal", Mr Chuang said.

Retail sales at shops located in shopping malls suffered during the worst of the pandemic, but minimart sales went up as customers shopped closer to home. The lockdown baking frenzies also boosted sales of chocolate products used in baked goods.

The company saw chocolate sales recover in the second half of 2020, when people started going back out to shop more frequently.

Said Mr Chuang: "This year, we figure it should be better than last year. The indications are there for a slow recovery to pre-Covid levels. I'm confident that in the future, chocolate will be there, and people will still eat chocolates."

The recent rise in commodity prices does not faze him, as he recalls facing much greater challenges in Delfi's early days in Indonesia, when it was still called Petra Foods.

Hedging

"The market was totally closed, with no imports, and no exchange of currencies," he said. "You needed to buy 'creatively' to get milk. And inflation was running at over 1,000 per cent a year. How can it be more challenging than that?"

He shared that Delfi hedges for longer coverage when prices are good, and uses the extra time to make adjustments to formulas, product sizes and prices to keep sales and gross profits healthy.

"Consumers hate price increases, but sometimes it's needed, there is no other way for us. We have to deliver it with niceness, and find ways to compensate for it. . . It's not (that you) just say, whack the price and don't care about volume."

Delfi's focus continues to be on South-east Asia, specifically Indonesia and the Philippines, with Singapore, Malaysia and Thailand as its secondary markets.

The two primary markets have relatively low levels of chocolate consumption per capita compared to other countries, but also have significant potential for growth on the back of rising population and income levels.

Delfi helped to cultivate the local taste for chocolate in Indonesia, where Mr Chuang's father founded Delfi's original chocolate manufacturing business in the 1950s.

It is now one of the market leaders in the country, which has a chocolate consumption per capita of around 300g according to Euromonitor, compared to 2kg per capita in Singapore.

The Philippines' chocolate consumption is around levels similar to Indonesia. "They still have a huge way to go. Just to get to Singapore's level would be good enough," Mr Chuang said, referring to the room for growth in consumption per capita.

"This is the reason why all the big companies are interested in the market in Indonesia and the Philippines. This is our main market."

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"You can't just come up with any chocolate that you want and send it there as an export, because everybody else is doing this, not just us," Mr Chuang said.

"Uniqueness is important. This is where we need to package it so that we can enter the market relatively successfully without taking too much risk."

The group's cash and cash equivalents totalled US$65.5 million at the end of 2020, versus US$48.7 million in borrowings. It improved this to US$72.1 million in cash and US$18.3 million in borrowings in Q1 2021.

Looking out for acquisitions

Mr Chuang said the group is always on the lookout for brands to acquire, especially if the investment can be recouped within three to five years. However, it also conserves cash for capacity increases, which can be sizeable.

For example, a building built about five years ago cost Delfi US$50 million, which was accumulated over a few years. The group was also planning to spend US$20 million on machines this year, but postponed it because of the pandemic.

"It's prudent to see first if the horizon is clear or whether there are dark clouds coming. But once we are clear that the situation is okay, we will be spending that," Mr Chuang said. "Right now, we have just enough to spend on the capacity investment level. But longer term, we will need to spend more money."

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