
MARKET AUDIT AND COMPETITIVE MARKET ANALYSIS

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Executive Summary

This audit tests the soundness of our proposal to import Purdys Chocolates¹ into Iceland. Icelanders love chocolate and confections - but is there an opportunity for Purdys to establish itself in that market?

Purdys is an established brand in Canada, founded in 1907 and currently trading in 89 stores domestically and worldwide through its website. Committed to quality, tradition and innovation, the company features a diverse product line made of local ingredients where possible. Positioned as an affordable luxury, elegant packaging and presentation reinforce the sense of quality. Yet customer service and relationships are key in brand's success.

Iceland's has a strong culture of chocolate making and consumption. Noi Sirius, established in 1920, holds about 30% of the market share, divided between its own manufacturing and the distribution of major international brands. Artisans craft treats from organic sources, use local salts and liquorice to appeal to Icelandic tastes, and take pride in using Icelandic milk in its products.

The challenges of market entry include the impact of a different source of milk, communicating a perception of premium value, and establishing trust and meaningful relationships. A local storefront or pop-up factory, sampling and testimonials, and product line extensions to suit the local palate may help overcome these.

Iceland is a small island in the North Atlantic Ocean, and two-thirds of its 320,000 residents live in the capital, Reykjavik. The city is the hub of commercial, cultural and legislative activity. It is frequently windy owing to its coastal location, and its proximity to the Arctic Circle means nearly 24-hour daylight in summer, and the reverse in winter. Highly active geologically, Iceland derives much power from natural sources.

Cargo generally arrives via Reykjavik by air or water, and is shipped over the terrain by wagon or truck. Expert freight and logistics companies assist with import and export activity. The country is highly connected through a variety of traditional and telecommunications means; with a high national literacy rate, printed media remains prominent, and as early adopters, so too are leading digital tools.

¹ It should be noted that "Purdy's Chocolates" and "Purdys Chocolatier" both appear in this report. The usage as presented is correct. The business operated as Purdy's Chocolatier from its 1907 inception until the late 1990s, when it was re-branded as Purdys Chocolatier. The iteration reflects the name in use at a given period in time.

Chocolate features prominently in Icelander's daily lives and on festive occasions, and grocers offer chocolate and candy at 50% off on Saturdays; dipped ice cream is also a common treat. The industry is growing, with the number of manufacturing enterprises doubling from eight to 16 over 2008 – 2017. Chocolate is retailed widely, from convenience stores to supermarkets to boutique high street shops. One manufacturer offers a factory tour, and occasionally producers issue discount coupons.

Much industry advertising transpires through digital channels, including websites, online stores, and social media. Icelanders are a tightly knit culture, and personal recommendations are also powerful.

Retail markups of 200-300% are common, with confections marketed to tourists as inflated as much as 360%. There are no specific trade discounts, but Iceland is subject to EU rules and enjoys duty-free trade with member nations. Packaging of mass produced chocolates in Iceland tends to be simple, direct, and informational, and usually featuring an image of the product, while artisans use presentation and packaging on par with Purdys, including elegant boxes filled with chocolates nestled in truffle cups. Pricing for premium treats is difficult to obtain, but commercial brands are on par or slightly above what Canadians expect to pay for a similar product.

With most commerce concentrated in Reykjavik and the balance of the nation compact, the country can be treated as a single trading area. We could choose to manufacture and distribute directly in Reykjavik, or import finished products from Canada. The latter results in less potential profit, but the former incurs greater risk. Icelandic and Canadian government agencies alike exist to support cross-border trade. Proper documentation needs to be filed with both governments and appropriate banks.

Icelanders spend a substantial amount on chocolate and confections, but the overall population is small and the chocolate market already active and possibly saturated. The potential profit margin for our first year of operation is small at \$453,120.

While Iceland is an attractive nation for many reasons, commercial and social, we do not recommend Purdys pursue the opportunity to enter that market. Icelanders may purchase Purdys chocolates online without restriction, and there is little added benefit to the risk of making a more substantial commitment.

Introduction

In this Market Audit and Competitive Market Analysis, we will test the soundness of our proposal to import Purdys Chocolates into Iceland. We explore the Purdys product in detail, and contrast it to existing brands in order to determine whether we have a perceived advantage in the eyes of that market. Is our product compatible with local tastes, sartorially and aesthetically? Can it be offered on a trial basis in order to test the market and to create excitement at the initial stages of market? Will samples and testimonials be sufficient in creating ‘buzz’ to drive sufficient demand to establish a foothold in the market quickly? Are manufacturing facilities and raw materials available to produce within the host country, would we import existing products from Canada, and/or raw materials from third countries? And, what is the regulatory environment for a food producer wishing to import or establish a physical presence in Iceland: would partnerships with intermediaries be of benefit? We analyze our projected key performance indicators (KPIs) to determine the viability of entry to the Icelandic market.

Thus, the purpose of this audit is to recognize market conditions alongside market potential, in order to make an informed decision regarding the soundness of importing Purdys Chocolates into Iceland. Icelanders love chocolate, and we strive to understand the emotional and psychographic reasons they buy and eat it, while identifying any gaps – if any - that Purdys might fill in the market.

The Product

Perception of chocolate in Iceland

Chocolate and confections are familiar to Icelanders. As *Wake up Reykjavik* reports, “how many species of chocolate can a small nation of 320.000 make? Tons;”² a food blogger from the United States reported that, “I imagined finding one or two unfamiliar candy or chocolate bars, so imagine my surprise when I found an *entire aisle* devoted to Icelandic candy, chocolate bars, and other sweets. Seriously, there were like 50 different things to choose from in that tiny Icelandic grocery store,”³ and *Magazine* notes that, “Icelanders...are a culture of chocolate lovers and anyone who argues that there (sic) country’s chocolate is better will be deemed insane by the Icelandic people.”⁴

² Apríl Harpa Smáradóttir, “5 Must try Icelandic foods that no one told you about!,” *Wake up Reykjavik*, accessed Nov. 15, 2018. <https://wakeupreykjavik.com/5-must-try-icelandic-things-no-one-told/>.

³ Cate, “Icelandic Chocolate: 9 sweets to try (or avoid),” *International Desserts Blog*, accessed Nov. 16, 2018, <http://www.internationaldessertsblog.com/icelandic-chocolate-9-sweets-try-avoid-iceland/>.

⁴ Anonymous, *Magazine*, Aug. 4, 2018, <https://www.icelandairhotels.com/magazine/blog/guide-to-icelandic-candy-mag>.

Purdys Chocolatier is an established brand in Canada, with nearly 90 storefront locations from British Columbia through Ontario. Established in Vancouver in 1907 by R.C. Purdy, quality, tradition and innovation have from the earliest days been at the forefront of the company's values. Some chocolates, including vanilla caramels and dairy creams, are made according to the original 1907 recipes. In 1967, Purdys became the first Canadian chocolatier to import Belgian Callebaut chocolate, in a bid to ensure that the company's product "was among the best in the world, with a quality to match anything being offered in Europe."⁵

Its confections have been available by mail-order from the early 20th century, "when newspaper ads let customers know that Purdy's 'even ships to the Orient in special metal boxes.'⁶" Today, customers around the globe may order from Purdys through its website⁷ (excluding nations which may be embargoed or otherwise politically sensitive). A range of products, from individual chocolates and truffles that may be selected individually from a display case, through bars, barks, brittles, bon-bons, roasted nuts, scooped ice cream and dipped vanilla bars, and a range of assorted other year-round and seasonal confections.

Over time, Purdys' has developed a line of No Sugar Added chocolates, suitable for diabetics, and in 1987, introduced its chocolate-dipped ice cream bar, which is prepared in front of the customer.⁸ A scooped ice cream program is supplied by regional producers.

However, it is folly to view Purdys simply as a product. Exceptional though the chocolates may be, the packaging, storefronts, and especially the friendly and knowledgeable service are all a part of the Purdys' experience. *Chocolate of Choice* argues that Purdys appeal lies in its essential Canadian-ness, and that "it's the service that emanates from behind the countertop and cases that reflects the heart and soul of the company."⁹ The owner Karen Flavelle has stated "it's not the chocolate that sustains this company so much as it's the people...it's about all the people we are connected to, right across the country. It's about being a part of their families' celebrations, being part of key events in their lives."¹⁰

⁵ Chocolate, p. 80.

⁶ Echo Memoirs, *Chocolate of Choice*, publication date not given, p. 28.

⁷ Purdys Chocolatier, accessed Nov. 15, 2018, www.purdys.com.

⁸ Chocolate, p. 99.

⁹ Chocolate, p. 109.

¹⁰ Chocolate, 113, 120.

Relative advantage over Iceland's local confections

Iceland features a long tradition of its own in chocolate making and confectionary. Núi Sírius has been operating since 1920, and is now Iceland's largest confectionary manufacturer. It features a range of over 260 products, approximately 80% of which it produces and 20% of which is derived from imports as the exclusive distributor for both Kellogg's and Cadbury in Iceland. Its annual turnover in 2006 was €17,000,000. The store regards relatively small size by international standards as an asset, "that allows us the flexibility to respond to any special needs our customers might have. Our production volumes may not match those of large manufacturers in other countries but we have specialist knowledge and experience of a wide range of products in the confectionery sector."¹¹

The online store naami.is, carries Núi Sírius "traditional Icelandic chocolate" bars for €6 EUR/100 g.¹² By contrast, 100g of chocolate from Purdys case ranges from \$8 - \$11 CAD, and bars are roughly \$2.50 CAD /50g (or sold in multiples of three for \$7 CAD).¹³ With today's exchange rate of \$0.66 CAD to €1 EUR,¹⁴ this means that a €6 EUR purchase is worth \$9 CAD, positioning Purdys' in a comfortable and perhaps even attractive price range, were they to retail in Iceland without markup; conversely, it appears there is space for markup if needed.

As a premium product which positions itself as an affordable luxury, Purdys may find that mass (and cheaply) produced confections are not its main competitor – the distinction between them is fairly clear, and they speak to different markets. Rather, Purdys would have to differentiate itself from other innovative and quality-driven artisanal producers in the host country. The Reykjavik-based manufacturer Omnom Chocote, founded in 2013, crafts bean-to-bar chocolates from organic cacao beans and Icelandic milk.¹⁵ Visitors may tour the factory and taste free product samples. Purdys here is at a disadvantage; its factory is located in Vancouver, Canada, and regardless has cancelled its once-popular public tours. Purdys would have to find ways to build trust with local consumers, and the process is liable to take time. While Purdys cannot invite locals into its production space, a storefront presence featuring knowledgeable and friendly service can help to foster local relationships. Samples

¹¹ "Núi Sírius Chocolate," The Icelandic Store, accessed Nov. 16, 2018, <https://icelandicstore.is/collections/nui-sirius-chocolate>.

¹² "Traditional Icelandic Chocolate from the candy factory Núi Sírius," Nammi.is, accessed Nov.16, 2018, <https://nammi.is/candy/traditional-icelandic-chocolate.html>.

¹³ "Chocolate bars and snacks," Purdys, accessed Nov. 19, 2018, https://www.purdys.com/chocolate/chocolate-bars-and-snacks?Category0=Chocolate&Category1=Chocolate%20Bars%20%26%20Snacks&c=4664544&n=2&Nxttype=Products&sort_by_field=Price%20Low%20to%20High

¹⁴ "1 Canadian dollar equals 0.66 Euro," Google, accessed Nov. 20, 2018, <https://www.google.com/search?q=cad+eur&ie=utf-8&oe=utf-8&client=firefox-b-ab>

¹⁵ OmNom Chocolate Reykjavik, accessed Nov.16, 2018, <https://www.omnomchocolate.com/>.

may be offered, and its Canadian-ness may serve as a point of differentiation, provided this is perceived as unique and desired by the host country.

Black liquorice is a favourite Icelandic treat, and frequently appears in combination with chocolate, marzipan or other ingredients which Purdys currently uses. However, Purdys does not currently offer any liquorice-based confections.

Compatibility

There are neither social nor physical barriers to chocolate in Iceland.

Complexity

There are no identified barriers in terms of complexity, including that of taste. Icelanders are familiar with chocolate in various formats alongside related confections.

Trialability

Samples are available at the discretion of sales associates at any Purdys location; the company is currently less forward with this program than in previous years, having stopped the practice of placing a sales associate at the lease line to entice passers-by with samples on a tray. Samples may still be offered from the chocolate case, or a product may be designated for sampling purposes. The opportunity to sample the product will likely be key to its adaptation in a new market, as will be a strong degree of relationship building and personal selling.

Observability

Chocolate is generally a small and discreet item, so Purdys uses elegant packaging and distinctive purple bags to draw attention to the brand. However, although it is theoretically easy to observe someone using the product, it is usually a momentary event, which leaves little or no physical evidence.

Major problems and resistance to product acceptance

A number of established chocolate producers and distributors already delight the local market, including the almost 100-year-old Núi Sírius, and start-up artisans such as Omnom Chocolates. These represent not only strong market share, but likely have emotional connections to locals for their familiarity and for the relationships they have established, including as a source of local employment.

Domestic chocolate-makers pride themselves on using Icelandic milk. Omnom, from its first days, “knew confidently that Icelandic milk would add character to our chocolates and distinguish them from many others.”¹⁶ *Magazine* praises the “creamy Icelandic milk chocolate in bars that come in different flavors...Icelanders credit the delicious chocolate to the amazing milk produced from their beloved cows.”¹⁷ Purdys also draws on “local dairies to supply fresh cream and butter,” and the degree to which Canadian milk differs from its Icelandic counterpart may give rise to issues of taste and perception of quality. Moreover, there is bound to be a challenge in establishing the service and experiential aspects of the brand; it takes a long time to build the trust and reputation in becoming the ‘trusted friend’ at the special occasions in people’s lives.

Adaptation or extensions as applicable to the product, price, place and promotion

There are numerous creative approaches Purdys can take to overcome some of its barriers to entry. Its in-house chef is frequently testing new products and flavours, and a special line could be developed featuring liquorice and other flavours familiar to the Icelandic palate. Product development, however, usually requires a long time horizon. These new flavours may also risk alienating the domestic market if they are too unfamiliar at home.

Purdys could also establish a storefront presence in Iceland, and a small-scale pop-up factory, where locals can take a tour and enjoy samples. Because ice cream is already regionally sourced, a partnership with a local producer would be key – and would draw on Icelandic dairy.

It is rare for Purdys to discount its product, so as not to de-value the brand. Its position is as an affordable luxury, thus it would have to promote its value in the market. With the product readily available to Icelanders through its website, it is difficult to justify moving into the market based on the product and price alone.

¹⁶ “Our Ingredients,” Omnom Chocolates Reykjavik, accessed Nov. 16, 2018, <https://www.omnomchocolate.com/pages/our-ingredients>.

¹⁷ *Magazine*.

The Market

The Icelandic Market

Geographical region

Iceland is a small island nation situated in the North Atlantic Ocean, which features striking geography. It boasts a population of just over 320,000 across its 103,000 km², two-thirds of whom live in the capital, Reykjavik.



Figure 1 Source: "Reykjavik." Wikipedia, Wikimedia Foundation, 10 Nov, 2018

As Iceland's largest city, Reykjavik is also its commercial, governmental and cultural center. Situated in the southwest of the island at a latitude of 64°08'N, it is only two degrees south of the Arctic Circle.¹⁸ The city receives only four hours of sunlight on its shortest winter day, and almost 24 hours of daylight in the summer. Like much of Iceland, Reykjavik is geologically active, and earthquakes are common. There is volcanic activity nearby as well as hot springs;¹⁹ accordingly, the city is powered by hydroelectric and geothermal energy. Despite its northerly station, Reykjavik has a much milder climate than other cities on the same latitude: the average January low temperature is 26.6°F (-3°C) while the average July high temperature is 56°F (13°C), and precipitation is approximately 31.5 inches (798 mm) per year.²⁰ Because of its coastal location, Reykjavik is also usually very windy year-round.

Forms of transportation and communication available in Iceland

Transportation

Iceland has two main commercial transportation providers: Icelandair Cargo, which specializes in moving seafood products,²¹ and Blue Water Shipping, which moves freight by road, sea, air, and rail internationally; it

¹⁸ Amanda Briney, "Geography of Reykjavik, Iceland: Learn 10 Facts About Iceland's Capital City," ThoughtCo, August 10, 2018, www.thoughtco.com/geography-of-reykjavik-iceland-1435042.

¹⁹ Briney.

²⁰ Zahraa Altameemi, "Five Themes of Geography: Reykjavik, Iceland," Sutori, accessed Nov. 15, 2018, www.sutori.com/story/five-themes-of-geography-reykjavik-iceland.

²¹ "Fresh Seafood," Icelandair Cargo, accessed Oct. 30, 2018, <https://www.icelandaircargo.com/products-and-services/fresh-fish-and-seafood/>.

also handles complex project transports. As the commercial hub for Iceland, Reykjavik is concentrated with transport infrastructure.

Iceland's most prominent international logistics companies include Samskip, Blue Water Shipping and Frakt. Frakt is a Reykjavik-based freight forwarding company, which offers full logistics services to Icelandic importers and exporters on a worldwide basis.²² Likewise, Blue Water Shipping offers 40 years' experience in international transport and logistics, and is located near Reykjavik Airport, Keflavik International Airport and the port.

The major forms of commercial transportation in Reykjavik include:

Sea Freight



Air Freight



General Cargo



Wagon Freight



Iceland does not have a railway system; wagons are used for local dispersal of goods.

Communication

Iceland is a well-connected nation, with many means of communication:

- *Cellular Phones* - Iceland has one of the highest rates of mobile phone usage in the world, with service in all towns.²³ Síminn and Vodafone are the country's leading broadband and telecommunications providers, and Nova has recently emerged as a challenger. Prepaid SIM cards are readily available at gas station or convenience stores, allowing tourists ease of connection. Household landline use is decreasing, given the popularity of mobile phones. Iceland's international calling code is +354, plus the seven-digit local number, and outbound long-distance calls are made by dialing 00 plus the country code and the telephone number.²⁴
- *Internet* - 90% of the Icelandic population is connected to the internet at work, home or at school, making the country one of the most connected in the world. Wi-Fi is easily accessible in Reykjavik, and is offered free in many cafes, hotels, bookstores and bars.²⁵ The Reykjavik Internet Exchange "is a

²² "About Us," Global Freight Index, accessed Nov. 15, 2018, www.globalfreightindex.com/company/frakt.is/.

²³ "Phones & Mobile Service," Nordic Visitor Iceland, accessed Nov. 15, 2018, iceland.nordicvisitor.com/travel-guide/information/phones-mobile-service/.

²⁴ "Phones."

²⁵ "Internet Access," Nordic Visitor Iceland, accessed Nov. 15, 2018, iceland.nordicvisitor.com/travel-guide/information/internet-access/.

switchboard of Icelandic internet service providers, where they can exchange their IP traffic and thus prevent domestic traffic from flowing through international connections.”²⁶ Home to numerous data centers, Iceland is also hub for international web traffic, and Internet banking is widely used.

- *Newspaper* - Icelanders enjoys a high literacy rate, and the printed press is well developed. *Fréttablaðið* is the principal daily newspaper in Iceland; distributed to households daily at no cost, it has the largest circulation of any newspaper in the country.²⁷ The second most popular newspaper, *Morgunblaðið*, is much longer established, and the *Reykjavik Grapevine* magazine publishes information about local activities, music and Icelandic culture.
- *Radio* - Icelanders rely on the broadcast service as an essential means of communication, especially for those in remote areas. RUV has been broadcasting since 1930, with RAS1 as another principal station. Radio Iceland is a relatively new station, which only plays Icelandic music while broadcasting the news in English.²⁸ Radio, as a means of communication, effectively bridges distance while ushering cultural progress in the isolated areas.
- *Television* – State-owned RUV is the principal television station, which promotes the Icelandic language. After then Broadcast Act of 1985, various television channels began broadcasting, for instance, Channel 2, Vision TV, Movie Channel and Pop-TV. Simin, the telecommunication company also runs its own TV channel.
- *Post Offices* - Iceland Post distribution reaches all homes and businesses. Post offices and rural postal carriers provide customers with complete postal service regardless of location. Iceland Post operates internationally with other postal services and partner organizations postal services and partner organizations transporting products to and from Iceland, thus creating links with distribution systems all around the world.²⁹

Consumer buying habits

Product-Use Patterns

Chocolate consumption features prominently in Iceland, whether on holidays such as Easter, where it is tradition to have chocolate eggs filled with candies, or as a treat on a more casual and frequent basis: chocolate bars can

²⁶ “Reykjavik Internet Exchange,” Google, accessed Nov. 20, 2018, <https://translate.google.com/translate?hl=en&sl=is&u=https://www.rix.is/&prev=search>

²⁷ “Icelandic Newspapers and News Sites,” Icelandic Newspapers Online, accessed Nov. 15, 2018, www.w3newspapers.com/iceland/.

²⁸ Staff, “Radio Iceland Plays Icelandic Music and Broadcasts News in English,” Apr. 29, 2015, Iceland Magazine, icelandmag.is/article/radio-iceland-plays-icelandic-music-and-broadcasts-news-english.

²⁹ “History & Role,” Iceland Post, accessed Nov. 15, 2018, www.postur.is/en/about-us/operations/history-role/.

appear as part of breakfast, and candy bowls are commonly found in households.³⁰ With its history of producing its own chocolate, coupled with a fondness for licorice, Iceland has developed a distinctive chocolate culture.

Noi Sirius, based in Reykjavik, holds about 30% of confectionary market share in Iceland,³¹ and Omnom Chocolate is a leading local artisanal producer. However, according to *Reykjavik Grapevine*, Kit Kat is the most sold chocolate bar in Iceland, with a market share of 11.8% and potential for further growth. According to *Iceland Magazine*, all candy is 50% discounted at the local grocery shops every Saturday, and Icelanders take the opportunity to stock up. Statistics Iceland reports that from 2010-2012, most Icelandic homes in the capital area consumed an equivalent of 82,000 ISK (\$879 CAD at today's exchange) of candy per residence³².

Ice-cream parlors are also found across Icelandic towns, and ice-cream is commonly served in a hard-shell dip, usually chocolate, and then covered in small sized candy. This is known as 'ís með dýfu og kurli'.³³ Thus, it appears that the consumer consumption of chocolates and candy in Iceland is high.

Product Feature Preferences

Icelanders as a whole appear to have a substantial sweet tooth, and while foreign chocolates are available in the local market, Icelanders retain a preference for a combination of chocolate, liquorice and sea salt.

Omnom Chocolate, which claims to be the country's only bean-to-bar chocolatier, features sea salt and liquorice in their chocolates. With its unique flavours and whimsical and attractive packaging, Omnom has become widely popular in Iceland.



Figure 2 Source-
www.omnomchocolate.com

Noi Sirius largest confectioner in Iceland, with a market share of 30%. Their range includes Easter eggs, pastilles of varying flavors, chocolate wafers, chocolate-covered raisins, caramels, boiled sweets, soft jelly sweets, licorice products and milk chocolates.³⁴ Generally, chocolates tend to be sold as chocolate bars, candy bars, licorice balls and raisin-shaped chocolate.

³⁰ Magazine.

³¹ "Cross-Cultural Chocolate Consumption," Chocolate Class, May 11, 2016, chocolateclass.wordpress.com/tag/iceland/.

³² "Icelandic Candy; What's Not to Love?" WOW Air, accessed Nov. 16, 2018, wowair.us/magazine/icelandic-candy-what-s-not-to-love/.

³³ Svanhildur Sif Halldórsdóttir, "Food in Iceland: An Introduction to Icelandic Cuisine." Guide to Iceland, Jan 3, 2018, guidetoiceland.is/history-culture/food-in-iceland.

³⁴ "Noi Sirius Chocolate." Icelandicstore.is, icelandicstore.is/collections/noi-sirius-chocolate.

Shopping Habits

Given chocolate's popularity, it is widely available across Iceland. Figure 4 shows Reykjavik's numerous specialist chocolate shops, which are located in close proximity. Chocolates and candies are purchased daily from high street stores, gas stations, confectioners, brand stores and supermarkets. Saturday is known as "Candy Day" in Iceland, as local grocers sell candies and chocolates at a 50% discount; young children especially tend to buy in bulk.



Figure 3 Source- Google Maps

Distribution of chocolate

Typical marketing channels or retail outlets

Figure 5 shows the number of enterprises in the manufacture of cocoa, chocolate and sugar confectionery in Iceland from 2008 to 2017, with a marked increase in participants over the period. In 2008, there were eight cocoa, chocolate and sugar confectionery manufacturing enterprises in Iceland, which by 2017 had doubled to 16 enterprises.³⁵

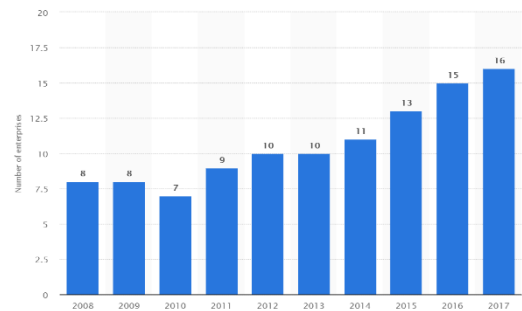


Figure 4 Source: www.statista.com

Candy stores in Iceland are widely found. Called "sjoppur", these stores offer a wide product variety, and are no more than a 10 minute walk within the city. Chocolate and candy may be found in local stores and gas stations, also located conveniently across the city; 75% of these sell liquorice candies and chocolate. Small confectioners such as Omnom, Noi sirus and Stefan B Chocolatier have established storefronts at prime locations in the city. Each company has well-developed website that allows them to trade effectively and reach customers globally. Omnom offers public tours of its factory, guiding visitors through the chocolate-making process and allowing people to purchase products on-site.

Product sales by other intermediaries

Supermarkets frequently serve as a retailer for chocolates, and there are two major types in Iceland:

- Bonus Grocery Stores – These highly popular stores offer the cheapest and most affordable shopping

³⁵ "Iceland: Enterprises in the Chocolate and Confectionery Industry 2008-2017," Statista, accessed Nov. 16, 2018, www.statista.com/statistics/806736/number-of-enterprises-in-the-chocolate-and-sugar-confectionery-industry-in-iceland/.

- Hagkaup Supermarkets – While food is much more expensive at Hagkaup supermarkets, they are open 24 hours a day.³⁶

Marketing Communications

Advertising media usually used to reach our target market

Media ownership in Iceland is highly concentrated, but the Icelandic constitution guarantees absolute freedom of press. A media consumption poll held in 2018 found that 50% of Icelanders obtain their news online. A great deal of promotion occurs via social channels and the figure 1.A is a brief profile to Iceland's media.

The Press/ Online	Television	Radio
<ul style="list-style-type: none"> • Frettabladid - free newspaper, delivered daily • Morgunbladid - evening daily • Vidskiptabladid - business journal • icelandreview.com - English-language news site 	<ul style="list-style-type: none"> • Icelandic National Broadcasting Service • Stod 2 - main private station • Skjar einn - private station 	<ul style="list-style-type: none"> • Icelandic National Broadcasting Service (RUV) - public radio, operates two national networks and four regional stations • Bylgjan - main private station

Figure 1.A Source – BBC

National public radio and television is provided by the Icelandic National Broadcasting Service (RUV), which is owned by the state.³⁷ The launch of “Inspired by Iceland” helped to publicize Iceland as a destination across multiple geographic markets, and its innovative online content effectively engaged a younger demographic, especially in its promotion of brands and celebrities.³⁸

The use of billboards is infrequent in Iceland, with large posters on building-sides the exception, and leaflets are distributed through kiosks in popular tourist areas. Yet as a highly connected culture that is generally welcoming

³⁶ Victoria and Terence, “5 Things to Know about Grocery Stores in Iceland,” Follow Me Away, Jul. 9, 2018, www.followmeaway.com/5-things-to-know-grocery-stores-in-iceland/.

³⁷ Iceland profile - Media. (2018, October 03). Retrieved from <https://www.bbc.com/news/world-europe-17386737>

³⁸ Case Study: Inspired by Iceland. (n.d.). Retrieved from <http://www.best-marketing.eu/case-study-inspired-by-iceland/>

and adaptive to technological innovation, digital advertising – and the oral recommendations that can result in Iceland’s tightly-knit society – are the most powerful ways of presenting a message.³⁹

Sales promotion customarily used

Tours, coupons and discounts are some of the tools used by producers and retailers to encourage purchasing and to build brand recognition and reputation.

Omnom Chocolates offers a regular factory tour and tasting, and custom tours for special occasions. Iceland is a popular tourist destination, and many visitors are attracted to the factory tour. This has been an effective marketing strategy, allowing customers to see ‘inside’ the brand and its practices. To encourage participation, Omnom offers coupons at 20% off the cost of the factory tour, which is regularly 3,000 ISK (\$32 CAD) per person.⁴⁰ There is a 50% discount for children 7 - 15 years old. At the end of the tour people may purchase directly from the factory.



Figure 5 Source- <https://coupons.is/>

Other local cafes and superstores also advertise coupons to encourage sales. For instance, Mika Restaurant offers a 25% off coupon on handmade chocolate and hot chocolate.



Figure 6 Source- <https://coupons.is/>

Supermarkets offer weekly specials with discounted prices on candies and chocolate tubs. One major selling strategy is the 50% discount offered on every Saturday at the local grocery stores on all candies and chocolates.

³⁹ “Best Way to Advertise in Iceland,” Around the Business, March 28, 2018, <http://aroundthebusiness.com/iceland-how-to-advertise/>.

⁴⁰ “Icelandic Chocolate Making Factory Tour and Tasting, Reykjavik – Culture and Food,” Creative Iceland, accessed Nov. 15, 2018, creativeiceland.is/culture-and-food-icelandic-chocolate-making-factory-tour-and-tasting-reykjavik-iceland/.

Pricing strategy

Customary markup

The customary markup on retail chocolates is between 200-300%,⁴¹ with the higher premium aimed at the tourist market. We discovered that many confections re-brand for different shops and supermarkets, with price the only difference; some have reported on markups as high as 360%⁴².

Types of discounts available

There are no trade discounts that we found, but three agreements were signed in 2015 that allowed for greater access to EU agri-food products in Iceland, and this includes chocolate. Such agreements implemented duty-free access and free movement of goods, both imported and exported⁴³.

A comparison of Purdys products with its competitors

Competitor's products

Iceland is a country that enjoys chocolates and confections, and the available options range across a spectrum of quality, price, and positioning – similar to that of the Canadian market. Local favourites include:



Pristur

Sambo Pristur is a fudgy chocolate, filled with licorice pieces that is truly the best of both worlds – ooey, gooey chocolate, slightly reminiscent of chocolate fudge, encompassing the most smooth licorice pieces inside⁴⁴. Pristur sells for \$9.00 CAD per 250g bag⁴⁵.

⁴¹ "A Tip on Saving Money on Treats to Bring Home: Don't Buy Whimsical Candy at a Souvenir Store!" Iceland Magazine, Mar. 24, 2017, <https://icelandmag.is/article/a-tip-saving-money-treats-bring-home-dont-buy-whimsical-candy-a-souvenir-store>.

⁴² Anonymous, "Triple Price of Candy for Tourists in Iceland." Iceland Monitor, Mar. 24, 2017, https://icelandmonitor.mbl.is/news/news/2017/03/23/triple_price_of_candy_for_tourists_in_iceland/.

⁴³ Agriculture and Rural Development, "EU-Iceland: Further Liberalisation of Trade in Food and Agricultural Products," European Commission, Accessed Nov. 15, 2018, https://ec.europa.eu/info/news/eu-iceland-further-liberalisation-trade-food-and-agricultural-products-2018-apr-27_en.

⁴⁴ Hallgerður (no last name provided), "We Asked Locals to Pick the Best Icelandic Candy - and the Worst," Must See In Iceland, Sept. 17, 2018. <https://www.mustsee.is/best-icelandic-candy-worst/>.

⁴⁵ "Sambó Pristur (250gr)." Shop Icelandic, accessed Nov. 13, 2018, <https://www.shopicelandic.com/products/sambo-thristur-250gr>.

Pralín peppermint chocolate

This milk chocolate bar from Noi Sirius is filled with a smooth, peppermint center. Its taste is similar to that of an After Eight, but much sweeter. Commonly referred to as the type of candy that delights Icelanders, it is best served with a hot cup of good coffee⁴⁶. This popular chocolate, made by Iceland's oldest chocolate company, sells for \$5.00 CAD per 100g⁴⁷.



Hraun

Hraun chocolate derived its name from the word lava, since the puffed corn chocolate is reminiscent of small bits of lava. While it comes in bite size pieces, consumers may also purchase a whole Hraun chocolate bar⁴⁸. The candy bar bits are priced at \$9.43 CAD for a 200g box,⁴⁹ and a 30g Hraun lava bar for \$1.99 CAD⁵⁰.

The packaging of these treats is basic, informative, and restricted in its colour scheme; simple cardboard, paper or plastic is used, and there is little embellishment. Images primarily feature the filling inside the chocolate coating. This is a more simplistic approach than the kinds of packaging which Purdys uses. Our signature colour is a deep royal purple with gold accents; packaging is elegant – a delight to behold and a reflection of the quality and variety within.



A sample of Purdys packaging and chocolate presentation

⁴⁶ "We Asked Locals."

⁴⁷ "Noi Sirius Chocolate - Pralin Mint." The Icelandic Store, accessed Nov. 13, 2018, <https://icelandicstore.is/products/noi-sirius-chocolate-56-cocoa-1>.

⁴⁸ "We Asked Locals."

⁴⁹ "Goa Hraunbitar - Lava Bites (200gr)," Shop Icelandic, accessed Nov. 13, 2018, <https://www.shopicelandic.com/products/hraunbitar-lava-bites-200gr>.

⁵⁰ "Hraun - Lava bar (30gr)," Topiceland, accessed Nov. 13, 2018, <https://topiceland.com/products/hraun-lava-bar-30gr>.

These three competitor's products are made in Iceland and sold through select online distributors: Topiceland, Icelandic Store, and Shopicelandic, the latter of which sells all the main candy from Iceland manufactures. These confections may also be purchased at supermarkets with a candy aisle,⁵¹ or at local souvenir shops. Icelanders are known to enjoy the combination of liquorice and chocolate; therefore, it is no surprise that 75% of candy being promoted at the grocer contains black liquorice⁵².

As we noted earlier, these kinds of mass producers are likely not targeting the same market as Purdys. However, a July 2018 article in the *Reykjavik Grapevine* promoted select new Icelandic chocolatiers that would be direct competition for a company like ours. The attention to elegant and careful packaging is certainly more on par with Purdys' presentation, and suggests equal care and creativity in the production of the chocolates.

Sandholt Bakarí

Noemi Ehrat writes that, "Sandholt Bakery (sic) is known for sourdough breads and pastries, but they have a superior selection of chocolates, too...you can either buy a selection box, or you can pick and choose individual bonbons. The chocolatiers make them all from scratch, from French Valrhona chocolate. You can tell from their creative selection that they're having fun coming up with new ideas. Bonus: they're affordable—so there's no excuse not to try a few."⁵³ Exact prices are not specified.



Sandholt Bakery promotes its goods on a more exclusive basis. Instagram is their only social media platform, but reviews on Trip Advisor provide advertising that reaches a wider audience.

⁵¹ Inga (no last name provided), "The Ultimate Guide to Icelandic Candy," All About Iceland, accessed Nov. 13, 2018, <https://adventures.is/blog/the-ultimate-guide-to-icelandic-candy/>.

⁵² Linni Kral, "Iceland Has a Bizarre Obsession with Liquorice - Here's Why." Business Insider, Apr. 26, 2017, <https://www.businessinsider.com/iceland-has-a-bizarre-obsession-with-licorice-heres-why-2017-4>.

⁵³ Noemi Ehrat, "Iceland Is Like a Box of Boxes of Chocolates...And Here Are the Ones to Buy," The Reykjavik Grapevine, Jul. 24, 2018, <https://grapevine.is/guides-2018/2018/07/24/iceland-is-like-a-box-of-boxes-of-chocolates-and-here-are-the-ones-to-buy/>.



Stefan B. Chocolatier

Ehrat likewise comments on the Stefan B. Chocolatier, a “self-taught confectioner taking the world of Icelandic chocolate by storm. His chocolate originates in Colombia, and the bonbons are all handmade.” “I try to focus more on dark chocolate,” says Stefan, “because I felt that this was something that was missing in Iceland.”⁵⁴ Stefan B. offers over 200 delectable flavors for purchase either in store or through online orders. Promotion and advertising efforts are directed through social media forums, with a presence on Trip Advisor, Twitter, Facebook, Instagram,

YouTube, and LinkedIn. Pricing may vary depending, but \$4.50 CAD for a chocolate bar seems to be their standard price.

Competitor’s prices

Chocolate pricing in Iceland varies depending where the product is purchased; markups can be significantly higher in places such as souvenir shops. Unlike the practice at Purdys, the chocolate market in Iceland provides discounts. Purdys, as an affordable luxury, very rarely discounts. Small discounts may be applied to multiples of three products in specified ranges. Volume discounts may be applied on a minimum, pre-tax, purchase of \$500 CAD. It is difficult to find specific, comparative information to local chocolatiers’ pricing – which may fluctuate with the cost of cocoa, vanilla, and other costly source products. Thus it is difficult to say whether Purdys’ would be considered fair, expensive or inexpensive for the value it conveys in the Icelandic market.

Competitor’s promotion and advertising methods

Export.gov provides generalized advice for selling and promotional techniques alongside best common practices within Iceland⁵⁵:

- Businesses entrants to Iceland must embrace the culture and integrate their products with the people in order to achieve any amount of success
- Any labelling requirements are subject to EU rules and regulations
- Icelanders are very well versed with leading U.S. brands
- Popular U.S. television programs are aired in Iceland, while first-run U.S. films play in cinemas (in English with Icelandic subtitles)

⁵⁴Ehrat.

⁵⁵ “Iceland Selling Factors and Techniques,” Export.gov, Jul. 11, 2017, <https://www.export.gov/article?id=Iceland-Selling-Factors-and-Techniques>.

- Consumption habits of Icelanders resemble those of Americans in many ways
- Communities outside the Reykjavík area are small, therefore the country can be considered a single marketable area.

It is difficult to find specific advertising methods for the popular chocolates and candies in Iceland, suggesting that local word of mouth and publicity play a strong role. Digital marketing certainly does, as most brands have a website and retail online. Many the popular brands align themselves with a local or global cause, or create a point of differentiation that reflects the Icelandic ways of life. The boutique producer Omnom gives tours of its chocolate factory⁵⁶ while Saett & Salt – Sweet & Salty, an upstart local producer uses Icelandic salt⁵⁷ to create and differentiate their products. Meanwhile, Pristur has an excellent Instagram feed, featuring pictures posted daily of regular meals topped off with a Pristur chocolate treat.⁵⁸

Competitor's distribution channels

With most of Iceland's population concentrated in greater Reykjavik, there are two main ways to sell chocolates in the country:

1. Set up a manufacturing and distribution plant in Reykjavik, and produce and sell the chocolates to distributors who stock product with their re-sellers, who sell to the public and sell on their website. The public may purchase products directly; product may be trucked to approved re-sellers to sell to the public; or, product may be sold online through the company website worldwide.
2. Use intermediaries to import chocolates for sale in Iceland. This process would use boat or air to bring the goods in and then either rent or lease to own a distribution center and use trucks to distribute the product to re-sellers such as candy stores or souvenir shops⁵⁹ in Reykjavik. Re-sellers can also pick up the product directly from the distribution center themselves.

The second method is less efficient, resulting in less profit for two reasons. First, the cost of bringing goods into Iceland through the various channels would add to the cost of goods sold (COGS), and second, the importer still has to rent a distribution center, have intermediaries or resellers pick up the goods at a pre-determined time, or

⁵⁶ Donna McLuskie, "An Invitation to Tour the Amazing omNom Chocolate Factory!," Guide to Iceland, accessed Nov. 20, 2018, <https://guidetoiceland.is/connect-with-locals/donna5/an-invitation-to-tour-the-amazing-omnom-chocolate-factory>

⁵⁷ "Sætt & Salt - Sweet & Salty," Icelandic, accessed Nov. 19, 2018, <https://www.icelandic.is/articles/saett-salt-sweet-salty>

⁵⁸ "Pristur," Instagram, accessed Nov. 19, 2018, <https://picgra.com/tag/pristur>

⁵⁹ Hallgerður, "Candy Theft in Broad Daylight," Must See In Iceland, Mar. 22, 2017, <https://www.mustsee.is/dont-buy-candy-souvenir-shops/>

truck it to the re-sellers personally. All these options would significantly increase the selling price through a web of potential logistical snags and discounts to re-sellers.

A producer based in Reykjavik with a factory has access to inexpensive electrical power and local milk to produce confections with; cocoa is the major product that must be imported. The purchasing public can either purchase directly, or would pay a delivery or shipping fee to have the product sent to them. This approach lowers the COGS and increases the potential gross profit margin – but comes with the increased risks involved in establishing a physical presence in a host country.

Market size

Estimated industry sales for the planning year

It is not possible to find exact chocolate consumption figures without purchasing a report, thus our estimates are based on best assumptions.

Chocolate consumption is on the rise in Iceland,⁶⁰ with an estimated 82,000 ISK spent on candy in the Reykjavik metro area between 2010 and 2012, \$660 USD, which equates to about 25% or more of one's monthly salary. These numbers place Iceland at the forefront of worldwide consumption of candy and chocolate products. If we say 50% of the total annual money spent on candy was for chocolate, then we could safely say that Icelanders spend about \$160 USD per year on chocolate products for every working person in Reykjavik. As of 2017 there were 181,300 people⁶¹ working in Iceland in total excluding self-employed, construction, agriculture and the arts which tend to work on commission or contract. If we multiply 181,300 x \$160, we can figure the estimated total chocolate product expenditures of Iceland at around \$29,008,000 USD per annum.

Estimated sales for your company for the planning year

Estimated fictitious projected company sales for the planning year:

⁶⁰ Anonymous, "Cross Cultural Chocolate Consumption," Chocolate Class, May 11, 2016, <https://chocolateclass.wordpress.com/tag/iceland/>.

⁶¹ "New Jobs in the Tourism Sector," Statistics Iceland, Apr. 11, 2017, <https://www.statice.is/publications/news-archive/enterprises/number-of-employers-and-employees-3/>.

Working off of the figures above, and using an aggressive market penetration strategy, we would target grabbing 1.5% of the total market share for annual chocolate purchases in Iceland. Multiply \$29,008,000 by 1.5% equals \$435,120 in forecasted sales for the first year.

Government participation in the marketplace

Agencies that can help us

Icelandic Agencies

Iceland has a Free Trade Agreement⁶² in place with Canada through the European Free Trade Agreement. To start a business in Iceland we must obtain a 10-digit identification⁶³ number, which serves as a gateway to Icelandic society. The Investing in Iceland website⁶⁴ shows many of the favourable incentives for foreign companies to invest and do business in Iceland. Some of these include lower foreign tax rates and tax exemptions on equipment and land purchases as well as authorization of the state or municipalities to lease or sell property for the project at lower than market rates.

Canadian Agencies

To export commercial goods from Canada⁶⁵, we need to:

1. Have a Business Number with an import-export account
2. Determine the country of origin of the goods (are they produced in Canada or somewhere else; some of our ingredients are sourced from the US, Australia and India) and potentially complete a Canadian certificate of origin
3. Find out if the goods can be exported or if they are prohibited or restricted in any way
4. Find out if you need an export permit
5. Classify the goods according to the Harmonized System (HS codes) or the Canadian Tariff Classification Number
6. Report your exports to Canada Border Services Agency

⁶² "Iceland Trade Agreements," Export.gov, Jul. 11, 2017, <https://www.export.gov/article?id=Iceland-Trade-Agreements>.

⁶³ "Establishing a Company," Island.is, accessed Nov. 17, 2018, https://www.island.is/en/business_and_industry/business/start_a_business/.

⁶⁴ "Incentives and Support," Invest in Iceland, accessed Nov. 17, 2018, <https://www.invest.is/doing-business/incentives-and-support/>.

⁶⁵ "Exporting regulations," Canada Business, accessed Nov. 20th, 2018, <https://canadabusiness.ca/government/regulations/regulated-business-activities/exporting-regulations/>.

7. Ship your goods, which could involve an inspection of your shipment by Canada Border Services Agency and could bring about penalties, if you do not comply with customs requirements

Export Development Canada⁶⁶ has financing and other options available for businesses that would like to export their products out of Canada to another country. These options are based on the province or territory that the business resides in.

Regulations we must follow

We must obtain the 10-digit identification number, and ensure our labelling complies with EU standards. Then, in order to enter Iceland commercially, we must go through a local bank to request an exemption from capital controls from the Central Bank.⁶⁷ If we later sell the Icelandic operation we would again be required to go through a local bank to correctly transfer money out of Iceland. All new Foreign Direct Investment that comes to Iceland needs to be reported to the Central Bank in order to apply for an exemption from capital controls.

Conclusion

While the Icelandic people and culture are attractive, the demand for chocolate and confections strong, and the potential entry into market relatively easy, we conclude that importing Purdys Chocolates into this country is not viable. We find that the market is small overall, and saturated with beloved local chocolatiers, both long established and newly created, who produce delights that suit the Icelandic palate – flavours and combinations that Purdys is not currently expert in. Moreover, the distribution of chocolates and confections by major producers exclusively through Noi Sirius further eats into potential market share. Purdys practice of discounting only in exceptional circumstances clashes with expectations in Iceland that such goods are discounted 50% on Saturdays; any method of importing would only add to the current domestic price of the goods. Lastly, it may be that the use of local Icelandic dairy gives local producers a material advantage: it is not clear how the milk flavours or consistency would affect the taste, or the production practices.

⁶⁶ “Financing,” Export Development Canada, accessed Nov. 20th, 2018, <https://www.edc.ca/EN/About-Exporting/Trade-Links/Pages/financing.aspx>.

⁶⁷ “2015 Investment Climate Statement – Iceland,” US Department of State, May 2015, <https://www.state.gov/e/eb/rls/othr/ics/2015/241593.htm>

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