



January 02, 2016

## Contact Information

Research Assistant: Lana Saadeh  
lana.saadeh@blominvestbank.com

Head of Research: Marwan Mikhael  
marwan.mikhael@blominvestbank.com

Research Department  
Tel: +961 1 991 784

Produced from the seed of the tropical cacao tree, cocoa has been cultivated for at least three millennia. This food originated in Mexico, Central and Northern South America and dates back to around 1100 BC when the Aztecs made it into a beverage known as chocolate or "bitter water" in English. The Mayans used the cocoa bean as a currency. Since one does not eat his money, the chocolate beverage was only drunk by the rich. This beverage was known to have nourishing, strengthening, and aphrodisiac effect, hence came the cocoa bean's botanic name "Theobroma" meaning the food of the gods.

Like wine, the quality of chocolate is tested using the 5 senses:

- **The smell:** Chocolate is a very fragrant product. The stronger and more persistent the smell is, the better it will be.
- **The Eyesight:** Chocolate has to be glossy. If chocolate surface turns white, this indicates bad preservation. In the case of milk chocolate, the color shall not be too light, nor too dark. In the case of dark chocolate, the color shall be dark brown. The more mahogany shades the chocolate has, the finer it shall be.
- **The Hearing:** If the sound is crisp, clear and sharp, it means it is quality chocolate. If the sound is dull, it is bad quality chocolate.
- **The Touch:** Put a square of chocolate on the palm of your hand and close your hand. Wait for 20 seconds. If the chocolate square has not melted, it means it is bad quality chocolate.
- **The Taste:** Texture shall be smooth and silky. Good chocolate melts in the mouth and shall never be gritty. This has to do with a high content of cocoa butter, which guarantees good final quality. The taste of a good chocolate shall remain for a while and not fade away too immediately.

The chocolate confectionery industry in Lebanon is made of many small boutiques competing in a highly saturated market. The biggest market player in this industry is Patchi, producing over 4,000 tons of chocolate yearly, sold in around 130 boutiques spread over 5 continents in 35 countries. Smaller boutiques produce at a smaller scale, serving Lebanon and sometimes the Middle Eastern Countries, such as Le Chateau du Chocolat, with around 480 tons annually. Lebanese chocolate confectioneries provide their clients a large variety of chocolate of around 30-50 different flavors, the most distinguished are cheesecake flavor and aarak chocolate truffles.

Many Lebanese chocolate confectioneries were renowned globally. For instance, M de Noir was chosen one of the best 22 international chocolatiers and won the "Meilleur Espoir Etranger" award. Another Lebanese chocolatier success story is Blessing, that made special chocolate gift boxes for Amal Alamuddin and George Clooney's post-wedding dinner.

Lebanese chocolate boutiques face high costs of production. First, high quality chocolate imported from Europe is expensive. Therefore, to remain competitive and to keep their prices constant, some chocolatiers started importing cheaper chocolate from China, however of lower quality. Moreover, this industry is labor-intensive, and labor costs are high in Lebanon. Not forgetting the big electricity bills in Lebanon, that constitute around 14% of total expenses, according to Net Group Distribution, which specializes in chocolate production and distribution in Arab markets. According to George Bassoul, owner of Peche Mignon, the price of chocolate is divided as follows: 20% to cover chocolate costs, 45% to cover decoration and packaging costs, leaving the chocolatier with a maximum of 35% profit margin.

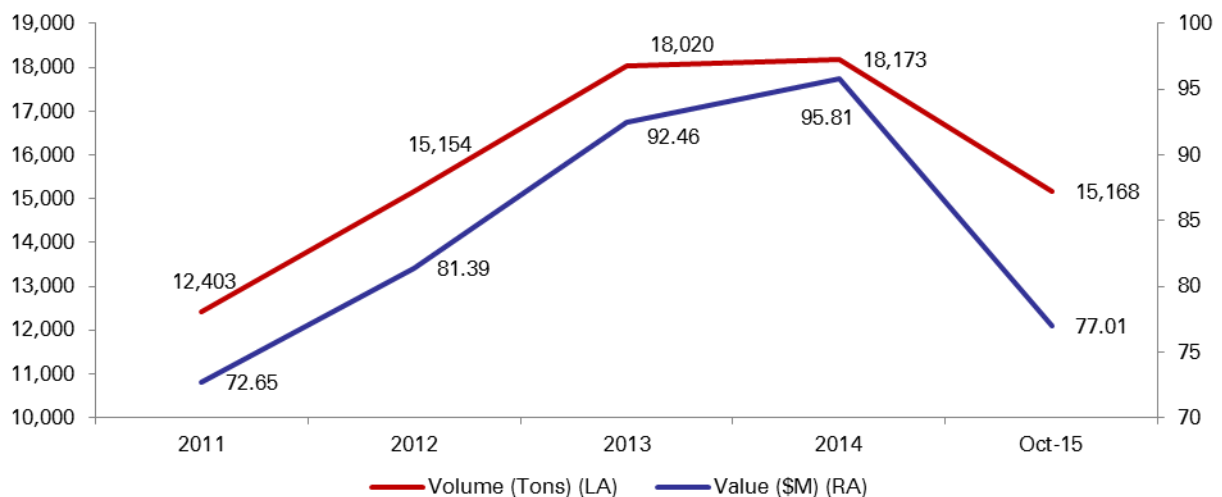
Despite the high production costs, the chocolate confectionery industry is regarded as one of the safest due to its steady demand, resilient to economic crisis. Most chocolatiers experienced an increased demand during the past 3 years. Around 20% of total demand of some small confectioneries consists of sales during religious occasions such as Christmas, Adha, Easter, and Valentine's Day. The remaining 80% of sales occur during specified events such as newborns, weddings (mostly in the period between June and September), baptism, and first communion.

However, not all chocolatiers saw increased demand. For instance, Island Butterfly experienced a decline in its sales due to the bad economic and political situations in Lebanon. To alleviate the problem and decrease rent costs, the boutique relocated from Downtown to Mkalles.

In order to hedge risks and avoid cancellations of big orders for special events, chocolate boutiques require customers to pay a deposit of around 20% at the time of order, with the remaining balance of 80% paid on delivery.

Looking at the international trade of chocolate, imports have been following an upward trend in the past 5 years. The value of chocolate imports grew 3.62% from 2013, to reach \$95.81M in 2014. Likewise, the volume of chocolate imported increased by 0.85% To 18,173 tons. In the first 10 months of 2015, chocolate imports stood at \$77.01M, with a volume of 15,168 tons. 20.90% of total imports were from the United States, followed by China (15.36%), Switzerland (13.35%), Germany (8.48%) and Italy (5.92%).

### Chocolate Imports to Lebanon

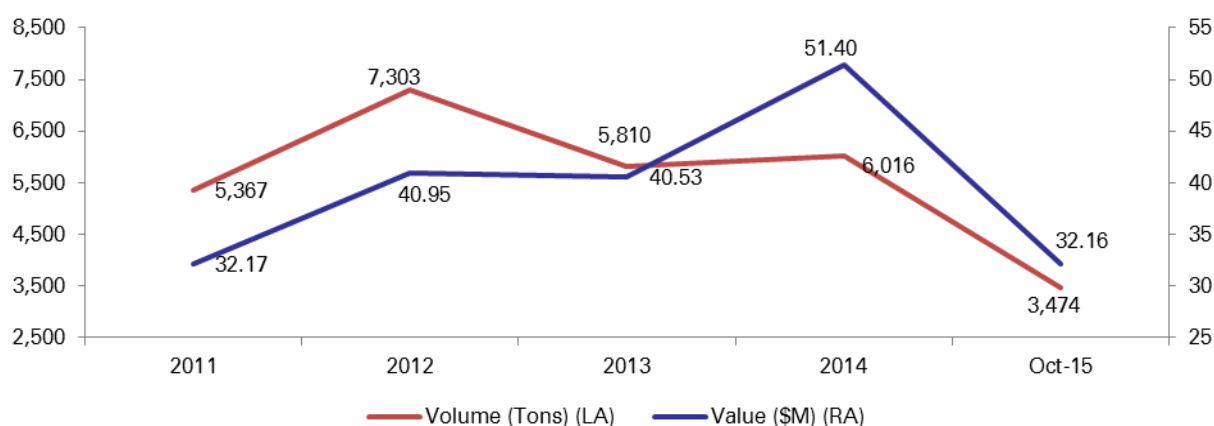


Source: Customs

## Lebanese Chocolate Industry: The Tempting Market for Exports

Similarly, chocolate exports grew by 26.84% year-on-year to \$51.40M in 2014, with a 3.55% increase in volume to 6,016. By October 2015, chocolate exports reached \$32.16M with a volume of 3,474 tons. The major destinations of Lebanese chocolate are Hong Kong with a share of 17.58%, United Arab Emirates (14.02%), Jordan (13.37%), Switzerland (9.71%), and Finland (7.26%).

### Lebanese Chocolate Exports



Source: Customs

Although the Syrian war repressed the Lebanese economy, it had a positive effect on some chocolatiers, by decreasing their costs. The average monthly salary of a Lebanese worker in a confectionery is around \$700. This value decreases to around \$300 for a Syrian refugee, whom will not benefit from transportation costs and the National Social Security Fund.

Lebanese chocolatiers face two challenges: selling online and a surplus of ornamental stock. Chocolatiers are still afraid to sell online. Island Butterfly, Remiel, Chantilly, and Peche Mignon stated that they do not trust online sales, because there are no guarantees. Even though Patchi provides an online market in Canada and the US, it still does not offer this choice in Lebanon. Moreover, as with fashion, chocolate decoration evolves constantly. This generates a challenge to chocolatiers of having a high stock of outdated ornaments.

Finally, the chocolate industry will continue to blossom in Lebanon, due to the fact that chocolate remains the preferred sweet to be offered and is perceived to be the most suitable gift for special occasions. Large confectioneries will continue to profit from manufacturing and supply chain efficiencies, economies of scale, and effective marketing campaigns. On the other hand, small companies benefit from offering premium quality, specialty products and a good reputation due to the direct contact with their clientele.

**For your Queries:**

**BLOMINVEST BANK s.a.l.**

Research Department  
Bab Idriss, Weygand Str.  
POBOX 11-1540 Riad El Soloh  
Beirut 1107 2080 Lebanon

Lana Saadeh, Research Assistant  
Tel: +961 1 991 784  
[ana.saadeh@blominvestbank.com](mailto:ana.saadeh@blominvestbank.com)

Marwan Mikhael, Head of Research  
[marwan.mikhael@blominvestbank.com](mailto:marwan.mikhael@blominvestbank.com)  
+961 1 991 782

***Disclaimer***

*This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.*