

Lotte confectionery is  
a south korean  
company marketing  
essay



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It was established in 1967 and its plants are located in Seoul, Daejeon, Yangsan, Pyeongtaek and Siheung. It manufactures and sells more than 200 products to more than 70 countries. It is the No. 3 chewing gum manufacturer in the world. It is a subsidiary company of Lotte Group.

Lotte Confectionery produces 'Crunky' candy bar and the 'Chic-Choc' cookie (a chocolate chip cookie), one of the most famous brands in South Korea. Additionally, they produce other baked snacks, including the 'Margaret' cookie.

### Vision 21st

Lotte Confectionery will take a great leap in order to become the ASIA No. 1 confectionery company in 2018. It will travel throughout the world by investing and opening in new overseas markets.

With quality as its top priority, Lotte Confectionery will create products that are traditionally flavored, but have a global touch.

### History

Founding and leaping (1960s - 1970s)

Established Lotte confectionery (Mar. 1967)

Opened branch offices in 5 major cities (Seoul,, Busan, Daegu, Daejeon, Kwangju) (June 1968)

Completed construction of Yeongdeungpo Plant (Feb 1969)

Started to operate Siheung Plant (Gum Base Production) (Mar 1970)

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Started gum production at Yeongdeungpo Plant (Dec 1971)

Listed shares in stock exchange (1974. 2. 16)

Started chocolate production at Yeongdeungpo Plant (Feb 1975)

Completed construction of Yangsang Plant (Feb 1975)

Growth (1970s - 2000)

Completed construction of Pyeongtaek Plant (Aug 1983)

Established branch office in LA (Jul 1984)

Selected as official supplier for Olympics (1988)

Recognized for export volume of USD 10 Million (Nov 1989)

Established branch office in Beijing (Jul 1984)

Established LOTTE CHINA FOODS CO., LTD (Jul 1994)

Established branch office in Moscow (Jul 1995)

Completed construction of Daejeon Plant (Apr 1996)

Established Gimhae Logistics Center (Nov 1997)

Launched premium ice cream Natuur (Apr 1998)

Completed construction of Vietnam Plant for chewing gum production and started sales (Sep 1998)

Opened PI Integrated information System (Dec 1999)

Achieved sales of KRW 1 trillion, a record in the domestic Confectionery industry (Dec 2002)

Expansion of overseas business (2000 - Present)

Acquired 80% of Parry's shares (in India)(currently Lotte India Co., Ltd) (May 2004)

Acquired 100% of Lotte Qingdao Foods Co., Ltd. (May 2005)

Established Lotte Taiwan Co., Ltd. (Sep 2006)

Established Lotte Food Holding Co., Limited (Dec 2006)

Established Lotte KF Rus LLC (Apr 2007)

Acquired 30.15% of Vietnam BBICA Corporation (Mar 2008)

Investment in kind for Lotte Europe Holding B. V.(May 2008)

Took over Guylian Corporation (Jul 2008)

Established Lotte Food India Private Limited (Aug 2008)

Organization Chart for Lotte Confectionery

Major products and sales in 2009

The company's flagship is its line of chewing gums, and Lotte's brand family of chewing gums dominates its markets. In addition to chewing gum, Lotte

Confectionery produces a wide range of candies, ice cream as well as cookies and other baked goods.

Unit : Million KRWLotte Confectionery in Korea

Business area

Items

Major Brand name, etc

Sales (%)

Food Manufacturing & Sales

Chewing Gum

Xylitol,

Flavono., etc

193, 567 (14. 7%)

Candy

Anytime, Herb Throat Candy, etc

64, 522 (4. 9%)

Biscuits

Custard, Magaret, etc

204, 101

(15. 5%)

Chocolate

Pepero, Dream Cacao, etc

272, 574 (20. 7%)

Sherbet

World Cone, Seol-Lae-Im, Precious Bar, etc

391, 085 (29. 7%)

Others

Kko Kkal Corn, Cheetos, Choco Rice Cake, etc

192, 250 (14. 6%)

Total

1, 316, 786 (100%)

\*\* note : including export sales

\*\* Domestic Confectionery Market in 2009

\*\* Lotte Sales by districts in 2009

72, 012 Million KRW

1, 244, 744 Million KRW

1, 867, 116 Million KRW

Total Market: 3, 111, 860 Million KRW

1, 244, 774 Million KRW

Unit : Million KRW Overseas Companies (VRICs etc)

Business area

Items

Cuntry

Major brand name etc

Sales

Food Manufacturing & Sales

Chewing Gum, Candy, Biscuits, Chololate

China

Chocopie, Orris, Koala Biscuit, Pie

249, 830 (100%)

India

Xylitol, Chocopie, Dream Pie

Russia

Dream Cake, Pepero, Xylitol, Chocopie,

Vietnam

Chocochip Orris, Koala Biscuit, Pie

Unit : Million KRW Consolidated financial status in 2009

Lotte Confectionery Co. Ltd

Overseas

Total

Asset

3, 461, 944

252, 486

3, 714, 430

Liabilities

1, 037, 783

104, 172

1, 141, 955

Equity



2, 424, 161

148, 274

2, 572, 435

Sales revenue

1, 316, 786

249, 830

1, 566, 616

Operating Income

112, 259

- 12, 809

99, 450

Net Income

95, 565

- 56, 301

39, 264

## 2. Business Expansion in VRICs

First of all, it is necessary to define the range of overseas market.

Generally, we can divide the whole into 3 parts.

i) Developed countries such as north America, Euro-zone ii) Developing countries including VRICS iii) the other countries those not belong to i) or ii).

We would like to focus on ii) intensively, this is due to keen interests of Lotte conf.

The keen interests are based on growth rates, the portfolio of this company has strong correlation with the number of teenagers of below them.

(Lotte Confectionery defined the initial term VRICS, actually this is not a popular term rather than BRICS is common, including Brazil instead of Vietnam)

To be more detail, we could receive a diagram from an inside source within the company, which shows how much Lotte Confectionery has interest in.

We will make other steps to explain the business history of each countries, China, Russia, India/Vietnam.

Status of Lotte Confectionary's business in VRICs

Vietnam

Centric site of south-east Asia

Vietnam has proper volume of population, natural resources, cheap labor cost and geographic accessibility to close country.

Thus Lotte Confectionery launched oversea branch in Vietnam to export product in early 1990's.

### Financial Crisis

Unfortunately, As we know well there was financial crisis in south east Asia in 1997. Lotte Confectionery had to discard the chance to expand sales and profit.

### Base camp for south-east Asia

But potential strength of Vietnam was not destroyed.

The strength and potentials including geographic strength of Vietnam made another bull market from foreign investor.

Nowadays Vietnam was recommended as herb of this area.

### Russia

#### Business Launching

The Russian market has been another potential market to investors.

As a matter of fact, to Lotte Confect, this market is not attractive to penetrate because there has been a competitor ORION(well known as Cho-pie's originator). ORION launched ' Cho co' pie business in early 2000, and has staked the fame. It has 2 manufacturing lines in Russia and has secured market leadership firmly.

In our opinion Russia market has less priority in comparison with other VRICs. The Reason why is listed below.

The brand power of ORION is too strong

Difficult to forecast market (Political Uncertainty)

Manufacturing base for Europe

And so, we have to review why Lotte Confectionery launched business in Russia, despite these bad circumstances. On Aug. 22, 2008 Lotte Confectionery merged Guillian, the famous Belgium chocolate company.

Lotte Confectionery might think value of the European market. But it's almost impossible to establish plant in Europe, considering the pain of high cost, labor strike and strong government regulations. Russia might be appropriate to provide low cost, close distance to Europe and population.

Russia manufacturing line is under construction since Feb 2008, prior to Merging of Gullian.

India

This market has sufficient population density, strong growth of income and young generation. This will probably provide a good opportunity to the confectionary companies.

The strategy of Lotte Confectionery was prompt and careful. They already took over the 3rd candy company ' Parrys' in May, 2004.

## China

### Introduction

The domestic market growth has slowed down and is not able to find high market potential. As an alternative to expand and increase the current sales, they had to head for the overseas market, especially the China market. As China opened their market and their incomes improved, more demand for snacks was expected to increase.

Lotte Confectionery became the first confectionary company to open a branch office Beijing and officially start their business in 1991. The China's market is showing a growth rate of 20~25% annually due to a large consumption of high income customer group.

However the Chinese government restricted market activities thus the branch had only a few employees(1 Korean staff, 3 Chinese employee) and had restrictive function(Research, excluding marketing & sales, importing).

Lotte Confectionery overseas investments(China)

Business Entry Mode

Country

Entry Mode (As is)