

South starting in 1996
by four partners



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South Beach Company (SoBe) Flavored Mineral Water Strategy - Japanese Market

INTRODUCTION: South Beach Beverage Company, SoBe, makes and markets herbal enhanced beverages. These beverages, called "healthy refreshments" have been designed to market to active persons concerned with their health.

Other products that SoBe sells online are hats, shirts, limited collectibles, children's clothing, sportswear, and some other miscellaneous items to include duffle bags and water bottles. SoBe products are available throughout Canada, Puerto Rico, Aruba, Anguilla, St. Kitts, Nevis, Grand Cayman Islands, Turks ; Caicos, Bolivia, Antigua, Barbados, Guam, Bahamas, Bermuda, United Kingdom, Ireland, The British Virgin Islands, El Salvador, Trinidad, Mexico and Curacao. Beverages can be found in convenience stores, grocery stores, mass merchandisers and warehouse clubs, delis, gas marts, and select restaurants/hotels. A separately operating unit of Pepsi-Cola North America, SoBe markets and sells its beverages through the combined efforts of Pepsi-Cola bottlers and independent distributors.

Starting in 1996 by four partners who were into health and fitness as a way of life, the first product introduced, SoBe Black Tea 3G with Ginseng, Ginkgo and Guarana brought an overwhelming response.

As a result, the company gained ground and immediately introduced SoBe Green Tea, SoBe Oolong Tea, SoBe Orange Carrot Elixir, SoBe Cranberry Grapefruit Elixir and SoBe Energy. These products started the company and now serve as the foundation for future brand development. Most SoBe beverages are sold in a 20 oz. glass "lizard" bottle that is double sealed to protect the freshness of the beverages.

However, in order to make their product more portable and safe for places where glass isn't the best material to use, the company produced one line of their drink, SoBe Synergy, in a can which is 11.5 oz. SoBe also makes several other beverages to include SoBe Sports System, an advanced performance beverage system, SoBe Adrenaline Rush, an all-natural maximum energy supplement, Love Bus Brew, an energizing chocolate-flavored drink, and SoBe Ice, an icy-cold fountain-dispensed frozen drink. SoBe's name can also be found on SoBe Gum and SoBe Chocolate - two of their licensed products. The newest product is the 16-oz. energy-packed SoBe No Fear Super Energy Supplement. Being in the business of producing healthy drinks, SoBe even has a sugar-free product line called SoBe Lean. This line appeals to diabetics and all health-conscious consumers who want to avoid sugar.

These drinks are sweetened with a blend of sucralose and ACE-K. The company boasts many different recipes for health drinks and there are currently over 200 different cap slogans in production. The flavor of the beverage is on all of the front and back labels, excluding the 3G Teas.

Although some products don't have the flavor of the beverage on it, because it is part of their older stock still on the market, new labels are being generated so that all products will eventually have their flavor name on it. Another health issue for consumers is whether or not caffeine is added. SoBe beverages show an ingredient statement on the back label for all of their beverages. In general, all of their tea drinks contain caffeine that is naturally derived from the tea leaves. The list of flavors available to consumers of SoBe health drinks is so long that room often needs to be made for the

production of new drink flavors. There have been several flavors discontinued to make room to include SoBe Drive, SoBe Essentials, Edge, Eros, Red Tea, Orange-Tomato, Strawberry Carrot Elixir, Karma, Wisdom, Lean Green Tea, Lean Peach Mango, Lean Orange Carrot and Lean Citrus. However, some of these discontinued flavors may come back in the future. Although SoBe just came out with a 4 pack of SoBe bottles in their more popular flavors and currently make 12 pack variety cases, usually sold at wholesale clubs, they don't make the 6 pack.

Complete Beverage Line: Exotic Teas and Fruit Juice Blends (Black Tea, Dragon, Green Tea, Nirvana, Oolong, Zen Tea) Powerline (Courage, Drive, Energy, Fuerte, Power) Elixir Line: (Pomegranate Cranberry, Cranberry Grapefruit, Orange Carrot) Lizard Line: (Black and Blue Berry Blue, Liz Blizz, LizFuel, Lizard Lava, Lizard Lightning, Tsunami) SoBe Lean: Cranberry Grapefruit, Peach Tea, Tropical SoBe Adrenaline Rush: Adrenaline Rush, Sugar Free SoBe Adrenaline Rush SoBe No Fear Special Recipes: Long John Lizard's Grape Grog, MacLizard's Special Recipe Lemonade Synergy: Fruit, Grape, Kiwi, Lemonade, Mango Variety Pack: Includes Green Tea, Lizard Lava, Energy, Orange Carrot Elixir Fountain Drinks: Includes Energy, Lean Cranberry Grapefruit, Power SoBe Ice: Frozen drink As mentioned earlier, SoBe is a player in the international market and, therefore, already understands how to operate on that level. However, SoBe doesn't currently sell their products in Japan, a market that research has shown to be a lucrative one for exporters of health beverages. In addition, research has also shown that this is especially the right time for sellers of health beverages to get into this market because Japanese consumers are more

health-conscious than ever before. This is so much the case that the market for these beverages continued to grow, even during Japan's recent recession. Companies like SoBe, which produce natural, organic, herbal or fruit ingredients have a great chance of being a success in Japan as a result of this continued demand.

Currently, 20 companies own 80 percent of Japan's beverage market with one U. S. firm alone holding 35 percent.

But these large market-players still need reliable suppliers of trendy health and natural products. This is why SoBe should initiate one or more of their product lines to the Japanese market. INTERNAL FUNCTIONS: PLANNING: SoBe's new product in Japan will need to be designed to meet Japan's market needs and to comply with SoBe's core strategic plan. Before the final product is marketed, manufactured, and sold, SoBe needs to ensure that all departments participate in providing a product that SoBe can proudly stand by. The departments that will be involved for finding the appropriate product for the appropriate market will be the marketing/sales, research ; development, production, and operations department. These departments will conduct the analysis that will provide for a defined strategic plan. Their analysis should ensure information to include economic, cultural, legal, and competitive conditions.

After SoBe finds that it's advantageous to enter a certain market, it will need to modify the product for that market. In addition, charts should be created by the production department to include action-plan deadlines for roll-out of the product. ORGANIZING: Marketing SoBe's marketing department should

organize the product launch by deciding the activities that would need to take place and by assigning responsibility to the various business department heads. They would need to ensure communication with the Research ; Development department to create an accurate product.

This is an important step since the product needs to be developed for Japan's specific tastes. For example, pre-analysis has already shown a strong difference between the U. S. and Japan's taste preferences with the U. S.

beverages being too sweet for Japan. The marketing department also needs to coordinate with the Human Resources department to ensure adequate personnel being ready to support their marketing efforts. This is especially important in that persons pulled on this project need to have the educational background combined with related experience to bring forth the knowledge required. Next, further market analysis needs to be performed in order to broaden the span of knowledge pre-analysis has provided on the Japanese market. In addition to market analysis, competitive analysis needs to be performed to provide information on possible direct and indirect competitors in the market, how much market share they have, what specific regions they operate in, and the normal business practices/lessons learned of those competitors who have sustained market share (in order to learn from these). Marketing research needs to provide specific target markets that the SoBe product should engage in. A marketing plan then needs to be created to provide a list of objectives that are desirable to meet and the appropriate method for advertisements. A pricing strategy needs to be developed with relation to the current pricing standards and the prices of other companies operating in the same market.

A decision needs to be made on whether or not to price higher or lower. If the plan is to develop a high-end product, higher prices could be acceptable but certain market share would be lost. Volume projections with production need to be defined in order to indicate how much of the product needs to be manufactured. This can only be known with the background information marketing analysis can provide.

Finally, promotional and marketing materials need to be developed that will appeal to this specific market. There needs to be sensitivity in this area with regard to what is considered acceptable and what is considered offensive to the Japanese population. This would all help reduce the costs of production by generating more volume and helping to customize the product to consumer needs while differentiating the product from competitors' products. Research & Development/ Human Resources/ Production

The Research and Development department will be responsible for designing and producing the new SoBe beverage (most likely being a new SoBe flavored water since pre-analysis research has also shown that flavored mineral water, which tends to be sugar-free since this market is very small in Japan and so there's a lot of room to grow here). This department will then need to coordinate the volumes needed with the marketing department and communicate their personnel needs with the HR department. The human resource function will ensure that they have the right people to perform the primary production and marketing activities.

This department will also ensure that the staffing requirements of the support activities are met and that employees are appropriately trained for their tasks while being compensated accordingly. The information systems

function makes certain that management has the information it needs to maximize the efficiency of its value chain and to exploit information-based competitive advantages in the marketplace. Firm infrastructure--consisting of such factors as organizational structure, general management, planning, finance, and legal and government affairs--embraces all other activities of the firm and establishes the context for them. An efficient infrastructure helps both to create value and to reduce the costs of creating value. The R&D department's research will show that here are many reasons to be confident that this particular flavored-water product will be successful.

First, consumers in Japan worry about the quality of their tap water. This is a special concern in metropolitan areas such as Tokyo and Osaka. However, in spite of past problems, consumers seem confident that bottled water ensures good flavor and high safety standards. Also, Japanese teenagers who see bottled water on television, and vacationers who enjoy it on overseas trips, contribute to the growing demand. The R&D department efforts will also show that trendy bottled waters will sell even better. Again, SoBe will need to be able to rely on this department to provide the very specific industry information it needs. The R&D function, while developing new product and process technologies will reduce production costs and provide for more useful and attractive products that can demand a premium price. CONTROLLING: SoBe needs to define which departments will provide information on how well the new product is doing and what control measures to utilize.

Control measures need to be compared to the originally established objectives and targets. Some of the points that would indicate if the product

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is consistent with these goals are product quality, profitability, and growth ability. The Marketing & Sales department needs to provide information on how much market share the product has and what the projected sales forecasts are. This department also needs to conduct taste tests with Japanese-targeted focus groups in order to fine-tune the product so that it fits consumer tastes. They need to find out if the research indicating that Japanese consumers prefer drinks that are not sweet is true or whether or not the tastes have progressed into different areas. They also need to find out what these consumers consider to be appealing in terms of packaging.

For example, these focus groups could show, thereby supporting the pre-analysis reports, that when Japanese consumers buy a canned drink, there is a 70-percent chance they will buy through a vending machine. This would mean that the best current SoBe product to export to this market would be a sugar-free version of SoBe Synergy which is the only product that comes in a can. SoBe would then need to decide if they'd also like to start a new flavored water line that also comes in a can. Another department that needs to put controlling measures in place is the manufacturing/production department which needs to provide information back on productions costs, delivery times, and rework costs. IMPLEMENTATION: For implementation of the new product in the Japanese market, the Sales & Marketing department needs to create a promotional plan which includes appropriate advertising.

This might include bulletin ads in appropriate areas and ads in health magazines. Marketing can also include the following: Free sample booths in retail outlets A company Web site, which raises awareness of our products Printed coupons in community newspapers Distribution of flyers at gourmet

stores Media relations EXTERNAL FACTORS: COMPETITIVE ENVIRONMENT:

The bottled water market grew +14.3% in Japan last year. The biggest competitor in the market for SoBe would be Suntory, which currently owns the top brand. However, Suntory has recently lost shares. Their main brand grows below the industry. The second top competitor would be Coca-Cola's which produces the product Woods Water and has experienced recent gains.

Coke posts double-digit growth and Coke's executive say that their marketing focuses mainly on value pricing, and no TV commercials. This could be advantageous to SoBe which could engage in aggressive marketing through this medium. Top-growth competitor companies, Ohtsuka and Sapporo, still have shares that are in low single-digits. Overall, the top-10 companies account for 66.2 share of market; top-10 brands hold cumulative 62.

6 shares. This allows SoBe to obtain shares that are available by marketing their product and differentiating it from current players in the market.

Despite these large competitors, the market for bottled water and flavored bottled water consumptions is growing and still far below that U. S. and Europe. The table below shows shares, share changes and volume changes, 2001 vs 2000, for top-10 Japanese bottled water suppliers and brands (to include flavored waters) and covers retail channels. According to research analysis, Japanese per-capita consumption is about 1/6th of U.

S. and 1/12th of Europe. Research has also shown that this market is expected to grow for many years to come. Top-10 Japanese Bottled Water

Companies Top-10 Japanese Bottled Water Brands Company Share +/-
Vol. +/- Brand Share Share +/- Vol. +/- Company
Suntory 19. 1-1. 5+5.

8% S. Alps Natural Water 17. 3-1. 2+7.

1% Suntory Coke Japan 11. 4+2. 0+37. 9% Woods Water 11. 4+2. 0+37. 9%
Coke Japan House Foods 10. 5-1.

5flat Rokko's Tasty Water 10. 5-1. 5flat House Foods Mitsubishi 6.

9-1. 0flat Volvic 6. 9-1. 0flat Mitsubishi Nestle Japan 4. 8-0. 1+12.

4% Evian 3. 9+0. 1+17. 1% Calpis/Danone Calpis/Danone 3. 9+0.

1+17. 1% Alkali Ion Water 3. 4flat +14. 6% Kirin Kirin 3. 5flat +14. 2% Crystal
Gaiser 2.

9+0. 8+58. 9% Ohtsuka Ohtsuka 2. 9+0. 8+56.

4% Kon Kon Spring Water 2. 6-0. 3+3. 8% n/a Sapporo 2.

0+0. 7+75. 0% Sapporo Tanigawa Water 2. 0+0. 7+75.

0% Sapporo Bourbon 1. 3-0. 1+3.

7% Natural Water in Japan 1. 8-0. 4-5. 0% n/a
LEGAL ENVIRONMENT: To ensure compliance with Japan's laws, SoBe should obtain legal advice from its legal department. It may be also useful to hire a legal consulting firm in Japan. Information that might be found would include the fact that Japan requires that businesses operating in Japan provide semi-annual financial disclosures. As a result, SoBe will need to ensure compliance with this rule.

The following legally-involved events could pose problems to the distribution of SoBe's product: Trade war or restrictive duties on food/beverage exports into Japan could threaten supply Legal changes in shipping regulations would cause problems by leading to significant delays in fulfilling orders Drop in the value of the dollar (or in Japanese currency) due to legal changes and economic policies will make selling the product in Japan more expensive Change in government regulations around selling food products may force a change in package or product mix ENTRY MODE: SoBe will need to evaluate the advantages and disadvantages of each type of entry mode. Although SoBe can engage in exporting, turnkey projects, licensing, franchising, or joint ventures, SoBe would be best to pursue the wholly owned subsidiaries mode of entry so that they can obtain tight control over their operations and core competence. This plan has the disadvantage of bearing all the costs and risks that come with setting up in Japan but it is the best match with consideration to SoBe's strength and current position. COST/BENEFIT RELATIONSHIP: Analysis will show that SoBe's venture in Japan will be successful with regards to the competitive, market, and economic conditions. While the costs are high for implementation with the plan to follow the wholly owned subsidiaries mode of entry, the benefits of providing this type of product which demand is ever-growing in Japan are high as well. To reduce costs, SoBe should ensure that all departments are properly staffed and fully involved in making strategic decisions.

CONCLUSION: The best plan for SoBe would be to pursue the international strategy with entering the Japanese beverage market with their sugar-free flavored water. By pursuing an international strategy, SoBe will be able to

earn a greater return from their distinctive skills or core competencies, realize location economies by dispersing particular value creation activities to those locations where they can be performed most efficiently, and to realize greater experience curve economies, which reduces the cost of value creation. It will need to do all this by customizing its product offering, marketing strategy, and business strategy to the Japanese market conditions. The flavored water product will do well because most new-age drinks designed for U. S. consumers don't translate well to the Japanese palate that doesn't like the fact that they are too sweet. But flavored-water, which tends to be sugar-free, is perfect for this market. In addition there is room to grow for this market, which is still smaller than that of France, the United States and even other Asian nations.

SoBe should enter Japan with this product because research has shown that many consumers in Japan worry about the quality of their tap water. This is a special concern in metropolitan areas such as Tokyo and Osaka. Research also shows that despite of past problems with water conditions (such as the scare that occurred in Japan in 1996), consumers seem confident that bottled water ensures good flavor and high safety standards. Also, Japanese teenagers who see bottled water on television, and vacationers who enjoy it on overseas trips, contribute to the growing demand for trendy bottled waters.