

# Innocent's market entry in spain



## **Introduction**

To evaluate the possibility of a market entry in Spain, a brief analysis concerning the company and the market will be conducted in this report.

## **Chapter 1: Profile of the innocent company**

The large-scale company Innocent Ltd was founded by three friends in London in 1999, where it also has its headquarter and today employees about 275 people (Datamonitor 2009). Before they could start their business they had to find an investor, which was very difficult, as they wanted to go on a competitive market, the big drink and food industry. (Germain & Reed p. 48 2009) The UK juice market is dominated by PepsiCo owned Tropicana and Copella which is the parent company of the PJ smoothie brand. (Germain & Reed p. 111 2009)

The product range consists of “smoothies, smoothies for kids, superfruit smoothies, thickies” followed by “orange juice” and “veg pots” in 2008 and extended by “pure fruit squeezies” for kids in 2009 and a recipe book is available. (innocent 2009)

The company has a strong brand image standing for natural, healthy and tasty products. They describe their main values as follows: “Natural, entrepreneurial, responsible, commercial and generous.” (p. 79) Thereby they created a USP by using only natural ingredients and this leads to a competitive advantage against their major competitors “Merrydown Plc., Kallo Foods Ltd., Princes Limited, SHS Group Ltd. and Britvic Plc.” (Datamonitor 2009)

Innocent can be associated with a social and environmental responsible business, which can be seen in a large number of charity and environmental projects. In general a minimum of 10 % is given to Charity each year (Germain & Reed p. 83 2009).

Through developed communities on Facebook, Twitter and YouTube Innocent is in a continuous informal dialog with their customers. The multilingual webpage provides consumers with detailed information about Innocent, their operations and an advisor page about healthy eating. (Innocent 2009)

In contrast Innocent's deal with McDonald's to sell the kids smoothies aroused discussions concerning the brand image. It was found that Innocent had put sugar in their Juicy Water in 2007. (Daily Telegraph, 2007) There had been some controversial discussions about the production of smoothies, if they are really fresh and natural when the fruit and ingredients travel on a long way. (Donoghue, 2008)

In the first three years sales increased from 2 to 16 million euro. S. 64 the predicted turnover will be between 105 and 110 million pounds in 2009. (Tryhorn & Sweney 2009) Innocent is the market leader in its product segment in Europe (Daniel 2009) which serves a niche market and has an 82% market share in the UK. (IRI Infoscan 2009) In general the market decreases but in 2009 Innocent's sales increased again, e. g. due to the new product "vegetable pots". (Sibun 2009)

## **Markets**

Currently the company operates in the European market in 13 countries.

Innocent launched its smoothies at first in the UK and then in Ireland, which

was a logical step, as the market provided the lowest risk because of similar conditions. Today Ireland is Innocent's second largest market. (Germain & Reed 2009) Innocent incrementally entered the following markets: Germany, Sweden, Northern Ireland, Finland, France, Belgium, Luxembourg, the Netherlands, Switzerland, Austria and Denmark. (Germain & Reed, p. 64, 2009)

### **Channels**

The company concentrates on its core competences are R&D and Marketing, such as creating new recipes and their knowledge about fruit in general and creating a brand image. All the manufacturing parts of the business are outsourced to their partners, which saves them a lot of money, because they do not need to invest in technical equipment for the production process. (Germain & Reed, p. 58, 2009)

Moreover they have subsidiaries in Ireland, France, Denmark, the Netherlands and Germany. (Reed, 2007) Innocent has distribution partners selling their products to over 10,000 retailers. (Innocent 2009)

In the UK the Innocent products are available in all Sainsbury's, Waitrose, Somerfield supermarkets and in some branches of Morrisons, Budgens, Tesco, Safeway and Asda. Furthermore the products are available in chains such as Starbucks, Bagel Factory, Boots, Booths, Road Chef, Welcome Break, Moto, EAT, O'Briens and in "independent sandwich shops, delis, health food places and the odd meditation centre." (Innocent 2009)

Furthermore premium food outlets and food halls of well known department stores should underline their image of quality food. (Germain & Reeds, p. 122, 2009)

The latest discussion this year was the investment of Coca-Cola as a minority stakeholder with 10 - 20 % for 30 million pounds. It seems to be a common issue for niche companies that they need more capital to grow but at the same time need to convince people that they are still the same company with the same values. Innocent published a statement on their website. They will use the capital to invest in their European expansion. (Thryhorn & Sweney 2009)

## **Chapter 2: Analysis of the Spanish market**

For the assessment of the Spanish market potential for innocent smoothies it is necessary to carry out a market analysis which can be done by following the 12 C framework and Porter's five forces. First of all general information about the country and a focus on the macro environmental factors is needed to get an overview about the political, economic, socio cultural, legal regulatory and technological forces a company might have to deal with in that market.

Country: The Kingdom of Spain has a population of 40 million inhabitants that live in a country of 499, 542 km<sup>2</sup>. (p. 10)

Political forces: Spain is a member of the EU which has a close integration with other members and profits from EU economic supports that helped the nation for a better standard of living. (Country Report, p. 3) Spain has a parliament monarchy (p. 36) which is ruled by a government with a thin

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majority at the moment and is therefore dependent of regional parties such as the Catalan and Basque to precede new legislations. This has a negative effect on the promptness of economic processes (p. 14) The federal structure with its regional units autonomy faces difficulties with Basque and Catalonia which fight for independence and that represents a risk of political instability (p. 15)

Economic forces: As every country, Spain has to deal with recession and the GDP growth is expected to be negative with 2% (p. 49) Furthermore this country has the biggest drop of all developed nations to 1.8% in annual economic growth in 2009 (p. 17) Since 2008 the major challenges the country has to deal with are falling inflation and the level of unemployment which is very high and might increase further. (p. 17) Weak domestic demand is also a result of the crisis (p. 2) But the financial system itself is well-developed and integrated into international financial markets. Normally the Spanish banks stand for a high standard of solvency. (p. 3) Along to lines of the EU recovery plan, Spain has implemented some activities such as tax cuts and investment projects to stimulate the economy (p. 54) as well as a fiscal stimulus package that should help increasing investments. (p. 3) In general the economic crises with all its effects leads to an economic slowdown and a long-lasting recovery period. (p. 16)

Social cultural forces: The official language is Spanish, but in certain regions the people speak Catalan, Basque and Galician. The main religion is Roman Catholic which a company should keep in mind when creating advertisement. (p. 10) Spain has to face the problem of an aging population and unemployment which increases an inequality in income and causes

social tension as well as the increasing immigration in Spain. (p. 4) The income differs as well between the different regions. (p. 22) The tertiary education grows which could provide the opportunities for companies to get well educated people in that country. (p. 3)

Most of the population that means around 78 % of the people live in urban areas around the big cities and many of them around the capital Madrid. (p. 65)

Legal regulatory forces: Improvement of legal climate was made by the Spanish government with several reforms such as reduction in tax rates and foreign investment regulations are simplified. (p. 80) Government has an important role in wage fixation (p. 2) which could be important to know if companies develop a subsidiary in Spain. In general the intervention of the government in the market is a challenge. (p. 27) Because the legal Spanish rules and trade regulations are adapted to EU standards business across borders should be easier now. (p. 80) Spain has a high economic freedom score and is on 16th place among 43 countries. Property rights, business, trade, financial and investment freedom are very strong. In contrast to that it is weak in government size, labour and fiscal freedom. (p. 83)

Technological forces: Weak input from venture capitalists and private sector causes a lack of entrepreneurship and innovation. (p. 23) Compared to other EU members Spain has been not so quick in adopting technological advancements, but there are things done to change it. (p. 71) For example the communication and information segment grew fast in 2002-2006 (p. 73)

The environmental policies were created by following EU guidelines (p. 4) and different measures are or will be implemented to reduce impact on climate change (p. 8) Impact of hot climate and a possible gap in water supply may influence some company's production process. (p. 88) (Datamonitor Country Analysis Report Spain, April 2009)

### **Market-specific analysis**

The juice market includes products from concentrate and not concentrated juice as well as fruit and vegetable drinks and nectars. (Juice Report, p. 7)

Market potential: The market value for beverages constantly increases in Spain and has an overall growth of 49% from 1999 - 2012. (Datamonitor table 2009) The beverage industry can be divided in different categories. The smoothies belong to the soft drinks under non-alcoholic beverages. In comparison to the other non-alcoholic beverages smoothies have the highest market value growth in Europe from 1999 - 2012 with 458 %. (Datamonitor table 2009) To evaluate the market potential for innocent smoothies in Spain it would be necessary to gather more concrete data.

Market size: Spain has a population of 40 million people (Country Report, p. 10) Fruit drinks from juice/concentrate have the highest market share with 36.3 % by value in Spain. 100 % fruit juice that means not from concentrate has a market share of 16.6 % by value in 2008 and the vegetable juice 21%. (Juice Report, p11) Hence there is a market for innocent's smoothies but as in other countries it is only a niche market.



Market growth: In 2008 the total revenue was \$ 2.4 billion, that means an annually growth with a rate of 2.2% in the period of 2004-2008 and it is expected to reach \$ 2.7 billion by the end of 2013. (Juice report, p. 7)

Profit potential: Until 2013 the market volume is expected to grow with a rate of 2.8% annually. The market volume is expected to increase with 14.8%. (Juice Report, p. 29) The market value is predicted to grow until 2013 with a rate of 2.5%. (Juice Report, p. 28)

Indirect competitors: In the beverage industry, especially non-alcoholic drinks, soft drinks: concentrates, functional drinks, juices, bottled water, carbonates, tea, coffee, hot drinks, baby drinks are indirect competitors. (Datamonitor table 2009)

Concentration: The Spanish drink retail market is less concentrated in comparison to other countries in the EU. (Juice Report, p. 15) It is necessary to find a statistic where the spread and number of different supermarkets or chains can be seen all over Spain, to decide which retailer could be the most effective for Innocent. Therefore it is also important to keep in mind that most of the population lives in urban areas around the big cities.

Culture/consumer behaviour: Spain is a typical Mediterranean country with different cultural groupings. (see socio cultural forces) How the Spanish people decide for products and what has the major influence on their purchasing behaviour should be analysed in more detail with a closer look on their lifestyle. In general it is known that they live how it comes and are more spontaneous. But one of the purchasing influences could be that the

income between regions and people is really different. (Country report, p. 22)

Choices: If Innocent should launch their products on that market requires a deeper analysis of the company's possible strengths and weaknesses in the Spanish market. As well as on the other European markets. Innocent has a niche product and has to compete against global big players in the beverage industry. Their strength is the natural product with environmental and social business ethics. The analysis of suppliers is also necessary. The supplier power is not that strong because numerous operate as small companies. The fruit and vegetable growers sell to with the help of wholesalers or directly to manufacturers. (Juice Report p. 16) For Innocent it could be possible to order their fruits from Spanish fruit suppliers which could also help them with their image that they support local companies in their supply chain.

Competitors on the Spanish juice market are Juver Alimentacion, S. A. with a 13.3 % market share by volume, followed by PepsiCo, Inc. with a market share of 6.3 % and J. Garcia Carrion with 5.6 %. (Juice Report, p. 13) Juver Alimentacion S. L. U company has a wide range of brands and operates mainly in the Spanish market and also exclusive in restaurants. (p. 20) PepsiCo, Inc. is a global player with a wide range of brands and products in the food and beverage industry. (p. 23) J Garcia Carrion produces wine, fruit juice and soft drinks operates primarily in Spain. (p. 26) Other beverage products are indirect competitors which the company has to keep in mind. New entrants is possible as well through product diversification of an operating company in this market or for example a foreign companies export products which would be Innocent (Juice report p. 17)

How much of the Spanish juice market is from imported products and how open the consumer is to non national product needs to be found out.

Consumption: Demand for juice can be found in Spain as mentioned before, the market share and value of juice is increasing. A deeper end use analysis should be made by the innocent company for their smoothies.

A threat of substitutes such as other non-alcoholic drinks as mentioned before can be found on the Spanish market because switching cost would be relatively low for retailers and consumers. (Juice Report p. 18)

Contractual obligation: Spain is a member of the EU and therefore business practice, ways of insurance and legal obligations should be similar to the other countries innocent already operates in. (See legal + economic forces) For specific matters the company should cooperate maybe with lawyers or business people in that country.

Commitments: To extend their products to the Spanish market innocent has the advantage that Spain is a country of the European Union. Trade incentives and barriers should be moderate. But as stated in the Country Report on p. 17 the EU has comparatively high import tariffs for fruit juice which could make retailers not import juice from foreign countries.

Channels: The market access would be in geographical term easy to proceed. Spain has a well developed infrastructure with ports, airports and one of the best railway systems in Western Europe (Country Report p. 24) Innocent could use most of their current supply chain which would save them time and money. The distribution system in the Spanish juice market is

dominated by on-trade with 27.9 % followed by independent retailers 25.2%, supermarkets/hypermarkets 24.9 % and 22% others. (Juice Report p. 27)

Communication: Media infrastructure as stated in technological forces is growing and available to reach the target group. Marketing in collaboration with retailers and on TV might be the most effective way to reach the target group. In the big cities big adverts might be also a good solution. It would be good to do further evaluation of the costs of the different modes and how often people watch TV or which media such as newspaper, internet and mobiles they use in which way. This also should include how and through which channels the Spanish people do their shopping. Innocent could also use their company cars for promotion tours.

Capacity to pay: As found out in the economic forces the unemployment is high and income divers among the people and between the regions, so that it is reasonably that the capacity to pay is very different across the Spanish country and probably higher in big cities. The price level is 10 % lower than the EU average. (eurostat, p. 4) To find out more about the culture of pricing and trends, how insurance terms work and what common conditions of payment are in Spain, a more specific analysis is needed.

The ECB controls the fiscal policy in Spain because it is a member of the EU. Price stability is a main intention of the central bank in Spain. (Country Report p. 59) Insurance regulator, to prevent unhealthy practice

Currency: As all the other countries that innocent operates in Spain has the Euro currency as well. The Euro is at the moment a stronger currency in

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comparison to UK's sterling. Exchange controls nearly do not exist anymore (Country Report p. 80) and restrictions are widened and adapted to EU standards. (see legal forces)

Caveats: Innocent should be aware of the fact that Basque and Islamic terrorist groups have a presence in the country which might be a risk. (Country Report, p. 3)

Porter's five forces: new entrants, bargaining power of suppliers and buyers the threat of substitutes and the market competitors with their intensity of rivalry (Hollensen p.) are seen as moderate in the juice market in Spain (Juice Report p. 15) and are included in the 12 C analysis. Some of the large chains and buying groups boost buyer power. (Juice Report p. 15) Rivalry is weakened because the 3 competitors mentioned earlier are operating in more than one segment. (Juice Report p. 19)

### **Chapter 3 Challenges**

The principal challenge of the Spanish market is first of all that there are already many companies on the juice market. Innocent offers only a niche product with a relatively high price which could be difficult as a high unemployment rate and an unequal income is characteristic for the country. Furthermore the potential consumers are spread in the country side and in contrast to that a bigger concentration with people live around the big cities.

Product: Innocent should think about if they have to adapt their products. It may be that the Spanish people have a different taste. The product labels need to be in Spanish. It might be that people from Catalan and Basque do

not buy the smoothies because they are not in their language. The Spanish people might be not open to fruit products from the UK, as they have their own fresh fruits in the country.

**Promotion:** Cultural difference should be taken into account when Innocent creates their advertisement. Most of the Spanish population is Roman Catholic. All the materials have to be in Spanish so that the people can understand them. To promote the product on this new market Innocent will need to invest a lot of time and money to achieve a certain degree of brand awareness and a positive customer perception. Therefore they should first concentrate on regional advertisement and later on national advertisement.

**Price:** They have to explain their premium price to the Spanish consumers and therefore need to create a perception by the consumer that they will benefit from this product. If they want to have a chance in this market they might have to adapt their price to common prices in the Spanish juice market.

**Place:** Innocent has to find distributors that can supply their products to the target group. In every country Innocent uses retailers and supermarket chains in the respective country. It will be a challenge for Innocent to get stocked with Spanish retailers, as they need those who have a wide spread over the country and a good reputation. The space is rare on the supermarket shelves and they will need a good strategy to convince the retailers to exchange products with those from Innocent. Furthermore Innocent needs to find such retailers or stores that match their brand

image. When they get contracts with Spanish retailers they might also lose a certain control over the supply chain of their products.

#### **Chapter 4 Market entry modes**

For the first two years it is recommendable that Innocent uses export modes as a market entry model. At the beginning the risk is higher that the Spanish people will not accept the smoothies. Export modes are less cost intensive and therefore present a lower risk for the Innocent company. For a direct export mode the Innocent company needs to build up contacts with distributors or agents in the Spanish market.

In the beginning they should mainly concentrate on big cities such as Barcelona and Madrid and the urban areas around these big cities. High end supermarket chains which need to be researched in detail by Innocent are most suitable for their brand image.

- How to go into markets? tried different versions franchise brand, joint ventures?
- Having team in the country, mix of know hoc Innocent and local
- Try to get in the best outlets
- PR- vans out on the road
- Word of mouth
- When certain distribution level reached, regional advertising, national advertising campaign
- hotels

Trade regulations most of the products import from EU countries without duty or not much depends on product. t preferential tariffs and EU trade barriers are also applied p. 82

“ Spanish law permits foreign investment of up to 100 % of equity, capital movements liberalized, “ authority of Spanish competition commission widened to make enforcement more effective p. 4

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