

Nice guys making Nice Blocks*

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Like so many New Zealand stories, it began with a small, but innovative idea. One weekend at the beach, Tommy said to his friend James, ‘Why isn’t there a decent fruit juice ice block for sale?’. A market opportunity was obvious and the boys decided why not? The ‘Nice Blocks’ name and the ‘Tommy and James’ concept was developed. The company was registered in August 2010 and was New Zealand’s first Fairtrade-certified ice block company. Chris Morrison, a New Zealand pioneer of organic and Fairtrade opportunities (e.g., Phoenix Organics, All Good Bananas and Kokako Organic Coffee), joined them as a third partner in 2011, and since then two other partners have also joined the team. Nice Blocks led to Nice Cream, a coconut-based ice cream. Something nice had begun.

Even without a formal business plan, Tommy and James knew that if the company was to grow they needed to think big. After working in rented cafe space, in November 2011 they took the plunge and entered a 3-year sublease on an export-quality production facility, which included a fully equipped kitchen and office spaces, along with separate space for the ice block making and refrigerated storage. In this new space, the partners installed a 40-foot-long ice block machine that led the company to quadruple its output overnight. According to James, they had the second-largest capacity to make ice blocks in New Zealand, after market leader Tip Top. The pair employs five additional staff in the summer, making a total of 10 staff.

In April 2014, Tommy and James were deciding whether to focus on growing their New Zealand market share or to enter the Australian market. According to Tommy, ‘If we are to keep achieving our sales, which we have done all summer, where our growth is about 15% a month we will meet all the models that we put in place to have enough capacity to export to Australia. But we don’t want to move too fast’.

THE SOURCE OF ‘NICENESS’

Both Tommy and James had a core value of trying to ensure everything they did was ethical. They made their ice blocks as though they were making them ‘for our own children’, explained James. They preferred to use Fairtrade and organic suppliers. For instance, their main ingredient, coconut cream, came from Samoa, which had an added benefit of enabling them to support Pacific Island communities. Similarly, fruits such as lemons and feijoas were sourced in New Zealand, whereas mango, banana, raspberries, sugar and cocoa came from high-quality international Fairtrade suppliers.

Wanting biodegradable packaging, the company initially jumped in boots and all and used what was available at the time. Having not pretried it, they found this packaging became very flimsy and soft. The lack of durability forced Nice Blocks to change to the use of recyclable plastic. However, James acknowledged that ‘because the recycling options in New Zealand are not viable, we know it will end up in landfill’. In 2014, Nice Blocks was still not completely happy with the packaging material,

* This case is designed for classroom discussion. All material, unless otherwise stated, came from the business owners and publically available sources.

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although they did use bamboo rather than pine ice block sticks and had established a Landfill Offset Scheme, which allowed them to become proactive in generating green disposal initiatives.

MANUFACTURING THOSE 'NICE' TREATS

In 2014, running on slow, Tommy and James could make 1,400 ice blocks an hour or run an 8-hr shift and produce about 10,000 ice blocks. Nice Blocks came in six different flavours: lemonade lime, raspberry lemonade, natural cola, feijoa, vanilla bean and chocolate, the last two being coconut cream based. On average, they sold about 7,000 Nice Blocks a week in the summer. With this capacity they could produce all the Nice Blocks they needed for the week in less than a day. The rest of the week could be used for newer lines of Nice Cream. James explained that 'because of the shared components, we have the ability to cut down costs because we don't need double the freezer storage space, we can use similar packing lines. Having that kind of investment up front means that we can focus on one product and then shift our staffing to something else'. Nice Cream came in four choices: chocolate, vanilla bean, banana and mango. According to Tommy, 'the best part is they contain less sugar and half the fat of regular ice cream. Using coconut cream instead of dairy, means Nice Cream products are cholesterol free and contain all of the health benefits of the magical coconut!'. In 2014, their churning capacity was 890×475 and $2,000 \times 125$ ml tubs/hr, respectively. Each week they produced $3,000 \times 125$ and $2,400 \times 475$ ml tubs of Nice Cream.

GETTING THE 'NICENESS' OUT THERE

In April 2014, Nice Blocks had two key sales outlets – traditional grocery stores and route-based centres such as cafes, dairies and corner stores. The grocery stores included single stores in the New World supermarket chain and artisan food markets, such as Farro Fresh Stores. James explained the distinction between the two channels, 'in the grocery stores customers traditionally buy our take home packs of Nice Blocks and our bigger tubs of Nice Cream, while the route outlets customers will pass through each day and they will buy the single serve products on impulse. These customers will grab one here and one there'. By 2014, Nice Blocks had 150×80 l freezers for impulse purchasers (see Figure 1). A total of 100 were positioned in delicatessens and cafes, producing 75% of freezer sales with the rest located in a mix of organic stores and specialty grocers.

Another channel to get their products to the end consumer was the funky portable cart (see Figure 2), which could be found at special public events such as the annual Big Day Out festival, held each summer in Auckland. According to James, the pair often got these events manned by people they 'pulled in from outside the business'. They also made sure the staff created their own propagated feeds, using Facebook, Twitter and Instagram. Often the staff would have little snippets of adventures they had at events and also in the factory. James explained, 'We don't edit anything that gets posted; for example if chocolate Nice Cream explodes on someone in the factory somebody will probably take a photo and post it'.

CHILLING FACTS ABOUT HOW TO GROW ON THIN ICE

New Zealanders were known to be one of the largest consumers of ice cream and ice blocks comparable with most other countries, with over 27 l consumed per household per year and approximately NZ \$1 in every NZ \$44 spent on ice confectionaries. Ice cream sales grew 4% in 2013 to NZ \$344 million and were predicted to reach \$368 million by 2018. Fonterra was the dominant player with 57% of market share in 2013, with their leading brand, Tip Top, having a 53% market share of the ice cream market in 2013. Unilever had a 24% market share in 2013 with their brands Cornetto, Magnum and



FIGURE 1. NICE BLOCKS FREEZER (PICTURE SOURCE: AUTHOR)



FIGURE 2. FUNKY PORTABLE CART (PICTURE SOURCE: NICE BLOCKS)

Paddle Pops, whereas Nestle had the third-largest market share. There were also a large number of smaller players with <2% market share in 2013, including Deep South, Rush Munro, Kohu Road and many other small artisanal home-based businesses¹.

Even with intense competition in the market from the big players, James was still happy with the business model, 'We went from a \$2,000 cash investment in 2010 to \$750,000 sales in 2014'. Tommy and James want to be part of the ice cream business in the long term, but there were many questions they needed to ponder on: What products? What about Fairtrade supply issues? Australia? Being sustainable?

How could this young, entrepreneurial company address these issues while staying true to its values? James explained his recipe for happiness, 'Give more. Be compassionate, understanding, light-hearted, and relax – it's not a big deal. Don't rush so much, and if you have a partner, children or both, support and protect them so they can do the same for you'.

That is a business model we could all support. That is a business model that would be hard to lick.

1. As a micro entrant, how does Nice Blocks penetrate the New Zealand market dominated by large incumbents without intensifying rivalry?

The New Zealand ice block market is dominated by large incumbents like Unilever and Fonterra. Markham and Waldron (2014) introduce a framework for micro entry; the article can be used as a class reading or for instructor reference.

Students might discuss how, in general, start-ups lack resources and are therefore more vulnerable to retaliation, whereas large incumbents can rely on parent organisation support, particularly for financing, marketing and supply-chain capabilities. However, Markham and Waldron (2014) suggest that micro entrants are less likely to attract retaliation when they either target niches that solidify large incumbents' position (complementary) or cater to market segments that are unattractive or inconsequential to incumbents.

It can be argued that Nice Blocks are on the markets' periphery through ethical choice and dairy-free products, selling small volumes of hard to find items, and are less likely to attract retaliatory response because they are not threatening the incumbent's core business.

2. Should Tommy and James focus on growing the New Zealand market share for Nice Blocks, or should they enter the Australian market?

The case does not give any details about the Australian market, but it can be assigned as homework. The same issues discussed in question #1 apply to market entry in Australia. Students may argue that instead of growing bigger in the New Zealand market, Nice Blocks will be less likely to attract competitor retaliation by remaining small across multiple markets. The counter-argument is that expanding too fast is a common reason start-ups fail because resources are spread too thin.

3. Tommy and James can be described as pursuing a triple-bottom-line approach: people, planet and profits. What impact does this have on the business model?

Nice Blocks have a values-based business, which means not all of their decisions will be economically driven. Students may discuss how Nice Blocks' cost structures are higher, for example, from sourcing Fairtrade inputs and trying to minimise waste (e.g., Landfill Offset Scheme). Achieving profitability, under this model, may take longer; however, maximising profits can run counter to some social and environmental investments valued by the founders.

4. Will Nice Blocks entry impact the uptake of sustainability within the New Zealand ice confectionary industry?

Although question #1 examines micro entry generally, the case can also be used to analyse incumbents and new entrants from a sustainable entrepreneurship perspective.

¹ All statistical data collated from Euromonitor International (2014), Ice Cream in New Zealand and www.statistics.govt.nz

Although the ability of Nice Blocks, an eight-person company, to impact the industry seems unlikely, Hockerts and Wüstenhagen (2010) (optional reading) argue in the early stages of an industry's transformation towards sustainability, it is typically small firms and new entrants that stimulate disruptive sustainability innovation. Although Unilever already incorporates sustainability strategies, the fact that Nice Blocks was able to serve unmet customer needs suggests a lack of depth to those strategies. However, Unilever can have a broader reach owing to its established market presence, suggesting the compounded impact of the companies can lead to sustainable industry transformation.

References

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