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Chobani: The Falling First Mover

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ABSTRACT
As the American Greek yogurt producer Chobani is about to go public and investors are interested in the performance of the company, this paper is going to analyze the company's marketing plan and financial statements to evaluate its operating performance as well as financial position. The financial statement analysis will be based on the company's IPO file submitted to SEC. The key findings are that the company is facing significant profitability issues and potentially tremendous challenges in its future development. The reasons behind this entail the company's core philosophy, pricing strategy, and cost control issues. Therefore, the conclusion is that investing in the company can be highly risky considering its ability to profit. Investors need to be aware of these potential risks when considering investing in Chobani.

***Keywords**: Chobani, Marketing Plan Analysis, Financial Statement Analysis*

1. INTRODUCTION

Chobani is a US-based Greek yogurt producer that was founded by Turkish entrepreneur Hamdi Ulukaya in 2005. The company successfully introduced Greek yogurt to the US market and has been the market leader since then. As the company filed its IPO with the SEC in November, investors are interested in the operating performance and future profitability of the company. Therefore, this paper is going to analyze Chobani's status quo, its marketing plan, and the financial statements for further insight into the company's operations. The primary questions to answer are 1) What are the internal and external environments Chobani is facing? 2) What marketing plan does the company adopt and what are the potential options for it? 3) How is the financial position of the company and how will the company perform in the foreseeable future. The analysis will be divided into three parts: situation analysis that introduces the background of the company and the environments it is in, marketing plan analysis that evaluates the company's marketing mix, and financial ratio analysis that reveals the company's financial position.

2. SITUATION ANALYSIS

Before analyzing Chobani's marketing plan, it is important to look at the environment in which the company is rooted. To this end, this section will cover the internal environment, external environment, consumer environment, and competitor environment.

The key to Chobani's initial success is its reintroduction of Greek yogurt in the US market. When Chobani was founded in 2005, Greek yogurt accounted for only 1 percent of the total US yogurt market [1], let alone the fact that average consumption of yogurt in the US was significantly lower than those of other regions [1]. What Chobani did was expanding the usage of Greek yogurt to be more than a diet-based product category: as meals, snacks, and even cooking ingredients. This is consistent with people's increasingly fluid and healthy lifestyles and the trend of blurring boundaries between food and snack. In the following years, the US Greek yogurt market exploded [2], and Chobani became the market leader in 2010 [1], reaching its peak of nearly 60% in 2012 [3]. While the rise of Greek yogurt was the reason why Chobani was once so successful, it also brings free-rider problems. Major non-Greek yogurt manufacturers like Danone also launched Greek yogurt product lines and took advantage of Chobani's successful promotion of Greek yogurt in the US market. These traditional yogurt producers have larger distribution networks and higher sales that benefit them through economies of scale. As a result, Chobani's market share of Greek yogurt started to decline in 2013 [3]. However, despite the shrinking yogurt market as a whole, the company started to regain its market share over the past three years [4] and also entered the oat milk market that more than doubled in two years [4]. Therefore, even though the company is not as dominant as it used to be, there are still potential opportunities not only in the yogurt market but also, more importantly, in other package food markets.

The internal environment of the company is also unique. Chobani not only pays its employees more than twice the minimum wage in its New York factory but also features an equity program in which employees hold an aggregate 10% share of the company [5]. While this indeed improves the company's corporate coherence and social image, it could also put pressure on the company's financial position. When it comes to capital structure, Chobani has remained private for a long time. The company originally cooperated with a private equity firm called TPG Capital, and the latter named a new global operation and interim president for Chobani that helped the company increase its production efficiency. Although interested in equity financing, Chobani turned down PepsiCo's offer in 2015 since the latter requested a majority stake in the company [1]. Recently, however, Chobani decided to go public and filed its IPO. While an IPO makes the company financially more capable, the executive team could also face more pressure from the shareholders regarding its profitability. It is likely that the current executive team would be reluctant to compromise the company's core philosophy in exchange for higher profits in the future and there could be a conflict of interests between the company's founder Hamdi Ulukaya, who has predominant voting power, and other shareholders.

As discussed in this section, Chobani went through a decline in its market share after becoming dominant in the Greek yogurt market, while in recent years the company is actively regaining its market share and looking for new opportunities in other packaged food markets. Chobani's unique internal environment in terms of employee welfare and capital structure stimulated the company's initial success, but it could also become the Trojan horse in the future.

3. MARKETING PLAN ANALYSIS

The second section of the analysis is marketing plan analysis that is going to focus on Chobani's value proposition marketing mix, including positioning, product, placing, pricing, and promotion strategies. This section is critical to the study because it reveals the business model and operation details of Chobani, which helps explain how the company is making profits and what its comparative strengths are.

3.1. Positioning

As demonstrated by Chobani's mission statement [6], the core value propositions of the company are delicacy and health benefits. Given that Chobani is facing tremendous competition with other yogurt producers, the company needs to be clear about its target consumers and segmentations. The target market segments of Chobani are young consumers, potentially athletes, who pursue healthy and fluid lifestyles. These people are usually from the middle and upper-middle classes and consume yogurt on a regular basis. They are also constantly seeking new flavors and food substitutes. Therefore, Chobani focuses specifically on higher-end market and constantly innovates its product lines, which sets up the basis for its product strategy.

3.2. Product

Given the value propositions and target market of Chobani, the products of the company need to be high-quality and made of natural ingredients. Over the past few years, there are two major trends of Chobani's product strategy. The first one is innovating Greek yogurt by changing its forms and flavors. Chobani has been launching new Greek yogurt products that are mixed with fruits and nuts or have different flavors. However, it should be noted that as the Greek yogurt market becomes more saturated and matured, the space for further innovation is limited. The second product strategy is diversification. In the past few years, Chobani entered product categories like oat milk, coffee, and tea. On one hand, this could bring new growth opportunities as the Greek yogurt market becomes saturated. On the other hand, entering new markets can be risky and potentially dilutes Chobani's brand image as an authentic Greek yogurt producer. The future of Chobani's future product strategy is largely determined by its value proposition and how the company positions itself: Is Chobani a Greek yogurt producer or a packaged food producer? The company's mission statement defines itself as "a food maker" [6] and does not mention anything about Greek yogurt, which mirrors Chobani's ambition to become more than simply a Greek yogurt producer. Therefore, it can be speculated that the company will focus more on emerging markets like oat milk and launch more product lines. However, Chobani is facing challenge in terms of its "inability to innovate successfully and introduce new products in new, growing and profitable categories on a cost-effective basis" [4], which suggests that entering new market can bring potential losses, but the long-term return of such a move remains unclear.

3.3. Place

Chobani has four major channels of distribution. The first one is retail, which is divided into traditional retailers and alternative retailers. Traditional retailers are supermarkets like Target and Walmart, which is the predominant distribution channel of yogurt. The problem with this channel is that it is highly saturated, and retailers often demand slotting fees that significantly increase sales expenses. Alternative retailers include convenience stores, college, and drug stores. Chobani claims that it is trying to shift away from traditional retail to alternative retail and this trend will continue in the future [4]. They recently cut a deal with PepsiCo to expand their presence in this channel [7]. The second channel is e-commerce, including traditional e-commerce platforms like Amazon

Fresh and delivery services like Uber Eats. While Chobani admits that it is more challenging to pursue traditional e-commerce platforms [4], delivery services can be in fact suitable for perishable goods like yogurt. The third channel is food service which is provided to-businesses like café, airlines, and hotels. Although food service currently represents only 10% of Chobani's total sales [4] and it is significantly impacted by the pandemic, continued growth is anticipated in the future [4]. The advantage of food service as a to business market is that it has lower marketing and sales costs, which leads to higher margins. Finally, Chobani also offers an in-store experience at their Chobani Café located in New York City [8]. Chobani's café allows the company to use fresher and higher-quality ingredients and to offer product customization. The in-store experience can also be a brand-building strategy and allows the company to get more instant feedback from its customers.

3.4. Price

As mentioned earlier, Chobani primarily focuses on higher-end Greek yogurt market. Therefore, the prices of its products are generally higher than its competitors, which is clearly shown by the table below that shows the price comparison of Greek yogurt products. It should also be noted that Chobani increased its product prices in the past few years from the original price of one dollar per 5.3oz [1]. While further increasing prices of its products could bring higher margins, Chobani may also suffer losses in terms of market share. The reality is that Chobani fails to continue to increase its price "to offset cost increases and inflation or result in sales volume declines associated with pricing elasticity" [4]. Therefore, it can be inferred that Chobani will not drastically increase the prices of its products in the foreseeable future.

Table 1. Price Comparison of Greek Yogurt Products [9]

Brand	Price (in dollars)	Size (in ounces)	Unit Price (dollars per ounce)
Chobani	5.49	32	0.172
Oikos (Danone)	5.29	32	0.165
Good & Gather	3.69	32	0.115
FAGE	5.59	32	0.175

3.5. Promotion

Chobani has long been the paragon of promotion, which can be reflected by its successful introduction of Greek yogurt in the US market. The company pursues evangelism marketing, letting customers actively advocate Chobani's products on social media. Chobani is present on major online platforms, such as YouTube, Spotify, Instagram, and Facebook, via user-generated content. By creating a loyal and vivid fan community, Chobani remains close to its target market and increases its exposure in the digital world.

In short, Chobani targets young consumers pursuing healthy lifestyles and focuses on the high-end market, offering high-quality products with higher prices. The company is successful in creating a vivid fan community and marketing through word of mouth. After an overall analysis, it is concluded that Chobani will further pursue product diversification and invest in packaged food product lines other than Greek yogurt.

4. FINANCIAL STATEMENT ANALYSIS

Since Chobani is not yet publicly listed, this section will be based on the financial statements in Chobani's S-1 Form submitted to the US Securities and Exchange Commission (SEC). Therefore, the financial statements analyzed in this section are all unaudited, so the credibility of these figures remains unclear. According to the form, Chobani Inc. no longer has business operations as it is about to go public and its previous business is handled by Chobani Global Holdings [4], hence this section will focus on the financial statements of Chobani Global Holdings. To present a broader picture of Chobani's financial position, the financial statements of Chobani's two major competitors, Danone and Fage, will also be analyzed.

4.1.Operational Analysis

Despite being regarded as a successful company, Chobani has been de facto suffering losses in the past three years (from 2018 to 2020) and the number of losses more than doubled from $26.4 million in 2018 to $58.7 million in 2020 [4]. Meanwhile, the company's net sales increased from $1.29 billion to $1.4 billion [4], an 8.53% increase over the two-year period. While it is believed that the increase in losses is the result of Chobani's investment in new product offerings [12], evidence could be found in Chobani's declining gross profit. In spite of the rising revenue, the company's gross profit dropped from $333.4 million to $310.2 million [4], a drop of $23 million in gross profit compared to an increase of $32 million in total losses, which suggest a decrease of gross margin from 28.85% to 22.14%. It is clear that the low and declining gross margin is the dominant factor that leads to Chobani's losses. The reason behind this can be complicated. On one hand, as mentioned earlier, Chobani is pushing new product lines to the market, which entails trade allowance and discounts that lower the revenue. On the other hand, Chobani's adherence to high-quality products and natural ingredients could lead to higher manufacturing costs, given that the company only has three manufacturing sites [6]. Therefore, to improve its gross margin, Chobani needs to increase its revenue and lower its cost of sales.

4.2.Balance Sheet Analysis

It can be seen in the balance sheet that Chobani also has solvency issues. By the end of 2020, the company had a negative shareholders' equity of $644.7 million [4], with a debt-to-asset ratio of 1.64. The negative shareholders' equity in the past two fiscal years shows that the company has more liabilities than assets and could be a result of the past losses. When it comes to liquidity ratios, the company has an acid-test ratio of 61% in 2019, which increased to 68.35% in 2020. The additional cash and cash equivalents that lead to this increase are raised by issuing additional Class A Common Stock, which is indicated by an increase of Redeemable Class A Common Units from $2.06 billion in 2019 to $2.21 billion in 2020 [4]. Therefore, even though Chobani's liquidity ratio is improving, this trend is not sustainable unless the company starts to profit, so the giant gap between the company's assets and liabilities should indeed raise concerns about its future liquidity risk.

4.3.Competitor Analysis

Table 2. Comparison of Financial Ratios of Yogurt Producers in 2020 [4][10][11]

Company	Acid-test Ratio	Gross Margin	Debt to Asset Ratio
Chobani	61%	22.14%	1.64
Danone	85.1%	48.07%	0.619
Fage	481.5%	40.75%	0.6294

As shown in the table above, Chobani has a much lower acid-test ratio and gross margin than its major competitors, which indicates the company's serious liquidity and profitability issues. Given that the products of these two competitors are priced lower than but relatively close to Chobani's products, as been shown in Table I, it is reasonable to infer that they are much more capable of cost control. Chobani's significantly higher debt to asset ratio shows the severe solvency issues it is facing, which can translate into a liquidity crisis in the future. The good news is that as the company goes public later, its liquidity and solvency ratios will be improved. However, if the company wants to be in a good financial position in the long run, the first challenge is to increase its profitability using the capital raised in its IPO.

5. CONCLUSION

Based on the previous analysis of Chobani's operating performance and financial position, this paper reaches several conclusions. 1) Even though Chobani's products are more expensive than those of its competitors, their margins are significantly lower, which causes the company to suffer losses in the past few years. The reasons behind this are Chobani's higher production costs and its aggressive expansion in other product categories. 2) As the Greek yogurt market becomes saturated, Chobani will focus more on product diversification in its product strategy, which could potentially be a reason behind the company's low gross margin. 3) Chobani is facing tremendous pressure in terms of liquidity and solvency, which is probably the reason why it considered going public. While these problems could be solved by an IPO in the short run, the company needs to be profitable to maintain its long-term position. Since the Greek yogurt market is highly saturated and no longer enjoys a high speed of growth, it is obvious that Chobani's core Greek yogurt business is unlikely to grow significantly in the future. On the other hand, aggressive expansion in new product categories can indeed bring further losses to the company due to its problematic cost-effectiveness. Therefore, the priority of Chobani's executive team should be to increase the profitability of the company's core business even at the expense of market share. As one of the market leaders of Greek yogurt, Chobani needs to ensure that it profits from making Greek yogurt, and the fact that it targets high-end market prevents it from acquiring certain market segments, so the company should focus primarily on its target market segments, trading market share for profitability. To summarize, Chobani's core problem is its profitability that should be addressed primarily after its IPO. The company needs to take advantage of the capital and invest in improving production efficiency. These findings are significant as the company is about to go public and external investors need an overall review of Chobani's performance. To this end, this paper suggests that Chobani's future development is unfavorable, and investing in the company can be risky.

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