

# Lotte confectionery: strategy evaluation



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## **1. Background**

LOTTE Confectionery is No1. confectionery Company that holds multiple No1 selling products of gum, candy, chocolate and biscuit segments in Korea domestic market. LOTTE Confectionery stands in unrivaled position by Xylitol and occupies strong position in chocolate by Ghana chocolate and Dream Cacao.

Orion Confectionery international sale exceeded domestic sale in 2009.

Orion Confectionery ranks 1st in international sale among Korean confectionery companies and possesses enormous growth rate at international market, because Orion Confectionery releases gentrified domestic products to international market.

Domestic confectionery market is Red Ocean, recently revenue has been decreased. Domestic confectionery market is saturated in fact (EDaily. 2011. 01. 11). Even Foreign confectionery companies are joining and intensifying competition in Korea.

The scale and profitability of international market are larger and higher than domestic market. Thus, Korean Major Food companies decided to enter oversea markets. Among them, Orion Confectionery ranks at 1st in international confectionery business.

## **2. Current strategy of LOTTE Confectionery**

### **1) Me Too strategy**

‘ Me Too’ strategy is a business strategy that following company emulates a market leading company’s strategy. It is called as ‘ Market follower strategy’

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or ‘ Imitation strategy’. With this strategy, a follower can gain many advantages. The market leader often bears the huge expenses of developing new products and markets, expanding distribution, and education the market. By contrast, as with challengers, the market follower can learn from the leader’s experience.

LOTTE Confectionery is a typical company to uses ‘ me too strategies’ for products. There are many cases that LOTTE Conf. emulates competitor’s successful products.

Table 1. Me too products cases in LOTTE Confectionery

Competitor Product (Company)	LOTTE Conf. Product	Remarks	Competitor Product (Company)	LOTTE Conf. Product	Remarks
Chocopie (ORION)	Chocopie		(HAITAI)		Snack
Homerunball (HAITAI)	Myball	Snack	DR. YOU (ORION)	Mother’s finger	Premium Product Brand

Source: Interview with ORION employee

LOTTE Confectionery applies ‘Me too Strategy’ for overseas business. The Main countries where LOTTE Conf. constructed product factories by itself are China, Vietnam, Russia and India. Except India, the entry timings of LOTTE for 3 countries are recognized as ‘me too strategy’.

In China market, ORION entered in 1993 and LOTTE entered 1 year later. Vietnam where LOTTE entered in 2007 as acquisition of BBICA, 2nd biggest confectionery company in Vietnam, was open to ORION 2 years early. ORION established a local subsidiary company, OFV (ORION Food Vietnam Company), in 2005 and constructed local factory in 2006.

In Russia market, ORION established OFR (ORION Food Russia Company) in 2003. ORION constructed a chocolate factory near Moscow in 2004 and second factory for overall confectionery manufacture in 2006. But LOTTE established LOTTE KF RUS LLC in 2007.

Table 2. ORION – LOTTE Confectionery Overseas entry time

Country	ORION	LOTTE
China	In 1993, Establishing Beijing Office	In 1994, Establishing local subsidiary
Vietnam	In 2005, Establishing ORION Food Vietnam Company	In 2007, Acquiring 30% stocks of BBICA
Russia	In 2003, Establishing	In 2007, Establishing

ORION Food Russia

LOTTE KF RUS LLC

Company

Source: Financial News, “ LOTTE, Following ORION?” February 25. 2008,  
LOTTE Confectionery on-line homepage, “ History” ([http://www.LOTTEconf.co.kr/images/company/pic\\_hi05.jpg](http://www.LOTTEconf.co.kr/images/company/pic_hi05.jpg))

## 2) M&A Strategy

LOTTE confectionery has invested 500 billion KRW to overseas market by 2010. LOTTE focused VRICs (Vietnam, Russia, India, China) with acquisition local companies and factory construction. Sales result was under than expectation. LOTTE oversea sales consistantly increased and last year recorded 500 bil KRW.

They have a 650 bil KRW sales target this year.

LOTTE sped up their global business as entering China, India, Vietnam, Belgium, Russia and Pakistan (6th largest population).

### 1 China

LOTTE confectionery established “ LOTTE China foods limited liability company” in Beijing, China in 1994 and in 2005 it acquired “ Qingdao foods limited liability company” which renamed later “ LOTTE Qingdao foods limited liability company”. In 2006 it also acquired “ Shanghai foods limited liability company” and renamed it as “ LOTTE Shanghai foods limited liability company”.

The revenue in China in 2005 was about 90 billion Korean Won and slowly increased to 100 billion KRW in 2006, as the chocolate product which is main product of LOTTE Shanghai foods LLC hit its strides in 2006, the revenue jumped up to 140 billion KRW in 2008.

- LOTTE China foods limited liability company- Choco Pie, Gum Production

LOTTE Confectionery's expansion into the Chinese Market was especially remarkable. Even through the heated competition of Global Food Industries, LOTTE was able to capture the Chinese Flavor.

LOTTE indicates that it was possible because " Steady exportation and Improvement of the Corporate image from the early 80's and the supply of eminent products due to the establishment of Local plants in the Mid 90's." Before any diplomatic relations between Korea and China, LOTTE Confectionery concentrated on supplying eminent brand products through Hong Kong.

Thus LOTTE has succeeded in establishing long term faith. Let's take a look on a couple of cases. Supporting Horse Racing hosted by local merchants, production and promotion of Café Coffee Gum to help Chinese quit smoking, campaign to help victims of flood damage and other activities to capture the heart of the Chinese.

Through these efforts, in August of 1994, LOTTE Confectionery established the ' LOTTE China foods limited liability company' in the Economy Technology Development Zone in Beijing. Thus it has made possible to supply suitable local products.

The first established local factory was completely co-operational. LOTTE Confectionery, Japan LOTTE, and Mitsui invested in the factory and are now developed in 3 divisions. The 1st factory produced Choco-pie, Cream Cake, Koalamazzi, The 2nd factory produced plate gum, and bubble gum. The 3rd factory produced Xylitol gum, Coating gum.

Among these products, it can be said that GUM represents LOTTE Confectionery. Chewing gum started being produced and sold in September of 2001, Xylitol gum, plate gum in 2002 and Coating gum in 2003. Products from these factories were sold in Beijing, Shanghai, Tianjin, and other areas of China. Also the market share in China exceeded 30%.

- LOTTE Qingdao Foods Limited Liability Company- snacks, biscuit production

In 1996 the 'Qingdao Foods Limited Liability Company' was established at the science and technology park of Qingdao. Based on gaining the trust of Chinese, LOTTE Confectionery solely invested and acquired Qingdao Foods Limited Liability Company in 2005.

Main products of that company were snacks and biscuits such as Myball, Peanut-cuttlefish ball, Choco-pie, Custard, Strawberry pie and other pies. Especially the popularity of the Custard and Choco-pie is sharply increasing and is expected to regenerate the CRAZE in Korean Market.

- LOTTE Shanghai Foods Limited Liability Company- Production of raw liquid of chocolate.

In 2006 'LOTTE Shanghai Foods Limited Liability Company' was solely acquired by LOTTE Confectionery, established in 1993. This factory was

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mainly producing the raw liquid of chocolate. In January of 2007, LOTTE Confectionery and Hershey's signed a strategic alliance to manufacture and sell the main products from this factory. And from October 2007, LOTTE Confectionery started to manufacture and supply its popular products, Ghana and Dream CaCao into all over the Chinese market.

(Source: Journal ' The Buyer' 2008)

## 2 India

LOTTE acquired Parry's in May 2004. It was a sole invest, not joint venture. LOTTE firstly acquired 60.39% stock and gained the rest later. Stock acquisition cost was about 23.2 Bil KRW. Parrys Confectionery Ltd, established in 1914, was one of the representative confectionery companies in India. Annual sales are over 22 Bil KRW. By acquiring Parry's, LOTTE could preoccupy India confectionery market as well as secured the price competitiveness making India as production base for exporting to Africa and Middle East area.

(Source: 2004/5/21 food new media)

## 3 Vietnam

In 2007, LOTTE acquired 30% stocks of BBiCa which was the 2nd largest confectionery company with annual sales 20Bil KRW in Vietnam. Using BBiCa's sales network over the country, LOTTE expected to expand market presence in Vietnam, the population was about 84 Mil in 2007.

(Source: 2007/10/05 Medical today media)



#### 4 Pakistan

LOTTE Confectionery acquired Pakistan Kolson company's (K. S. Sulemanji Esmailji & Sons (Private) Limited) stock 69.45% (20 Bil KRW) and became the biggest stockholder. Through this acquisition, LOTTE could begin a nationwide business in Pakistan.

Pakistan confectionery market size was the 1/3 of Korean's. However it was expected to grow 10% each year, since the population under the age of 14 was 37%. (Source: LOTTE Confectionery Internal Data)

Kolson was founded in 1942, one of the leading company with asset 53.2 bil KRW and annual sales were about 33 bil KRW. Kolson had the 2nd largest market share (29%) in snack, 4th(6%) in biscuit, the 1st(44%) in pasta market in 2010.

#### 3) Synergy with LOTTE group's affiliates

LOTTE has a vision to make a global brand just like Samsung and Wal-Mart. One of the key strategies for achieving this goal is building "LOTTE Town". LOTTE has already opened "Moscow LOTTE Town" on last October, 2010, which is consisting of luxury hotels and department stores. That was the first oversea "LOTTE Town". Also in Hanoi, Vietnam and in Shenyang, China are under construction "LOTTE Town" which is planning to complete the end of 2013 in Hanoi, and to complete the end of 2015 in Shenyang.

#### 1 Building LOTTE Town in China and Vietnam

By 2018, LOTTE will build more than 10 LOTTE Town in Nanjing, Shanghai, Chengdu - in China-, Ho Chi Minh in Vietnam, and Jakarta in Indonesia, etc, to serve them as a growth base for the LOTTE's global business. Additional oversea LOTTE Town will be constructed mainly focusing on VRICs (Vietnam, Russia, Indonesia, China) In China, Nanjing Jenye District, Shanghai Zhabei District, Sichuan Province, Chengdu Jin Jiang District, Wuxi, Jiangsu Province, Zhongshan , Shandong Weihai , Chongqing, and Wuhan, LOTTE is discussing with those cities and governments for consulting the land, building size, business information in LOTTE Town. Those complex projects are targeting to complete in 2014 to 2015. In Vietnam, following Hanoi, Ho Chi min and Danang are planning to construct LOTTE Town. Jakarta in Indonesia and St. Petersburg . in Russia -following Moscow-, are pushing ahead for LOTTE Town.

## 2 LOTTE Town and LOTTE Confectionery global business

LOTTE group is planning LOTTE Town construction, mainly targeting on rising countries such as China. Those countries are just about to create consumer markets based on high-growing economic development and high-growing spending spree. If LOTTE Confectionery is starting global business based on LOTTE Town, it can amplify the synergy to promote sales and maximize profits.

## 3 Overseas company management with Japan LOTTE

LOTTE Confectionery has a lot of local subsidiary companies. And most of them are operated in collaboration with Japan LOTTE. It seems to make more stable business circumstance. Japan LOTTE has more overseas experience

(Established LOTTE USA in 1978, and so on) and financing capacity (Low Yen Carry interest, and so on). Therefore LOTTE could share Japan LOTTE strengths and hedge against overseas business risks.

Table 3. Overseas collaboration subsidiaries

Local subsidiary	Country	Overseas collaboration companies
LOTTE China Foods Co., Ltd	China	Japan LOTTE, Mitsui & Co, LOTTE Confectionery etc.
LOTTE Philippines Foods Co., Inc	Philippines	Japan LOTTE, Japan Taiwan Trade, Philippines Nugget Food
LOTTE Vietnam Foods Co., Ltd	Vietnam	Japan LOTTE, Marubeni Co.
LOTTE Packaging(Beijing ) Foods Co., Ltd	China	Japan LOTTE
LOTTE Taiwan Co., Ltd	Taiwan	Japan LOTTE
Shandong FengCheng Cold	China	LOTTE Invest Limited liability company,

Shandong FengCheng  
 beverage Limited  
 Food Limited liability  
 liability company  
 company

LOTTE Trade And Indonesi  
 Distribution. PT a Japan LOTTE

Source: Korea Information Service. INC, “ LOTTE Confectionery – Contingent liability and Contract clause” (<http://www.kisline.com/>)

### 3. Conclusion

1) LOTTE Confectionery SWOT analysis

For strategy proposal, we analyze SWOT of LOTTE confectionery as below.

Table 4. SWOT Analysis

<b>Strengths</b>	<b>Weaknesses</b>
A huge domestic and global distribution network and its affiliates	Limitation of Me-Too strategy on premium product
A variety of No. 1 family brand held	Poor performance in overseas investment
Excellent production facilities	Weak innovation strategy
Abundant capital for investment	Centralized decision making

**Opportunities**

Synergy with LOTTE Group’s international strategy

Target country’s (VRICs) population growth

**Threats**

Keen competition with local and global companies

Diversity of local consumers’ tastes

2) LOTTE Confectionery’s key strategies

Given circumstances and above analysis, we can find 4 key strategies for LOTTE Confectionery in terms of International Business Management.

First, Strengthening M&A (Brownfield method) based on abundant capital power

- Saving time for market penetration
- Risk hedging

Table 5. Entry mode of Lotte and Orion

Entry mode	LOTTE	Orion	Remarks
M&A	O	X	
Ownership			
Greenfield		O	
Trading			
Exporting	O	O	

	Importing	X	X
Collaborati on strategies	Low commitment (Licensing)	X	X
	High commitment (JVs)	O	X

Second, Synergy effect through Group's alignment

- Economy of scale & economy of scope
- Cooperating with LOTTE Town

Third. Decentralization for decision making

- Localization strategy for specific circumstances of each country
- Timely responsiveness

Lastly, Market leading through innovation strategy

- Allocating investment in R&D
- Recruiting and educating global experts