

The global expansion of shiseido company marketing essay



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The report looks at analyzing the Global Expansion, restructuring of the multinational network and motivational factors that influence the functioning of Shiseido Company Ltd. in global cosmetic industry. First section of the report describes the evolution of the company and its initial phase. This section also explains the detailed history with some background information of the company. It has been observed that currently the company is having a wide range of products in more than 75 countries including 96 subsidiaries with a decent number of domestic and international stores (Roll, M. 2006).

Next Section shows the Strategies and monopolistic advantages of Shiseido. It has been observed that the strategies of the company primarily affect the performance. Also, theories like quality, corporate stability, respect for consumer and sincerity play a vital role here. Though Shiseido faces a strong and cut-throat competition, it maintains its competitive edge on its competitors by the adoption of better strategies, R&D and brand management (Ai Jun Ho. April, 2001). Further it explains the international expansion of the company

considering Uppsala model. It has also been deduced from research that the company always behaved as market seeker and efficiency seeker.

Furthermore, it is observed that the company chose further countries for its expansion and different market seeking factors like GDP per capita, Specific age group, Ease of doing business and Research and Development spending of that country.

The report lastly draws a recommendation based on the above mentioned factors.

Introduction & Background

Shiseido Company of Japan is one of the leading companies in cosmetic market and always ranked in the top ten companies of the world. The company is currently operating in 76 countries and approximately 96 subsidiaries worldwide that means multiple subsidiaries in one country. Presently Shiseido has employed about 28, 968 employees and its annual turnover in 2010 was a massive ¥ 644 Billion (Shiseido Annual Report, 2010). Shiseido is offering different kind of products at home country as well as in all other subsidiaries; its wide range includes sun-care, hair-care, body-care, makeup and fragrance products.

Company has constructed a strong network of “ 25, 000 standalone stores and outlets in big departmental stores & supermarket” in its home country. (Ai Jun Ho. April, 2001). Except these, company owned stores Shiseido’s products are also distributed through 83, 000 domestic stores and almost in 39, 000 international stores (Shiseido Annual Report, 2010). Moreover, products are also sold in high class bistro, boutiques and salons.

Regarding the historical facts, Company's name came from a Chinese origin which is pronounced as (She-say-doe) and its meaning is "praise the virtues of the great Earth, which nurtures new life and brings forth new values" (Shiseido Annual Report, 2010). Shiseido was established in 1872 as western style pharmacy, in a district of Tokyo called as 'Ginza'. This was the time when only herbal medicines are in trend. Company started with a small store in crowded shopping complex, and people like their western style high class products. Shiseido starts to produce medicines in 1880, and after eight years in '1888' they introduced a new product to domestic market called as Toothpaste. Company steps into the cosmetic world by introducing "Eudermine, a skin lotion" (Greek meaning good skin), in 1897 and by 1915 Shiseido changed its whole focus to cosmetic market from pharmaceuticals. In 1927 Shiseido listed in Tokyo stock exchange and changed to Shiseido Company Ltd. Company starts its global expansion with specific product lines in 1957, after saturating its domestic market (Roll, M. 2006).

Monopolistic Advantages and Strategies

The main strength and differentiating factor of Shiseido was its exclusive idea of mixing eastern old art with new western science. Except this idea, in 1921 the company developed a theory that guides it to the virtue of glory.

The theory constitutes five principles that are:

Quality

Coexistence and Co-prosperity

Respect for Consumers

Corporate Stability

Sincerity

All the principles have their own significance in company's growth. Quality signifies the excellence of products also shows the worthy nature of product, whereas Sincerity represents showing respect to channel partners and distributors. The significance of third principle can be easily derived from its name Respect for consumers' that means providing value products and lastly Stability in corporate sector defines to grow in their market holding all the current parameters (Ai Jun Ho. April, 2001).

In continuation with monopolistic advantages and strengths next one is their Strategies, one of them that had helped Shiseido for its global expansion was their Brand Management that means introducing new brands with different names in foreign markets that caters to different market segments. For e. g. in 1981, Shiseido introduced three different sub-brands in china which are Aupres, Za and DQ serving to elite class, mid range, and mass market respectively (Ai Jun Ho. April , 2001) another factor responsible for the success of company is “ its effort in pursuing advances in beauty” (Akira Gemma, 1999). Moreover, company also developed a new strategy in china by making its sub-brand Aupres as their main brand and putting Shiseido under its sub category. This strategy got high success and in current scenario many other companies like L'Oreal are trying to adopt it. The company adopted a strategy that was not common in most of the Asian countries called as “ Acquisition & City Concept Strategy” and used this approach to achieve hold in the markets of US and Europe (Roll, M. 2006).

Acquisition strategy means to get admittance in already customary market rather than spending too much time in exploring new markets or to start work from initial stage. Shiseido prefers to acquire already settled brands in that market, e. g. company acquired existing Carita brand and some high profile salons (with a client line of celebrities and royal peoples) in Paris to achieve hold in European and French market also they acquired “ Unilever’s Helen Curtis” to get control in North American cosmetic market. Another good example is “ Shiseido’s acquisition of a Carter-Wallace pharmaceuticals plant in East Windsor, NJ that the company will convert into a skin-care unit” (Chemical Week; 6/25/97).

Another important strength for the company was its Research & Development department; Shiseido always used its R&D department to modify and fabricate its new products. According to Cyrille, Shiseido ranked as number two in cosmetic market for R&D spending and the reason to spend that huge amount is to increase creativity and quality of products (Cyrille, B. JULY, 2004).

Global Expansion

After saturating its domestic market (Japanese), Shiseido starts to expand in international market. In 1960 company starts its operations in Hawaii, which has nearly same culture as their home country. “ International operations boom in the 1960s, as subsidiaries were established in New York, and Milan after Hawaii” () and at this point Shiseido contradicts the Uppsala Model. The model explains that ‘ How company start its activities in international market, the key point of the model states that company firstly initiate its expansion with those countries which are culturally close to its domestic

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countries then gradually move to more distant places (Blomstermo, A. and Sharma, D. 2003).

Company introduced its product line in US during 1970's, but failed to get expected sales. Then company chose a new approach and offered a special range of products for elite class fashion retailers. This strategy works not only in US but in other countries also. In addition to further expansion from 1986 to 1988, company acquired a beauty salon in South Africa, opened another self owned salon in Paris and acquired " Zotos International Inc.; famous salon products supplier" (Roll, M. 2006). After two decades around 1990's company start its efforts to become global power in cosmetic industry. However, in next one year revenues began to fall due to the price deregulation in Japan. Deregulation starts due to the low price discount chains that were widespread in the US. As the time continued, Shiseido faced serious competition at domestic market for the first time in its record due to decrease in trade barrier and import duties (Roll, M. 2006).

To overcome the above mentioned threats in its domestic market, Shiseido, whose original target market was elite class took a new step and start to manufacture low segment products. Moreover, company divided its domestic product line into two parts called as: " Cosmetics, which handled consultation-oriented products, and " cosmenity," which handled self-selected products" (Roll, M. 2006).

As explained earlier in this report that in scenario company is operating in 76 countries and always eager for its expansion in foreign regions. According to company's history its investment motivations are;

Market Seeker: As Shiseido is investing in cosmetic market to supply goods in both domestic and foreign regions. The other reasons showing company as market seeker are; promoting and searching new markets with sustaining its old markets, modifying product lines according to local customer needs. Moreover, Shiseido's network structure is highly dispersed with highly specialized subsidiaries and dispersed network of the company help it to better understand the need of customer (Lecture Slides).

Efficiency Seeker: Company occasionally changed its structure better suited for its expansion and growth. Sometimes they acquired already settled brand and in some cases company opened its own retail stores e. g. recently sold off (in 2007) ZIRH International, a New York based producer of men's skincare & fragrance (Lecture Slides) also the " company will spend \$30. 5 million to build a plant in Ormes, France" (Chemical Week; 6/25/97).

Now having looked at the motivational factors that Shiseido has had, the report will look at method to short list a country for Shiseido to expand into.

Short listing of Countries

This section is based on our (me and my group mates) research and analysis

Shiseido always has been very particular about choosing its target countries. Before recommending any country company analyzes it with different market seeking factors. Now the report explains the procedure performed by us for choosing the next country.

We started with 193 countries that are the total number of countries in the world and Shiseido is already present in 76 countries therefore only 117

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(193-76) countries are left for analysis. Then GDP per capita is taken into consideration for further steps, but we have not found GDP data for 13 countries so left with 104 countries. Then in next step, countries whose GDP per capita < 1000 were omitted because all the 76 countries in which company currently exists have GDP per capita > 1000(Fig. 1). After eliminating the countries on the basis of GDP factor, we left with 12 countries. After this we only considered the countries where the target market population of age group 15 to 64 yrs is equal to or greater than 55% of the total population. At last we got final 9 countries in which Shiseido can invest and choose for its next market (Data from <http://esds.ac.uk/>).

The final nine countries are: Belarus, Estonia, Armenia, St. Lucia, St. Vincent and the Grenadines, Uzbekistan, Panama, Belize, and Gabon.

After selecting 9 countries, we analyzed them using different market seeking factors and they are:

GDP per capita: This factor explains GDP structure of selected nine countries for three consecutive years. By looking at Fig. 1 it can be understood that Estonia is performing far better than others in terms of GDP also Belarus, Gabon and St. Lucia are doing good in comparison to all countries.

Fig. 1 (Data from <http://esds.ac.uk/>)

Population Age (15-64) % of Total Population: This factors refer to the population age of target market. Here Fig. 2 shows a gradual decrease of population percentage of target market from Belarus to Gabon (from 72% to 59.5%) in 2009.

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Fig. 2 (Data from <http://esds.ac.uk/>)

Research & Development: This factor shows the R&D spending of that country. Data was available for only three countries Belarus, Estonia and Armenia. According to Fig. 3 Estonia is a clear winner (average of 1.06 from 2005-07) in R&D spending followed by Belarus (average of 0.77 from 2005-07).

Fig. 3 (Data from <http://esds.ac.uk/>)

Ease of doing Business index: This factor refers to government rules and regulations of doing business in that country. Higher the regulations lower is the ease of doing business. Fig. 4 shows that Estonia, Armenia and St. Lucia are the best countries in terms of regulations while Uzbekistan, Panama, and Gabon are worst.

Fig. 4 (Data from <http://esds.ac.uk/>)

After analyzing all the factors we made a table, where '+', '-' and 'N/A' sign represents Positivity, Negativity and Data not available respectively, for the factors with respect to the countries.

Fig. 5

Recommendations

After adding up all the positive signs (fig. 5) it can be bring to a close that Belarus and Estonia both the countries have same score and are good options for market expansion. Furthermore, after comparing the final two

countries again on the basis of above mentioned factors, it can be easily concluded that Estonia is doing better than Belarus in most of the factors.

SO, the Final recommendation is ESTONIA.