

Holland sweetener company



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The Holland sweetener company is aiming to access the high intensity, low calorie sweetener market, which is at the moment dominated by a single company called “ NutraSweet”. NutraSweet has secured patent for its products in the industry. In this paper, we will attempt first to analyze the current sweetener industry, using Porter five forces industry analysis. Also, we will assess the likely response by NutraSweet on the threat of new entrants “ HSC”. In addition to this, we will also analyze the initiatives taken by NutraSweet and HSC throughout the case like vertical integration and strategic alliances, and how these initiatives created value for the company. Finally, we will also analyze the potential scenarios that are arrived by HSC on entering the market like “ Normal pricing” and “ Price war”

Industry analysis:

The high intensity, low calorie market as what we stated above was dominated by a single company “ NutraSweet” with annual sales of \$711 million, which is around 80% of the \$844 total sales of the industry in 1986(see exhibit 1). Also, NutraSweet was able to charge skimming pricing and capture large stake in the market. Furthermore, according to the case, the sweetener is expected to grow by 15%, with major sales in Europe. On the other hand, as stated above the patent of NutraSweet is due to expire in Europe and United states, which create a threat of new entrant to enter the sweetener industry like HSC.

Barrier to entry:

NutraSweet through the patent life has maintained several barriers to entry to protect the company from possible entrant threat.

High startup cost: the Aspartame manufacturing industry need a high capital outgo and long time to improve the efficiency of the manufacturing plant.

Also, according to the case NutraSweet has decreased manufacturing cost by 20%. All of this gives a clear message that entry is difficult for new entrants.

Patent: NutraSweet has several important patents in Europe and United states, some are due to expire in coming years.

Switching cost and buyer locked up: NutraSweet has entered into exclusive contact with Pepsi and Coca-Cola to sell new aspartame for a number of years, this will lead to difficulties for new entrants to establish high market share.

Legality: new product need to pass through several regulatory phases, to be approved by the F. D. A.

Consequently, this all show that the barrier to entry is high.

Substitutes: High intensity, low calorie sweeteners are used in the composition or many Products, but have no absolute substitute. Aspartame and sugar can't be substitute since it does not contain all the quality in Aspartame.

Suppliers: L-Aspartic and L-phenylalanine are important composition of aspartame and are count in many different sources, however, suppliers for L-phenylalanine were not many, which create a supplier power for this supplies also , this indicates why NutraSweet and HSC has went into different strategic alliance and vertical integration in their supply chain

Buyers: Soft Drinks manufactures, frozen desserts, gum, and table top products are the main buyer of the sweetener industry. However, according to the case, soft drinks accounts for 80% of aspartame sales , table top for 15% and 5% for other different products This shows , that coca and Pepsi has buyer power but due the Monopolistic position of NutraSweet , the power is not that big since patent has been secured for years

Rivals

In 1986, rivals in the market of aspartame is very low because of the exclusive rights NutraSweet's to produce aspartame in several countries for example, US, Europe and Canada. On the other hand, the expansion of a substitute high intensity sweetener is growing in the market by using different kind of blends, this sector of the market represent an important threat to NutraSweet's market share. NutraSweet will have different rivals in the market of producing aspartame when the patent will expire in the different regions they dominate.

After the expiration of aspartame patent for NutraSweet, the predicted reply to Holland sweet company entry will be. NutraSweet gained extraordinary amount of profit by offering a high price in the market due to their monopolistic position in the market. NutraSweet's management will react aggressively to danger created by Holland Sweetener company entry to market of aspartame to protect their control of the market.

Any fresh company enters the market require to have either Coke or Pepsi as their clients to accomplish effectiveness in producing aspartame. This is the point where NutraSweet's will have the upper hand against their rivals in

leading the market. By using their brand name, high profits and excellent relationship with buyers, NutraSweet's will have the ability to afford signing a long and exclusive contract with the major customers of aspartame. This plan will make it harder for Holland Sweetener Company to locate buyer to buy their potential arrangement to produce 500 tons of aspartame. The major threat from NutraSweet's to Holland Sweetener Company is the ability to have high profit margins. Even though, Holland Sweetener Company alleged that their production cost of aspartame will be lower and more flexible than NutraSweet's; they still have to compete against NutraSweet's experience in operations, popular brand and their well-constructed association with major clients in the market.

Differentiation strategy is anticipated to be maintained by NutraSweet to have high profit in this market. Differentiation strategy can help them to construct a firm brand in some markets similar to the one they have in the US for example, the European and Canadian markets. NutraSweet can benefit from the patent they have in US which due to expire in 1992 to support their market in Europe and Canada which is due to expire in 1987. They can gain high profit margins in the US market which will aid them in the Canadian and European market by reducing the price of the product so it will be difficult for rivals to compete. The excess of profit in US market will cover the loss in the European and Canadian markets.

Scenario Analysis

Scenario 1: Price war

We pointed out above; fresh entrant requires having at least Coke or Pepsi as their buyers to efficiency in this industry. If NutraSweet's losses of the <https://assignbuster.com/holland-sweetener-company/>

companies that means that they will lose a huge market share. The only achievable method Holland Sweetener Company can tempt Pepsi, Coke or both of them to sign a contract with them is by offering lower price than NutraSweet's. Since NutraSweet's was not flourishing in Canada and Europe, Pepsi and Coke are improbable to offer a far above the normal prices to NutraSweet's one time when Holland Sweetener Company enters the market and provides a new product. With the beginning of new merchandise in the aspartame industry will lead enhance buyers' power which will lead to a reduction in the price of the product?

Scenario 2: Normal competition

As mentioned in the previous paragraph, price war strategy will a sever effect on the market of producing aspartame by reducing the value of both competitors. The only solution for NutraSweet to avoid brutal price war is to force Holland Sweetener Company to exit the market as soon as they enter or the two firms will keep dropping their prices to gain more market share and bear loss or low profits. There is another strategy to avoid price war which is game theory.

Game theory, this is a scenario capacity is recommended to keep away from having a price war between NutraSweet and Holland sweetener Company. The price of each firm should indicate the intention of each company. After the patent expires in both Europe and Canada Holland Sweetener Company price entry in the aspartame industry will indicate their pricing strategy. If Holland Sweetener Company offer a very low price compared to NutraSweet original price in the market, it will communicate that they are using price war strategy. On the other hand, if Holland Sweetener Company offers same or <https://assignbuster.com/holland-sweetener-company/>

inferior reduction from NutraSweet original price, it will communicate that Holland Sweetener Company wants to have peace. This strategy by Holland Sweetener Company will reduce the danger it poses on NutraSweet market leadership of the aspartame industry. Meanwhile, this strategy will recognize NutraSweet as the leadership of the industry and recognize Holland Sweetener Company as inferior supplier of aspartame. Game strategy depends on the response of NutraSweet, if NutraSweet reduce their price lower than Holland Sweetener Company this means that they are going to a price war and if they did not respond this means that they are will to share a small part of the market with Holland Sweetener Company.

The important question in this case is whether the capacity of the market can maintain two suppliers. If it can so there is no worries the two firms can get high profits without needs for fights for market shares. Both of them can find equilibrium to have high profits. It is discussed in the case that is planning to have a 500 ton plant to support their Canadian and European market. This plan for sure will lead to a severe fight because the entire Canadian and European capacity for aspartame is 550 ton.

Recommended Action

Taking into account that price war strategy is probably to occur, before the end of NutraSweet patent they will respond violently. If NutraSweet can secure their exclusive multi-year contract with Pepsi and Coke it will make it harder on Holland Sweetener Company to have a good share in the market. Taking into account that Pepsi and Coke will benefit from Holland Sweetener Company entrance in the market, it will help them to sign a contract with Pepsi or Coke before spending considerable quantity of money in their plant.

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Holland Sweetener Company will capture a significant amount of the market share of aspartame industry

After the case date

After the entry of HSC, according to Goodman " NutraSweet lost some market share in 1992, when aspartame went off patent and Holland Sweetener Co. (Maastricht, the Netherlands), a joint venture between DSM (Heerlen, the Netherlands) and Tosoh (Tokyo), entered the market. In the U. S., the artificial sweetener market will grow from \$774 million in 1995 to more than \$1. 1 billion by 2000, according to the Freedonia Group (Cleveland)".

In addition to this, in May 21, 2007, According to NutraSweet CEO Craig Petray, there is tremendous opportunity to leverage the NutraSweet brand in consumer markets throughout the world. " The NutraSweet brand name and its familiar ' swirl' symbol remain one of the most recognized and respected consumer brands in the world," Petray said. " With the power of the NutraSweet brand name and the sweetener experience of Domino, we will be positioned to become a major player in the billion dollar retail sweetener business," Petray said.

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