

# Background market and strategies of the nissin group business essay



**ASSIGN  
BUSTER**

Through the evaluation of the background, market situation and business strategies of Nissin Group, this paper provides the explanation on why Nissin instant noodles have achieved a fast development performance in the instant noodles business in Hong Kong

The study of Five Forces and PESTEL analyses will lead to the understanding on how the macro-environment and micro-environment affect Nissin performance its business direction and strategy. A further study of the results from the perspective of an internal competence analysis to the results from the Five Forces and PESTEL will identify the strengths, weaknesses, opportunities and threats of Nissin. These findings will then tell Nissin of what needs to be minimized, eliminated, and to reduce or neutralize risks.

All these findings will add up the reasons to justify how Nissin sustains its market leader position in Hong Kong. Suggestions on improvement and implementation of corporate strategy will also be elaborated.

## 1o. Introduction

Intrepid Japanese entrepreneur named Momofoku Ando established Nissin Foods around the middle of the 20th century with the name Chukosasa Co., Ltd. Foreseeing that Japanese society was being economically and socially reengineered toward production speed and efficiency, he also sought to reengineer the Japanese diet in response. His answer to the requisite of speed exerted and demanded of the modern Japanese was simple - the instant noodle.

The invention revolutionized the food industry not only in Japan but also throughout the world. Now Nissin Foods, produce not only instant ramen noodles but also fresh and pre-packaged frozen food, and meals-ready-to-eat including cereals and spaghetti. But noodles remained the primary product draw. Mr. Ando stayed ahead of the competitive pack with remarkable innovations. In 1963, he introduced into the market the ramen Yakisoba, which had a separate flavoring packet. A decade later, Momofoku Ando invented cup noodles and in 1984, Nissin Foods established in Hong Kong (Nissin Foods Holdings, 2010).

What has been Nissin's strategy to address the various forces acting upon the instant food industry? How valid and viable would this strategy still be in an age of high technology and rapid global integration? And now, let's start to know the direct key stakeholders in Hong Kong.

Management of Nissin - The Management receives strong support from Parent company who has made the sustainability much easier for a stronger market share.

Staff of Nissin - They are the executors of the business. Staff would be happy to work for Nissin if the business is stable and with continuous growth.

Hong Kong consumers - the market share is large amongst the younger generations and white collars as they accept new trendy food, especially from Japan.

Food and Environmental Hygiene Department (FEHD) of Hong Kong

Government - the Government has to control the types of incoming food

<https://assignbuster.com/background-market-and-strategies-of-the-nissin-group-business-essay/>

products for consumption, as a statutory body, FEHD will govern the quality of food items importing to Hong Kong.

Hong Kong Consumer Council – it regulates the selling of consumer goods to the public in a fair trade practice.

By supports of academic references, there will be a careful analysis of macro-environment and micro-environment undertaken by using Five Forces and PESTAL, plus a review of the internal analysis by strategic capabilities. The outcomes from external and internal environment analyses will be combined in a SWOT analysis. From the results of this analysis conclusion on overall business strategy, some improvement or implementation can be drawn through the methods of Porter's Generic Strategies, Ansoff's matrix and organic method.

## **2. Analysis of Nissin in the Instant Noodles Industry in Hong Kong**

The following analysis of Nissin is based on strategy development processes suggested in major strategic management literature. There will be a careful analysis of macro-environment and micro-environment undertaken by using Five Forces and PESTAL, plus a review of the internal analysis by strategic capabilities. The outcomes from external and internal environment analyses will be combined in a SWOT analysis. From the results of this analysis conclusion on overall business strategy, some improvement or implementation can be drawn.

## **2. 1 External Analysis – Industry Analysis/ Five Forces**

Analyzing the generic food industry from the perspective of Michael Porter's five forces, namely, the threat of new entrants, competitive rivalry within the industry, the threat of substitutes, the bargaining power of customers, and the bargaining power of suppliers (Porter, 1985).

### Threat of new entrants

Nissin Foods in Hong Kong does not perceive any new entrants or competitors in the industry. The market appears to be increasingly expansive and lucrative and this is expected to lure new participants. However, the predominance and well-entrenched positions of the current players had dampened the enthusiasm of those who intend to enter the industry from outside. Industrial competition would probably more ensue from within and intensified internal competition would take place in the form of innovations in the product itself as well as in promotional designs and packaging. The barriers to entry are quite formidable considering that customer loyalty to the existing players are quite strong and that these current players have already established linkages with local formal sources of capital and distribution outlets (Becker, et al., 1999).

### Competitive rivalry within the industry

The instant noodle industry in Hong Kong is a highly intense rivalry among the current players, thus making the industry itself highly competitive. Innovations are frequent and the market now regards as its highly popular products, environmentally friendly cups and containers and food ready to eat from the moment the packages are opened. Advertisements fight for time  
<https://assignbuster.com/background-market-and-strategies-of-the-nissin-group-business-essay/>

both on mass telecommunications channels and over the Internet and companies also engage in intense competition in the sponsorship of events like games and competitions. The existing noodles companies also engage in the constant monitoring of the performance of their products on the market, outlaying huge sums of money for customer surveys, promotions, and advertisement as well as in technology and manufacturing innovations.

#### Threat of substitutes

Hong Kong consumers are increasingly health conscious, they demand fresher and higher nutritional food. As such, there is an increasing consumer preference for fruits, vegetables, poultry and low fat, low sugar and zero to low preservatives content products. No matter how much hard works Nissin has contributed to the improvement of noodles quality, the dried instant noodles are not considered as a real meal to the consumers in Hong Kong. Substitute products like those offered by Jollibee, McDonalds, KFC and fast food noodle houses are slowly but steadily flooding the market and as buyers become more tend to the Western style of business activities and private lifestyles, such substitutes become increasingly attractive than the traditional instant noodles.

#### Bargaining power of customers (Buyers)

It bears negatively on the prospects of Hong Kong's instant noodle industry as more and more people rising in terms of social status and economic position. The increasing purchasing power of the population exerts leverage on instant noodle companies who might see the loyalty of their customers being eroded by their increasing incomes. The substitute product firms such <https://assignbuster.com/background-market-and-strategies-of-the-nissin-group-business-essay/>

as the fast food chains are also known for their notoriously low operating costs and their relatively cheaper products. Cheaper products have a corresponding income effect on the consumer as they realize the greater power of their money vis-a-vis the substitute product. When combined, these factors lead to the rational consumer realigning his consumption possibilities curve to favor the substitute rather than the formerly patronized product. This situation currently faces the Hong Kong noodle industry.

### Bargaining power of suppliers

Finally, and as a counterpoint to the pathetic prospects with regard to the increasing demand of substitute products in the instant food market and the increasing power of customers, the instant noodle industry is seen to still maintain its hold over the supplier sector. In this regard, the bargaining power of the suppliers for the instant noodle industry remains low as many of the independent supplying firms have either been vertically integrated into the existing companies or have been interlinked through long term supply contracts. The low rate of entry into the industry also act as a safety net that limits the power of suppliers to charge high prices for the firms' inputs which basically include wheat, buckwheat, corn, sesame oil, and other organic inputs. The suppliers' market remains huge and extensive allowing for easy substitutability whenever a supplier becomes a party to an unprofitable relationship.

## **2. 2 External Analysis – PESTEL**

The PESTEL analysis provides a comprehensive list of influences on the possible success or failure of particular strategies; it stands for political,

economical, social, technological, environmental and legal. (Johnson, et al., 2008)

### Political Situation

Hong Kong's political system follows the set-up envisioned by the Chinese government when the former British colony returned its sovereignty back to China in 1997. The Chinese government maintained the capitalist economy and so the situation remains favorable to continued and sustained business expansion. Hong Kong's administrative structure carefully and strictly enforces laws and regulations that regulate fair business competition. Corruption is at fairly low levels and government officials are careful to preserve the Chinese government's reputation of fair but strict governance according to the law (Goodstadt, 2010).

### Economic Situation

With Hong Kong's position as one of Asia's financial and trading centers firmly entrenched, the city is actually looking forward to another sustained economic growth by 2011 and beyond. Hong Kong remains a fast-paced hub of businesses among almost all the global cities and therefore social mobility is fluid, leading to a fast rising middle class with an increasing purchasing capacity. Demand for instant foods is therefore expected to increase and despite the existence of a fairly sized competition, notably the Toyo Suisan Kaisha, Ltd.; House Foods Corporation; the Nong Shim Company, Ltd.; the Tingyi Cayman Islands Holding Corporation; Asia Food and Properties, Ltd.; the Ottogi Corporation; the Myojo Foods Company, Ltd.; the Tokatsu Foods Company, Ltd.; and Bing-Grae Company Ltd, the market shares of these <https://assignbuster.com/background-market-and-strategies-of-the-nissin-group-business-essay/>



companies remain small. With the expected expansion of existing demand, will in effect scramble for larger and larger shares of this market.

### Social Situation

Noodles remain a primary staple in the Chinese diet, it being one of the traditional foods associated with the culture. As the social structure modernizes and instantaneity becomes a part of the society's way of life, instant ramen noodles become the norm. Cultural adjustments in response to modernization have often been slow but the rapid acceptance on instant noodles ever since its introduction in the 1950s has been truly revolutionary, the product being responsive to the demands of both tradition and modernity.

### Technological Situation

The information and communications technological infrastructure in Hong Kong has been always at the forefront of the adoption and utilization of new generations of such technology. Manufacturing equipment remains state of the art and Hong Kong laws and regulations are unrestrictive of the entry of more advanced technology. Hong Kong, moreover, is solidly linked to the global village through the Internet with firms recognizing the imperative of such linkages with the status of their Hong Kong firms as hubs for their global operations.

### Environmental Situation

The government and the people of Hong Kong are concerned about the implications of manufacturing activities on the environment. Firms should <https://assignbuster.com/background-market-and-strategies-of-the-nissin-group-business-essay/>

answer the demands for corporate social responsibility in this aspect. For example, pollution and waste management are particularly important considerations. Since government has already put in place policies that address environmental concerns, environmental reporting is now the focus of governmental efforts. Different sectors are seeing the value of linking environmental responsibility and reporting (The Association of Chartered Certified Accountants, 2010). As environmental reporting becomes more widespread Hong Kong firms are also given the chance to keep with international trends.

### Legal Situation

Hong Kong provides an extremely favorable legal environment to businesses, as the official rates of income taxation for both individuals and corporations are relatively low compared to other business areas. Corporate income taxes for example peak at 17.5% allowing business establishments higher outlays for investments and expansion providing them sufficient breathing space for increased profits and returns on their investments. These conditions serve as a major pull factor for regional and local investors including Nissin Food. Companies who also have CRS departments like Nissin could also avail of tax holidays of as high as 10% on their incomes (Hong Kong SAR, 1997). In addition, courts and magisterial agencies are highly competent and legal expertise are extremely trustworthy in a place that had developed an excellent reputation for judicial fairness and equitability from even from its years under British rule.

## **2.3 Internal Analysis – Capabilities**

Nissin Food Co., Ltd. has always been extremely competent with sufficient financial capacities that should allow it to withstand fluctuations in consumer demand throughout the years. Its manufacturing plants and equipment remain modern and environmentally safe, complemented by subsidiaries that have safety research in food technology. Nissin's technological expertise, directorial competence and workforce commitment remain at the highest levels and the Ando family has kept the family's trade secrets secure with the proper legal and propriety registrations and protection.

Technological knowhow has often been a trademark of the company ever since it was established and kept with important business moves over the years.

Quality control technology has been especially developed through the years with the company regularly testing and re-testing its products before they are put on the shelves and marketed overseas. Even packaging, storage, and transport mechanisms are strictly monitored and frequently adjusted to ensure quality standards of safety (Nissin Food Co. Ltd, 2010).

Through these initiatives, Nissin Food has maintained a solid image as the primary instant food corporation carrying what they call Japan technology. The company also enjoys an excellent reputation with its suppliers as well as its workforce and the city of Hong Kong itself.

Another internal competence of the company is the presence of a highly competitive and committed workforce led by directors who are highly trained in their respective fields. Employees undergo periodic training and

evaluation mechanisms, follow strictly implemented guidelines in the performance of their respective jobs. Human resources thus become highly motivated and trained (Nissin Food Co. Ltd, 2010).

Regardless of these competencies, the company faces real risks, which if left unattended may pose serious attacks on the stability of the company.

Among these would be food safety issues as consumers become more and more conscious of bio-terrorism while other brands are more aggressively promoted. The risk of increasing prices of raw materials such as flour, palm oil and petroleum-based products for packaging purposes is also accounted. And more, risks related to information systems become more technologically sophisticated than ever.

### **3. SWOT Analysis**

SWOT analysis is an important step in planning but its often being underestimated its usefulness and functions. SWOT analysis is a basic, straightforward model that provides direction and serves as a basis for the development of marketing plans (Ferrel, et al., 1998).

#### Strengths

Nissin Instant noodles have made a significant impact in the Hong Kong residents' diet ever since the company's branch was established therein in 1984. Thus the company enjoys a high reputation with the brand itself having instantaneous recognition and respect by its patrons. The brand enjoys sustained loyalty among consumers, its manufacturing sector known for sanitary and environmentally friendly production processes, and the product is known for its flavor and taste, price reasonability, health

<https://assignbuster.com/background-market-and-strategies-of-the-nissin-group-business-essay/>

attributes, and long shelf life, characteristics which make Nissin's instant ramen noodles highly appropriate to the lifestyle of the modern Hong Kong resident. Mr. Momofoku Ando had retired in 2005 but the family has retained its unique capacity to adjust its products to various cultural contexts, delivering dozens of varied flavors for different country and city preferences and its keen recognition of new complementary products like environmentally friendly containers and cups to merge and link-up with manufacturers of these innovations to ensure cost efficiency to sustain business scale.

### Weaknesses

There is no apparent weakness of the company except perhaps that the aggressive expansion of its business may have reached the limits of saturation. The relatively unchanged firm logo and design over half a century may have become boring among consumers' psychological recognition. Brand familiarity does have a second edge in that it may psychologically influence consumers to try out a new brand. Nissin Food has also been relatively overtaken by other firms in cutting the preparation time for the instant noodles product as Mummy and Fuku noodles can be eaten straight that matched perfectly "instant".

### Opportunities

Hong Kong is a huge market for the food industry with its population of over 7 million expanding at an average annual growth rate of 1%. The market potential is therefore inspiring especially considering the fact that over half of this population is urban based with more and more young people drawn <https://assignbuster.com/background-market-and-strategies-of-the-nissin-group-business-essay/>

into high paced urban living. There are also more young women from both local and foreign places entering the workforce. This means that local family populations are left without the traditional ways of cooking and food preparation as women who were formerly tasked with culinary preparations at home migrate to the center for employment. The emerging demographic picture also portray a steadily growing segment of single people in the labor force, swelling the ranks of those who would prefer instant and fast food rather than traditional long-time home cooking.

Nissin's early demonstrated concern for environmental and health safety concerns, seen in the establishment of its food safety research institute is also a positive sign given the world's increasing concern for environmental safety standards and the increasing health consciousness of people in recent times as they look consistently for low fat, low salt diets. Hong Kong's fast paced society also is an opportunity, as the city's demands for instant convenient food remain high. This offer Nissin the opportunity to expand from noodles to other instant food such as coffee, juice drinks, spaghetti, bread and snacks and the chance to establish linkages with other food outlets like restaurants, or otherwise introduce distribution innovations mobile snack center in schools, shopping malls, cinemas and exhibition halls.

### Threats

The instant food competition comprised of the companies mentioned above and other brands like Doll noodles, Sau Tau and Master Hong pose the main threats to Nissin Foods. If the growing health consciousness provides a positive note vis-a-vis the company's effort at developing safer and healthier

products, there is also a downside as mass media increasingly airs concerns about monosodium glutamate (MSG) and other preservatives used in instant food production. There is also a growing taste and preference for restaurant food and fine dining especially among the new rich. The emergence of organic and fresh instant noodles in the market particularly by the competition and the rising prices of wheat and other raw materials are foreseen to pose considerable threats especially with rising demand for these products by other demanders worldwide.

## **Discussion**

This section will critically propose some strategies that Nissin Food Co., Ltd might implement in consolidating or even expanding its hold in the instant foods market in Hong Kong. Michael Porter recommended three generic strategies in this regard, namely cost leadership, differentiation, and focus (Porter, 1980).

In terms of cost leadership, Nissin Food has always been ahead in the development of low cost instant noodles and other food products compared to many of its competitors. Company policy has always been directed to the elimination of operational glitches that would lead to increased production costs and streamline the process. This explains why despite the upgrading of technological capacities and the establishment of research institutions that would simultaneously increase expenses, Nissin Food is still capable of producing high quality noodles to be sold at relatively affordable prices on the shelves.

With regard to differentiation, the Nissin Food Company has managed to diversify its food products from noodles to cereals and other products like biscuits, chocolate flake cookies and even lactobacillus drinks. Even its traditional offering, the instant noodles has been diversified into several types as cup noodles, the pillow type instant noodles, the fresh instant noodles, the thick straight noodles, and frozen types all in 450 different flavors. Innovation had always been key to product diversification and it need not be always a high-fangled high technology based development as long it gives the company a keener competitive advantage over other firms in the market (Porter, 1996). Thus, the simple idea of introducing the Nissin straight thick noodle led to increased volumes of sale in 2008.

Differentiation allows a company to address the demands of consumers across a wide range of segmentation (Porter and Kramer, 2006). In its Hong Kong operations, the company has differentiated its products to all sectors of the population not only through diversified products but also through careful studies as to what products might have a more competitive appeal to certain sectors. Discovering for example that in their United States operations, Chow Mein noodles seemed to be the preference of Americans, the company also aimed at making this product appealing to the foreign sectors of the Hong Kong population.

Finally, Nissin Food Company has always been secure in the instant noodle as its niche in manufacturing and sales and primarily targeting the working population. A niche approach is basically developing greater competitive advantage in a sector or product and holding on to this advantage through differentiation and innovation strategies (Porter, 1985).

<https://assignbuster.com/background-market-and-strategies-of-the-nissin-group-business-essay/>



Among the three, differentiation appears to be Nissin Food Company's strongest and most effective strategy, allowing it to constantly increase its sales over the years and expand operations to address an ever larger share of the market. Differentiation has also allowed it to penetrate western markets such as the United States, Russia and even Mexico. In the United States, chow mein had attracted the microwave generation because of its microwavable fried noodle through innovative advertising.

New products should always be based on prior market surveys to test the levels of demand and businesses must always have a clear vision and strategy for diversification, planning against the risks involved with an honest regard for the gains it expects to achieve (Ansoff, 1957). Nissin uses both related and unrelated diversification techniques as, not contented with its traditional noodle offerings, it has innovated and expanded also to frozen foods, cereals, and nutrition drinks. Such risks have been repaid with dividends through the recent years.

## **Conclusions and Recommendations**

Nissin Foods Company, Ltd. in Hong Kong faces has demonstrated a stable and strong internal competence structure. It has managed to sustain efficiency and close coordination among the various phases of its operations, making its various departments including the management, production, marketing, and research units mesh smoothly. It is in food safety and quality standards that the company stands out among the rest of competitors in the Hong Kong market and it is highly recommended that this be made part of a comprehensive advertising strategy that packages not only products but the entire company itself as an environmentally friendly corporation in tune with <https://assignbuster.com/background-market-and-strategies-of-the-nissin-group-business-essay/>

its recognized corporate responsibility to save the earth. This would be a leading promotional strategy as the company funnels through its Food Safety Research Institute, thorough investigations and research of environmentally affective chemicals, organic inputs as they affect the products of its farms, breeding stations, fisheries, feed plants, ingredient plants and its productions plants as well.

The Hong Kong macro-environment also appears to be a favorable one for Nissin Foods, affording it a competitive area where the company could showcase both its traditional and innovative offerings to an ever growing and constantly differentiating and segmented population. The change in administrative governance appears not to have made a significant impact on the robustness of business competition within the region. The PESTEL environment thus could be taken as a general plus factor.

It is again in the area of environmental considerations that Nissin must focus on. It is recommended that the attention must be directed toward the pollution side of its post-operational activities. By this, as extra concern on disposal of containers and on the earth-friendliness of such packaging as Nissin continues to use non-biodegradable materials in this regard. To more promote the environmental image of the firm could innovate towards the end of minimizing its ecological footprint. On social relations, Nissin could collaborate with social and ecological groups toward the development of programs addressing Hong Kong's expanding ecological problems of pollution as well as industrial congestion.

(word count 3, 823)

<https://assignbuster.com/background-market-and-strategies-of-the-nissin-group-business-essay/>