

S.a. chupa chups



**ASSIGN
BUSTER**

S. A. Chupa Chups Case Preparation S. A. Chupa Chups is a Spanish company, manufacturing and selling sweet products. Founded in 1957 by Enrique Bernat, it has built its empire around one single product: a lollipop. It now has manufacturing plants in five countries, many subsidiaries in distribution, trading, banking, marketing, confectionary machine manufacturing and insurance, and trades in 130 countries around the world.

Early Strategy: concentrate on one product for domestic market In 1957, After Enrique Bernat failed to convince the board of S. A. Granja Asturias, a sweets manufacturer in Asturias (central north Spain), the company that he has been working for as a general manager for two years, to impose a change in its strategy from concentrating on selling hundreds of sweets products in just one market to concentrating only on producing one product but for several markets, he decided to takeover the company and rename it to Chupa Chups. As a result of the takeover, the company imposed the new strategy right away and with the vision of Bernat, it chose to concentrate on lollipop as its only product. Bernat came up with an idea of lollipop on a stick after remembering how children would get stain on their clothes from consuming sweets. Chupa Chups introduced its first lollipop in 1958 with a slogan " Chupa un Chups" (suck a sucker), however, the name was changed three years later to Chupa Chups.

Later Strategy: internationalization
Developing markets in developed countries After having been very successful in the domestic market, Chupa Chups had to make a critical decision of whether to diversify its operations into other confectionary and food products or to try to sell its current products to other markets by going abroad. It eventually chose to go abroad. First, Chupa Chups chose to export to France by building a partnership with a French manufacturer. Chupa

Chups quickly gained strong share of lollipop market in France with the crew of two hundred salesmen in small cars. However, it later found out that there were frauds with its French partner. As a result of this combined with 20% export tax it had to pay, Chupa Chups eventually acquired a majority of shares of a renowned French confectionary company that was in big financial trouble. Besides France, Chupa Chups also expended its market to Germany, United States, and Japan during 1960 to 1968. Expanding to developing countries After being successful in developed countries, Chupa Chups saw a big potential in other markets, namely markets in less developed countries including China, Russia, and India. It expended into these countries by using the same expansion model for all markets in less developed countries. The expansion model requires Chupa Chups to:

- Establish partnership with a local organization in a country with underdeveloped distribution network
- Take a majority share of the partnership
- Provide only basic machinery to its partners in the beginning
- Only let new partners produce Chupa Chups Classic, the most basic product, in order to prevent the leakage of information and technology
- Let partners continue to maintain their own successful confectionary line
- Basic raw materials such as glucose and sugar will be sourced locally while other materials such as packaging and complex lollipops are shipped from Spain
- Management consists of both expatriates and local staff
- Select top, dedicated, distributor with own manufacturing facilities and not too many other product lines

Chupa Chups has been successfully using this expansion model in developing its market in less developed countries. There are many advantages in using this model such as, the standardization in implementing the model, freedom for its partners to continue producing their own line, and it lets Chupa Chups

gradually transfer its technology to its partner after some relationships and trust have been established. However, the main disadvantage of this strategy is the risk that Chupa Chups have to face especially entering into countries that are politically unstable such as China and Russia and taking majority share of partnership. Recommendations: After having studied the case carefully, it seems like Chupa Chups is on the right track and my recommendations for Chupa Chups would be to identify their key competitive advantages and try to make them sustainable. Chupa Chups' current key competitive advantages are, first, human capital; Chupa Chups have rare combination of talented and motivated employees. Its Employees benefit from good salaries and friendly atmosphere of a family business style of management. The second key advantage is the strong distribution system, the distribution network of one of its subsidiaries, Chupa Chups Diversificacion, is very responsive to the market and is a key success factor in its rapid expansion. Another key advantage of Chupa Chups is its reputation for being a quality brand as evidenced by the fact that Chupa Chups will not introduce new product unless it is completely confident about the quality of the product. The last key advantage that Chupa Chups has is technology; Chupa Chups produce its own machineries and develop its own process technology which protects technology and information leakage from competitors thanks to the acquisition of Confipack in its early days. With these key advantages identified, Chupa Chups should try to keep improving and sustaining them in order to keep them as advantages for the future.