

**New Diversification Strategies  
for the Japanese Alcohol Industry**

by

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B.S., University of Tokyo, Japan (1988)

Submitted to the MIT Sloan School of Management  
in Partial Fulfillment of the Requirements for the Degree of

**Master of Business Administration**

at the

**Massachusetts Institute of Technology**

June 2007

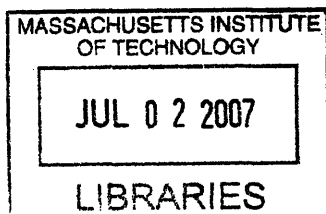
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## **ABSTRACT**

Japanese major alcoholic beverage companies, whose businesses are mainly the production and sale of beer products, stand at a strategic crossroads. There are several reasons: a slow decrease in the Japanese population, which leads to a smaller drinking population; diversification of customers' tastes and preferences; a totally saturated beer and low-alcohol beverage market; and a globalization trend that is now entering Asian countries. Therefore it is essential for the alcoholic beverage companies to adopt strategies for future sustainability—one to strengthen its core liquor business and offer a range of beverages other than beer; the other is to expand business opportunities into areas other than the liquor business. These diversified businesses are basically either vertically integrated or founded upon the core competencies, both of which are close to their main business, namely alcohol beverage business.

At the same time, other large international beer brewers such as Anheuser-Busch, Heineken, and Lion Nathan, are pursuing a different strategy from the Japanese companies: these competitors are focusing even more on their core beer business.

I will explore future strategies for the alcoholic beverage companies. I will compare Japanese companies that have diversified their business including the historical backgrounds of diversification and future strategies of other international players.

Subsequently, the thesis narrows down to diversification strategies for a Japanese brewing company, Kirin Brewery, which is trying to nurture another pillar for its future growth after almost 30 years of diversification. To evaluate the long- and mid-term business strategies of this new pillar—health foods and functional foods—as a new joint venture, I will apply in some detail the Delta Model Integrated Business Framework proposed by Arnaldo Hax.

Thesis Advisor: Arnaldo C. Hax  
Title: Alfred P. Sloan Professor of Management Emeritus

## Acknowledgements

I have had a great deal of help and support in writing this thesis.

First, I especially thank my thesis advisor, Professor Arnaldo C. Hax, for his thoughtful support and for sharing his wisdom with me guiding precisely where I should aim for.

I am also grateful to Ms. Cherie Potts, my editor, for her patience and support in completing the manuscript.

Second, I would like to thank the members of Study Group #10—Miss Mary Ann Kuo, Mr. Kai Wah Lam, and Mr. Alexandre Coelho, who shared their expertise in areas where a Japanese Brewmaster was totally unsure, and helped me get through one of the toughest but most fruitful times of my life.

Third, I am thankful to the staff of the Sloan Fellows Program, including Mr. Stephen J. Sacca, who took such great care of all the international students, including myself.

Fourth, I am indebted to Kirin Brewery Company for giving me the opportunity to participate in the MIT Sloan Fellows Program for a year and for sponsoring me. At Kirin, I particularly wish to thank the following people:

Mr. Kazuyasu Kato, who shared his own experiences at Sloan and insights of his leadership as president of the company, at one of our Leadership sessions and interviews.

Mr. Shinro Fujita, and Mr. Taiji Abe, who provided their experiences while attending the Sloan Fellow Program and gave me constant support throughout the year at Sloan.

Mr. Akira Negami (retired and passed away in April 2007), Mr. Takeshi Shimazu, Dr. Koichi Matsuzawa, Mr. Yoshihiko Tamaru, Mr. Hajime Nakajima, and Mr. Takeshi Minakata, who encouraged me to join this Sloan Fellow program.

Mr. Noriyuki Kobayashi and Masaki Harada who tackled the strategic issues I discuss in this thesis and shared their ideas during interviews.

Fifth, outside of Kirin, the following people really made this thesis happen:

Mr. Douglas J. Muhleman, with Anheuser-Busch Companies.

Ms. Nathalie Grotenhuis, with Heineken International

Mr. Koji Fukada, with Lion Nathan, Ltd.

Mr. Tomohiro Tayama, with Kirin Yakult NextStage, who shared the company's detailed information and his own fabulous insights.

Finally, I am greatly indebted to my wife Akiko, and my children Shintaro and Kazumi. Without their patience and smiles, I would never have reached this point. I also owe a great deal to Satoshi and Michiko Yoshimura, my parents, and Michie Nakajo, my mother-in-law, who supported my family and me with their never-failing love from Japan.

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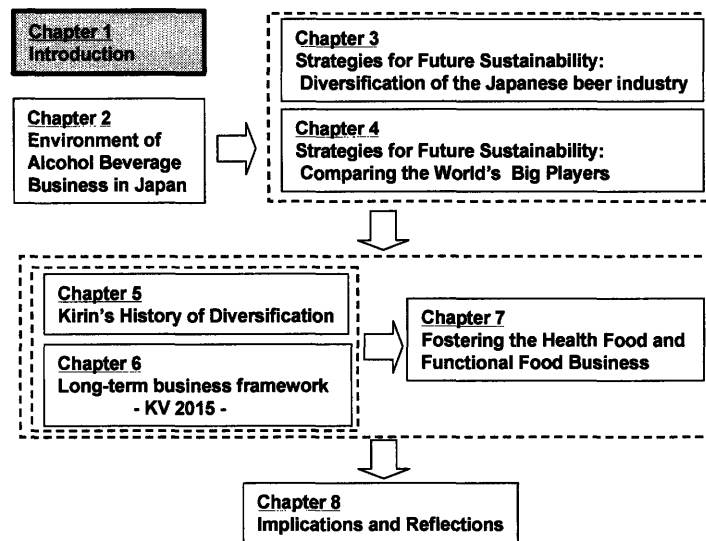
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# CHAPTER 1 Introduction

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## 1.1 PURPOSE OF THE THESIS

Major Japanese alcoholic beverage companies, whose businesses are mainly the production and sale of beer products, stand at a strategic crossroads. The reasons for this are:

- A decreasing Japanese population, which results in a decline in the drinking population.
- Diversification of customers' tastes and preferences.
- A totally saturated beer and low-alcohol beverages market.

All of the Japanese companies show some exhaustion as a result of competing in the closed Japanese market, owing to the mono-cultural business environment—although most have entered the global market and are enhancing their activities in other Asian countries. Therefore it is essential for these companies to adopt strategies for future sustainability, first,

to strengthen their core business, which is liquor and various types of beverages other than beer, and second to expand their business opportunities to areas other than liquor.

Four major Japanese alcoholic beverage companies have diversified their business portfolios for various reasons. These diversifications are either vertically integrated or founded on core competencies, but in every case the diversifications remain close to their main business, namely, alcohol beverage business.

On the other hand, other international beer-brewing competitors seem to have adopted a different strategy from their Japanese counterparts: they focus on their core beer business, especially since the recent reformations of giant global brewers.

In this thesis, I will explore the future strategies of alcoholic beverage companies, comparing Japanese companies that have tried to diversify their business, a history of those diversifications, the historical background of diversification, and future strategies of other international players.

Every company possesses its own core competency(ies) that will help it to execute its strategy. I will study the positioning of the core competencies of companies I have chosen to research. I will conduct this study by applying the Delta Model (Hax, 2001), a framework for discussing strategy. Because of the inherent characteristics of the product and its market, an alcohol beverage company—especially a beer-brewing company—tends to focus its business on the competitive advantages of: low-cost operations including low price, and differentiated products and service. This is not a bad strategy; it is indeed necessary to offer compelling products and services at low prices. However, I am fascinated by the concepts of the Delta Model, which emphasize that any company should put the customer at the center, establish



closer bonding with its customers, which will then secure the firm and long-lasting future growth.

My employer, Kirin Brewery Co., Ltd. of Japan (Kirin), has always taken pride in its dominant market share of the Japanese brewing industry since the period following World War II. However, a competitor's huge hit product and their surrounding marketing strategies forced Kirin to begin competing primarily in the "Best Product" option, one of the strategic options in the Delta Model. I believe this was a questionable decision, and the ensuing sacrifice was so huge that the company's market share and profitability stagnated and in response, and Kirin had to take the painful step of downsizing the company and enduring other hardships, including the closure of four of its breweries. This bitter lesson taught Kirin that it must change its business policy from "competitor-driven" to more of the basics: "customer-oriented" and "quality first".

Based on these policy changes, Kirin is now aiming for the next stage: diversification of its existing business, which was conducted from the 1970s through the 1990s. That was followed by enhancement of its core domestic beverage business.

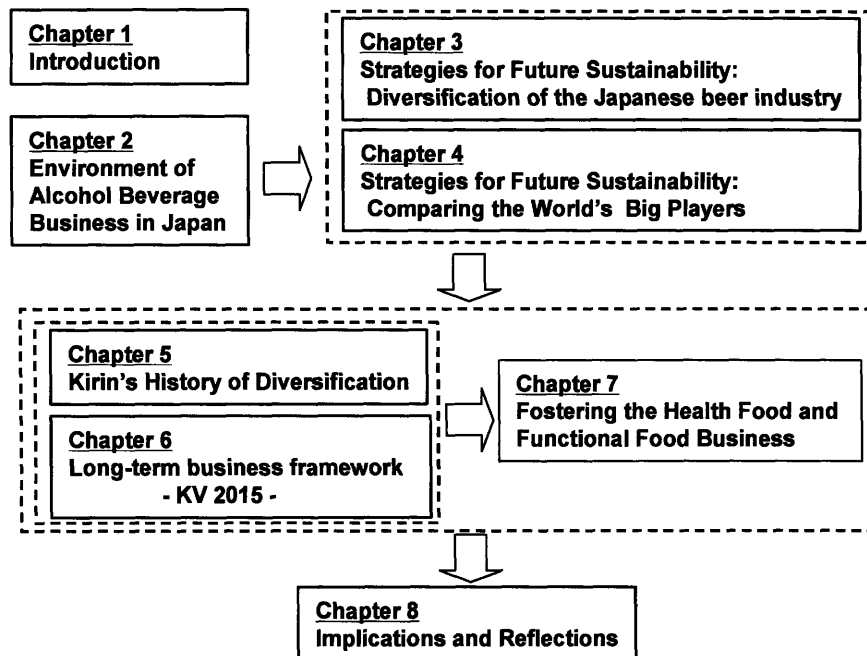
One of these core businesses is the health food and functional food business, which is expected to become the fourth pillar of Kirin's business portfolio—the first, alcoholic beverages; second, soft drinks; and third, the pharmaceutical business—and it is expected to make a major contribution to the company's future growth.

I will study the business strategies of the food business by applying the Delta Model. I am interested in learning how the business can be nurtured by building close bonds with customers in the associated market.

## 1.2 THESIS STRUCTURE

This thesis begins with the “big picture,” discussing the alcoholic beverage industry in Japan and covering the business strategies of four major Japanese companies, and then contrasting the future strategies of other international beer brewing companies. Thereafter I will study the diversification strategies of each company, and explore in greater detail the new stage of diversification strategy of the company.

In other words, the structure of this thesis is a sort of funnel that gives a big picture and gradually narrows down to the strategies of one company as Exhibit 1.1 shows.



**Exhibit 1.1 Thesis Structure**

Source: Developed by author.

In Chapter 2, I analyze the environment of the alcoholic beverage business in Japan from four aspects: geography, diversified customer preferences, globalization, and competition.

Chapter 3 provides the diversification strategies of four major Japanese beer brewing (and alcoholic beverage) companies, including Kirin Brewery (Kirin), my home company,

along with a brief history of each company. Although the long-term aspects of the market environment were taken into consideration, there are several reasons why each brewer chose to diversify its business. Consequently, diversification strategies play an important role for each company's future sustainability and for enhancing its core business.

In Chapter 4 I introduce strategies for the future sustainability of several foreign brewers: Anheuser-Busch from the U.S., Heineken from the Netherlands, Lion Nathan from Australia (originally from New Zealand), and San Miguel from the Philippines. These companies are major players in the world market or in their domestic markets. Three of them (Anheuser-Busch, Heineken, and Lion Nathan) are clearly focused on their core business, namely beer, for future growth, although some derivative products may be produced and sold. The fourth, San Miguel, is a much diversified, comprehensive food company, which grew by acquiring various beverage and food companies. San Miguel's different background and strategy from other three brewers will be discussed.

In Chapter 5, I return to a specific Japanese company, Kirin, and I discuss Kirin's history of diversification. There were two major phases of diversification in Kirin. Kirin now has businesses with four segments: (1) alcoholic beverages, (2) soft drinks, (3) pharmaceuticals, and (4) others segments such as foods, engineering, agribio, etc.

After being defeated in the beer market by Asahi, Kirin transformed its corporate mentality from "competitor-driven" to the basics—"customer oriented" and "quality driven," and the company is now entering its next stage of diversification. It is clear that Kirin is not a beer company but is now known as "Kirin Group," which consists of three major businesses.

Chapter 6 provides Kirin's most recent long-term business framework, Kirin Vision 2015 (KV2015). Founded on the company's technical expertise, Kirin made it clear that the

health food and functional food business will be another pillar to enhance the growth of the pharmaceutical business.

Chapter 7 is a case study of the health food and functional food business, which Kirin is planning to make the next pillar in the group. Kirin Yakult NextStage, Inc. (KYNS), a health food and functional food subsidiary of Kirin established in October 2006, is derived from Kirin WellFoods, Inc. and a joint venture with Yakult Honsha. In this case study I apply the Delta Model Integrated Strategy Framework to the new joint venture, in order to study the validity of KYNS's long-term and mid-term business plans. The purpose of this case study is not to find "pitfalls" or "shortfalls" in the business plans, which were put into place in January 2007. Rather, I hope to bring out KYNS's core competencies and future promise, and make some suggestions that will enable the company to achieve a strong position quickly, thereby contributing to the quantum growth of Kirin Group.

In Chapter 8, I will summarize the findings and implications identified in this project, as well as some future challenges facing Japanese and other global alcoholic beverage companies.

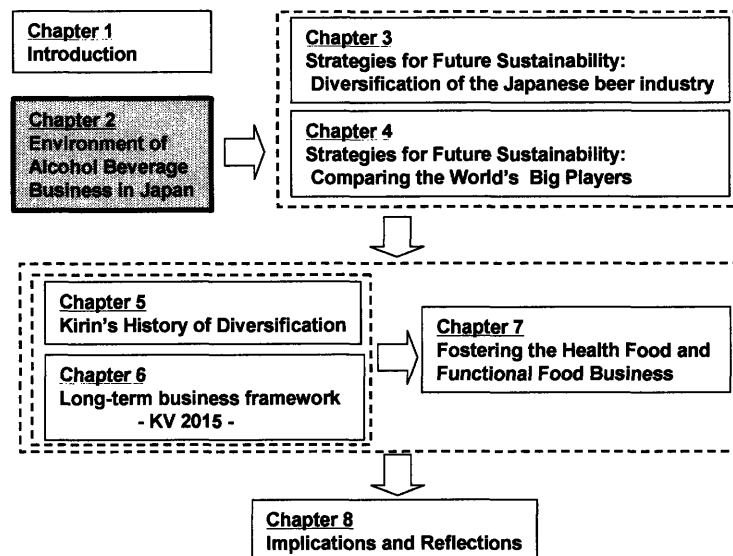
### **1.3 RESEARCH AND ANALYSIS METHOD**

Factual data about the organizations were derived from interviews conducted with people who are or were in charge of developing strategy in each company. This included people who work for Consumer Relations, as well as information that has been released publicly. Information about Kirin Brewery is drawn from interviews, internal documentation, and my own experience.

# CHAPTER 2

## The Environment of the Alcoholic Beverage Business in Japan

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The beer and liquor industry in Japan is facing increasing uncertainty today. There are several reasons for this, including:

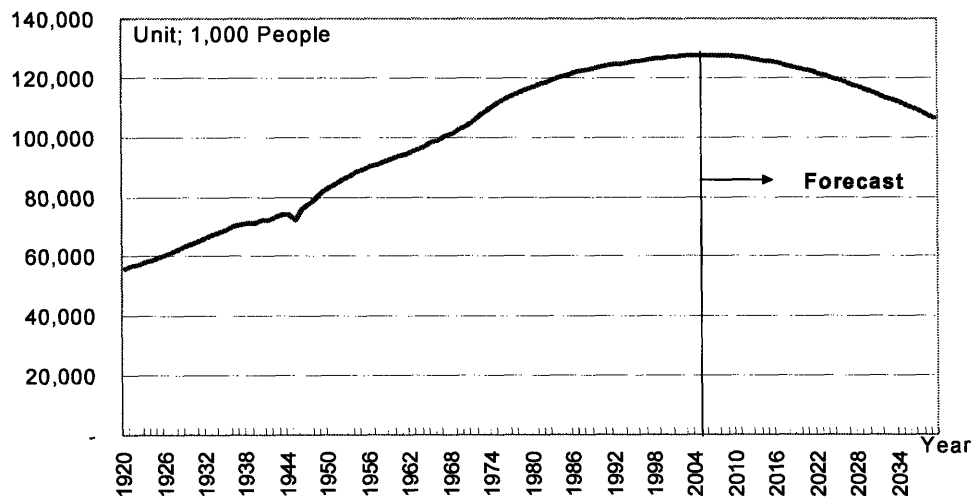
1. The demographics of Japanese society
2. Wide diversification of consumer preferences
3. Tough competition among Japanese alcoholic beverage companies, especially beer types and other related categories
4. Globalization in general.

In the following sections, I discuss these reasons in greater detail.

## 2.1 DEMOGRAPHICS OF JAPANESE SOCIETY

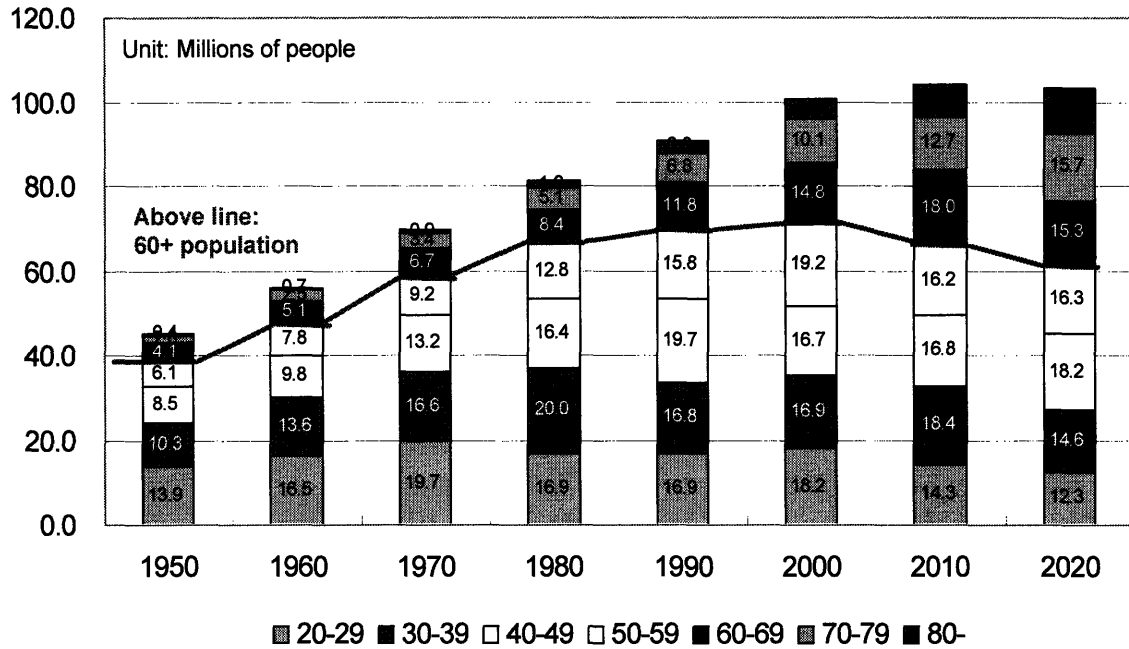
After the birthrate had peaked in 1989, Japanese population finally started to drop in 2005, since the number of new born was lower than that of decrease for the first time after World War II. It is expected that this downward tendency will continue for 20 to 30 years.

Consequently, the proportion of the population that consumes liquor has also fallen, and the size of the liquor market has shrunk. Total taxed liquor shipments (a figure that is typically used to measure liquor consumption in Japan) hit peaks in 1996 and 1999, and then gradually decreased. Exhibits 2.1, 2.2, and 2.3 illustrate these trends.



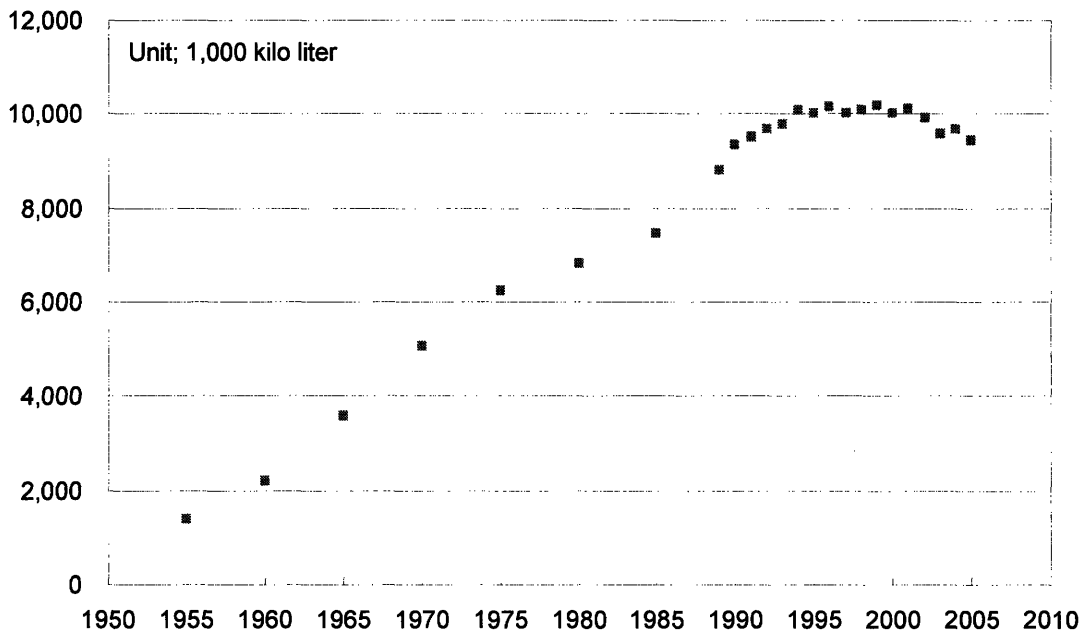
**Exhibit 2.1 Population trend in Japan**

Source: National Institute of Population and Social Security Research , modified by author.



**Exhibit 2.2 Adult population by age group**

Source; National Institute of Population and Social Security Research, modified by author.



**Exhibit 2.3 Trend of taxed liquor shipment (all categories)**

Source: National Tax Agency of Japan, modified by author.

Exhibit 2.2 also illustrates that the life expectancy of the elderly population is extending, which suggests that health consciousness among consumers will also increase.

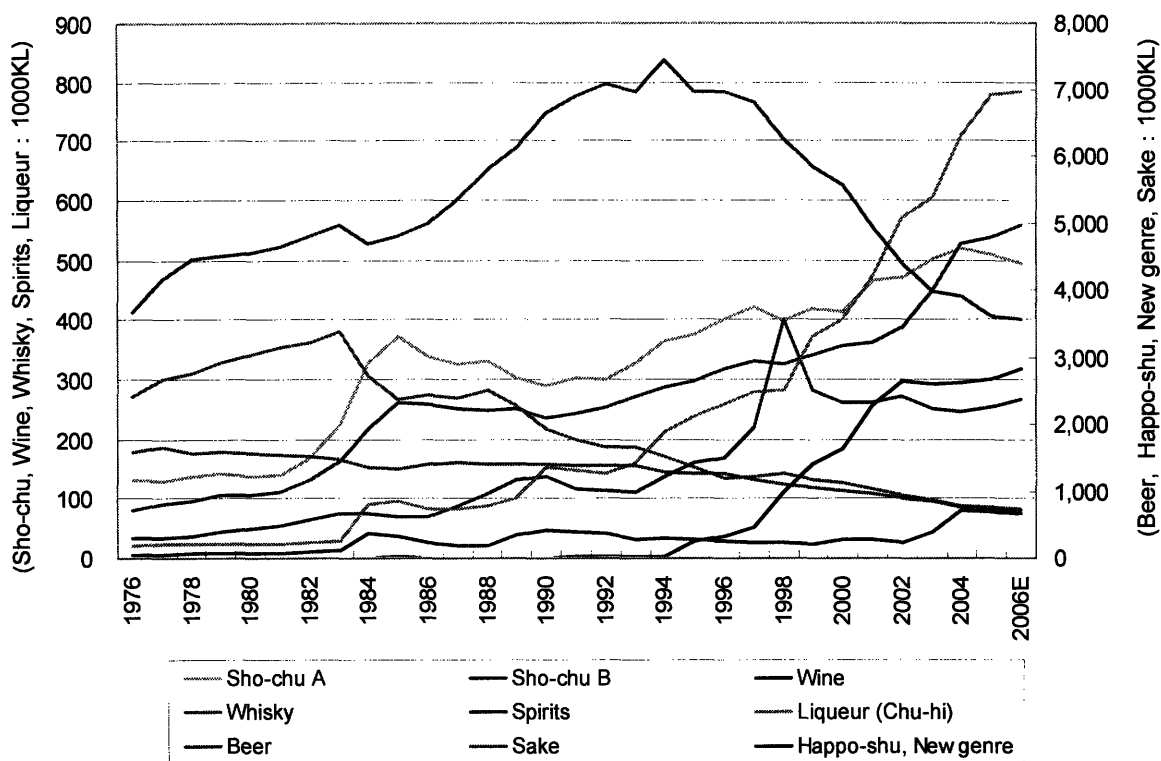
## **2.2 DIVERSIFICATION OF CONSUMER PREFERENCES**

Consumer values have diversified, as most consumers are no longer satisfied with mere “goods” and “services” in a society that is flooded with goods and services. Today’s consumers tend to value intangibles, such as “relief” and “comfort,” and they are willing to pursue what they believe to be worthy rather than shop simply by price. Consumers in the Japanese alcoholic beverage market are no exception to this general trend.

Sales volumes of alcoholic beverages are widely regarded in Japan as one measure of overall consumer sentiment. In 2005 the Japanese economy showed signs of emerging from more than ten years of economic stagnation, with a correspondingly positive trend in beer consumption.

Consumer preferences in alcoholic beverages have diversified greatly over the past ten years, as shown in Exhibit 2.4, and within each sector the market is tending to polarize. This means that in the beer business, for example, premium beers are selling well at the same time as new products enjoy a boom at the less-expensive end of the price spectrum. Some consumers consciously switch between these poles, choosing premium beers during the weekend and lower-cost drinks during the week. In response to consumer demand at the low





**Exhibit 2.4 Trend of sales volume by category**

Source; Kirin Brewery, modified by author.

end of the market, drinks such as Happo-shu<sup>1</sup> and New Genre<sup>2</sup> were developed. Both products have a lower liquor tax. Alcoholic beverages in Japan are taxed according to a complex system based on alcohol content and ingredients, so by using different ingredients brewers have been able to create lower-priced products. In May 2006 the Japanese government simplified its taxation system and revised tax levels on certain alcohol categories

<sup>1</sup> Happo-shu: Unique to Japan since it was first produced in 1994. It has ~5% alcohol content. Brewed with lower malt content than beer, it has a lower liquor tax rate. It retails at major convenience stores for around ¥145 for a 350ml can, compared to around ¥200 for an equivalent can of beer. In 2005 Happo-shu accounted for 27.8% of the total beer-type beverage (beer + happo-shu + New Genre) market by sales volume.

<sup>2</sup> New Genre: First sold in Japan in 2003, with ~5% alcohol content. Taxed at a lower rate than either beer or happo-shu, due to the use of different ingredients such as soy protein instead of malt. Retails at major convenience stores for around ¥130 for a 350ml can. In 2005 New Genre products accounted for 15.9% of the total beer-type beverages market by sales volume.

(see Exhibit 2.5). These changes are expected to have only a minor impact on consumer purchasing patterns.

Category	Type	Revised tax per liter of product (May 1, 2006)	Previous tax per liter of product	Increase (Decrease) per standard retail unit
Carbonated liquors	Beer	¥220.0	¥222.0	(¥0.7) per 350ml can
	Happo-shu	¥134.3	¥134.3	Nil
	New Genre	¥80.0	¥69.1	¥3.8 per 350ml can
	Chu-hi	¥80.0	¥79.4	¥0.2 per 350ml can
Brewed liquors	Sake	¥120.0	¥140.5	(¥20.5) per liter
	Wine	¥80.0	¥70.5	¥9.5 per liter
Distilled liquors	Shochu (25%)	¥250.0	¥248.1	¥1.9 per liter
	Whisky (40%)	¥400.0	¥409.0	(¥9.0) per liter
Blended liquors	Liqueurs (12%)	¥120.0	¥119.1	¥1.0 per liter

### Exhibit 2.5 Liquor tax system

Source; National Tax Office Liquor Division, May, 2006, modified by author.

As consumer preferences have become more diverse, it has caused brewers to adopt new business models for developing as comprehensive alcohol beverage companies. Chu-hi<sup>3</sup> and Sho-chu<sup>4</sup> have grown substantially over the past five years, while Sake<sup>5</sup> is steadily declining. In addition, there is considerable demand for products that cater to health-conscious consumers or those looking for lighter, cleaner tastes. Managing a collection of strong brands in all the core and growth categories has become a necessity to survive in this diversified market.

There is another aspect about drinking itself. Based on a Kirin market survey, drinking alcohol is less accepted as a sophisticated fashion by today's younger generations.

<sup>3</sup> Chu-hi: A sparkling distilled liquor with fruit juice, with around 5% to 7% alcohol content. Differs from ready-to-drink cocktails popular in overseas markets, as chu-hi has been a staple in the Japanese market for more than 25 years. Sold primarily in cans, more than 90% of sales are for home consumption.

<sup>4</sup> Sho-chu: A clear, grain-based distilled liquor with ~25% alcohol content. Sold on premises and for home consumption.

<sup>5</sup> Sake: Traditional Japanese drink made from polished rice, with ~15% alcohol content. Produced in Japan for more than 2,000 years.

For the industry, this would pose a big threat if the coming generations chose not to drink alcoholic or low-alcohol beverages

### **2.3 OVERVIEW OF JAPANESE ALCOHOLIC BEVERAGE INDUSTRY**

Japan's beer industry began to take shape in September 1949, when Dainippon Brewing Company (resulting entity following a 1906 merger between Osaka Brewing Company, Japan Brewing Company, and Sapporo Brewing Company) was divided into Japan Brewery (today's Sapporo Breweries) and Asahi Breweries in order to comply with the Anti-Monopoly Law. Subsequently, there were three brewing companies: Kirin Brewery Co., (Kirin), Asahi Breweries (Asahi), and Sapporo Breweries (Sapporo). These three companies shared the Japanese beer market almost equally until 1955, when Kirin gradually began to acquire more market share.

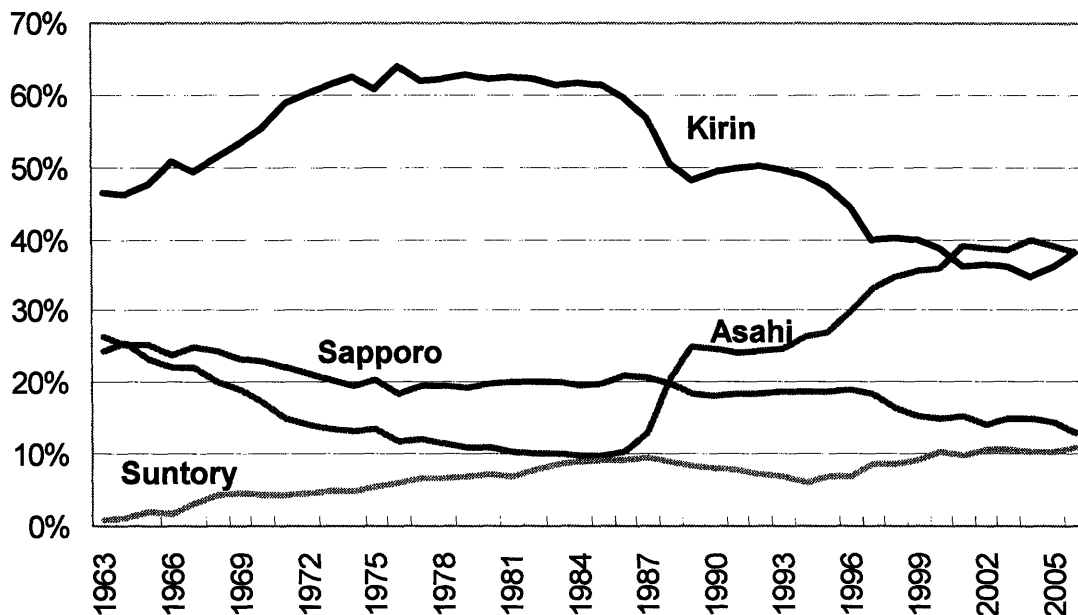
New entries appeared: Takara Shuzo in 1957 (which left the market in 1967) and Suntory in 1963, which led to the four major players today: Kirin Brewery, Asahi Breweries, Sapporo Brewery, and Suntory.

Kirin showed phenomenal growth, capturing 60% of the market during the 1970s through the mid-1980s. Fearing the Antimonopoly Law would require the company to split, Kirin controlled its operating activities, and its market share gradually decreased as Kirin began to invest in other business fields. I will discuss this in greater detail in Chapter 5.

Asahi, which launched its "Super Dry" beer in 1987, rapidly acquired greater market share, and this began a tough competition among the four brewers, based on pricing and new product development. In addition to the introduction of Hoppo-shu and New Genre, the beer companies themselves began to evolve into full-scale alcoholic beverage companies able to

respond to customers' diversified preferences. In turn, this made the competition even harsher and more complicated, with price wars and a broad range of different products.

Although the beer market is dominated by two giants, Kirin and Asahi, which held a combined 76% of market share by 2005 (see Exhibit 2.6), such keen competition keeps all the market players in an unstable and exhausted condition, since the market itself is totally saturated.



**Exhibit 2.6 The trend of market share (Beer + Hoppo-shu + New genre)**

Source: Kirin Brewery, adapted by author.

## 2.4 JAPANESE ALCOHOLIC BEVERAGE INDUSTRY

Exhibit 2.7 shows the Japanese alcoholic beverage industry environment as it fits into Michael Porter's Five Forces Model (Porter, 1985). The five forces, as they relate to Japan's alcoholic beverage industry, are discussed briefly below.

### **2.4.1 Barriers to Entry**

The barriers to successfully entering the alcohol beverage industry are very high. This is largely due to the liquor tax. Japan's very strict liquor tax law requires formal approval and a license for all businesses that deal with alcohol, whether manufacturing or sales, mainly because of health concerns and, of course, to secure liquor tax collections.

The low-alcohol beverage industry is basically an apparatus industry, and as such, a relatively large investment is required to set up mass production. In terms of technology, brewing needs considerable specific experience, especially yeast handling and quality control.

### **2.4.2 Rivalry Among Competitors**

Rivalry among competitors is very harsh, for the reasons described in the previous sections. As Exhibit 2.6 showed, the market share of the four companies: Kirin, Asahi, Sapporo, and Suntory was 38.08%, 38.14%, 12.99%, and 10.79% respectively in 2006. Differentiation among low-alcohol beverages is difficult because of qualitative restrictions on ingredients, although each manufacturer tries hard to differentiate its products. To establish a corporate brand and a product brand is critical because customers choose products by their image (what Kirin calls "perceptual quality"), which includes not only physical characteristics of actual taste and package design, but also the emotional feelings that make customers comfortable in a series of activities that includes purchasing and drinking.

### **2.4.3 Threat of Substitutes**

Virtually all beverage categories can be substitutes for low-alcohol beverages. There are many examples; soft drinks, hard liquors including Sake and Sho-chu. If one considers alcoholic beverages as another aspect of expenditures for communication and entertainment, then one could even say that other alternatives, such as cellphones, music, or movies could be a threat to the alcoholic beverage business, considering people's limited disposal income.

### **2.4.4 Bargaining Power of Buyers**

The liquor distribution system has three layers: manufacturers (brewers, wine makers, and distilleries), wholesalers, and retailers. Every major manufacturer traditionally has its own wholesaler network, often involving retailers as a complementor in order to efficiently deliver its own products to customers. Manufacturers usually give some power downstream; however, as noted above, a structural change is emerging. Dealing with the power of emerging buyers is becoming a serious issue for manufacturers.

### **2.4.5 Bargaining Power of Suppliers**

Alcoholic beverage manufacturers have two primary types of suppliers that produce their products: those that raw materials and those that supply packaging materials. The bargaining power of these suppliers is generally low because the industry's buying power is huge due to economies of scale.

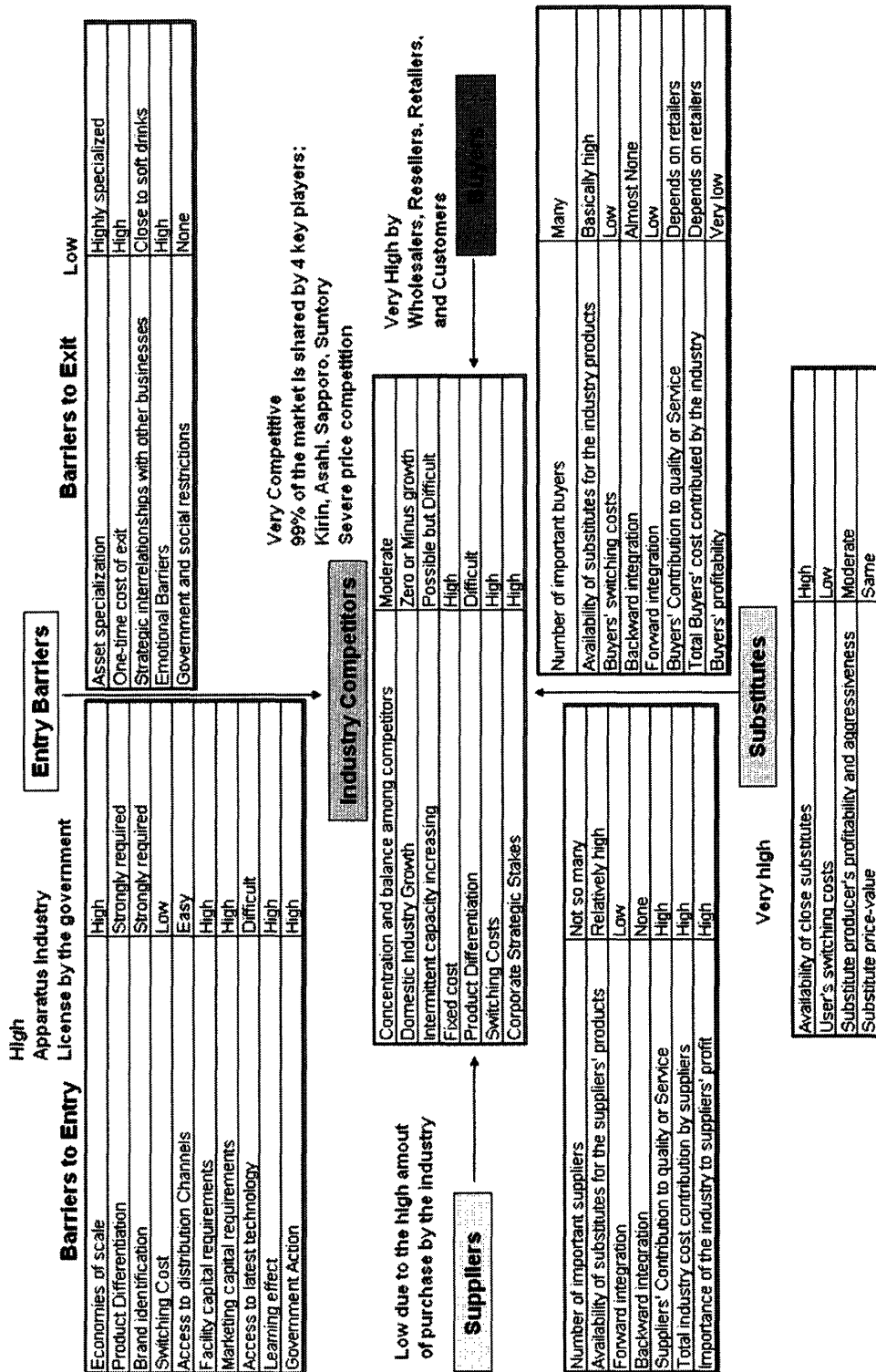


Exhibit 2.7 Overview of the Japanese beer and alcoholic beverages industry

Source: Developed by the author.

## 2.5 GLOBALIZATION

World liquor consumption in 2004 (including beer, wine, whiskey, rum, brandy, and other distilled beverages) was reported as approximately 2 billion hectoliters, with a growth rate of 2.1% since 1994.<sup>6</sup> Beer consumption is dominant (~70%), and production is concentrated among 10 top players (see Exhibit 2.8). This is because three companies of the top 10 were recently established by M&A, and Anheuser-Busch, the American giant, also acquired Mexico's Grupo Modelo and China's Tsingtao Beer. In addition, since the late 1980s, there were brisk M&As and capital investments in developing countries by European and U.S. brewing companies. This can be explained by the saturation in the European and North American markets, and the dissolution of the Soviet Union and Eastern European bloc countries.

(Unit: Million hectoliters, %)

Rank	Company	Country	Shipments	Market Share
			2005	2002
1	InBev	Belgium	202.0	15.6
2	Anheuser-Busch	U.S.A.	174.0	13.5
3	SAB Miller	South Africa	168.4	13.0
4	Haineken NV	Holland	118.6	9.1
5	Carlsberg Brewers	Denmark	68.9	5.4
6	Scottish Courage	U.K.	54.0	4.2
7	Grupo Modelo	Mexico	45.5	3.5
8	Molson Coors	U.S.A.	42.3	3.3
9	Baltic Beverages Holding	Russia	41.4	3.2
10	Tsingtao Beer Holdings	China	40.8	3.2
Total (10 brewers)			915.1	71.0

**Exhibit 2.8 World's ten top beer brewing company**

Source: IMPACT: Global News and Research for the Drinks Executive, Vol. 36, No. 18, September 15, 2006, modified by author.

<sup>6</sup> Mizuho Industrial Report by Hori, 2005



There are several reasons why European and U.S. brewing companies chose to acquire shares in the brewing companies in these developing countries in order to establish local subsidiaries or construct new plants: (1) there was a large funding risk due to unstable infrastructures, and (2) customers in these countries remained fond of their own local brands.

These merger and investing activities continued, but the phenomenon of globalization of the beer industry moved into the next stage in 2000. At that time, a wide-ranging reorganization occurred among the brewers, including consolidations between world-famous brewers (see Exhibit 2.9) to maximize efficiency and profitability of the whole business operation, including purchasing, sales, marketing, and investment or funding in rising countries. This indicated that the big players were trying to maximize their economies of scale. This was distinctly different from the activities of the 1980s and 1990s as companies sought to enter “growing” markets.

When	Consolidation
Mid 2000	Interbrew (Belgium) acquired Bass (U.K.) for \$3.5 billion.
	Interbrew (Belgium) acquired Whitbread (U.K.) for \$700 million.
	Carlsberg (Denmark) acquired the beer division from Orkla (Norway).
2001.8	Interbrew (Belgium) acquired Becks (Germany) for \$1.6 billion.
2002.7	SAB (South Africa) acquired Miller (U.S.A.) from Phillip Morris for \$5 billion. Became SAB-Miller.
2002.9	Coors (U.S.A.) acquired Carling (Belgium) from Interbrew for \$1.8 billion.
2002-2003	Interbrew (Belgium) acquired Brauergilde Hannover (Germany), SPATEN (Germany).
2004.8	Interbrew (Belgium) acquired AmBev (U.K.) for \$10.6 billion.
2005.2	Coors (U.S.A) merged with Molson (Canada) for \$4.7 billion.
2005.7	SAB Miller (South Africa) acquired Bavaria (Germany) for \$7.8 billion.
2005.5-8	Heineken (Holland) acquired three Russian brewers for \$600 million.

### **Exhibit 2.9 Consolidation in the beer brewing industry**

Source; Mizuho Industrial Report by Hori, 2005, modified by author.

As Japanese markets have leveled off, Japanese brewers have also tried to penetrate the markets in developing countries. However, those markets were being overwhelmed by the world's "Big Four" (InBev, Anheuser-Busch, SAB-Miller, and Heineken)—each a powerful brand with enormous resources. Therefore, I believe the uncertain globalization of the beer business itself offers the only answer to sustainability for the future.

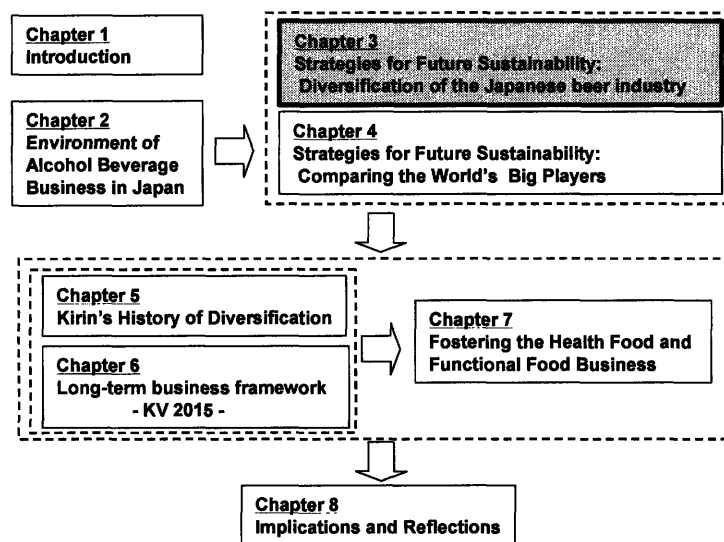
## **2.6 CONCLUSION**

Based on a pessimistic expectation of growth in the alcoholic beverage business in Japan, strategic planning for future sustainability, or a growth strategy, is critical, especially for corporations whose businesses are focused on beer, its related products, and other alcoholic beverages.

# CHAPTER 3

## Strategies for Future Sustainability

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In this chapter, I will discuss the diversification strategies of the four major players—Kirin, Asahi, Sapporo, and Suntory. In addition, I will examine what each player is considering vis-à-vis domains other than beer and liquor. Given today's highly competitive yet somewhat shrinking market, some of the players have already diversified their business portfolio, while others are seeking new areas for future growth.

### **3.1 KIRIN BREWERY CO., LTD.**

#### **3.1.1 Brief History**

Kirin Brewery Co., Ltd. (my employer) traces its origins back to 1870 when William Copeland, a Norwegian-American began brewing beer in Yokohama, Japan at the Spring Valley Brewery. In 1885, the name changed to Japan Brewery Company when Thomas B. Glover from Germany joined with the financial backing of Eiichi Shibusawa and Yanosuke Iwasaki, prominent figures in the Japanese business community. In 1888, the first German-style lager beer was introduced as Kirin Beer. It is intriguing to note that Kirin was established by an American entrepreneur and a German brewmaster. In 1907 Kirin Brewery Co., Ltd was established, and it took over the operations of Japan Brewery.

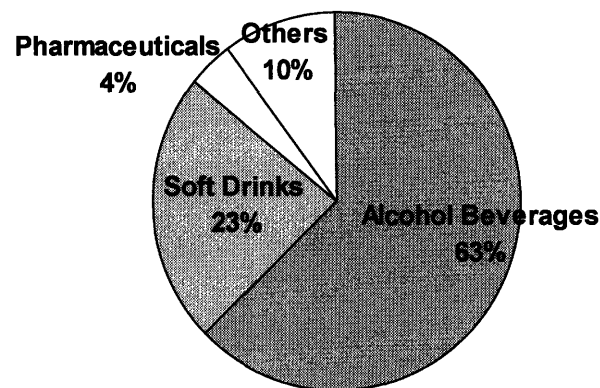
The founders' philosophy, "Quality First" and "Sound Management"—which gradually transformed to "Customer-oriented" and "Quality-driven"—have guided the company's management for over 85 years. In 1954 Kirin Brewery was well-established as the leader among Japanese beer producers. By 1966 Kirin had acquired more than a 50% share of the market, and by 1979 a 63.8% share of the beer market in Japan.

At this point Kirin faced the threat of being split into two companies because of the Anti-Monopoly Law; in the end, the company remained intact. However, the effects of this threat, coupled with two new beers launched in 1987 by Asahi Breweries, were key factors that caused Kirin to begin losing market share. In response, Kirin decided to become a comprehensive alcoholic beverage company, with various types of alcoholic beverage including Happo-shu, New Genre, wine, whisky, spirits, and Chu-hi.

### 3.1.2 Kirin's Business Portfolio

Since I will explain Kirin's diversification history in more detail in Chapter 5, Kirin's business portfolio will be discussed briefly in this section.

In 2005, Kirin generated sales of ¥1.63 trillion (approximately \$14 billion) and pre-tax operating income of ¥111.7 billion (approximately \$0.96 billion). Kirin currently has four main business segments: (1) alcoholic beverages, (2) soft drinks, (3) pharmaceuticals, (4) other businesses including nutrient foods and agri-bio. Exhibit 3.1 shows the breakdown of Kirin's consolidated revenue among these four segments.



**Exhibit 3.1 Breakdown ratio of Kirin's consolidated revenue**

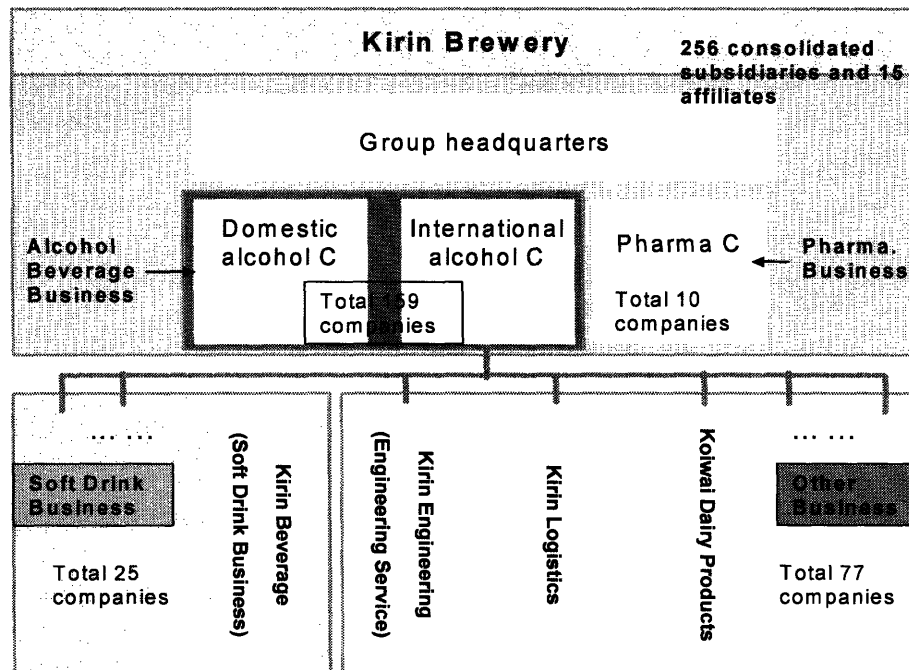
Source: Kirin Brewery Annual Report 2005, adapted by author.

Among these businesses, the alcohol business is still the largest component of Kirin's sales volume. The major segment includes the low alcohol beverages: regular beer, Happo-shu, new genre, non-alcoholic beer, and Chu-hai; the latter three are positioned as promising segments. The low-alcohol business unit produces sustainable profits as a "cash cow" that supports other promising units within Kirin.

The second-largest component is soft drinks such as canned teas and coffees, amino drinks, carbonated drinks, fresh juice, and mineral waters. As shown in Exhibit 3.2, Kirin

also has interests in pharmaceuticals (4% of revenue) and a portfolio of other businesses (10% of revenue) including nutrient food and agri-bio (i.e., flowers and nurseries), which encourage Kirin group synergies in research and development.

In summary, with its four major business domains, it would be fair to say that the business is considerably diversified for a beer brewing company.



**Exhibit 3.2 Kirin Brewery business segments**

Source: Kirin Brewery, modified by author.

### 3.1.3 Kirin's International Operations

Although Kirin began globalizing its operations in the U.S. and European countries, the company aims to build a strong, profitable overseas business foundation as the number one alcohol beverage company in Asia and Oceania, along with substantial businesses in soft drinks and pharmaceuticals. Kirin has been increasing the pace of its international expansion in the region, with a range of initiatives to strengthen its business platform and accelerate

growth. For example, Kirin launched a new product called “Chu-hi” in Shanghai in June 2005 as the first step in a strategy to create the world’s number one “Ready To Drink: (RTD) beverage. Sales and marketing was handled by a Kirin Beverage subsidiary, Shanghai Jin Jiang Kirin Beverage & Food Co., which is a joint venture with Jin Jiang Group.

### Alcoholic Beverages In China

Kirin is focusing on three primary areas in China—the Yangtze River Delta, the Pearl River Delta, and Northeast China— through Kirin (China) Investment Co., Ltd., the holding company that oversees operations with the aim of accelerating business development throughout China. In 2005, Zhuhai Kirin Brewery became a wholly owned subsidiary of Kirin Group, and a new plant with double the current capacity is planned for 2007.

Kirin is a 20% shareholder of San Miguel, the largest beer producer in the Philippines, and the number one food and beverage conglomerate in Southeast Asia. The San Miguel group of companies is a key partner in Kirin’s growth strategy in Southeast Asia.

Kirin also owns approximately 46% of Lion Nathan, Australasia’s leading brewer, which contributes significantly to Kirin’s consolidated results.

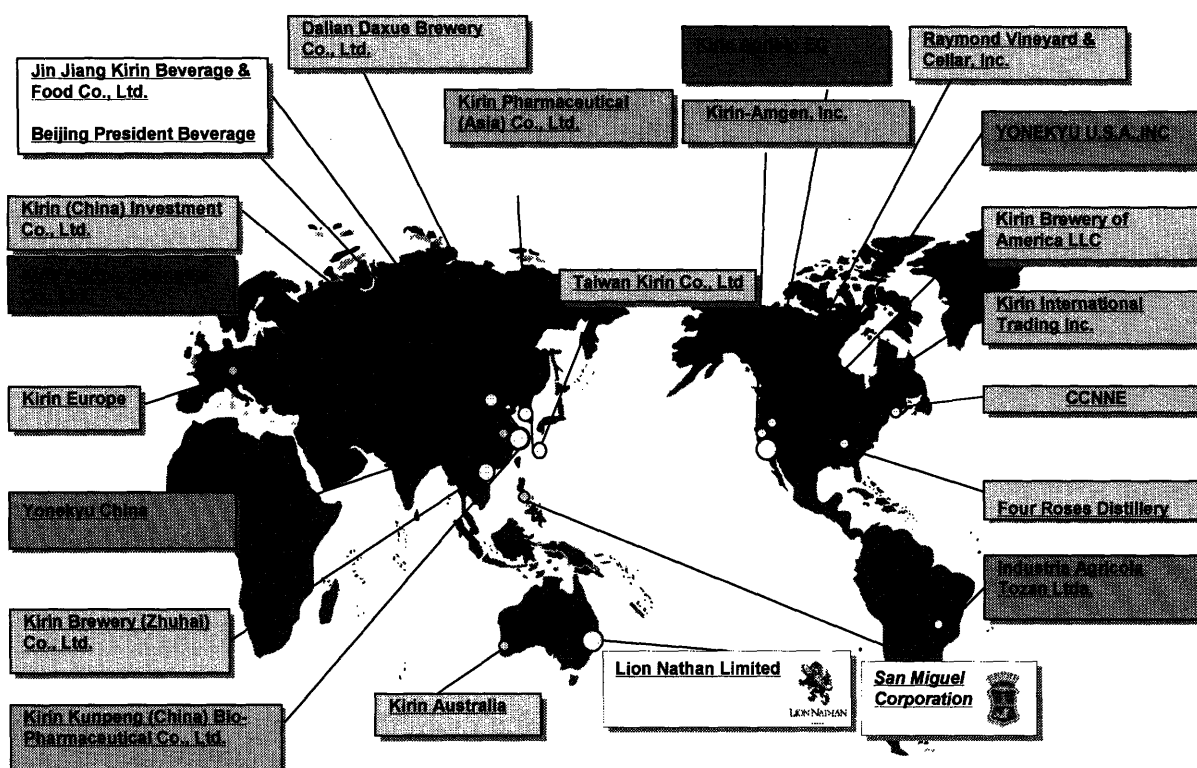
These two foreign companies will be explained in greater detail in Chapter 4.

### Soft Drinks

In China, Shanghai Jin Jiang Kirin Beverage & Food Co. runs the most successful foreign beverage operation in the Shanghai area. Kirin is also targeting Guangzhou, Beijing, and other parts of Asia, such as Thailand, as regions for expansion.

## Pharmaceuticals

Kirin believes the Asian pharmaceuticals market has high potential. The company has operated a pharmaceuticals business in China, Taiwan, and Korea since the early 1990s; it has also launched products in Thailand, Singapore, Malaysia, the Philippines, Indonesia, and Vietnam in 2006. Exhibit 3.3 shows the company's international operations.



**Exhibit 3.3 Kirin overseas operations**

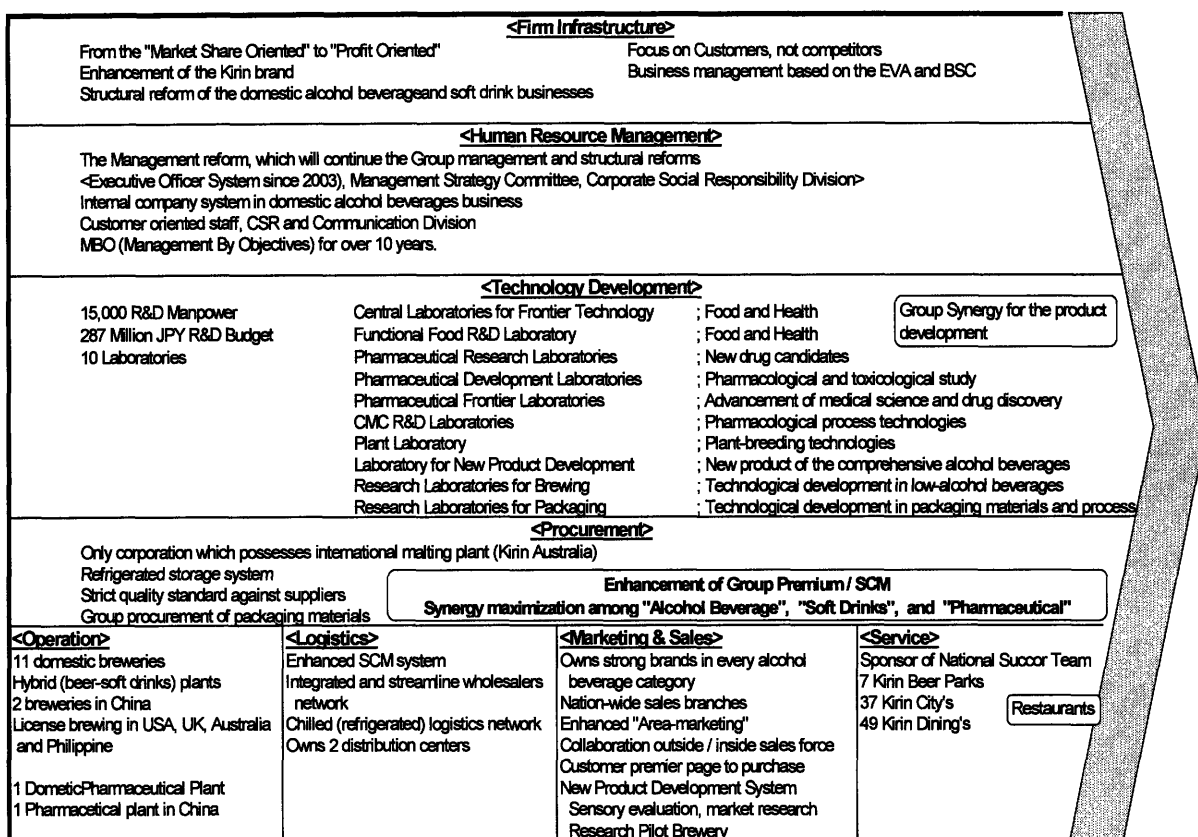
Source: Kirin Brewery, modified by author.

### **3.1.4 Kirin's Competencies**

Exhibit 3.4 shows Kirin's competitive positioning using Porter's value chain analysis, and Exhibit 3.5 illustrates Kirin's bundle of competencies using the Delta Model which integrates the company's current and desired competencies. The bundle of competencies are

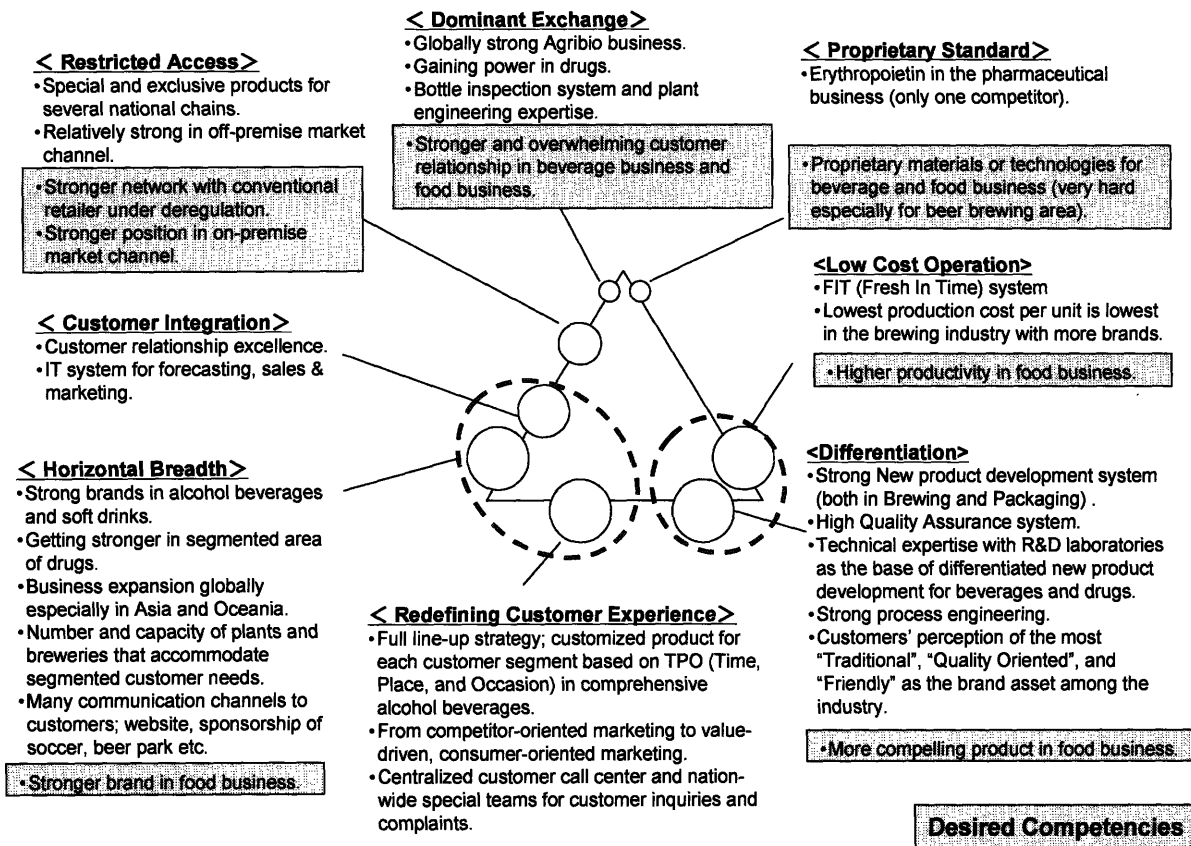


useful for shedding lights on both the current and desired competencies of the company by analyzing three large strategic options and eight strategic positioning.



**Exhibit 3.4 Kirin's value chain analysis**

Source: Porter, Competitive Advantage (1985), adapted and developed by the author with data from Kirin Brewery.



**Exhibit 3.5 Kirin Brewery, the bundle of competencies**

Source: Hax and Wilde, The Delta Project (2001), adapted and developed by the author.

### Characteristic Competencies

Exhibit 3.5 suggests that Kirin is trying to enhance its business as a Group along with its supply chain management, and then maximize its synergies among alcoholic beverages, soft drinks, pharmaceuticals, and other businesses. This exhibit also suggests that Kirin's technical expertise (R&D and new product development along with the sophisticated market research) in each business segment is a key competency, along with customer relationship excellence that creates a total value proposition to consumers.

### Desired competencies

Kirin has competencies in most areas of strategic positioning, but its strongest areas are Best Product and Total Customer Solution. Kirin needs to obtain more competencies in Dominant Exchange and Restricted Access in order to enter the System Lock In area. One possibility would be strengthening customer relationships through the use of on-premise sales. It is an inherent issue for the beer brewing and soft drink industries that it is hard to obtain proprietary materials or technologies because the value of these products tends to be judged subjectively rather than objectively with hard data.

## **3.2 ASAHI BREWERIES, LTD.**

Asahi Breweries is the largest beer-brewing company today with revenues of ¥1.43 trillion (\$12.3 billion) in 2005. Asahi has maintained the largest share of the domestic market for making beer-type beverages for five consecutive years since 2001. Asahi Super Dry, the company's flagship product, is ranked among the world's Top Ten beer brands (ninth in 2005) and is highly regarded by customers all over the world.

### **3.2.1 Brief History**

The Osaka Brewery was established in 1889, and was the forerunner of Asahi. It merged with Dai Nippon Breweries in 1906, but was split into Asahi Breweries (present form of the company) and Japan Brewery (present Sapporo Breweries) in 1949. After the split, the Asahi market focused primarily on western Japan. However, once the Japanese economy became centralized in Tokyo, and following rapid economic growth, Asahi's local operations encountered a sharp loss of market share.

Asahi supported the founding of the Suntory beer business in 1963, which created severe competition among distributors, especially in the western Japanese market. In the 1970s, Asahi found itself in a vicious circle. The tastes of products changed frequently, and sales decreased, resulting in high inventories that affected the company's revenues. Consumers did not hold a high image of Asahi's products, nor did wholesalers and retailers. Salespeople blamed the brewmasters for not producing good products, and the brewmasters blamed the salespeople for not producing strong products sales. Eventually Asahi lost ground to Kirin, Sapporo, and even Suntory, and by 1985 Asahi held only 10% of the market.

In an effort to improve its business performance, Asahi tried to reduce its dependence on beer and to expand sales of soft drinks, foods, and pharmaceuticals. This is an important aspect of Asahi's diversification, as soft drinks represented 20% of the company's total revenue.

In 1982, at the suggestion of Sumitomo Bank, a secure financial backer for Asahi, the company appointed Hirotaro Higuchi as its new president. Higuchi had worked for the bank for 37 years and was Vice President of International Affairs. Under Higuchi's leadership, Asahi launched Super Dry Beer in 1987, and this product was a huge hit. Virtually everyone in Asahi focused on promoting Super Dry, and it was viewed as the company's savior. The company rapidly recovered its market share and sales revenue, and in 1998 Asahi had won a full victory in the "dry war," jumping to the top position among domestic beer manufacturers with 38% of the share. Asahi continued to promote Super Dry while competing with other companies during a market that saw long-lasting deflation, increasingly positive response to Happo-shu and other alcohol beverages as customers' tastes diversified, and a price war related to deflation in the Japanese economy.

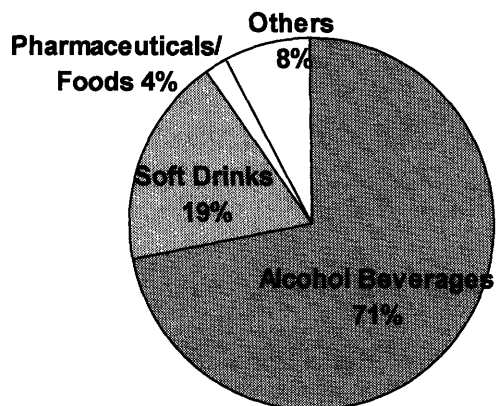
By 2005, however, it was obvious that sales of Super Dry were beginning to decline, especially after Asahi introduced Happo-shu in 2001 and New Genre in 2005. Today, Asahi is in the position to become a comprehensive beverage company as it begins to focus on other business segments.

### **3.2.2 Asahi's business portfolio**

Asahi leverages its competitive advantage in the beer-type beverages market to advance into businesses involving alcoholic beverages other than beer such as Sho-chu,

ready-to-drink beverages, whisky and spirits, and wine (71% of consolidated revenue in 2005).

Asahi also owns three other business segments: (1) soft drinks (19% of revenue in 2005), (2) pharmaceuticals and foods (4% of revenue), (3) overseas distribution, sports, and real estate (8% of revenue). Exhibit 3.6 shows the company's business segments.



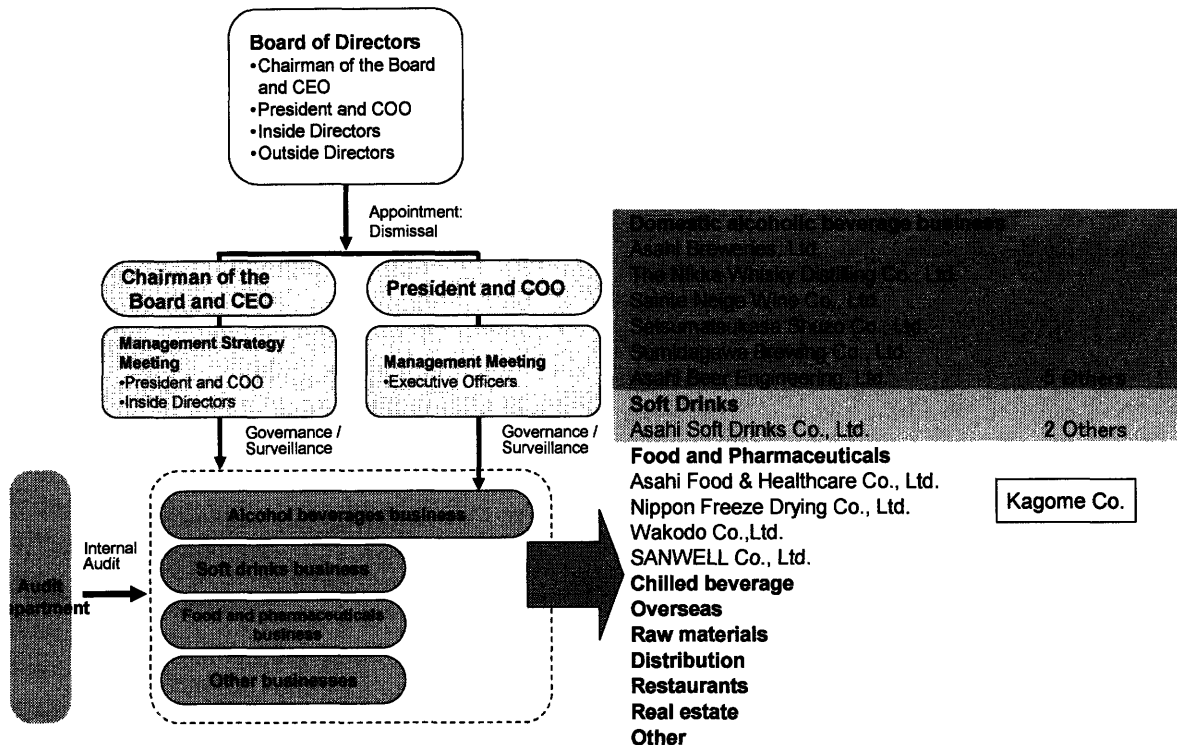
**Exhibit 3.6 Breakdown of Asahi's consolidated revenues**

Source: Asahi Breweries Annual Report 2005, adapted by author.

Asahi's diversification was hastened in the 1970s and early 1980s when beer sales were struggling to grow, despite the success of the company's whisky (Nikka) and soft drinks (Mitsuya) which provided a lesser portion of business revenues. Asahi entered the pharmaceutical business in 1984, operating through Asahi & Food & Healthcare Co., Ltd. selling products such as brewer's yeast supplement and processed foods. Soft drinks went into full-scale operation in 1988 through Asahi Soft Drinks Co., Ltd. delivering coffees, blended teas, green teas, fruit juices, and carbonated drinks.

After the huge success of their core business with Super Dry, the company entered the food business in 1992 and in 2006 it bought a baby-food company. Asahi stated in its 2005 Annual Report: "We aim to broadly contribute to people's lives in the areas of food and

health.” This is a clear strategic message that Asahi is transforming its operations from merely beer and alcohol beverages to lead the company toward becoming a comprehensive beverage and food. Exhibit 3.7 illustrates Asahi’s business segments.



**Exhibit 3.7 Asahi business segments**

Source: Asahi Breweries Annual Report 2005, modified by author.

### 3.2.3 Forces Driving Asahi’s diversification

R&D is an important driving force propelling Asahi’s future growth. Strong R&D has resulted in the development of alcoholic and non-alcoholic beverages, foods for a healthier life, and new business models. Asahi has a compound R&D system that includes:

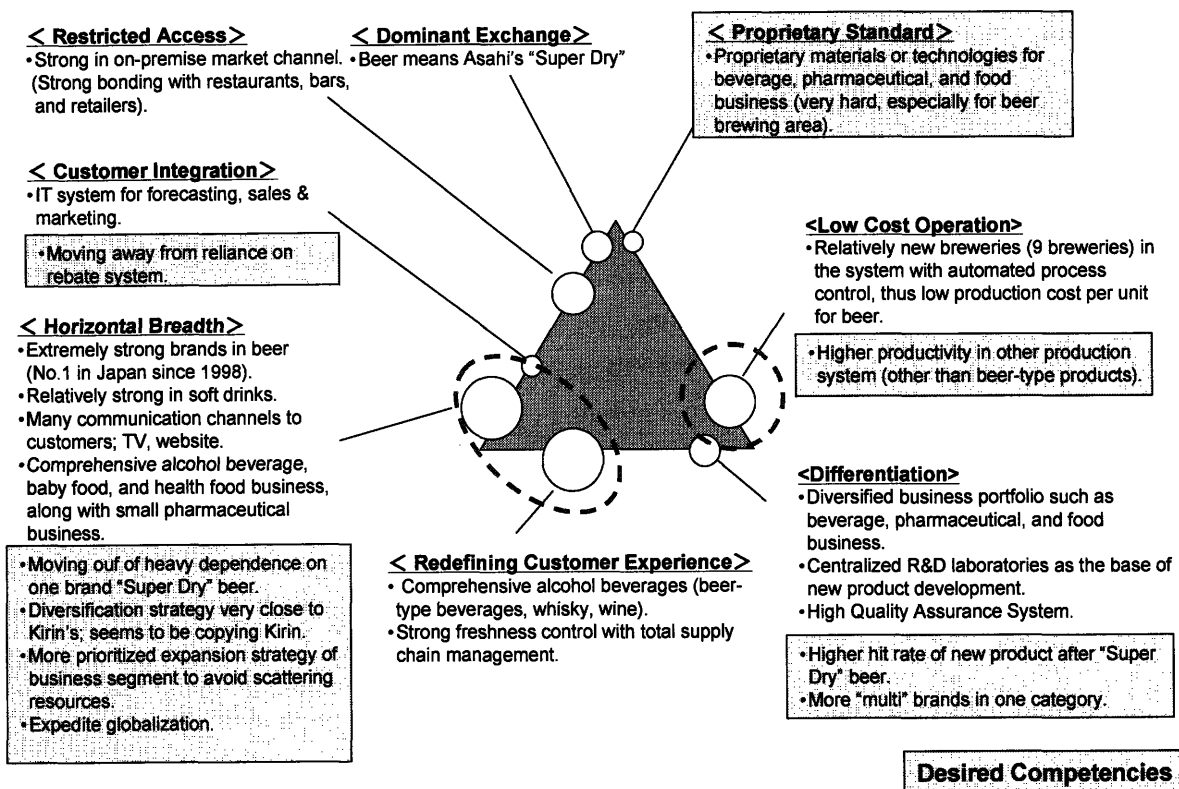
- an R&D Center that consists of the R&D Headquarters for future business and the Product & Technology Development Headquarters, which contributes to the alcoholic beverage business;

- a Soft Drinks R&D Laboratory (Asahi Soft Drinks Co., Ltd.), which is in charge of general research and development related to soft drinks;
- Nikka Whisky Distilling Co., Ltd., Production Technology Center, which develops new blender products;
- the Institute of Lifestyle & Culture, established in 2000 to conduct surveys of the tastes and changing lifestyles of consumers, then uses the results to develop new products and businesses under the cooperation with laboratories mentioned above. This Institute can be considered as a symbol that Asahi is trying to transform its business model tilted heavily on beer-type products to various areas associated food and health.

#### **3.2.4 Asahi's Competencies**

A summary of Asahi's competencies and its strategies for future growth are illustrated in Exhibit 3.8. Although the appearance of the triangle is similar to Kirin's, Asahi's current and desired competencies could be summarized as follows.





**Exhibit 3.8 Asahi Breweries, the bundle of competencies**

Source: Hax and Wilde, The Delta Project (2001). Developed and adapted by the author based on my research and 19 years of experience in the industry, and using data from the Japan Consumer Marketing Research Institute, 2005.

### Characteristic Competencies

Asahi has an extremely strong brand in its Super Dry beer product, and that success lifted the company's market share to number one in the Japanese beer-type market. This product is especially strong in the on-premises consumption markets, such as restaurants and bars. It has helped Asahi's financial performance, which enabled the company to modernize its breweries and thus lower production costs. Successful sales resulted in

making the product fresher in the market (shorter shelf-life), which is critical from a quality standpoint. It also helped to establish closer bonding with customer, as company research responded to customer feedback.

In turn, this competency enabled Asahi to diversity its business portfolio to pharmaceutical and food business.

### Desired Competencies

Although Asahi's business is diversified beyond its comprehensive alcohol beverage business, it still heavily relies on the one big brand, Super Dry, which has established a very strong position in the beer-type segment. However, even in this segment, the company has been struggling to introduce new hit products.

It must be noted that Asahi's recent diversification strategy (including the one for the comprehensive alcohol beverages) is similar to Kirin's, which is reasonable considering the market environment. Consequently, Asahi attempts to expand its business segments quickly, and that causes scattered resource allocation. Therefore, Asahi needs to enhance and prioritize its unique future business framework.

### **3.3 SAPPORO BREWERIES, LTD.**

Sapporo Holdings, Ltd., the holding company of the Sapporo Breweries group, includes the affiliated companies of Sapporo Breweries Ltd., Sapporo Beverage Co., Ltd., Sapporo Lion Ltd., and Yebisu Garden Place Co., Ltd. The parent company had revenues of ¥454 billion (\$3.9 billion) in 2005. Sapporo Holdings was established in July 2003 as part of a management reform of the corporation, and Sapporo Breweries is today the alcoholic beverage company that emerged from that corporate partition. (Note: hereafter, I will refer to the company as Sapporo, since the history of Sapporo Holding is the same as that of Sapporo Breweries itself.)

#### **3.3.1 Brief History**

In 1869, as the government was developing the island of Hokkaido, it established *Kaitakushi*, the national government's Hokkaido Development Commission. Over the next decade, until the post was abolished, many businesses were developed on this northern Japanese island. One of them was the brewing of beer.

In 1876, the Kaitakushi Brewery was established, led by Seibei Nakagawa, who had recently returned from Germany where he studied beer brewing as a brewmaster. The following year, Sapporo Lager was born.

In 1886, with the establishment of the Hokkaido government, the Sapporo Brewery Factory (renamed from the former Kaitakushi Brewery), was sold to Okura Trading Company, a private company.

In 1887, a group of entrepreneurs led by Eiichi Shibusawa and Soichiro Asano, bought the beer-making factory from Okura Trading Company, and established Sapporo Beer

Company, thus laying the foundation for major growth in beer brewing in Japan.<sup>7</sup> After the merger and division of the Dai Nippon Breweries in 1949 (discussed section 3.2.1), Sapporo Breweries was established.

Sapporo was one of the leading market players, especially in the draft beer segment. Over time however, the company gradually lost ground. By 1987, Sapporo was the second-largest brewer in Japan with 21% of the market, but it lost that position and fell to third place soon after Asahi launched its Super Dry product.

Sapporo is currently in a business slump, although it was strong in the New Genre category as a pioneer. However, today this category is again dominated by Kirin and Asahi.

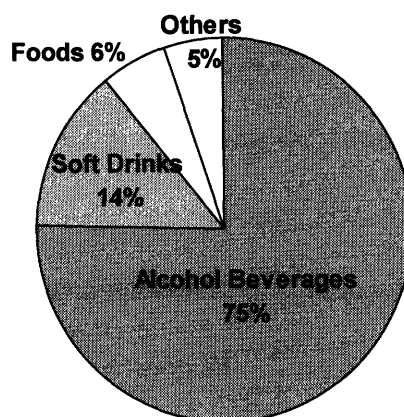
### **3.3.2 Sapporo's Business Portfolio**

Sapporo is proud of its history as one of the oldest breweries. The company has also had a restaurant business since 1899 and a soft drinks business since 1957. However, when the company accelerated these diversified businesses to include wine, imported liquors, and real estate business, its share of the market declined rapidly throughout the 1980s. Exhibit 3.9 shows Sapporo's business segments.

Sapporo still relies on the alcoholic beverage business, and 75% of the company's consolidated revenues come from that segment. It is interesting to see that Sapporo's real estate business (including Yebisu Garden Place, established as a urban redevelopment project after the company's oldest brewery was closed, and now the company's real estate leasing and management operations) contributes about 5% of Sapporo's consolidated revenues and a considerable portion of operating profit—almost 56% of consolidated profit in 2005.

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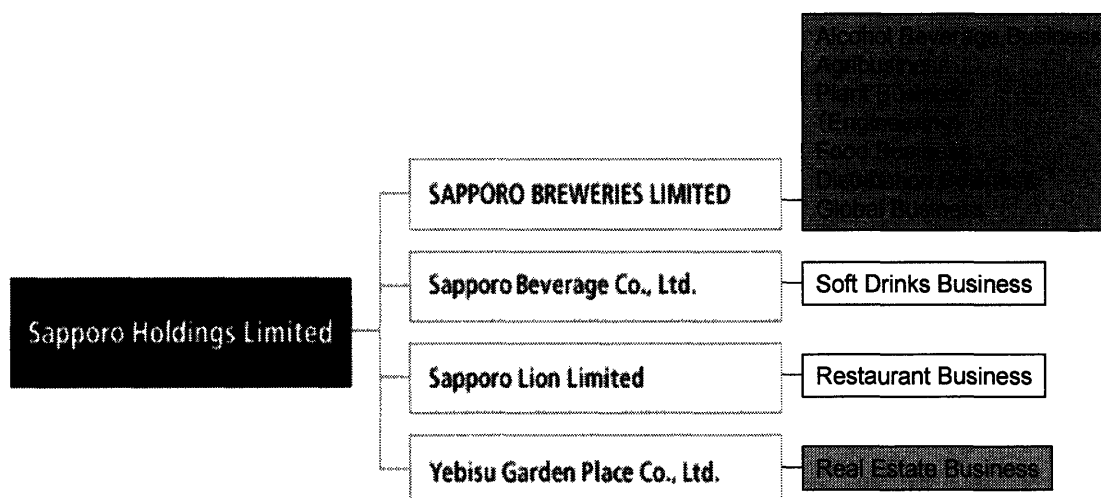
<sup>7</sup> About the same time (1888), the Japan Brewery Company was established in Yokohama, which was forerunner of Kirin Brewery. This suggests entrepreneurs played a major role in nurturing the Japanese beer industry.



**Exhibit 3.9 Sapporo's consolidated revenues**

Source: Sapporo Holdings Annual Report 2005, adapted by author.

While the primary reason for Sapporo's diversification was to cope with its stagnating business, the root cause of the stagnation still derives from the business environment described in Chapter 2. Sapporo's business segments are shown in Exhibit 3.10



**Exhibit 3.10 Business segments – Sapporo Holdings -**

Source: Sapporo Holdings Annual Report 2005, modified by author.

### **3.3.3 Forces Driving Sapporo's Diversification**

Although the real estate business is another “cash cow” in addition to alcoholic beverages, Sapporo is a good example of R&D as a driving force for growth in diversified segments.

Sapporo has four laboratories and three R&D headquarters. The four laboratories are:

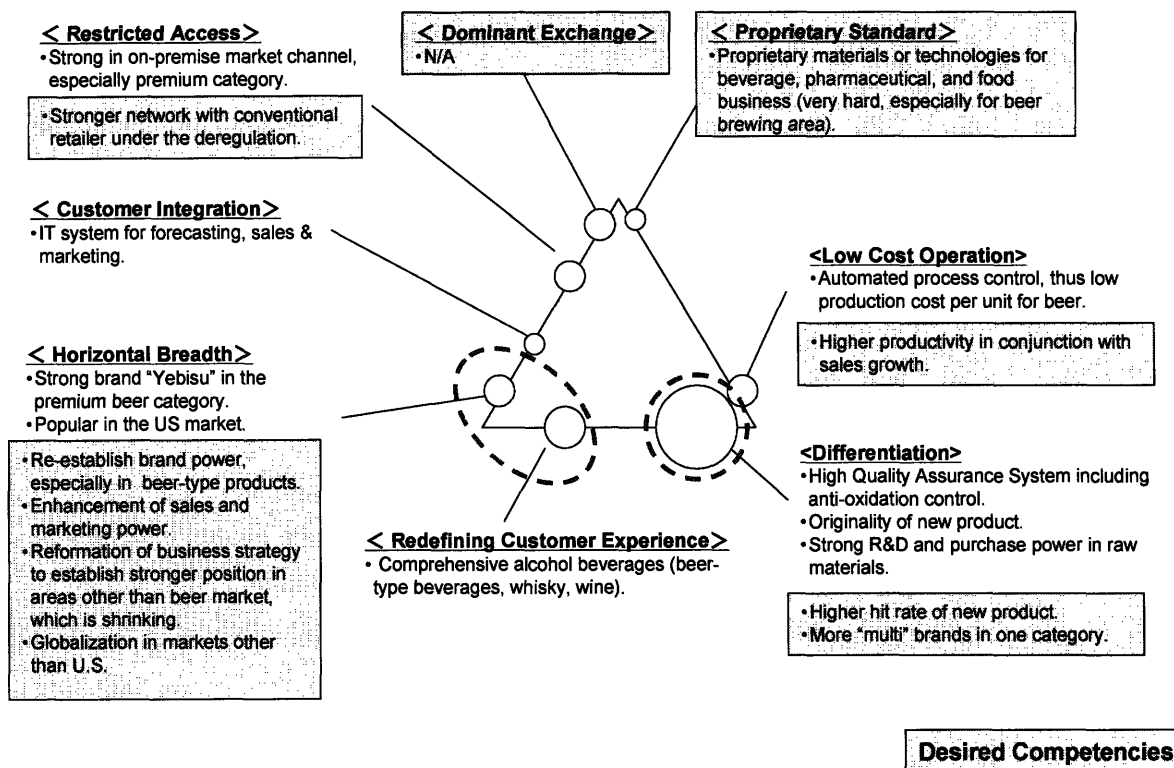
- Frontier Laboratories of Value Chain, for the improvement of beer flavor and quality;
- Biological Resources Development Laboratories focusing on raw materials. Sapporo has the most competitive know-how in this area and that knowledge is transferred and implemented in various beverage and food areas;
- Wine Laboratories for wine making and new product development in cooperation with other laboratories;
- Soft Drinks Laboratories for product development and analytical technologies.

Its three headquarters are:

- Food Business Division focusing on brewer's yeast supplement and barley, both of which are promising materials in conjunction with the research conducted by the Biological Resources Development Laboratories;
- Plant Division, which has expertise in brewery engineering; and
- Sapporo Academy of Brewing Technology, offering an in-house school where trainees gain expertise in brewing and other related fields by sharing technologies and traditional arts.

### 3.3.4 Sapporo's Competencies

Based on my research, Sapporo's strategy for future growth is illustrated as the bundle of competencies shown in Exhibit 3.11, which describes the company's current and desired competencies.



**Exhibit 3.11 Sapporo Holdings competencies**

Source: Hax and Wilde, The Delta Project (2001). Developed and adapted by the author based on my research and 19 years of experience in the industry, and using data from the Japan Consumer Marketing Research Institute, 2006.

#### Characteristic Competencies

Sapporo has a strong brand in its premium beer product, Yebisu, which has been supported by the company's brewing technologies accumulated over 120 years. Sapporo has a sophisticated micro-filtration system, developed internally in 1980s, which is widely used

in aseptic filtration to produce draft beer. Sapporo has a strong presence in the U.S. market, as the first Japanese brewer to enter the market.

Sapporo also has a competent R&D function, especially in raw materials. This strength was used effectively to breed and develop a special variety of hops in China. Sapporo is also becoming a comprehensive alcoholic beverage company with wine, Sho-chu, and Chu-hi.

### Desired Competencies

Although Sapporo is trying to catch up in the volatile environment of the Japanese market, it has seen big profits and or increased growth since Asahi overwhelmed the company with its Super Dry product. This is apparently due to Sapporo's relatively weak sales and marketing performance. The company needs to reform its business strategy to establish a stronger position in areas other than the beer market, because that market is totally flat and even shrinking (as discussed in Chapter 2).

In particular, the company should enhance its sales functions and re-establish its brand power. Customer segmentation and bonding should be among Sapporo's immediate necessities, and can be accomplished by focusing on the Total Customer Solutions area. Sapporo is good at launching compelling new products, but these products are easily imitated by other competitors, which means the company struggles to escape from the Best Product area. Sapporo boasts competitive products such as the Yebisu premium beer brand and beer-like third-category drinks



Another possible corporate business strategy is alliances with other partners. This would enable Sapporo to deal with its weaknesses in the sales and marketing as well as its financial performance.

As the matter of fact, the reorganization of Japanese beer industry has been emerging. Sapporo Holdings was a buyout target of a U.S. investment fund by Steel Partners Japan Strategic Fund (Offshore) L.P, which sought a majority stake in Sapporo Holdings through a public tender offer. *Yomiuri Shinbun* (newspaper) reported that “Asahi therefore may launch a takeover bid for Sapporo to counter the U.S. investment fund's attempt (2/17/07).

Recent moves surrounding Sapporo could lead to an industry reorganization, after 40 years of domination by the four major players. According to sources, Asahi unofficially made a management-integration proposal to Sapporo in late 2006 through a bank that has business relations with Asahi. In the proposal, Asahi suggested the two companies form a business tie-up in areas such as product distribution and soft drinks and then move forward with management integration. Asahi aims to expand its market share and product lines by forming an alliance with Sapporo which could eventually widen Asahi's lead over Kirin Brewery Co., whose market share is almost equal to that of Asahi. However, Sapporo has yet to respond to Asahi's proposal, and the two companies not held specific talks on the proposed management integration.

Some industry observers say Steel Partners' buyout offer, which hinges on the approval of Sapporo's board of directors, could prompt Asahi and Sapporo to accelerate such talks.

There still are some issues to be resolved before a successful tie up with other domestic partner could be considered:

1. Japan's strong Anti Monopoly Law would have to be considered.
2. Given their historical background, the fact that Asahi and Sapporo once used to be the same company would need to be carefully treated as a part of the post-merger integration both in physical value chains and in corporate cultures.

### **3.4 SUNTORY**

Suntory is somewhat different from the three other companies because it is a privately held company. Its original business was wine and whisky, not beer, and it is interesting to note that today its largest source of revenue is the food business, including soft drinks and foods.

#### **3.4.1 Brief History**

Suntory was established by Shinjiro Torii in 1899 who made wine and sold it in Osaka. The name of the company at that time was Torii Corporation, but it was renamed to Kotobukiya in 1921, and in 1924 the company built a distillery and started making whisky. In 1929 it introduced the first domestically produced whisky, called Suntory Whisky White (the name “Suntory” was derived from “sun” and Torii). Under Torii’s presidency, Kotobukiya was a major producer of whisky and a leading importer of Scotch whisky, bourbon, cognac, wine, liqueur, beer, etc. In 1963, the company’s name was changed from Kotobukiya to Suntory, and the company held a 63% share of the Japanese whisky market.

It was 1960 when Keizo Saji, Shinjiro Torii’s son and president of the company, turned his attention to beer brewing, since Suntory’s prosperity was solely dependent on its monopoly position in whisky. Most beers in the Japanese market at the time were German-type lager beers with a heavy and bitter taste profile. Suntory tried to be distinctive by designing beer with a different taste profile, more of a Danish type with a milder, snappier flavor. Suntory’s first beer was launched in 1963. In 1967, the company began to produce unpasteurized bottled and canned beer, which was uncommon in Japan at the time.

Suntory gradually gained market share to be roughly equal to Asahi by the beginning of 1987. Suntory focused its strategy for beer on the draft segment, with an all-malt beer product. The company was the first to produce and market foreign brands under license agreements with Anheuser-Busch (the license agreement was terminated and switched to Kirin in 1993) and Carlsberg. The company was also the first brewer to produce beer in China through China Jiangsu Suntory Foods Co., Ltd.

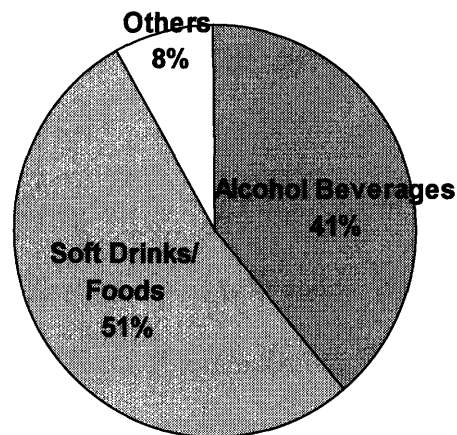
Although 70% of Suntory's revenue came from whisky business by 1980, whisky sales plummeted by three-quarters by the early 1990s, and the company was pushed to the edge. There were three main reasons why whisky sales showed such a sharp decline:

(1) consumers gradually lost their perception of whisky as a status drink; (2) the liquor tax on whisky was raised twice, in 1981 and 1984; and (3) consumer preferences changed dramatically in the mid-1980s as they diversified their drinking habit to include Sho-chu and other alcohol beverages.

Since then, Suntory has launched various new products—not only whisky but also wine, beer, soft drinks such as green teas and coffees, health foods, and bio-technology products including flowers. It is fair to say that Suntory is a comprehensive alcoholic beverages company as well as a comprehensive food and beverage company.

### **3.4.2 Suntory's Business Portfolio**

In 2005 Suntory generated ¥786 billion (\$6.7 billion) of consolidated revenue. As Exhibit 3.9 showed, 41% of its revenue came from alcoholic beverages, and surprisingly, soft drinks and foods filled 51%, as shown in Exhibit 3.12.



**Exhibit 3.12 Breakdown of Suntory's consolidated revenue**

Source: JMR-LSI report 2006, adapted by author.

How has Suntory become like this? Suntory returned to its basic policy, which is “R&D is the lifeline of the corporation” and “Product development is the engine for growth.”

Nobutada Saji, president and grandson of Shinjiro Torii, commented to the press:

Well, it was 1989 when Suntory's 90th anniversary came around and the whisky business, which was our biggest pillar, stagnated but we did not have any promising products to sell as substitutes. How could we cope with this? There was no immediate answer. We had to challenge every possible aspect. Salespeople should work hard to get sales going, production people should cut costs, and above all, R&D should work really hard to develop new products with the cooperation of marketing people. In other words, senior management should lead a transformation of the whole company to be innovative with the spirit of “try first,” which has been a predecessor's philosophy from the very beginning of this company. . . . We felt it was natural to see our whisky, as the flagship, sell well because of our huge position in that segment. Consequently, we tend to forget the essence of the problem in our operation: “What do customers really want?”

Suntory has three main R&D centers and two institutes: The Research Center, for future research of basic technology; The Technological Development Center, for operational and analytical technology mainly in brewing and distillation; and The Products Development

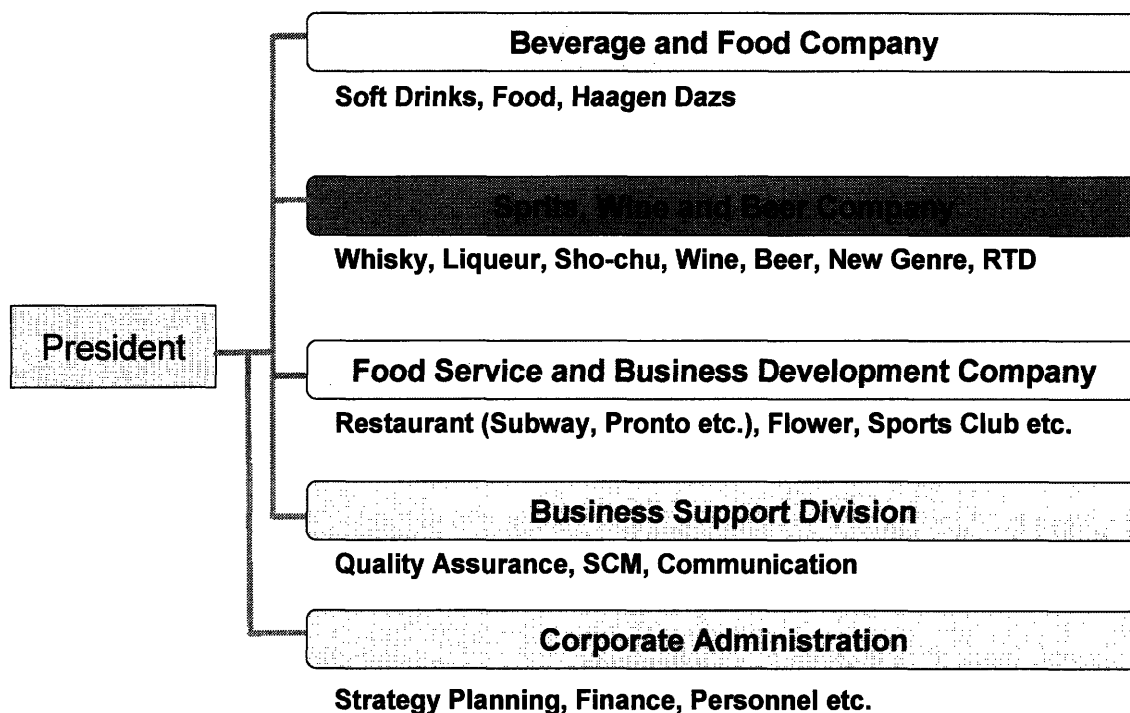
Center, for new product development regardless of alcohol beverages, soft drinks, and foods. The two institutes are the Institute for Water Science (IWS) and the Institute for Health Care Science (IHCS).

In 2004, Suntory adopted “Water for Life” as its corporate message, and established the IWS to conduct research on water itself and to pursue research concerning the development of various products, including natural water. The IHCS, established in 2001, pursues development of health foods made with original materials such as sesamin and arachidonic acid and promoting research on various aspects of health, including anti-oxidation and blood flow promotion.

The result of the company’s transformation is to develop and offer possible products related to beverages and foods. By the end of 2006, Suntory possesses at least one strong position in each segment other than whisky: premium beer (The Premium Malts), green tea (lemon), oolong tea, canned coffee (Boss), Revitalizing drink (Deka-Vita C), mineral water, ice cream (Haagen Daz), and health food (Sesamin), flower business (Surfinia), and restaurant business (Subway, under the US franchise). In 2004, the company successfully developed the world’s first blue rose through its application of biotechnology.

It is worth pointing out that Suntory has entered the pharmaceutical business but is no longer operating in that business segment. It began in the pharmaceutical business in 1979 at the company’s 70th anniversary, when a few products were introduced. However, management recognized that this business would eventually consumer considerable time and money. In addition, the company believed it would be wiser to focus on health foods as a preventive medicine rather than pharmaceuticals as a curative medicine. Consequently, Suntory established the Food and Health Division in 1999, which was the forerunner to the

Healthcare Business Development Division. The company gradually sold its pharmaceutical products and technologies to Daiichi Pharmaceutical Co., Ltd., first in the form of a joint venture, until it was finally spun off in 2005. Exhibit 3.13 summarizes Suntory's business segments.

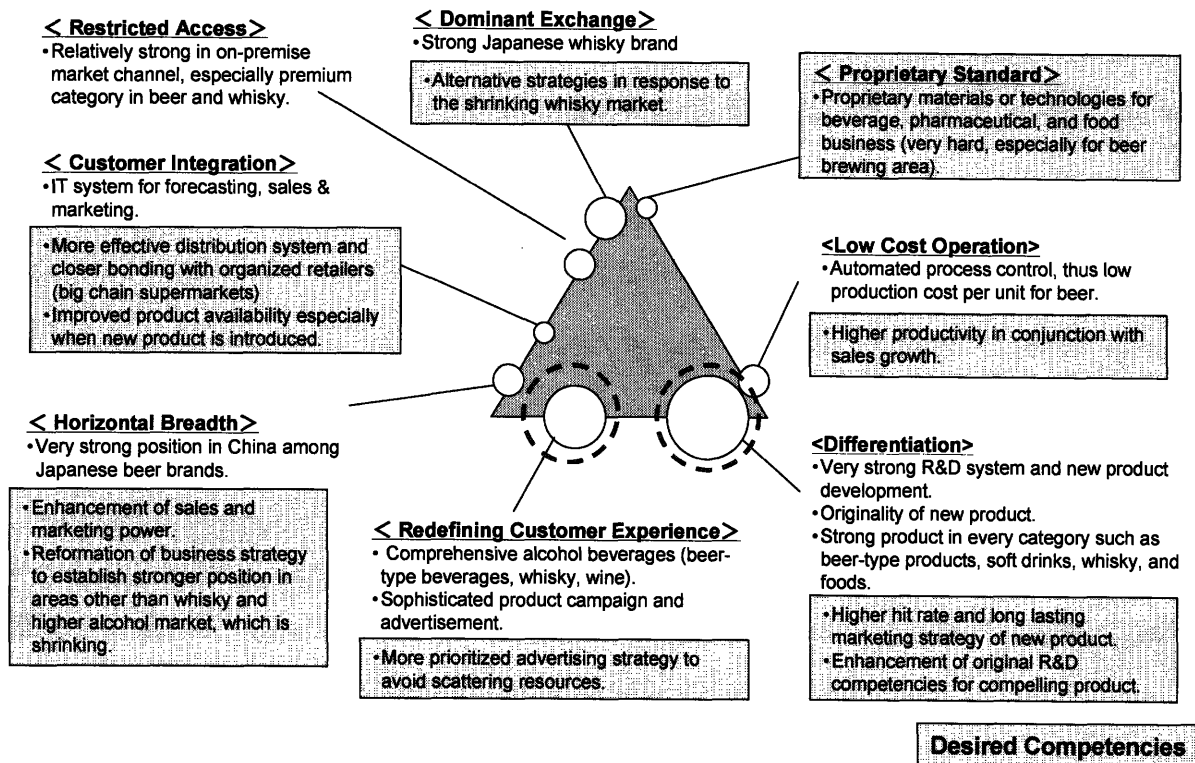


**Exhibit 3.13 Suntory business segments**

Source: Suntory Home page, modified by author.

### 3.4.3 Suntory's Competencies

Based on my research and the discussions above, Suntory's strategy for its future growth is illustrated as the bundle of competencies Exhibit 3.14, which describes the company's current and desired competencies as follows:



**Exhibit 3.14 Suntory Competencies**

Source: Hax and Wilde, The Delta Project (2001). Developed and adapted by the author based on my research and 19 years of experience in the industry, and using data from the Japan Consumer Marketing Research Institute, 2006.

### Characteristic competencies

Suntory has a wide variety of products ranging from alcohol beverages, soft drinks, and whiskeys, to health foods. This is supported by the company's strong R&D system, which has been part of its embedded philosophy since the company's foundation. This seems to be Suntory's strongest and most focused competency, although it is still within the strategic option of Best Product. Suntory is also good at communicating with customers especially in advertising, and its brand name has penetrated into the market of each business



segment. These combinations have been fully utilized to diversify the company's business segment, which was originally derived from the whiskey business.

### Desired Competencies

Suntory has launched many good products, but many are now discontinued. This sometimes caused heavy advertising costs and a financial burden for the company. As seen in the triangle, Suntory does not have a strong bond with customers such as distributors and organized retailers (big chain supermarkets). This segment should be reorganized and enhanced to create more Horizontal Breadth.

Suntory is still a whiskey company, with various product lines. However, this market segment has been stagnant since the late 1980s. Although the company has re-segmented its customers and now targets the younger generation to increase its whiskey sales, it has not been successful from the standpoint of revenue and profit. The company must again seriously study how to shift the company's business to other business segments such as soft drinks and health foods.

## **3.5 CONCLUSION**

As I have shown in this chapter, all of the Japanese alcoholic beverages companies that are centered on the beer or whisky businesses have diversified into other businesses so they can utilize the competencies of their core business. In particular, the soft drinks segment hold at least 14% of each company's consolidated revenue. Furthermore, each company continues investing in foods and/or pharmaceutical utilizing its own competencies in R&D.

On the other hand, since the alcohol segment is still a "cash cow" for every company, they are all strongly focused on group management, which creates synergies with the core

enterprise. Other businesses, such as cultural activities, entertainment, or sports are commonly conducted to enhance the brand image of each corporation rather than as diversified businesses.

I have two aspects of the diversification strategy. First, intense rivalry within the industry has forced these companies to diversify. Kirin began to diversify its beer business under pressure from the Anti-Monopoly Law. Asahi, Sapporo, and Suntory accelerated their diversification strategies in order to cope with stagnation of their core businesses.

Another aspect of competition is that the rivalry itself plays a complementary role. Sometimes one company followed or copied the other's strategies, both becoming a comprehensive alcoholic beverages company and in diversifying. As a result, each can survive and show a presence in the market. It would be fair to say that each company employs similar tactics (not strategy) to compete in the beer or whisky segment in diversifying its business.

Second and most important, each company tried to remain with a long-range perspective in view of the changed environment described in Chapter 2, simultaneously executing short-term responses to the rivalry.

Among the four Japanese alcoholic beverage companies, comparisons of the competencies suggest the following:

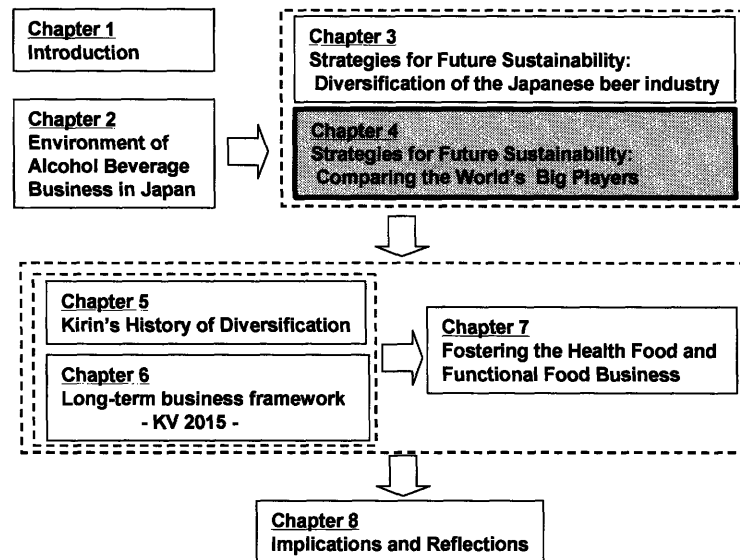
- Kirin is in a stronger, well-balanced position from the point of view of its business portfolio, that is, it is diversified for future sustainability since it has established a stable revenue and profit source with its pharmaceutical business.
- Kirin is trying to shift its competencies from Best Product to Total Customer Solution ,by making use of the Group synergy from each business segment it possesses.

- Asahi and Sapporo have a diversified business portfolio similar to Kirin. However, they still rely heavily on the beer business or businesses that are very distant from their core segment, such as real estate management. On the other hand, an alliance of these companies, along with Asahi's move to enter the food business, might accelerate their diversification to match that of Kirin.
- Suntory has a different background and characteristics in its diversification strategy due to the origin of its business in whiskey and the changed business environment, which had accelerated earlier than beer. Suntory has its strongest position in the Best Product option by introducing a wide variety of new products, many of which are supported by R&D and technological foundation. It should now focus more on the strategic option of Total Customer Solutions.

# CHAPTER 4

## Strategies for Future Sustainability: Comparing the World's Biggest Players

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In this chapter, I will discuss the growth strategy of the world's big players in the beer business. In contrast to Japan's big alcoholic beverage companies, the largest brewers in America, Europe, and Australia focus on their core business, which is beer and other alcohol beverages. One large conglomerate expands the company through diversification while holding on to the financial power.

#### **4.1 ANHEUSER-BUSCH COMPANIES**

Anheuser-Busch (AB), one of the largest brewers in the world, was established in St. Louis, Missouri in 1852 as the Bavarian Brewery, but was renamed E. Anheuser & Co. in 1860. After Adolphus Busch joined the fledgling brewery in 1864, Budweiser beer was introduced in 1876. E. Anheuser & Co. changed name to Anheuser-Busch Brewing Association in 1879. During the Prohibition era in the United States, Anheuser-Busch diversified its product line to include various other products including ice cream, barley malt syrup, ginger ale, root beer, chocolate and grape-flavored beverages, corn syrup, truck and bus bodies, refrigerated cabinets, baker's yeast and non-alcoholic Budweiser. When Prohibition ended, AB grew quickly, and by 2005 the company was selling more than 148.3 million barrels (174 million hectoliters) in more than 80 countries globally, including 101 million barrels (118 million hectoliters) with 48.8% of the U.S. market, generating \$17.3 billion of consolidated revenue.

Through the company's principle subsidiary, Anheuser-Busch, Inc., established in 1957, this industry leader produces more than 40 beers such as Budweiser, Bud Light, Michelob, Natural Light, flavored alcohol beverages, and nonalcohol brews at 12 breweries in the U.S. and locally in 10 foreign countries.

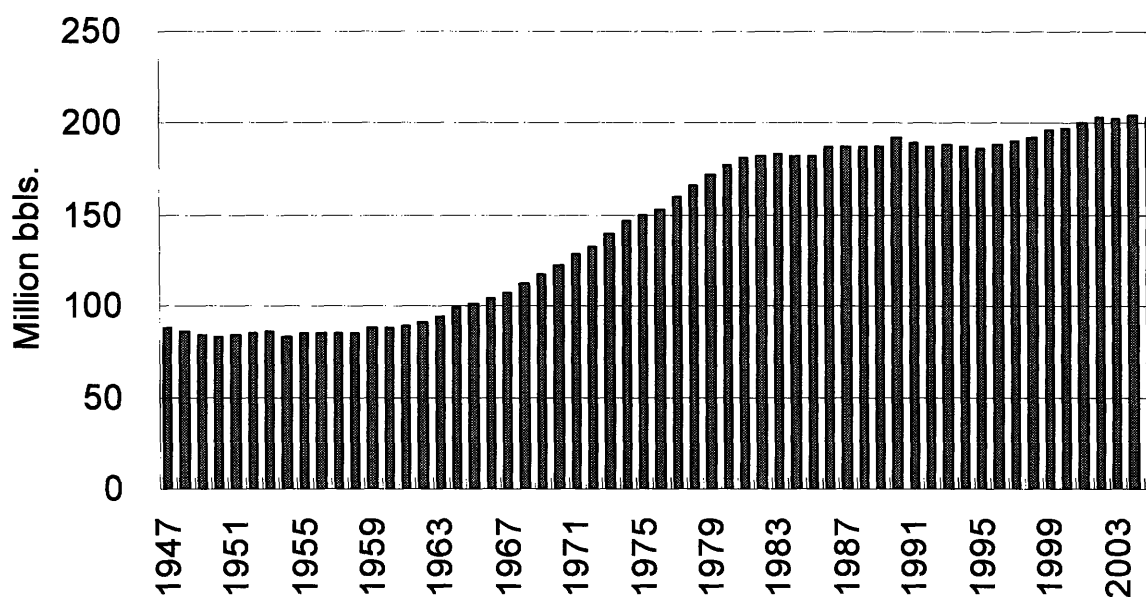
Although AB is publicly traded, top management has remained in the "Busch" or "August Anheuser" families for generations, and the high standards set by Adolphus Busch have been adhered to by each succeeding generation.

AB's strategy for the next decade aims at strengthening the company's earning capacity by expanding in promising markets and various product lineups, especially in the Chinese market which is a high-growth market. The stable growth of beer and related liquor

products are at the core of the company's business, which makes it a comprehensive alcohol beverage company.

#### 4.1.1 The U.S. Brewing Industry and Anheuser-Busch

In 2005, U.S. beer-drinkers consumed 21.3 gallons (80.6 liters) per capita, and total consumption was about 204 million barrels (239 million hectoliters). Both numbers represent a decrease compared with 2004: -1.7%, and with -0.2%, respectively. As Exhibit 4.1 shows, the beer market is totally saturated, and the pace of expansion is very slow.



**Exhibit 4.1 The U.S. beer market**

Source: Wienberg & Associates; Kirin Brewery. Data adopted by author

In this market, there are three major domestic players: AB, Miller, and Coors, and one imported brand, Heineken. In addition, there are a number of microbreweries that began to emerge in the late 1970s and peaked in the late 1990s. Each company positions its products to be distinctive in the market: super premium, premium, economy. Although AB retains

48.8% of domestic market share, the market itself is very competitive because of price discounting and product proliferation in various types.

Under these challenging circumstances, AB utilizes a dual strategy: (1) coping with intense market share rivalry, and (2) expanding its business into oversea markets.

#### **4.1.2 Anheuser-Busch's History of Diversification**

In anticipation of a saturated U.S. market, AB began aiming at diversification as early as the 1980s, expanding into soft drinks, bread, snacks, and sports. However, after considering the profitability of each business, the synergies with its core business especially the company's flagship brand Budweiser, and most importantly the competitive environment of the U.S. beer market, AB concluded in the mid-1990s that it would centralize its resources in the beer industry. Exhibit 4.2 illustrates AB's diversified businesses and their current status. Douglas Muhleman, Group Vice President - Brewing Operations and Technology - Anheuser-Busch, Inc. commented about AB's diversification:

Even though you move into the comprehensive beverage business, you need to be careful about the value chain, meaning who is taking out the profit from where. This is the reason we pulled away from the soft drink business. We got little out of it.

When we bought Campbell-Taggart, we thought we could expect synergies between the beer and bread businesses, both of which are related to the restaurant segment. However, we did not make money from the bread business since I believe we did not understand how to run a business with such a commoditized product.

While we did a great job with the Eagle Snacks business, we also awoke the sleeping giants, including Frito-Lay and Borden. They had done almost nothing until we began doing an excellent job of promoting Eagle products as high quality and good consumer-value products, and then they said, "What is that?" When they became serious, and came into the market with their big brand name and resources, we began to be pushed back into the corner. Although we identified a good relationship between beer and snacks, we exited from this business before the competitive situation deteriorated against us.

Business	Company	Status	Comments
Soft drinks (Sparkling Water, Wine Cooler)		Entered in 1985 Exited	Problems in the distribution channel
Bread	Campbell-Taggart	Purchased in 1985 Spun off in 1995	To focus on beer business
Snack business	Eagle Snacks	Sold in 1996	To focus on beer business
Sports (Baseball)	St. Louis Cardinals	Purchased in 1950s Sold in 1997	To focus on beer business (Too costly to run)

### Exhibit 4.2 A-B's history of diversification

Source: Interview with Douglas Muhleman, Anheuser-Bush, adapted by author.

At the same time, AB expanded its international operations through one of its subsidiaries, Anheuser-Busch International, Inc., which was established in 1981 to develop the company's brands in markets outside the United States and for equity investments in non-U.S. brewers. AB's international businesses are shown in Exhibit 4.3.

#### Anheuser-Busch International Inc.

**Established in 1981, international beer business ; 47.2 million bbls. In 2005**

1981 Japan; Under the partnership with Kirin

1984 United Kingdom

1989 Mexico

1990 Europe, cannot sell as "Budweiser" but can as "Bud" due to the brand conflict with "Budvar" in Czechoslovakia.

1995 China

1995 Budweiser Wuhan International Brewing Co.  
2002 Strategic Alliance with Tsingtao Brewery Co., Ltd.  
Started sales and marketing agreement in 1993  
Increased AB's ownership to 27% in 2005  
2003 Golden Star Beer Group (Henan)  
2004 Harbin Brewery Group Ltd.

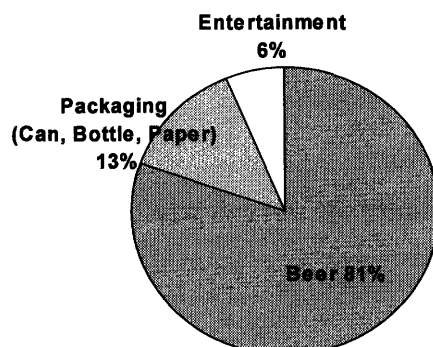
2006 Russia; Under the partnership with Heineken

### Exhibit 4.3 A-B's international operations

Source: Anheuser-Busch website and Annual report 2005. Data adapted by author.



Currently, the majority of AB's business is related to its core enterprise, alcoholic beverages, which comprises 81% of the company's consolidated revenue; the remainder—13% for packaging materials, and 6% from entertainment—is shown in Exhibit 4.4.



**Exhibit 4.4 Breakdown of Anheuser-Busch's consolidated revenue**

Source: Anheuser-Busch Annual Report 2005, adapted by author.

AB is, in a sense, a vertically integrated businesses that includes can manufacturing, glass bottle and paper manufacturing, raw materials breeding or cultivation for rice and hops, and engineering for brewery-related operations. AB's subsidiaries are shown in Exhibit 4.5.

Company	Business	Comments
Anheuser-Busch, Inc.	Beer brewing	Main body for AB companies
Anheuser-Busch International, Inc	International operations for beer business	Another main body for international AB companies
Wholesaler Equity Development Corp.	Distribution and Channel	Handles all AB's distribution system
Busch Agricultural Resources, Inc.	Raw materials for brewing	barleys, hops, rice, corn
Anheuser-Busch Packaging Group, Inc.	Packaging materials and recycling	<ul style="list-style-type: none"> <li>•Metal Container Corp.</li> <li>•Precision Printing and Packaging</li> <li>•AB Recycling Corp.</li> <li>•Longhorn Glass Corp.</li> </ul>
Busch Entertainment Corp.	Enhancement of AB's brand image	<ul style="list-style-type: none"> <li>•Sea World</li> <li>•Busch Gardens</li> <li>•Discovery Cove</li> <li>•Sesame Place</li> <li>•Water Country USA</li> <li>•Adventure Island</li> </ul>
Busch Properties, Inc.	Real estate for brewery operations and theme parks	
Manufacturers Railway Co.; St. Louis Refrigerator Car Company	Refrigerated distribution System	•Part of its commitment to quality

**Exhibit 4.5 Anheuser-Busch subsidiaries**

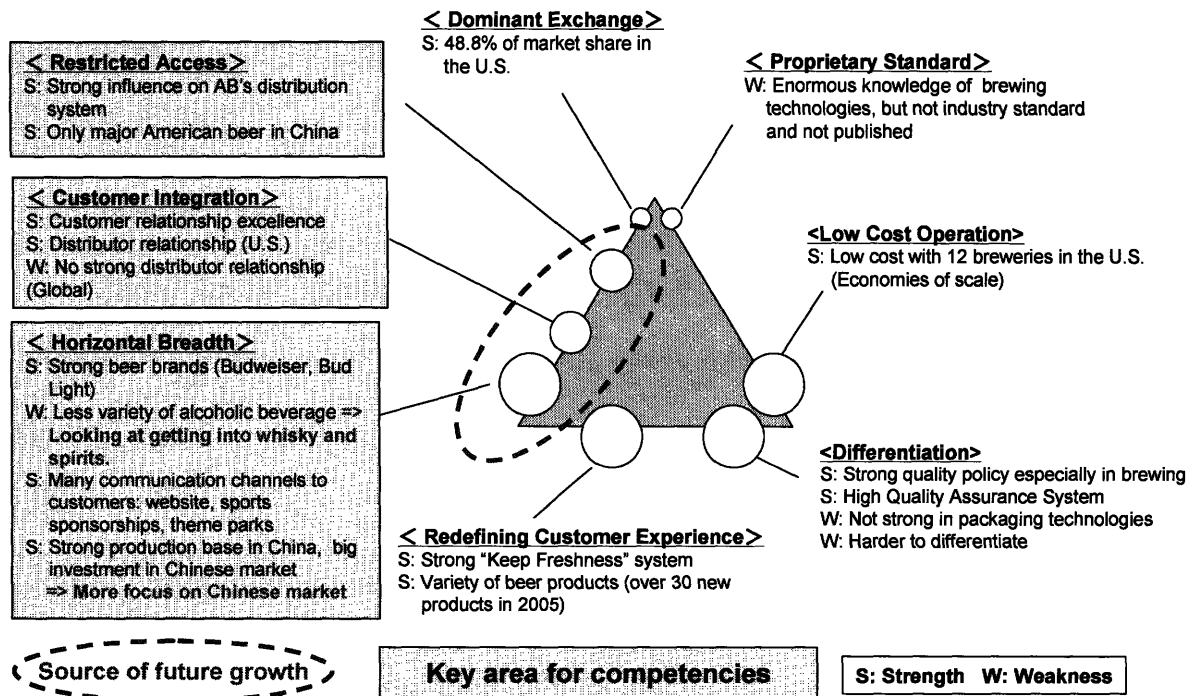
Source: Anheuser-Busch website; 2005 Annual report, modified by author.

The entertainment business was added mainly to enhance AB’s image, as Douglas Muhleman stated: “Our entertainment business is the showcase of our brand, especially Budweiser, which is our flagship, and our commitment to the quality. The whole purpose is to elevate the status of beer drinking.”

### 4.1.3 Future Strategies

Based on the company’s history of diversification, it is expected that AB will continue to focus on the alcoholic beverage business using its powerful Budweiser brand name, and expand any possible market. This strategy is illustrated in Exhibit 4.6, which shows AB’s competencies in the Delta Model, which shows AB’s strengths (current or enhancing competencies) and weaknesses (desired competencies).

**Future sustainability: Comprehensive alcoholic beverage company (U.S. domestic)  
Penetration into the new market with strong brand (Global)**



**Exhibit 4.6 Competencies and Future Growth**

Source: Hax and Wilde, The Delta Project (2001), developed by author.

The model shows that AB seems to be a comprehensive alcoholic beverage company, focused mainly on the domestic market, specifically with Budweiser products. In addition to the market environment described in Section 4.1.1, consumers' preferences became more diversified in 2005. Hard liquor and wine sales increased the company's share of the alcoholic beverage market at the expense of beer sales. In response, AB developed beer-based Ready To Drink cocktail-like beverages including malt beverages, flavored beers, and other beers that combine fruit flavors with caffeine and guarana. These developments suggest that AB is beginning to widen its product lineup into beverage segments that the company has not yet entered. Muhleman commented: "We still concentrate on the beverage business. Beer is of course our core business, but we are looking at non-malt beverages as well. In the beer category, we are focusing on 'high-end' products to gain higher profit."

Second, AB's primary target is China, where the company aims at a scale expansion of the brand through various tie-ups with other players in conjunction with its factory operations in Wuhan. In 2006, Budweiser entered Russia as a result of a new local brewing and sales alliance between Heineken Russia and Anheuser-Busch. Muhleman commented:

The biggest focus will be the Chinese market, where we have been doing better recently, especially in 2006. What we learned from our operation in Wuhan is that once people there understand what is expected, their execution is excellent. What's most difficult is to get to that point. But still, it is promising.

## **4.2 HEINEKEN NV**

The Heineken Company (HN), which traces its roots back over 140 years, is one of the world's leading international brewers based in The Netherlands.

### **4.2.1 Brief History, Current Business, and Diversification**

The story of Heineken began in 1864 when Gerard Adriaan Heineken bought the Haystack Brewery in Amsterdam. He kept expanding the company by building new breweries, merging with other brewing companies, and refining the beer brewing process and taste profile. In 1873, he renamed the Haystack Brewery to Heineken's Bierbrouwerij Maatschappij N.V. (Heineken Breweries). Gerard Heineken was quoted as saying: "A good product is recommended by its use alone" and "I will leave no stone unturned in attempting to continuously supply beer of the highest quality."

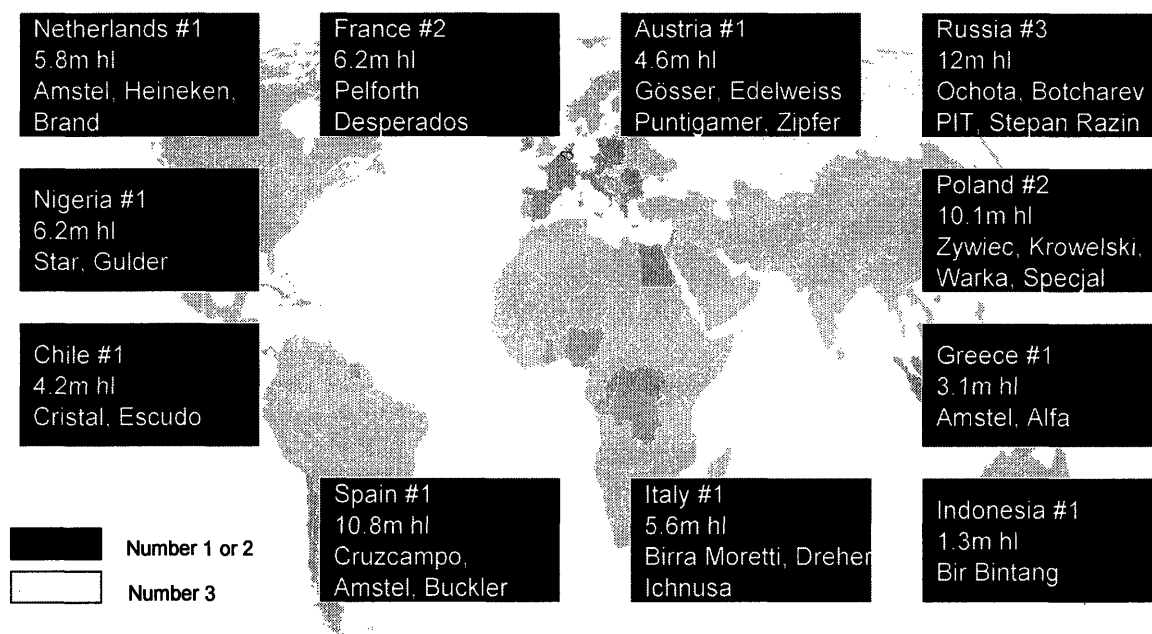
Doctor Elion, a student of Louis Pasteur, developed the A-yeast strain in 1886, which is still used today to give Heineken its characteristic flavor, and its efforts began to pay off when in 1889 the brewery was awarded the Gold Medal of Honor at the World Exhibition in Paris, where Heineken beer is supplied to the Eiffel Tower restaurant. For over 140 years, four generations of the Heineken family have strengthened and expanded the company's brands in Europe and around the world. In 2005, the company generated €10.8 billion (\$14.0 billion) with production of 118.6 million hectoliters.

In addition, the company brews and sells more than 170 international premium, regional, local and specialty beers. Amstel brand, formerly produced by the second-largest Dutch brewery, was acquired by Heineken in 1968, and is now Europe's third-largest brand,

selling 11.4 million hectoliters in 2005. Other brands include Busckler, a nonalcoholic beer, Cruzcampo, Tiger, Zywiec, Birra Moretti, Ochota, and Murphy's.

The Heineken brand is available in markets outside the Netherlands. In 1937, HN began its first license brewing to a foreign brewer, enabling it to produce Heineken beer according to the original formula. In the beginning, HN was unable to influence how licensees marketed the company's product, but HN learned from these experiences. By the 1980s, it made certain to acquire a majority equity stake in its existing and prospective partners to ensure tighter control over production and marketing.

Today HN has the widest presence of all international brewers, with the network of 115 breweries in more than 65 countries, including an international export operation that ships beer to profitable major markets such as the U.S. HN's leading market positions and local brands in each market are shown in Exhibit 4.7.

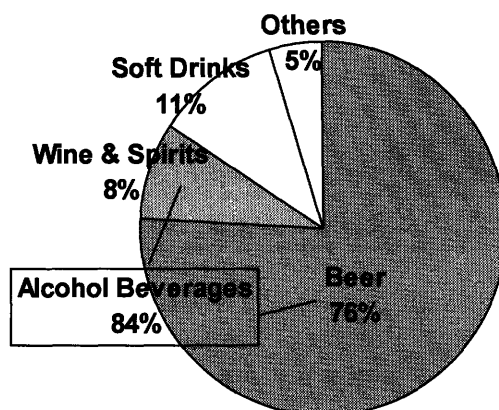


**Exhibit 4.7 HN's leading market positions and local brands**

Source: Heineken's half year results 2006, modified by author.

Exhibit 4.8 shows that HN generated 76% of its consolidated revenue from beer, 8% from wine, and 11% from soft drinks in 2005 (total 84% of the company's revenue from alcohol beverages). Note that 11% in the soft drinks business appears to be a considerable proportion. However, this does not seem to be the company's intended diversified business as Nathalie Grotenhuis, of Group Corporate Relations of Heineken International commented:

The reason we also have revenue in wine, spirits and soft drinks is because (especially in Western European countries) we are the biggest beverage wholesaler, acting as an intermediary between bars, restaurants, or hotels owners, and similar kinds of beverage producers. It is an extra service to our on-premise customers that when we deliver their beer, at the same time we deliver the wine, spirits and soft drinks they need. So they don't have to buy that separately. And the bill we send to these customers includes the other beverages. In the Netherlands for example, we own a company that produces soft drinks, etc., but we don't have many plants. In many cases we buy directly from the plants of the beverage producers. In general these activities produce narrow profitability for us.



**Exhibit 4.8 Breakdown of Heineken consolidated revenue**

Source: Heineken 2005 Annual Report, adapted by author.

It is clear that the beer business is HN's core business, hence it does not have any apparent intention to diversify in other directions. HN's 2005 Annual Report stated:

As almost all of Heineken's revenue is accounted for by just one product group, namely beer, the financial information is segmented by geographic area only. The remaining activities are not reported separately on a segmented basis as risks and rewards are not significantly different.

#### 4.2.2 Heineken's Future Strategies

HN's entire strategy is focused on the beer business, and it seems that this will continue for the foreseeable future. The company continues to follow what Gerard Heineken said so long ago: "I will leave no stone unturned in attempting to continuously supply beer of the highest quality." Based on the company's strong brand name, HN seeks any opportunity for acquisitions that will expand the HN brand.

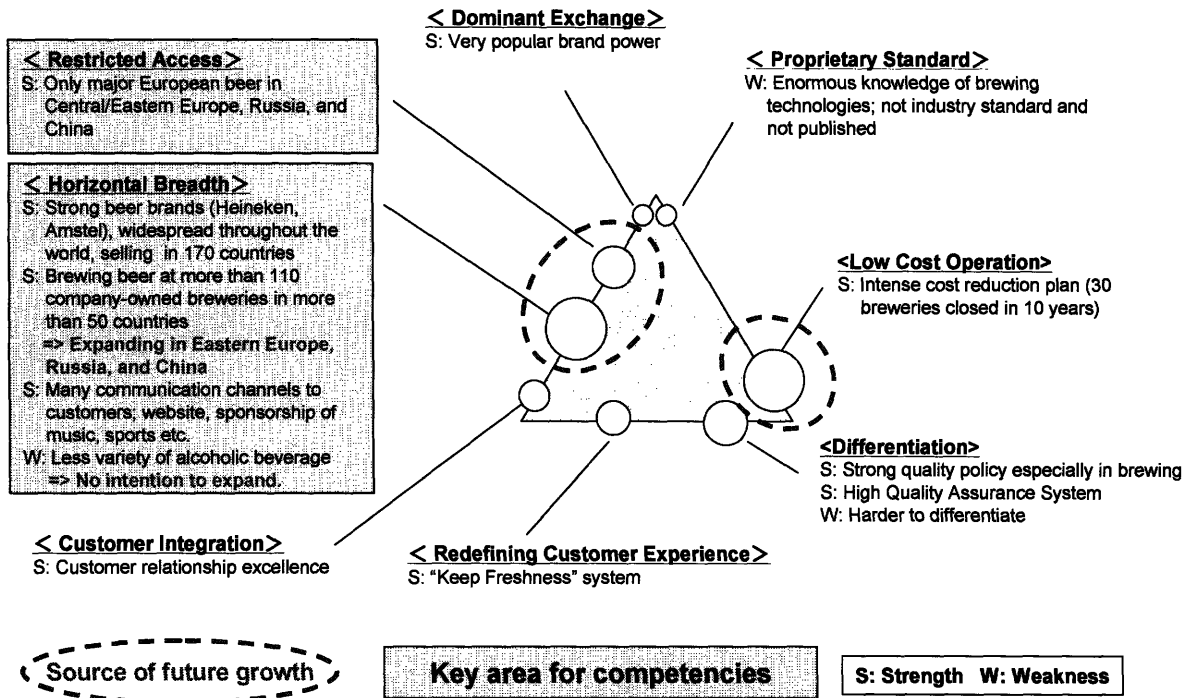
HN also continually reviews the efficiency of its operations, and adopts cost-cutting measures and a leaner management structure. Nathalie Grotenhuis commented:

Our business is about beer. We focus on:

1. *Top Line Growth*: building a winning and well-balanced portfolio of brands in each relevant market, further strengthening the Heineken brand as the international premium brand, developing and rolling out innovations, and improving our 'on trade' performance. With this strategy, markets such as the USA (launch & rollout Heineken Premium Light) and Russia, China, and Central and Eastern Europe (integrate and take off for growth) are going to be crucial to Heineken's continued growth in the coming three years. In Western Europe we will continue growing Heineken's heartland.
2. *Improving Efficiency*: continuous focus on cost control; increase efficiency in the supply chain; continuous improvement of the purchasing process; reduction of the fixed-cost base.
3. *Speed of Implementation*: Leaner management structure, performance-driven culture.
4. *Acquisition Opportunities*: We aim for no. 1 or no. 2 positions.

HN's future strategy is also translated to the bundle of competencies in the Delta Model as shown in Exhibit 4.9. The triangle suggests that HN has very strong Horizontal Breadth and Restricted Access, along with a Low Cost position for future growth, and the company is trying hard to make the best use of these strengths.

**Future sustainability: Penetration into a new market with strong brand, especially in Central/Eastern Europe, Russia, and China**



**Exhibit 4.9 Bundle of Competencies and future growth - Heineken –**

Source: Hax and Wilde, The Delta Project (2001), developed by author.



### **4.3 LION NATHAN, LTD.**

The third big player in world's beer industry is Lion Nathan, Ltd. (LN), the second largest brewer in Australia, which sells Tooheys and Hahn Premium beer brands. LN originated in New Zealand, and grew by continuous M&A, then transferred its headquarters to Sydney, Australia in 2000. Prior to the transfer, Kirin Brewery acquired 46% of LN's stock in 1998. LN generated A\$1.9 billion (\$1.5 billion) and 6.95 million hectoliters in 2006 (FY September 30, 2006).

Although LN had entered the soft drink, restaurant, and sales promotion novelty businesses, it sold them all off so the company could concentrate on promoting its beer business. Today LN's strategy is to concentrate on the alcohol business, aiming to become a comprehensive alcohol beverage company. Geographically, it concentrates on Australia and New Zealand.

#### **4.3.1 Brief History**

LN's history is somewhat complicated since four companies were involved before today's Lion Nathan was established in 1988.

In 1840, LD Nathan was established as a trading company in Russell, New Zealand but soon moved to Auckland. In the same year, under the name Brown Campbell & Co, liquor wholesalers John Logan Campbell and William Brown established the Hobson Bridge Brewery in Auckland, the antecedent of Lion Breweries. In 1861, a brewer named Richard Seccombe founded Great Northern Brewery at Khyber Pass where he used the Lion from his family crest as the company's logo. In 1878, the Ehrenfried brothers bought Albert Brewery in Auckland. The latter three breweries merged to become Lion Brewery in 1914. In 1923

that entity was integrated with nine other breweries to become the New Zealand Brewery in order to survive the Prohibition.

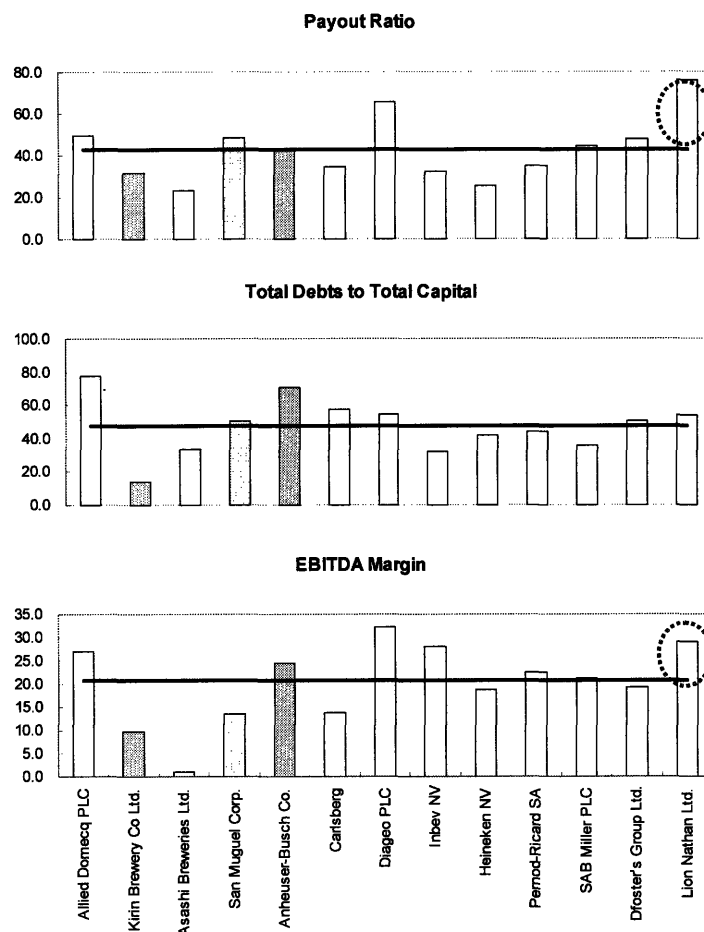
In 1988 both New Zealand Brewery and LD Nathan (which had acquired breweries during its expansion) merged to establish the Lion Nathan company. LN continued to expand by acquiring other Australian breweries before Kirin acquired 46% of its stocks and then shifted the company's domicile and primary stock exchange listing to Australia.

#### **4.3.2 Business Environment**

Masaki Harada, Senior Manager, Group Strategy Planning Department of Kirin Brewery (and former Executive Director of Lion Nathan) commented that the Australian beer market is

...expanding by about 1% every year, although this can be explained by an increase in population and the per capita amount of consumption tends to decrease. Consumer taste is shifting from beer to wine or Ready To Drink (alcoholic beverages in a container, such as a cocktail, which can be drunk immediately) due to the aging of society and the diversified preferences of the younger generation. However, the sales figure itself indicates that an increase of unit price has been favorably received because the shift is occurring from normal beer to premium beer with a higher price.

One aspect of the business environment is shareholder expectations. Besides Kirin holding 46% of LN's stock, 54% of the remaining stock is held by floating shareholders in Oceania countries. Therefore, a majority of shareholders expect to see high profit and efficiency, that is, a higher payout-ratio and EBITDA margin. In fact, LN obtains higher numbers in these two areas compared with the world's other big players, as shown in Exhibit 4.10. Harada said: "The primary corporate strategies are developed on the basis of these numbers."



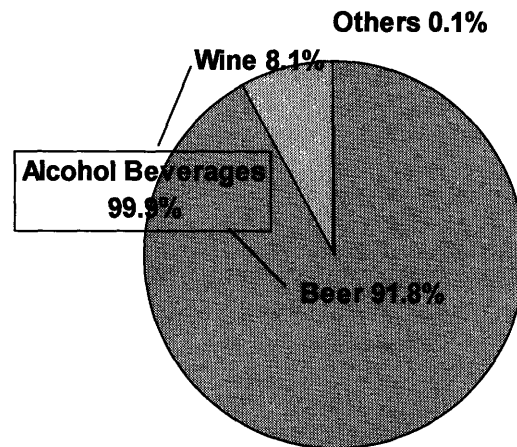
**Exhibit 4.10 Financial performance of Lion Nathan, 2006**

Source: Lion Nathan 2006 Annual Report, modified by author.

Another aspect of the business environment is that in Australia, 97% of the market is monopolized by two companies: Foster's Group (55%) and LN (42%), both of which control product prices under the Game Theory. Moreover, the distribution system in Australia is very simple—carry the product to retailers directly from the manufacturer. There are no middlemen stakeholders to distribute products, which makes it easy for manufacturers to handle channel management and cost management.

For these reasons LN (and its biggest competitor and complementor Fosters) remain sustainable by maintaining a stable operation in the Australia market. Exhibit 4.11 shows the

breakdown of the company's revenue in 2006, with 99.9% of its revenue coming from alcoholic beverages.



**Exhibit 4.11 Breakdown of Lion Nathan's consolidated revenue**

Source: 2006 Lion Nathan Annual Report, adapted by author.

### **4.3.3 Diversification and International Operations**

Although LN started out in the soft drink business with the Pepsi brand, it sold off that segment in 1998 because it did not contribute to profits to a degree that can be reflected in the EBITDA margin mentioned above. The company also tried the restaurant business, seeking synergy effects with beer—similar to Anheuser-Busch, which bought a bread company. However, LN withdrew from this business as well when it did not contribute sufficient profit to the company.

These examples suggest that diversification for LN has always been undertaken to generate short-term profitability to make shareholders happy; in the end, however, the company always returns to its original beer business which generates the highest earnings.

Recently, LN made one interesting decision concerning the company's international operation. In spite of the recent craze in the business world to penetrate and prosper in the Chinese market, LN actually exited from that market in 2005. Koji Fukada, Process Improvement Director for Lion Nathan commented:

The Chinese market is where the world players such as SAB Miller, InBev, and AB created a war of attrition with each one's abundant funding ability. After 12 years of fund-consuming operations, LN realized it was not worth challenging for revenues of A\$1.9 billion (\$1.5 billion), nor to fund that kind of 'war zone' any more. Hence we withdrew the Chinese operations while the damage was not so serious.

Noriaki Kobayashi, Senior Manager, Group Strategy Planning Department of Kirin Brewery commented: "Although LN's Suzhou brewery was a brand-new, state-of-the-art plant, the percent of its capacity use was not high at all. We studied and made some test brews of our Kirin product there, but it was not financially feasible."

Exhibit 4.12 illustrates the history of LN's Chinese operations. Since exiting that market, LN has concentrated its resources on the Oceania market.

**Entered in 1995, exited in 2005**

- 1993 Began looking for joint venture partners in China
- 1995 Paid local government NZ\$32.1 million for a 60% stake in brewery in Wuxi  
**The Wuxi Lion Nathan Taihushui Brewery**  
 <Started operation with the popular local brand Taihushui>
- 1996 Began construction of 100%-owned brewery in Suzhou
- 1998 Completed Lion Nathan Suzhou brewer  
 <Started operation with the brand Rheineck>
- 2000 Began brewing Kirin Ichiban  
**Kept accumulating losses**
- 2005 Stopped operations in China; sold both breweries

#### **Exhibit 4.12 Lion Nathan's international business in China**

Source: Interview with Koji Fukada (Lion Nathan) and Noriaki Kobayashi (Kirin), modified by author.

#### **4.3.4 Future Strategies**

There are some issues for LN to carefully manage for its future sustainability in spite of the relative stable operation supported by the duopoly in the Australian market and the simple distribution system. Masaki Harada identified the issues as follows:

1. *Strengthen the company's brand name among mass marketers through intense price competition:* Recently, mass merchandisers like the chain big supermarkets such as Coles Myer and Woolworth, have emerged following integration of the retail industry. Each state in Australia has its own popular brands, and there are strong regional preferences. LN has brands that are popular in each area, such as Tooheys in New South Wales and XXXX (Four Xs) for Queensland, but in each case their popularity in other

states is not as high. It is important to extend recognition of these brands nationally because a national brand will stimulate sales to the big national chain retailers.

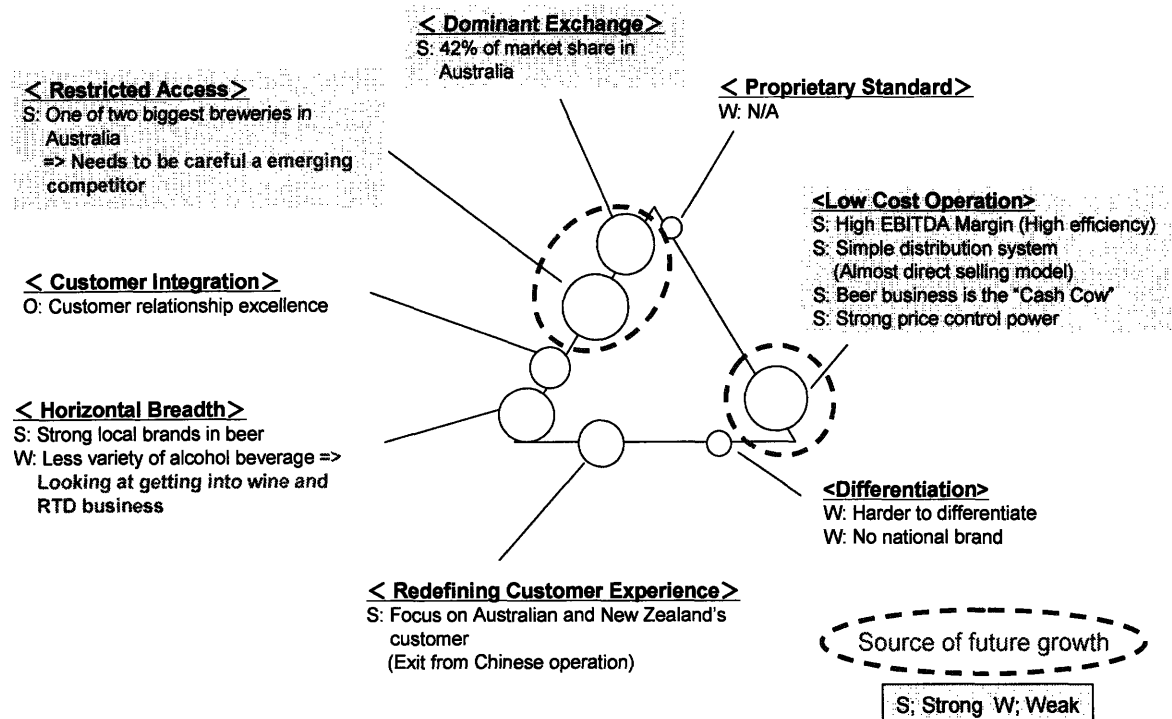
2. *Strengthen the premium beer category:* LN does not have a strong presence in the premium beer category, despite the company's high market share. It is important to promote premium brands such as Hahn Premium and James Squire, and internationally known Beck's. LN began brewing Kirin Ichiban, brewed only by the first wort in the brewhouse process at the Malt Shovel brewery in May, 2003 in response to surging growth in the premium category. This is one brand to be nurtured in the Australian premium beer category.
3. *Extend to other alcohol beverages:* Price controls on beer, including price increases by the two-company monopoly, seem to be wavering. Recent diversifications in the market indicate a shift from beer to either wine for older people or RTD for the younger generation. In particular, the price difference between premium beers and RTDs is getting closer. Also, the population increase, largely due to Asian immigrants who typically do not drink much alcohol compared with Australians, has not increased beer consumption. To cope with this situation, LN must seek additional business in other kinds of alcoholic beverages as a substitute for the beer business. Slightly more than 8% of LN's revenues in 2006 were derived from the wine business since the company entered that segment in 2000 (refer back to Exhibit 4.11).
4. A new threat to the duopoly: SAB Miller, one of the biggest players in the world, is planning to enter the Australian beer market in cooperation with a Coca-Cola affiliate, Coca-Cola Amatil. When this occurs, it will take advantage of Coca-Cola's huge channel, which is reportedly three times larger than that of beer. This means it is highly

likely that SAB Miller will gain market parity in a short period of time. It is necessary for both Foster's and LN to establish strategies that will build high entry barriers immediately.

LN's future strategies are translated to the bundle of competencies in the Delta Model as shown in Exhibit 4.13. The triangle suggests that LN should build sustainability in the beer business first, and then become a comprehensive alcohol beverage company by extending into the wine and RTD segments so that diverse customer preferences are met. This strategy is supported by three factors: (1) an expectation that major floating shareholders want LN to hold its beer business as a "cash cow"; (2) Australia's duopolistic beer market structure, although it is becoming less stable; and (3) the simple distribution system.



**Future sustainability: Comprehensive alcohol beverage company  
Keeping high EBITDA margin**



**Exhibit 4.13 Lion Nathan's Competencies and future growth**

Source: Hax and Wilde, The Delta Project (2001), developed by author.

#### 4.4 SAN MIGUEL CORPORATION

San Miguel Corporation (SM) is the largest beverage and food firm in the Philippines, selling more than 300 product lines made in more than 100 area factories, and generating FP226.7 billion (Filipino pesos) (\$4.6 billion) in 2005. Exhibit 4.14 briefly illustrates how this company's businesses are diversified, which is somewhat different from prior three examples. However, it is worth showing that the company is vertically diversifying its business.

The company not only brews and distributes beer, including San Miguel Pale Pilsen and Red Horse, and controls more than 90% of the Philippine beer market; but it also controls a wide range of foods including as agricultural feeds, processed and fresh meats, daily products, coconut products, hard liquor, nonalcoholic beverages, and packaging products such as glass containers, corrugated cartons, aluminum cans, and metal crowns and caps. SM has a similar dominance in the soft drink market, although the company just sold its 65% stake in Coca-Cola Philippines in December 2006. The company is developing widely in Asia, including China, Indonesia, Thailand, and Vietnam. A local phrase sums up the local situation: "Filipinos filling out their grocery lists often turn to San Miguel—they don't have much other choice" (Answers.com). The company strategy is expansion as a comprehensive food company utilizing its strong logistics system.

<b>Business</b>	<b>Group</b>	<b>Categories / Brands</b>
Beverages	Beer Distilled Spirits Flavored Alcoholic Beverage Non-Alcoholic Beverages Carbonated Soft Drinks Ready-To-Drink Juices Powdered Drink Mixes Bottled Water Teas, Sports and Energy Drinks	31 brands 13 brands 1 brand 3 brands 10 brands 3 brands 1 brand 4 brands 4 brands
Food & Agri	Poultry Refrigerated Meats Gourmet Meat Processed Meat Hormel Fresh Processed Meats Monterey Value-added Products Dry / Shelf Stable Canned Grocery Products Fresh Meats Franchising Butter, Margarine, Cheese Ice Cream Specialty Oils Condiments Coffee Products Great Food Solutions (Food Service) Agribusiness Flour Feeds	5 categories 17 brands 3 categories 20 brands 1 brand 2 brands 2 brands 5 brands 1 brand 7 categories 22 brands 2 brands 1 service 10 categories 33 brands 4 brands 4 brands 1 brand 4 brands 6 categories 31 brands 14 brands 6 categories 25 brands 7 categories 15 brands
National Foods, Ltd.	Milk Fresh Dairy Cheese Juice	6 brands 4 categories 23 brands 8 brands 2 categories 17 brands
Packaging	Glass Metal Plastics Paper Composites PET Services	3 categories 3 categories 6 categories 10 categories 4 categories 2 categories 10 categories

**Exhibit 4.14 San Miguel's products and services**

Source: San Miguel Corp, 2005 Annual Report, adapted by author.

In 2002, Kirin Brewery acquired 15% of SM's stocks, since Kirin was targeting growth in its overseas alcoholic beverages business in Asia and Oceania, and was seeking to build a strong operating base for its business expansion in the region. Kirin raised its share to 20% in January 2005, believing that SM was the right partner to maximize business opportunities and create synergies among Kirin Group companies in the region.

#### **4.4.1 Brief History**

The history of San Miguel Corporation is also complicated since it has a close relationship with the history of political upheaval.

In 1890, Don Enrique Ma Barretto de Ycaza established a brewery in Manila called La Fabrica de Cerveza de San Miguel, and the brewery is incorporated in 1913. After Andrés Soriano y Roxas joined San Miguel in 1913, that was the beginning of the long-term, multigenerational involvement of the Soriano family. The company expanded into soft drinks in 1922, and ice cream in 1925. The lengthy name, La Fabrica de Cerveza de San Miguel, was shortened to San Miguel Corporation in 1963, and a Soriano family proxy fight led to the purchase in 1983 of a 19.5% stake in San Miguel by Eduardo Cojuangco, Jr., a close associate of Philippine dictator Ferdinand Marcos. However, the 1986 "People Power" revolution forced Marcos to flee the country, and Cojuangco was among those joining him in exile. At that time the new Philippine government sequestered 51.4% of the company shares, and Andrés Soriano III resumed as chairman of the company.

In 1997, San Miguel exchanged its 70% stake in Coca-Cola Bottlers Philippines. for a 25% interest in the Australian firm Coca-Cola Amatil (CCA). When Cojuangco returned to

the chairmanship following the election of Joseph Estrada as the Philippine president in 1998, SM continued to acquire companies such as food, soft drinks, and packaging materials.

#### **4.4.2 San Miguel's Business Environment**

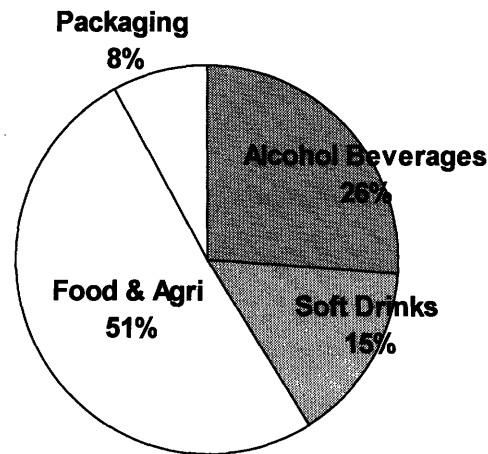
SM's domination of the beverage and food markets in the Philippines can be explained by the company's strong competency, especially its logistics system. SM employs the same distribution network and resources to deliver any product to every part of this country that consists of approximately 7,000 islands.

Eduard M. Cojuangco Jr. owns 38% of the company's stock. The rest is split by Kirin Brewery, government, the Sy family, and other floating shareholders with 20%, 20%, 10%, and 12%, respectively. Therefore, serious stockholder expectations are not a big issue as is the case with the other competitors.

With this strong position in the country, SM generated about 4% of the country's GDP in 2004. SM's Annual Report shows 2004 revenues of about \$3.6 trillion, while the Philippine GDP in 2004 was about \$86 trillion (source: Japan's Ministry of Foreign Affairs).

#### **4.4.3 Diversification Strategy**

As a result of the above-mentioned equity holding situation, it is clear SM employs an expansion strategy, especially one focused on growth of its sales revenue. Exhibit 4.15 shows the breakdown of SM's consolidated revenue. Although SM holds 90% of the beer market in the Philippines, alcoholic beverages represent only one-quarter of overall revenue. On the other hand, revenue from foods and agricultural products represents more than 50%, owing partly to the acquisition of National Foods in 2005.



**Exhibit 4.15 Breakdown of San Miguel's consolidated revenue**

Source: San Miguel's Annual Report 2006, adapted by author.

Noriaki Kobayashi, Senior Manager, Group Strategy Planning Department of Kirin

Brewery, who oversees the SM operation, traces its diversification history:

Andrés Soriano initiated the company's diversification, which proceeded rather logically via vertical integration. The experience cultivating barley naturally evolved into other agricultural businesses, for example. San Miguel gathered steam in the 1920s, when the company expanded into nonalcoholic beverages with the creation of the Royal Soft Drinks plant in 1922. San Miguel entered the frozen foods market in 1925 with the creation of the Magnolia Ice Cream plant. By the early 1990s, Magnolia held four-fifths of the frozen dessert market. Soriano created the first non-U.S. national Coca-Cola bottling and distribution franchise in 1927. The Philippine company owned 70% of the joint venture, which grew to become Coke's sixth-largest operation. Currently, San Miguel captures over 70% of the domestic soft drink market. SM is now targeting to become the 'Top 10 comprehensive food company' of Southeast Asia region in sales by continuous M&A.

In July 2003, SM announced a long-term business plan to expand the company's revenue up to \$10 billion by 2010 (three times more than 2002) by advancing into new areas and businesses in Asia and Oceania. Since then, SM smoothly expanded its business by acquiring Thai Amarit Brewery of Thailand in 2003; industrial sites in Indonesia, Thailand,

Vietnam, and China; and National Foods, the largest dairy foods company in Australia in 2005.

Recently SM is reported to be considering an electric power business. Kobayashi commented: “This is a bold move, unlike a food company.” It suggests that SM might be gradually shifting to a conglomerate.

#### **4.4.4 San Miguel’s Future Strategies**

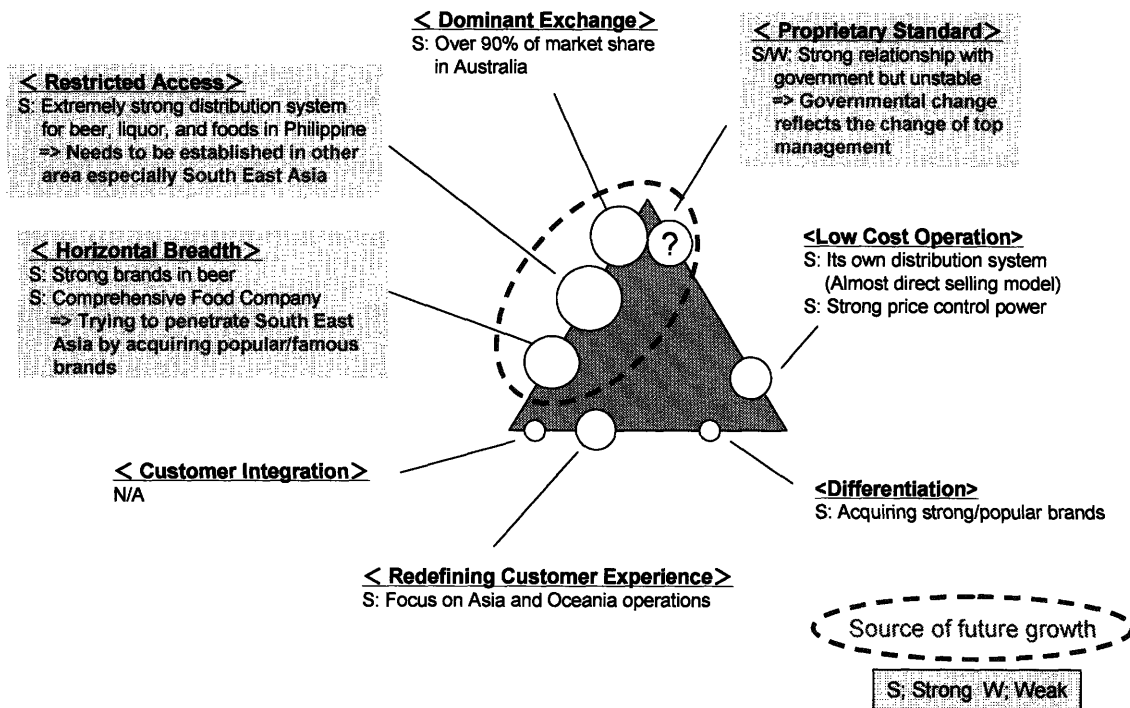
SM, with its abundant financial resources, intends to acquire popular or excellent brands by M&A within the drinks and food business, and then put them into the company’s strong logistics system so it can deliver those products to every “Ma and Pa” store in the country. This represents SM’s source of future sustainability. In addition, the company is also expanding to countries in Southeast Asia.

SM keeps acquiring promising brands (companies with popular brands) that can be expected to become popular in Southeast Asia, mainly from Australia. The company, however, has not been successful in establishing a logistics system in the area, which is the source of its competency. Consequently, the goal of the long-term plan to generate \$10 billion by 2007 will be somewhat delayed.

The alignment of SM’s strategy needs to be watched carefully, since the decision-making process by Cojuangco and his group might be arbitrary, even though the company is publicly traded. Kobayashi raised a similar concern: “Senior executives of the company in Philippines tend to consider the relationship with the government important. Once the sovereign of a country is replaced, top management of certain companies also often might be replaced. This tends to make the company’s policy swing.”

Exhibit 4.16 illustrates SM's bundle of competencies in the Delta Model and its strategies for future sustainability. Considering the environment surrounding SM, the company is structurally positioned in a strong Restricted Access, along with Dominant Exchange and Horizontal Breadth positions. The company will continue to expand its business portfolio by utilizing these competencies, however, it is uncertain that SM can continue to succeed to do so due to political conditions in the country as well as relatively arbitrary management.

**Future sustainability: Comprehensive food company  
Extremely strong distribution system (to extend to other market)**



**Exhibit 4.16 Bundle of Competencies and future growth - San Miguel**

Source: Hax and Wilde, The Delta Project (2001), developed by author.



#### **4.4.5 Reflections on Kirin's Partnership with San Miguel**

In spite of their different backgrounds (i.e., different markets, equity, and politics), SMC and Kirin are similar in that both are aiming to become leading corporations in Asia and Oceania by creating synergies within their own resources and business portfolios. However, there is a risk for Kirin in maintaining a partnership with SM due to its close relationship with the Philippine government, potential arbitrary decisions by SM's top management, and the lack of any deterrent due to low ratio of floating shareholders.

Kirin's Vision 2015 (discussed in Chapter 6) proclaims that the company will generate ¥3 trillion revenue (\$25.7 billion) by 2015, 30% of which should be realized from the company's international operations. To make this happen, I believe it will be necessary for Kirin to be prepared to deal with these risks. Koichiro Aramaki, Chairman of the Board and CEO of Kirin said: "San Miguel Corporation has been an important partner for us in Southeast Asia since our investment in 2002. San Miguel's strategy for Asia and Oceania fits well with ours, and I am confident that this transaction will be another successful step in strengthening our long-term partnership."

#### **4.5 CONCLUSION**

The world's top players in the beer industry are focusing on their core business, which is beer. Although changes in customer preferences are forcing the players to expand their interests to other beverage segments, most of their strategies are still either centered on alcoholic beverages or vertically integrated—in contrast to Japanese alcoholic beverage companies (as discussed in Chapter 3). One big Asian conglomerate showed some

similarities to diversify its business to food area, although the conditions and background of the company are different from the Japanese environment.

Exhibit 4.17 shows a competency analysis that compares the Japanese alcoholic beverage companies with the four players discussed in this chapter. The Japanese companies still stay in the Best Product Option. However, strong competency, especially in the Differentiation position, suggests that Kirin is diversifying its business portfolio to new products or services to customers in the Japanese market. This is executed based on a strong R&D foundation, not only in alcoholic beverages but also pharmaceuticals and foods. As discussed in Chapter 3, Kirin has a relatively well-balanced strategic positioning evolving into the Total Customer Solutions option, among the four corporations.

On the other hand, companies outside of Japan tend to establish their competencies in Total Customer Solutions and System Lock-In, especially in the positioning of the Horizontal Breadth and Restricted Access. This would be done by: (1) their strong brand power in markets they have entered or are entering; and (2) extremely strong financial power. Consequently, these companies seem to find that diversification—i.e., turning their interest outside of their core business—is not the critical strategic agenda for future growth and sustainability. There is one exception for San Miguel Corporation, which has taken a position to expand its business by “vertical” diversification.

		Japanese Companies				Companies outside of Japan			
		Kirin		Sapporo	Suntory	Anheuser-Busch		Lion Nathan	San Miguel
Best Product	Low Cost	✓✓	✓✓✓	✓✓	✓	✓✓	✓✓✓	✓✓✓	✓
	Differentiation	✓✓✓	✓	✓✓	✓✓✓	✓	✓	✓	✓
Total Customer Solutions	Redefining Customer Experience	✓✓✓	✓✓	✓	✓✓✓	✓✓	✓	✓✓	✓
	Horizontal Breadth	✓✓✓	✓✓✓	✓	✓✓	✓✓✓	✓✓✓	✓	✓✓✓
	Customer Integration	✓✓	✓	✓	✓	✓✓✓	✓		
System Lock-In	Restricted Access	✓	✓✓	✓	✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓
	Dominant Exchange	✓	✓		✓	✓✓	✓	✓✓✓	✓✓✓
	Proprietary Standard	✓			✓	✓	✓		✓

Competency Scale

	✓	✓✓	✓✓✓
Non Applicable or Very	Weak	Moderate ~ Strong	Strong

	Competent positioning		Characteristic Competency zone
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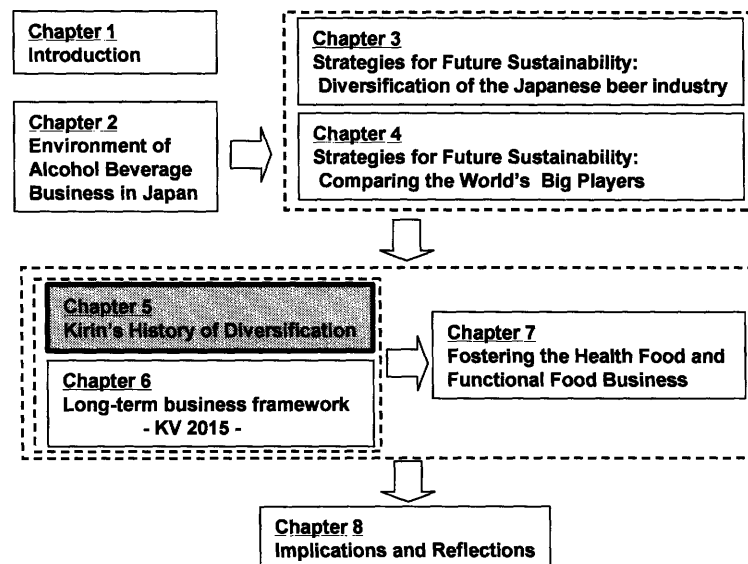
**Exhibit 4.17 Competencies and future growth – San Miguel**

Source: Hax and Wilde, The Delta Project (2001), developed by author.

# CHAPTER 5

## Kirin's History of Diversification

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Looking at the history of Kirin Brewery, the company regularly diversified its business in response to the business environment, as discussed in Chapter 3. Throughout these changes, however, the company tended to lose sight of the importance of the customer, i.e. it did not always make the customer a central part of any strategy that was established. In spite of hard works and a variety of endeavors, the enormous market share that Kirin enjoyed throughout the 1970s, was gradually eroded, and in 2001 competitors finally overtook Kirin to become number one in market share. At that point, Kirin recognized the need to refocus its interest on its customers. The company's top executives renewed their commitment to the company's customers in conjunction with a realistic assessment and recognition of a

dramatically changed market environment: (1) a gloomy outlook for the Japanese liquor market; (2) new and diverse customer preferences; (3) the business trend toward globalization; and (4) a still highly competitive market.

Today Kirin aims to achieve quantum growth as the Kirin Group, and to raise corporate value by promoting diversification and synergies among diversified businesses, combined with spurring the re-growth of the company's core alcoholic beverage business.

Prior to a discussion on the "Kirin Group" strategy, however, it is useful to trace the company's history of diversification.

## **5.1 KIRIN'S FIRST DIVERSIFICATION**

In 1947, Dai Nippon Breweries, Co., Ltd. was divided into Sapporo and Asahi, and at that time Kirin was a small company with market share of 25%. Following the division, Kirin grew dramatically, and by 1972 it held 60% of the market, supported by Japan's high economic growth, its aggressive investment in brewery equipment, and an aggressive sales and marketing program.

At that point, Kirin itself faced the threat of being divided under the Antimonopoly Law, and the company considered whether it should pour its resources into beer, or if it should turn those resources to other fields. At the time, the growth of Japanese beer consumption had declined to less than 10%, down from a post-War high of 25%. Therefore, discussions also included a long-range strategy to diversify into a comprehensive drink and a food business. During this discussion, the U.S. beer market also showed signs of saturation and slow growth, so these factors were also taken into consideration.

### **5.1.1 Diversifying in Alcoholic Beverages**

Although Kirin has produced and sold a small volume of soft drinks (orange juice and carbonated water) since the 1920s, because it made sense to utilize the packaging facilities in its breweries. However, since Kirin was a latecomer (the 1970s) when it decided to become a serious competitor in the soft drink business, it encountered difficulty in building its reputation in the field, despite a 1960 decision to become a franchisee of Coca-Cola and the establishment of Kinki Coca-Cola Bottlers, Inc.

Attention turned to the whisky business after Seagram Overseas Sales Company, based in New York, showed some interest in an alliance. Kirin Seagram was established in 1972 under alliance with both Distillers Corporation Seagram, Ltd. and Chivas Brothers, Ltd. Kirin Seagram built a distillery in Shizuoka, and developed products such as Robert Brown, Boston Club, Emblem, and Crescent, and it sold imported products like Chivas Regal, Crown Royal, and Royal Salute. Kirin Seagram further expanded its operations to import brandies, spirits, liqueurs, and wine, and in 2002 Kirin bought all the stocks from its partners in order to establish Kirin Distillery.

### **5.1.2 Diversifying in the Food Business**

Kirin started into the food business when it realized the commonalities between agricultural products and fermentation. As early as the 1940s, Kirin was asked to enter into an alliance with Nagano Tomato, which made tomato products. Eventually this resulted in a capital tie-up in 1976. At that time, the market size for tomato juice was 94,770 tons in Japan and growing by 37% annually. The same year, Nagano Tomato introduced the renamed product Kirin Tomato Juice, followed by Kirin Vegetable Juice in 1977, which

Kirin marketed and sold through the same channels it used for distributing beer and soft drinks. In 1976 Kirin established a dairy products company, Koiwai Daily Foods, in partnership with Koiwai Farms, which had been selling milk, butter, and cheese since 1891.

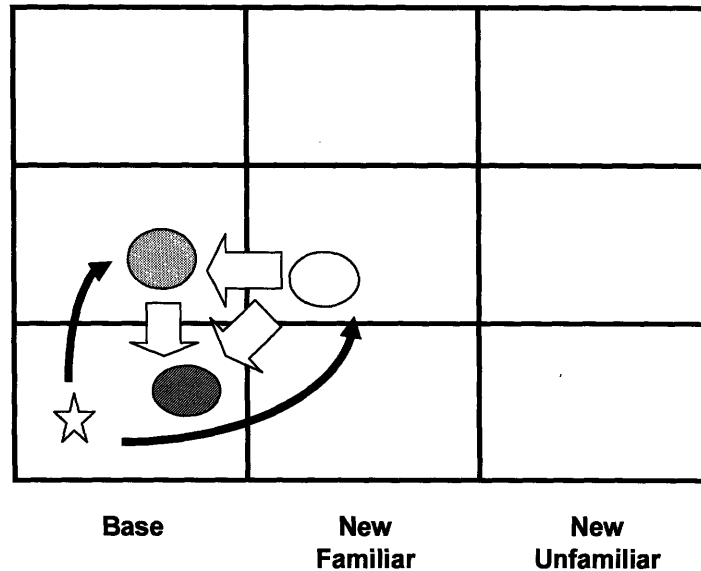
These alliances have some common characteristics: (1) all occurred because other companies approached Kirin about the possibility of making a deal; and (2) all were connected to the beer business, which had a market share of 63.8% when these alliances were completed in 1976. It seems apparent that Kirin wanted to diversify its business in a vertically integrated manner as long as the company had a strong beer business and sufficient resources. It is also interesting that these alliances were passive, that is, they were undertaken with a “wait-and-see” mentality, in an effort to divert the government’s attention from Kirin’s size and enormous market share.

Kirin’s first diversification can be described as a “Beer Business-oriented Diversification.” It was also at this time when Kirin began to consider expanding into international operations: the company started to produce and export brands such as Heineken; it exported Kirin beer overseas; and it opened representative offices in the U.S. and Germany.

Exhibit 5.1 utilizes the concepts of the Familiarity Matrix to confirm that all Kirin’s businesses that began during its first diversification in the 1970s began in the “New Familiar” sector.

**MARKET FACTORS**New  
UnfamiliarNew  
Familiar

Base

**TECHNOLOGIES EMBODIED IN THE PRODUCT**

1971 ; Start of Research / Feasibility Study

1972 ; Whisky business as Kirin-Seagram  
~1976 ; Soft drink business

1976 ; Tomato-juice business with Nagano Tomato



1976 ; Dairy product business with Koiwai Farm



1983 ; Stable operation

**Exhibit 5.1 Familiarity Matrix – Kirin's first diversification -**

Source: Roberts &amp; Berry, 1985, adapted by the author.

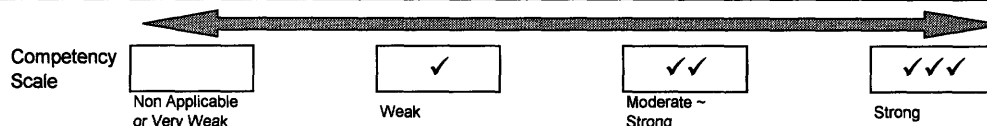
Kirin's diversification strategy can also be analyzed with the Delta Model, especially the competency analysis, as illustrated in Exhibit 5.2. As noted earlier, Kirin's first diversification was vertically integrated, so the diversification stayed close to its beer business. At that time, an observer would be hard-pressed to say that Kirin was really seeking customer bonding, since the diversifications were undertaken mainly to enhance the company's core business.



Following completion of Kirin’s first diversification, its possessed the following competencies:

- Soft drinks: As the Delta Model shows, Kirin was positioned relatively strongly in the *Best Product* option, with some strength in *Total Customer Solution* based on the company’s historical business experience, especially its *Horizontal Breadth* position with orange juice and soda pop products.
- Whiskey, tomato juice, and dairy products: These business segments were new to Kirin’s original business line. These products were offered to customers as part of Kirin’s “Customer-oriented” and “Quality-driven” philosophy. In this case, “Customer-oriented” meant tasty, safe, and secure based on identification with the well-known Kirin brand name. Therefore its competencies could be positioned at *Differentiation*, although it helped to establish closer bonds with customer by offering opportunities in drinks and food.
- 

	Best Product		Total Customer Solutions			System Lock-in		
	Low Cost	Differentiation	Redefining Customer Experience	Horizontal Breadth	Customer Integration	Restricted Access	Dominant Exchange	Proprietary Standard
Soft Drinks	✓✓	✓✓	✓✓	✓✓				
Whiskey		✓✓	✓	✓				
Tomato juice		✓✓	✓	✓				
Dairy products		✓✓	✓	✓				

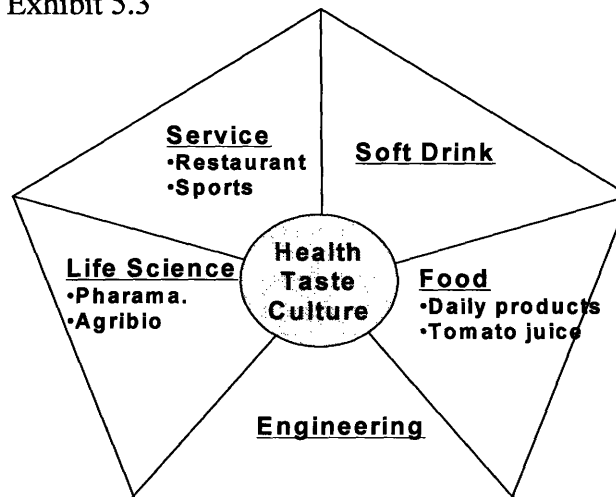


**Exhibit 5.2 Competency Analysis –Kirin’s first diversification-**

Source: Hax and Wilde, 2001, adapted by the author.

## 5.2 KIRIN'S SECOND DIVERSIFICATION

By 1980 the beer market was only growing at 2-3% per year and showing signs of consumption saturation. In 1981, Kirin announced its “Long-Term Management Vision” which proclaimed that the company would set about diversifying into the following fields: (1) soft drinks; (2) food (dairy products, tomato juice); (3) service (restaurants, sports); (4) life sciences (pharmaceuticals, agribio); and (5) engineering. With these diversified businesses, Kirin’s goal was to contribute to society from the aspects of “Health”, “Taste”, and “Culture”, as shown in Exhibit 5.3



**Exhibit 5.3 Kirin’s second diversification**

Source: Nakada, 1988, adapted by author.

Kirin spun off the soft drink business when it established the Kirin Beverage Corporation as a consolidated subsidiary in 1991. This was done for several reasons: the beverage business had shown satisfactory growth with hit products in teas and coffees; it complicated the sales and marketing operations to have both beer and soft drinks in the same distribution channel. After the spin-off, Kirin Beverage continued to grow, holding 23% -- a considerable portion of Kirin’s revenue as shown earlier in Exhibit 3.1.

To expand its service business, Kirin opened a beer pub, Kirin City, in 1983. Then, between 1986 and 1990, it expanded the concept with close to 30 more shops, some combined with restaurants, to serve the company's beer products with food. Kirin also extended its interest in sponsoring sporting events including soccer and golf. The underlying purpose of these activities was to elevate the image of beer.

Kirin's competency in engineering bloomed in the late 1980s. One example was the development of an empty-bottle inspector. Most of the packaging in the beer industry is recycled bottles, and Kirin developed its own inspection equipment for these bottles and then implemented the equipment in all of the company's breweries. The equipment performed with very well, so Kirin began to sell it to other domestic and international companies such as pharmaceutical, food, and various beverage companies, since its precision was useful for firms that needed highly sensitive inspections. This business grew into the subsidiary Kirin Techno Systems in 1990.

The most segment that characterizes the second diversification is life sciences, including the pharmaceutical and agribio businesses. The origins of the agribio business lie in the breeding of barley malt and hops for brewing. By 1982, Kirin was making full use of its technology, especially cell cultivation, to nurture the business, developing from seeds, to seedling, to potatoes, which are still key components of the process.

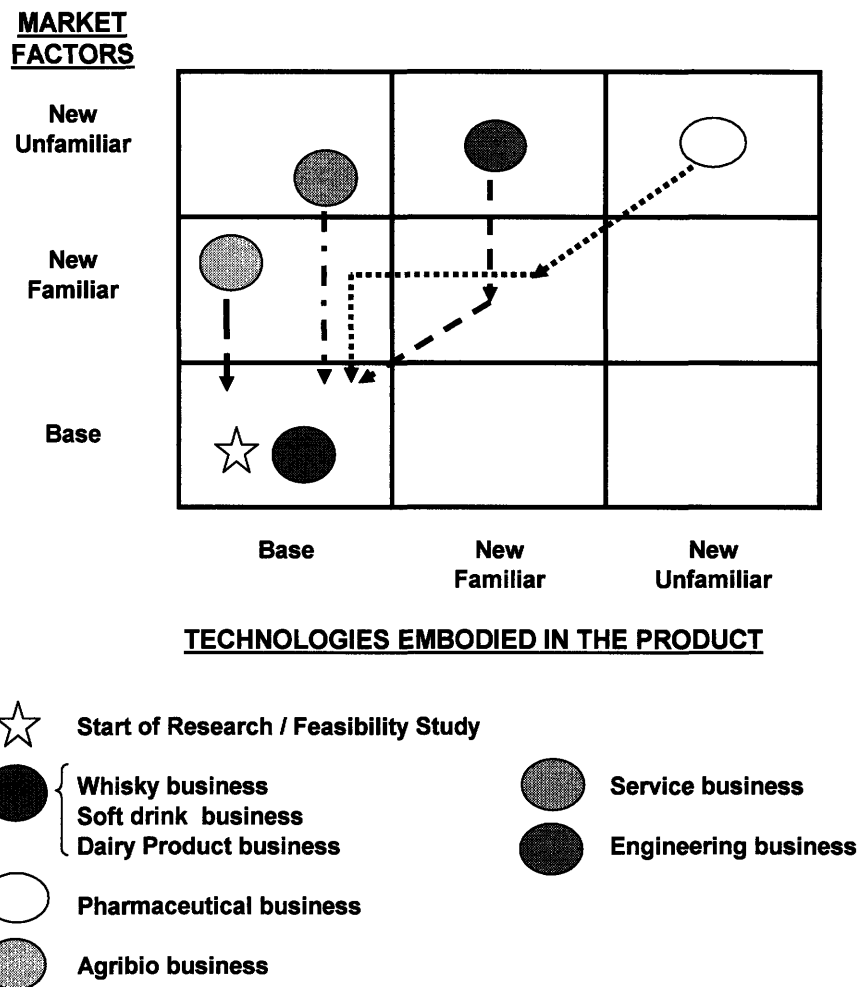
In addition to developing its own product in this segment, Kirin expanded broadly to establish both domestic and global networks to help with R&D, sales, and marketing since the company recognized that developing all of such products by itself was extremely time- and resource-consuming. Today, although the agribio business is not a major contributor to Kirin's revenue, its operations include a global network of 35 affiliated companies in Japan

and other countries. For example, Kirin holds 35% of worldwide sales of carnation cuttings, which form the core of the company's seed and seedling business, and a 25% share of worldwide sales of spray chrysanthemum cuttings.

Considering Kirin's moves into the life science field, the company's second diversification can be described as a "Technology-oriented Diversification."

The Familiarity Matrix in Exhibit 5.4 shows the position of each of the five segments when Kirin began its second diversification, and then how they moved to the *Familiar* position to achieve the performance explained above. This time, many new business were either *Technologically Unfamiliar* or *Market Unfamiliar* or both (for the pharmaceutical business, which I will discuss in the next section).

By the early 1990s, Kirin had successfully built a sustainable position in each field with the technical expertise derived from its strong R&D system, accumulated know-how from long experience, and an affluent financial background.



**Exhibit 5.4 Familiarity Matrix – Kirin's second diversification**

Source: Roberts & Berry, 1985, adapted by the author.

The competency analysis using the Delta Model for Kirin's second diversification is shown in Exhibit 5.5. Competencies in each segment upon completion of this phase can be critiqued as follows:

- **Soft drinks:** Kirin Beverage Corporation, spun off from Kirin, began to stand on its own feet. It embraced the *Best Product* option and *Total Customer Solution* option with hit products such as canned coffee and tea. Sales grew as the vending machine channel expanded; this helped to establish a portion of the *Restricted Access* positioning because

once a vending machine is set up with a company's product, it is hard to switch to other brands.

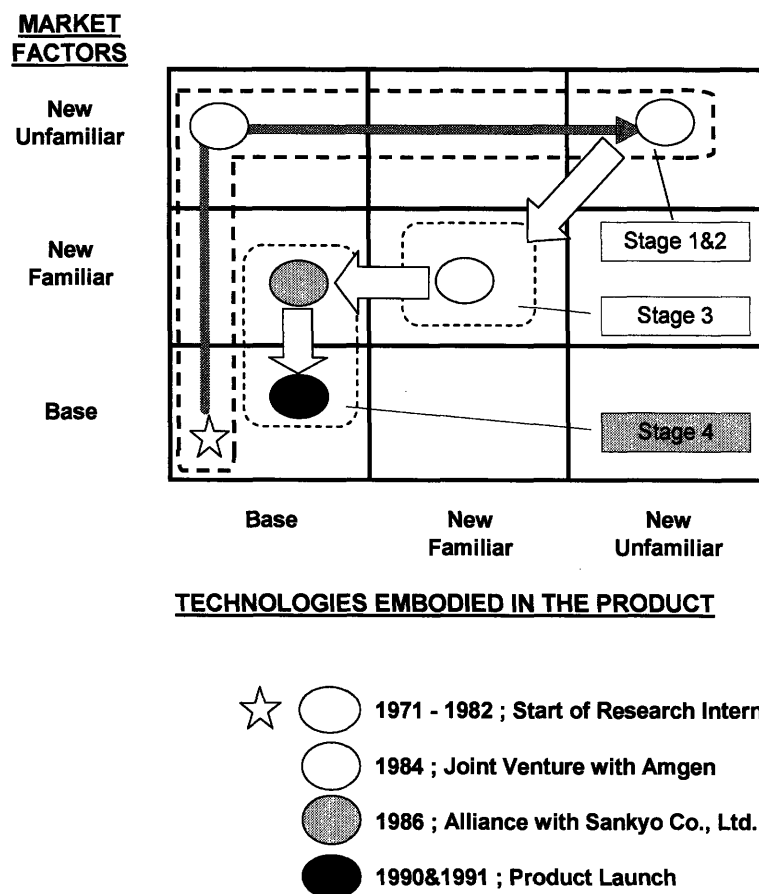
- Whiskey, tomato juice, and dairy product: These were newly added businesses in the first stage of diversification; in this stage they became stable although they did not show dramatic growth. These products were still offered to customers as part of Kirin's philosophy of "Customer-oriented" and "Quality-driven."
- Pharmaceuticals and Agribio: With the various findings and outcomes in the biotech area, these segments became strong positions with compelling products, and then moved into a part of the *System Lock In* option. The pharmaceutical business is a good example of well-managed customer segmentation. Because Kirin was a newcomer, the company focused on patients who were suffering from nephrogenic anemia and chemotherapy for cancer.
- Engineering: Modernization of its brewery and development of the bottle inspection system, followed by sales to other companies of this knowledge, helped this business segment obtain its positions in *Best Product* and *Total Customer Solutions*.
- Restaurants and Sports: These segments were offered to customers for the purpose of enhancing and elevating Kirin's brand image as well as its beer products.

The findings mentioned above are based on the segmented businesses. In other words, I looked at horizontally in the table shown Exhibit 5.5.

If Exhibit 5.5 is examined vertically based on the strategic positioning in the Delta Model (each column of the table), it shows that *Differentiation* was becoming stronger following completion of the second diversification. In addition, the company's strengthened



market growth in this field was promising; (2) there were some similarities with Kirin's technological foundation; and (3) there was a smaller technological gap with existing pharmaceutical firms because Kirin has a long history of technologies such as fermentation, which include the manipulation of micro-organisms, and selective breeding for ingredients. Exhibit 5.6 uses the Familiarity Matrix to show the strategy Kirin employed from the launch of research to the release of the first products.



**Exhibit 5.6 Familiarity Matrix – Kirin’s pharmaceutical business -**

Source: Roberts & Berry, 1985, adapted by the author.

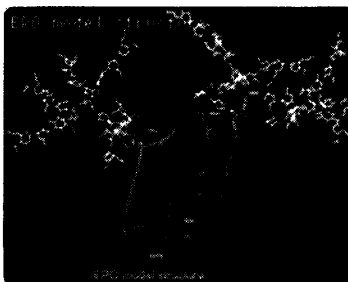
The evolution of the pharmaceutical business occurred in four stages:

- **Stage 1:** Although Kirin announced it would enter the pharmaceutical business in 1981 as part of its “Long-Term Management Vision,” preliminary study had actually



begun in the 1970s when Kirin first discussed diversification of its resources to other fields. Based on those early diversification discussions, a small R&D team began research in the pharmaceutical field using byproducts from brewer's yeast and spent grains from the brewhouse. The team tested an anti-cancer drug on a small scale in mid-1970, but it did not pass government standards. However the experience helped the team acquire some basic knowledge about developing drugs, enhanced the skills of the researchers, and expanded their human networking.

- **Stage 2:** In 1982, as a new entrant in the business, Kirin began working on therapeutic proteins derived from gene manipulation (e.g., erythropoietin (EPO)) as illustrated and explained in Exhibit 5.7. Although Kirin started the research using its core technologies, it was still a bold move for a company that did not have sufficient cutting-edge technology or market experience. Although knowledge of drug development gradually increased through research alliances with external research institutes and laboratories, Kirin recognized that little progress had been made only with internal R&D.



Kirin's first pharmaceutical drug, "ESPO" is a glycoprotein produced using gene-recombination techniques, and has the specific pharmaceutical effect of increasing erythrocytes. ESPO thus contributes to improving renal anemia during dialysis. In January 1995, indications of ESPO expanded to anemia found in premature infants, renal anemia before dialysis or during CAPD, and autologous transfusion.

**Exhibit 5.7 ESPO (generic name: Epoetin alpha genetical recombination)**

Source: Kirin Brewery Home Page, 2006.

- **Stage 3:** In 1984, Kirin formed a 50-50 joint venture with a U.S.-based bio-venture firm, Amgen, with each party investing \$12 million. The joint venture, Kirin-Amgen,

focused on testing and marketing EPO. In addition to co-developing this product, Kirin-Amgen initiated the development of a second drug, granulocyte colony stimulating factor (G-CSF, called GRAN) as illustrated and explained in Exhibit 5.8. Thanks to Kirin-Amgen, Kirin was able to make considerable progress not only in developing drugs like EPO and G-CSF but also enhancing its biotechnological knowledge including genetic modification. For its part, Amgen acquired mass production technology from Kirin.

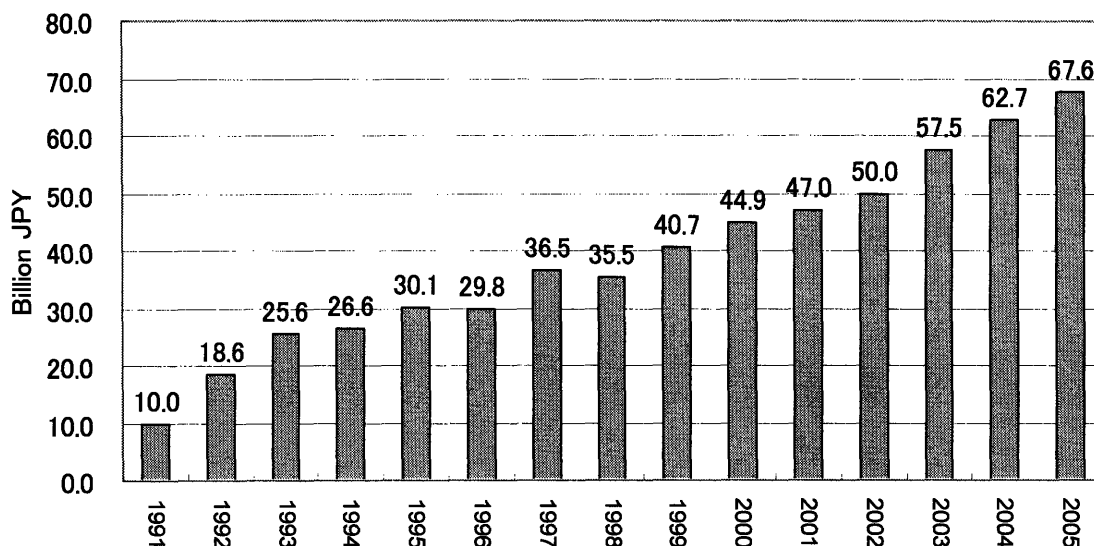


"GRAN" a protein produced using a gene-recombination technique, selectively increases neutrophils, a type of white cell, and enhances the functions of neutrophil. This rapidly leads to recovery from neutropenia that occurs during anti-cancer chemotherapy, shortens the period during which the patient is exposed to the risk of infection, and enables us to systematically complete anti-cancer chemotherapy. GRAN is also helpful in the recovery from congenital neutropenia, as well as from neutropenia that occurs during hematopoietic stem-cell transplantation. GRAN indications have expanded to include PBST mobilization.

**Exhibit 5.8 GRAN (generic name: Filgrastim, genetical recombination)**

Source: Kirin Brewery Home Page, 2006.

- ***Stage 4:*** In the early stage of sales and marketing, Kirin recognized that by itself much more time and money were required to establish a sales force and marketing channels. In 1986, Kirin formed a marketing and R&D partnership with Sankyo Co. Under this alliance, Kirin obtained a ready-made marketing force while learning about the Japanese pharmaceutical market and its business system—something that would have been difficult for Kirin to acquire in a short time. After eight years of development and assessment (a relatively shorter-than-normal timeframe for new drug development), EPO was released in 1990, followed by G-CSF in 1991—again, a very short 4.5 years for development and release. The pharmaceutical business generated ¥10 billion (\$857 million) in the first year, as Exhibit 5.9 shows.



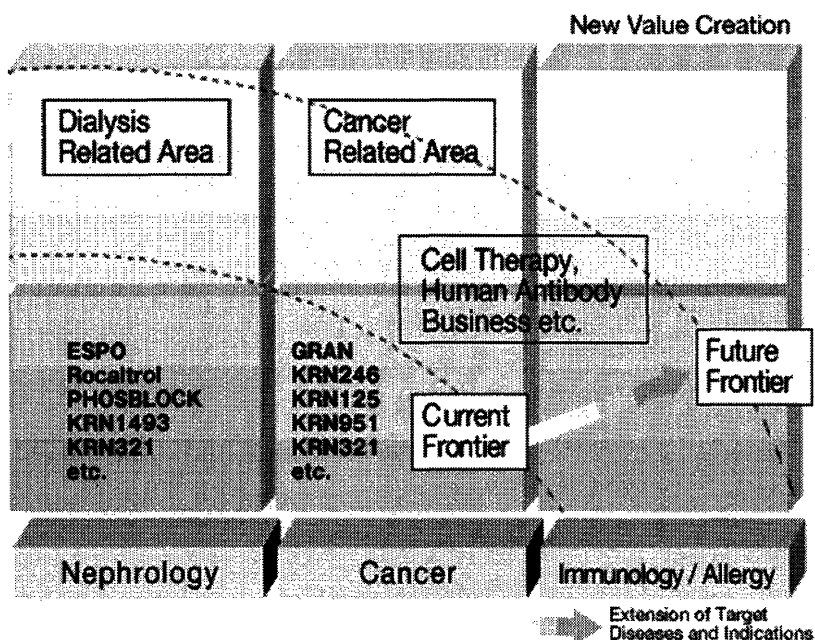
**Exhibit 5.9 Sales of the pharmaceutical business**

Source: Kirin Brewery, adapted by author.

The exhibit shows that the growth of Kirin's pharmaceutical business brought in revenues of about ¥68 billion, or 13% of Kirin's consolidated operating income.

In 1997, Kirin started to market and to sell EPO and G-CSF through its own channels, gradually diminishing its contract with Sankyo, and in 2005 it began handling all sales and marketing through its own channels. Both of these products have been produced and sold in China since 2001.

After two successful launches with EPO and G-CSF, Kirin is now extending its business from nephrology and cancer to immunology and allergy with at least three promising new products under clinical tests. The current business and future business model are illustrated in Exhibit 5.10.



**Exhibit 5.10 Kirin's pharmaceutical business – Current and Future**

Source: Kirin Brewery Home Page, 2006.

#### 5.4 FUTURE GROWTH OF KIRIN GROUP

After Asahi Breweries blockbuster hit with Super Dry, Kirin's share of the beer market continued its downhill slide. Because the company was proud of its success in the industry, Kirin had gradually focused its strategy on beating competitors rather than responding to customer needs—even though it proclaimed that it was focused on customer service. Kirin launched its own Dry beer, intending to squash Asahi's Super Dry. However, it caused the opposite effect, instead increasing the momentum for Asahi. Kirin spent a tremendous amount of money for marketing, which led the entire industry into a price war. These efforts went nowhere since the company had forgotten its central focus on its customers.

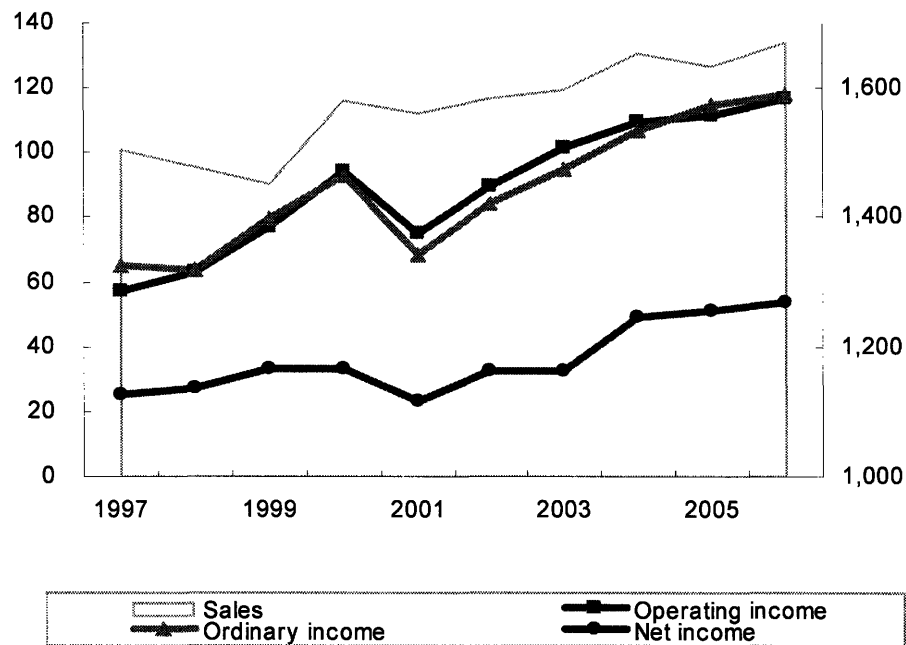
This situation also turned Kirin's financial condition downward. In an effort to improve its finances, Kirin continued to launch new products including Happo-shu; it closed down 4 of its 15 breweries between 1998 and 2000, and embarked on company-wide cost-cutting activities. Despite all these efforts, Kirin's market share for beer-type products (beer and Happo-shu), which boasted 63.8% in the 1970s, declined to 36% by 2001. That year was the low point for Kirin, since Asahi became the biggest brewer in beer-type product sales, breaking Kirin's 48-year domination of the market, and causing Kirin's financial performance to decline both in revenue and profit.

It was not until Koichiro Aramaki, President and COO of Kirin at the time (he is now Chairman of the Board and CEO) issued the "New Kirin Declaration," seeking transform the company. Aramaki stated in the declaration:

It is the fault of top management, including myself, that the company has fallen into this critical situation. I cannot deny that we gradually forgot our customer in all these activities and made the Kirin brand weak in the market. Now is the time for everyone in the Kirin Group to go back to the basics of our original philosophy, which are "Customer-oriented" and "Quality-driven." We will change our attitude from "Competitor driven" to "Customer driven." We must re-evaluate our corporate values from every aspect of business as Kirin Group. (Source: Kirin Brewery, New Kirin Declaration, 2001)

Kirin transformed its business activities in the domestic alcoholic beverage market to comply with Aramaki's new policy. The company defined beverages with an alcohol content under 10% as a "low alcohol beverage," and officially transformed itself into a comprehensive alcoholic beverage company by offering two new beer products: Happo-shu and Chu-hi. These steps were taken to prepare every possible value to granularly segment customers' needs. At the same time, the company strengthened its internationalization by focusing on Asia and Oceania with renewed diversification.

Thanks to hit products in various beverage lines, the alcoholic beverage business began to recover, both in market share and profit, beginning in 2003. In fact, result for 2006 showed that the difference in beer-type sales between Kirin and Asahi grew very close, with less than 50,000 hectoliters out of 253 million hectoliters, separating the two companies. However, Kirin now has no intention of discussing market share any further. Exhibit 5.11 explains Kirin's recent financial performance.



**Exhibit 5.11 Kirin's financial condition between 1997 and 2006**

Source: Kirin Brewery, modified by author.

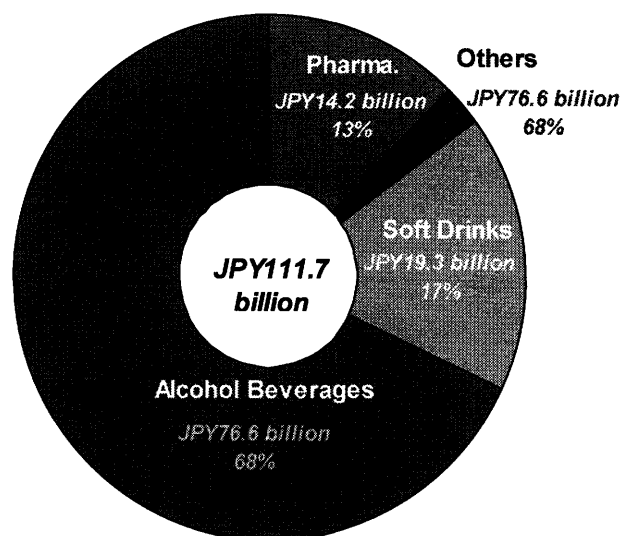
## 5.5 CONCLUSION

Kirin began diversifying away from its beer-oriented business into products such as soft drinks, whisky, and daily foods. Then the company moved into the life science industry, into the pharmaceutical and agribio sectors, which could be called "technology-oriented" diversification. Other businesses, like service, although expanded during the second

diversification, are still categorized as beer-oriented or vertically integrated. Both phases of diversification were carefully executed with well-studied analyses of the business environment surrounding the company, apart from the competitor-driven operations in the alcoholic beverage business.

Douglas Muhleman, Group Vice President - Brewing Operations and Technology – of Anheuser-Busch, Inc. (AB) commented: “AB has not looked at diversified businesses as Kirin has done and is doing systematically in the various areas of beverages, pharmaceuticals, and food. And I am not sure we ever will (because AB is concentrating on its core business, beer).”

Some of the diversified businesses, such as soft drinks and pharmaceuticals, accounted for 30% of Kirin’s consolidated profit in 2005 as shown in Exhibit 5.12.

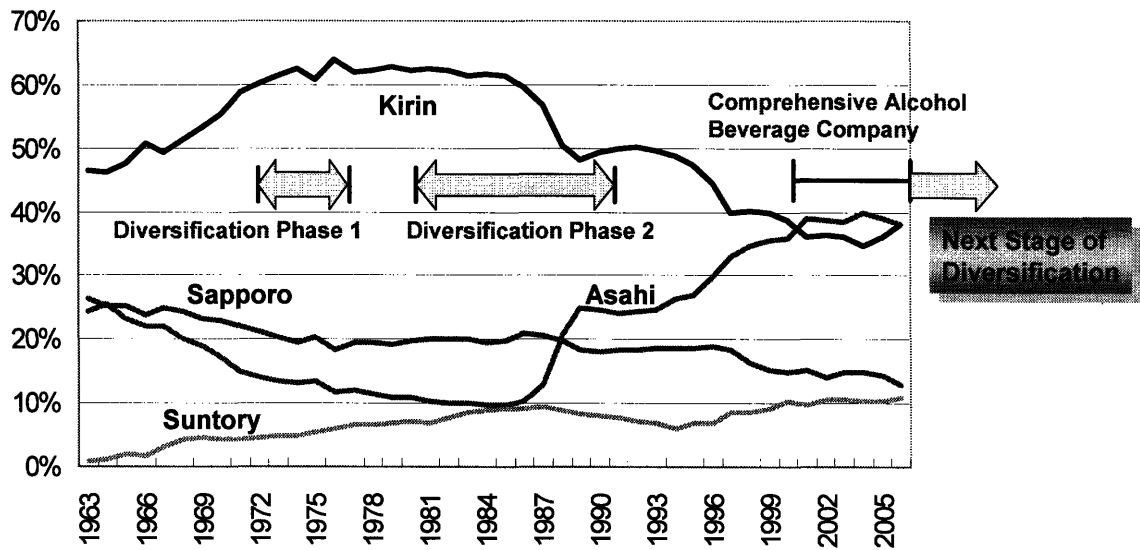


**Exhibit 5.12 Kirin’s consolidated operating profit, 2005**

Source: Kirin Brewery Annual Report 2005, adapted by author.

Except for tomato juice and dairy products (described in Section 5.1), the food business has not grown as much as the soft drink and pharmaceutical businesses, although Kirin ventured into health foods and functional foods when it established Kirin WellFoods. This is a field that should be studied more closely so Kirin can foster it and then utilize it for the future growth of Kirin Group.

The two phases of diversification were closely related to the historical Japanese market environment, especially market share, of beer (or beer-type) products. Now it is time for the company to enter a new stage of diversification, as shown in Exhibit 5.13. This diversification should be “customer-oriented” based on the lessons Kirin has learned through hard experience.



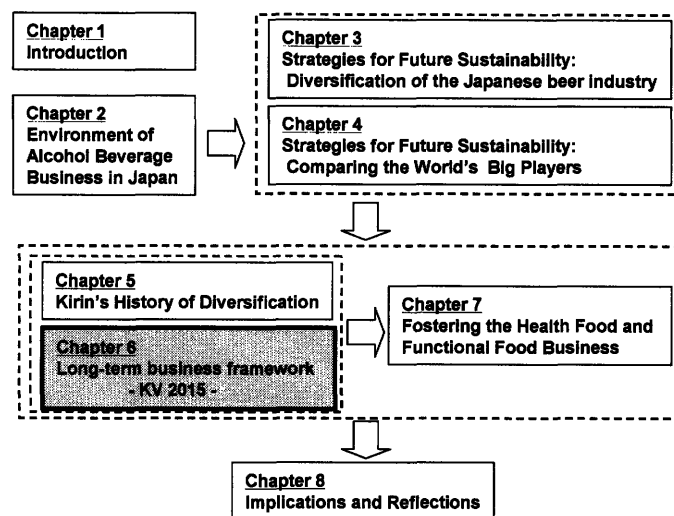
**Exhibit 5.13 Kirin’s diversification time frame**

Source: Kirin Brewery, modified by author



# CHAPTER 6

## Kirin's Long-Term Business Framework: Kirin Group Vision 2015



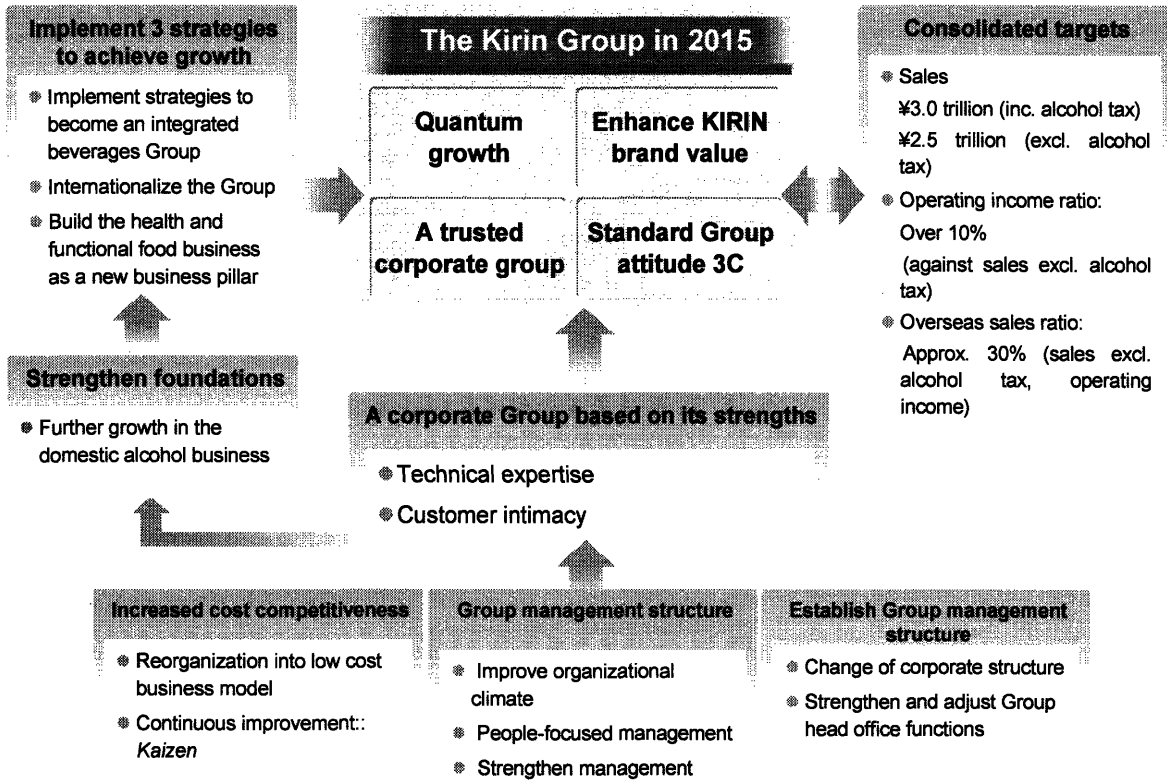
In Chapter 5, I alluded to Kirin's "next stage of diversification." This did not mean that the company needs to expand the degree of diversification; rather, there should be a strategy to deepen and enhance the diverse business pillars of the company.

In May 2006, Kirin announced that it had formulated "Kirin Group Vision 2015" (KV2015), its long-term operating framework, which would be fully functional by 2015. Under KV 2015, Kirin stated that it was targeting a quantum leap in growth that would make it a leading company in Asia and Oceania, aiming for sales of ¥3 trillion by 2015 and operating profit of more than 10% for the entire Kirin Group (Group).

While strengthening its core business, Kirin also confirmed that it intended to become an integrated beverage provider, including a full range of alcohol beverages and soft drinks; also

that it intended to internationalize its business, and to develop the health food and functional foods businesses.

To achieve this, Kirin also introduced a holding company structure that will implement measures that fully utilize potential synergies to create a “Group Premium”. An overview of this business framework is shown in Exhibit 6.1.



**Exhibit 6.1 Overview of Kirin Group Vision 2015**

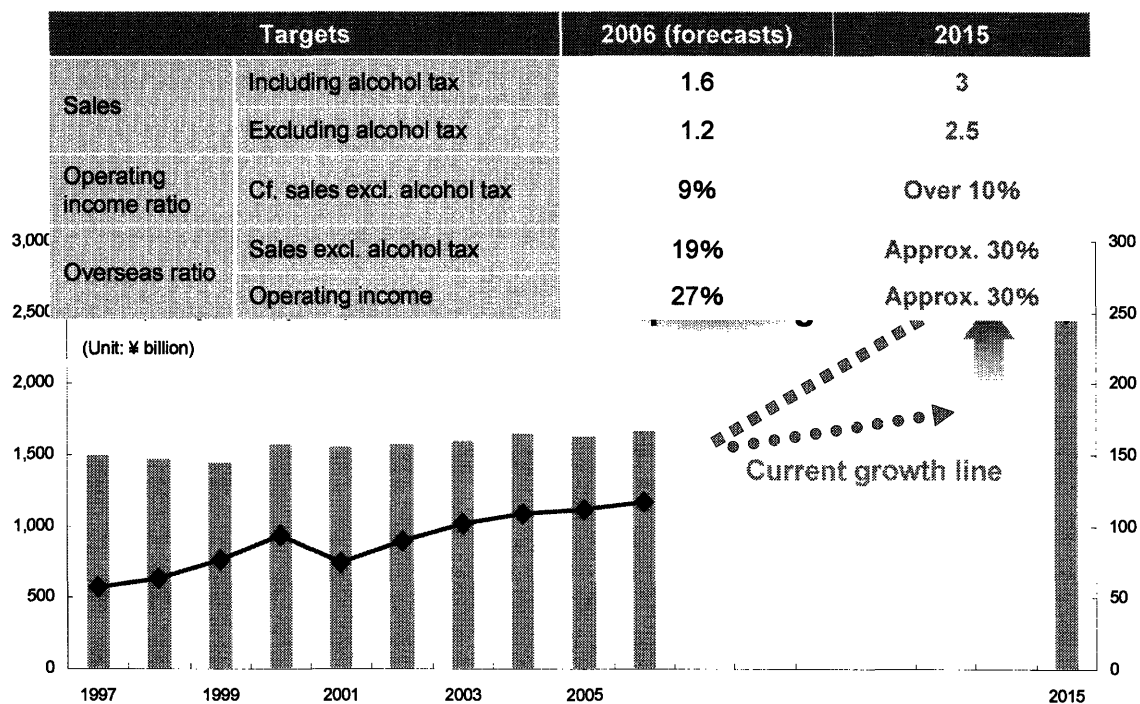
Source: Kirin Brewery, modified by author.

## **6.1 BACKGROUND, VISION, AND STRUCTURE OF KV2015**

As discussed in Chapter 2, the environment surrounding the Japanese liquor industry is highly volatile, and sometimes it changes faster than anticipated. Although a company may develop a three-year plan or even a one-year plan, the business environment could force the company to adjust or change its goals and strategies. Regardless, the company still must have in place some “big picture” of its future strategy. Along these lines, Koichiro Aramaki, Chairman of the Board and Chief Executive Officer of Kirin commented:

Some may ask why now we are setting up a long-term business framework for coming 10 years. Yes, it is true for us to respond flexibly against rapidly changing business environments. However, we also tend to be passive only floating in that stream. It is important to have ‘foresights’ for the future along with our own ‘purpose’ and ‘assertion’ so that we can take positive initiative in the environment. In other words, we must have ‘dreams’ and ‘wills’ for the future society. This is the reason I would like to share with all of you ‘dreams’ and ‘wills’ in 10 years of the Kirin Group.

Kazuyasu Kato, President and Chief Operating Officer, also commented: “Although we have ‘dreams’ and ‘will,’ we will not able to reach the goal we set with the current growth line. We must attain continuous and quantum growth by bold resource distribution such as intensive human resources deployment and alliances with external partners.” Kato’s comments are illustrated in Exhibit 6.2.



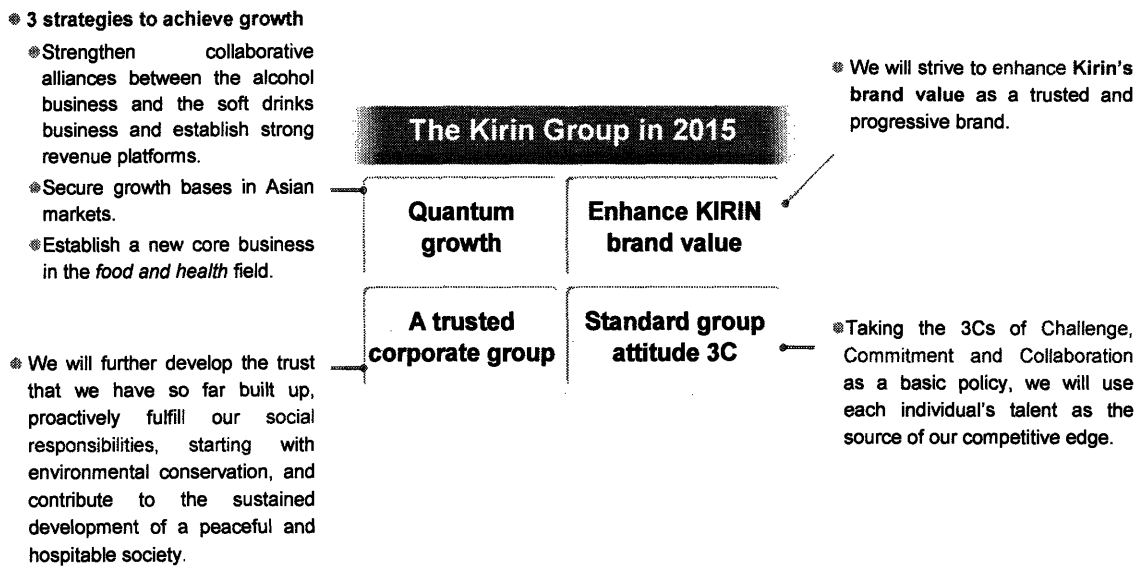
**Exhibit 6.2 Growth Target of Kirin Group Vision 2015**

Source: Kirin Brewery, modified by author.

The KV 2015 vision includes the following major points:

- We will create close bonds with our customers and give them a sense of well being that comes from food and health.
- We will closely link our technical expertise in fermentation and bio, manufacturing, and research and marketing to pursue distinctive value and the highest product quality.
- We aim to be the leading company in Asia and Oceania by focusing on three businesses—alcoholic beverages, soft drinks, and pharmaceuticals.

KV 2015 also establishes a defined strategic structure for Kirin Group, including: quantum growth; enhanced brand value; a strengthened image of trust; and a standard Group attitude that includes the “3C’s.” These four Group structures are shown in Exhibit 6.3.



### Exhibit 6.3 Planned Kirin Group's structure by KV2015

Source: Kirin Brewery, modified by author.

Kirin believes quantum growth can be achieved by utilizing three strategies to strengthen its core domestic business:

1. Strengthening collaborative alliances between the alcohol and soft drinks businesses and establishing strong revenue platforms;
2. Securing growth bases in Asian markets; and
3. Establishing a new core business in the health food field.

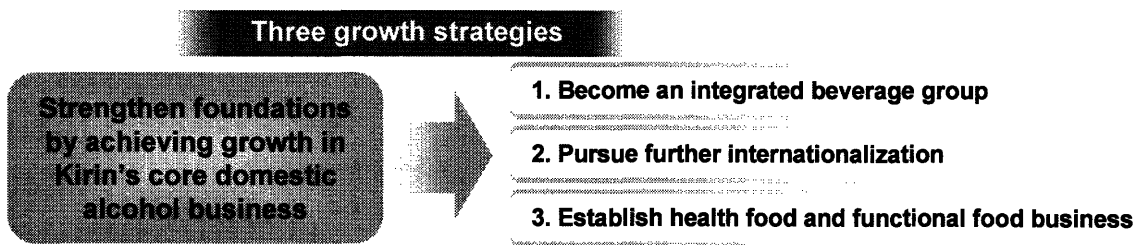
Through various activities associated with KV2015, Kirin intends to enhance its value as a trusted and progressive brand. In addition, the company plans to further develop existing trust by proactively fulfilling our social responsibilities, beginning with environmental conservation, and contributing to the sustained development of a peaceful and hospitable society. As a basic policy to execute this framework, Kirin will undertake the 3Cs: Challenge, Commitment and Collaboration.

## 6.2 STRATEGY FOR QUANTUM LEAP GROWTH

In KV2015, Kirin proposes a quantum leap in growth by following two key strategies:

1. Strengthening Kirin's core domestic business, and
2. Out of this strengthened core will come three growth scenarios: becoming an integrated beverage group, internationalizing Kirin's business, and developing the health food and functional food business.

Exhibit 6.4 explains these concepts.



**Exhibit 6.4 Strategies for the quantum growth**

Source: Kirin Brewery, modified by author.

### 6.2.1 Strategy One: Strengthening Kirin's Core Domestic Business

Kirin recognizes that the company's core business is domestic alcoholic beverages. By strengthening this business, Kirin will build a foundation from which to reach a new scale of consolidated performance. Kirin will pursue a comprehensive alcoholic beverage strategy that anticipates market changes and proposes new categories to create additional demand (as discussed in Chapters 2 and 5). It will press forward with value creation and cost structure reform in all areas of the value chain, enhance its development and proposal-based business approach, lead the alcoholic beverage market, and promote industry revitalization by

enhancing the business environment. The company believes this will accelerate positive trends that began in 2003.

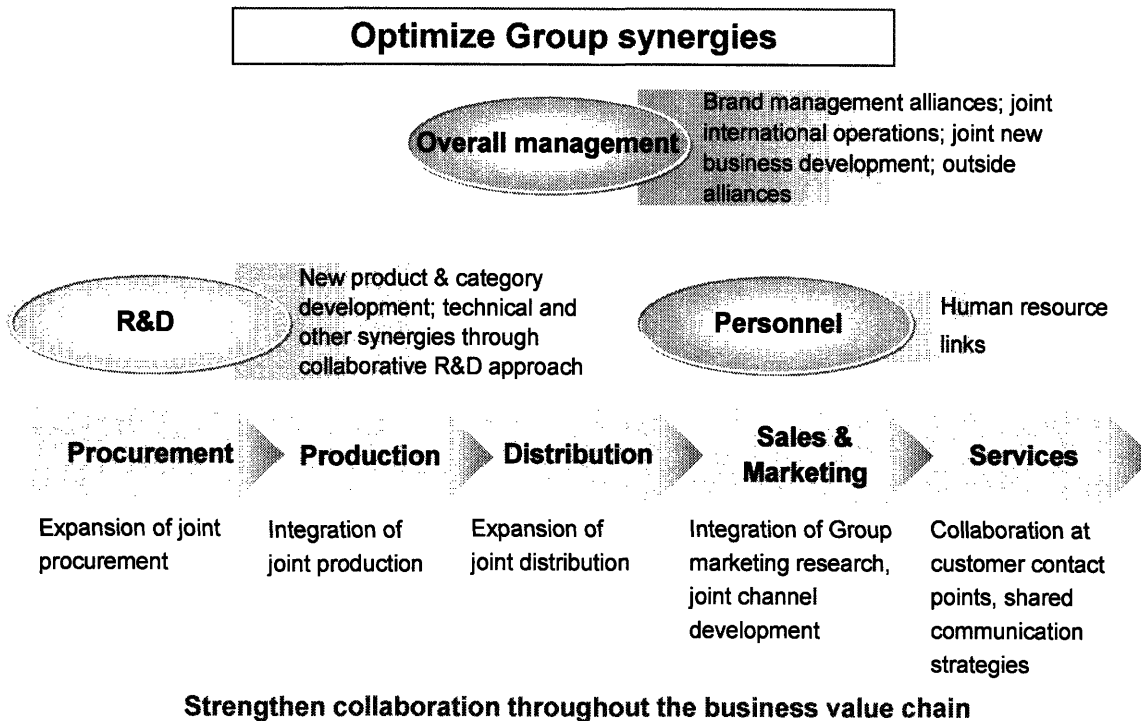
## **6.2.2 Strategy Two: Three Growth Scenarios**

With its newly strengthened core business, Kirin will pursue three new areas of additional growth across the Group. These are discussed in following sections.

### **(1) Becoming an Integrated Beverage Group**

Kirin plans to become an integrated beverage group by increasing the collaboration between the alcoholic beverages and soft drinks businesses, as the company views both businesses as components of what is increasingly becoming a single market. Kirin intends to optimize the Group's synergies and increase collaborations in all areas of the value chain including management, personnel, and R&D to create new value that responds to customer needs. The concept of optimizing the Group's synergies through the company's value chain is shown in Exhibit 6.5.

In this context, "collaboration" means the consolidation of product development functions with Kirin Beverage Corporation; the production of soft drinks at beer factories; shared merchandising among the entire Kirin Group by the company's subsidiary for mass-marketing, Kirin Communication Stage, established in 2002; and selling Chu-hi internationally through Kirin Beverage Corporation group companies, especially those with strong positions in China.



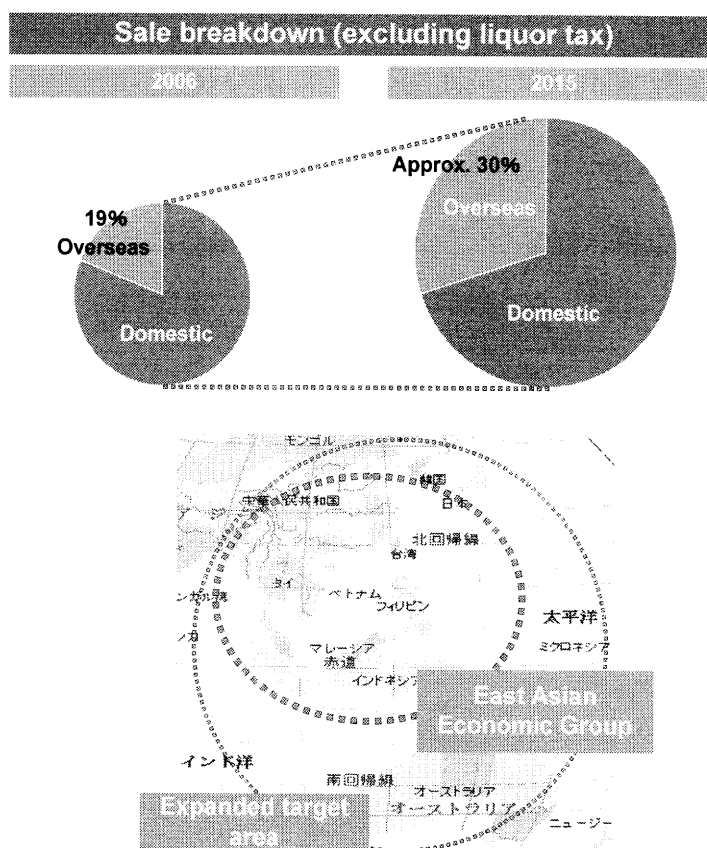
### **Exhibit 6.5 Integration as a comprehensive beverage group**

Source: Kirin Brewery, modified by author.

#### (2) Internationalizing Kirin's Businesses

Kirin aims to derive 30% of all sales and profits from markets outside Japan by 2015. This internationalization will focus on countries in Asia and Oceania, as shown in Exhibit 6.6. Kirin is now in the process of securing new growth bases and unleashing Group synergies through collaborations with Group companies like San Miguel and Lion Nathan. The company is also using its Group strengths—technical expertise and customer relationship excellence—to contribute to enhanced customer lifestyles by providing attractive products and services that reflect regional cultures and needs in the health food field.





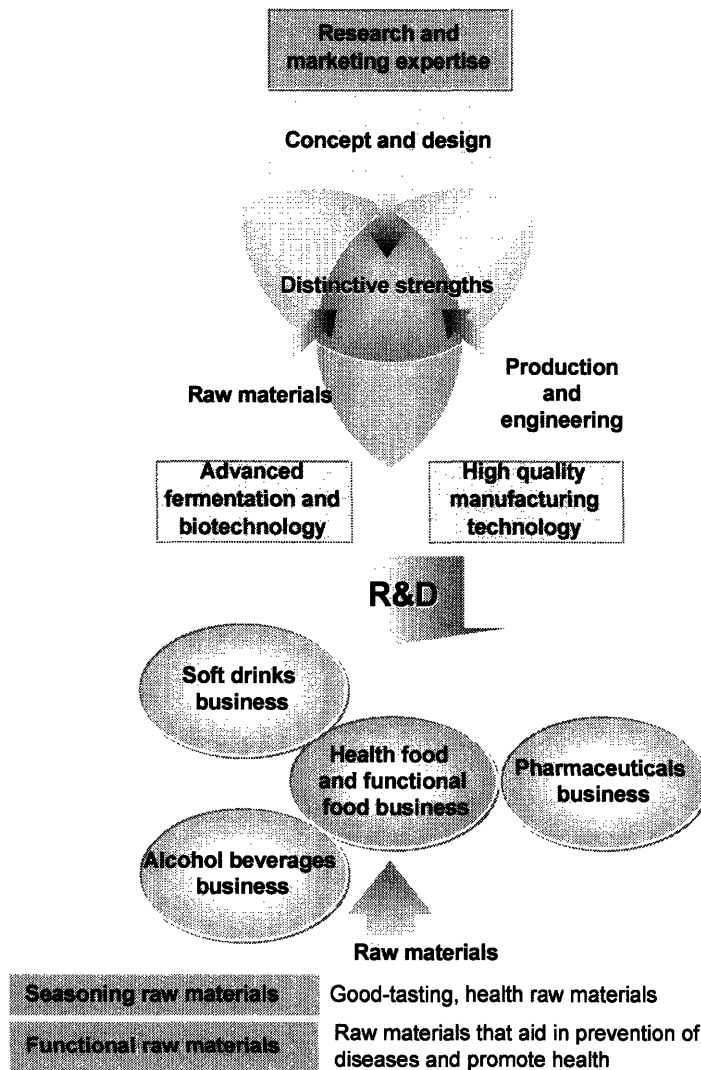
### Exhibit 6.6 Further internationalization

Source: Kirin Brewery, modified by author.

#### (3) Developing the Health Food and Functional Food Business

Kirin views the health food and functional food business (an intermediate field connecting alcoholic beverages, soft drinks, and pharmaceuticals) as the next core Group business. Kirin intends to extend the health food and functional food business well beyond conventional health food to utilize the company's expertise in areas such as research and marketing, advanced fermentation and biotechnology, and high-quality manufacturing technology. This expertise, combined with various raw materials such as seasonal and functional

raw materials, will be used to develop original foodstuffs and then use these foodstuffs to deliver product and service proposals that offer the value of maintaining health through food. Exhibit 6.7 illustrates these concepts. Kirin's business partnership with Yakult Honsha Co., a fermented milk product company, is expected to lead to a joint business that utilizes the strengths of both groups, and will be a foundation for Kirin's new health food and functional food business.



**Exhibit 6.7 Health food and functional food as an additional core business area**

Source: Kirin Brewery, modified by author.

### **6.3 DEVELOPING KIRIN GROUP'S TWIN STRENGTHS**

As it continues to pursue a customer-oriented, quality-driven approach, Kirin's technical expertise and customer relationship excellence are twin strengths that the company will work to consolidate while increasing the interplay between them. These are basic competencies of the company that have been a key focus throughout its history.

Kirin's *technical expertise* includes capabilities in fermentation and biotechnology, expertise in manufacturing and the pursuit of quality, and a research and marketing ability that accurately identifies customer needs and responds to them with products and services.

Kirin's *customer relationship excellence* refers to its ability to incorporate two-way communication with its customers in all Kirin's businesses, researching customer sentiment and tastes, and building relationships that generate ongoing customer trust of Kirin.

Positioning these as its twin strengths, Kirin Group will continue to deliver value to its customers.

### **6.4 PROMOTING THE BRAND**

Kirin aims to raise the value of its "KIRIN" brand as one of trust, and a brand at the forefront of innovation. Kato commented: "KV 2015 positions promotion of brand value as an important management element. The "KIRIN" brand can act as a unifying force for the Group."

### **6.5 MAINTAINING TRUST**

Kirin Group values a safe and supportive society and it seeks to proactively fulfill its social responsibilities. In coordination with the CSR & Corporate Communications Division

established in 2005, Kirin will maintain society's trust and will promote socially responsible corporate behavior throughout the Group.

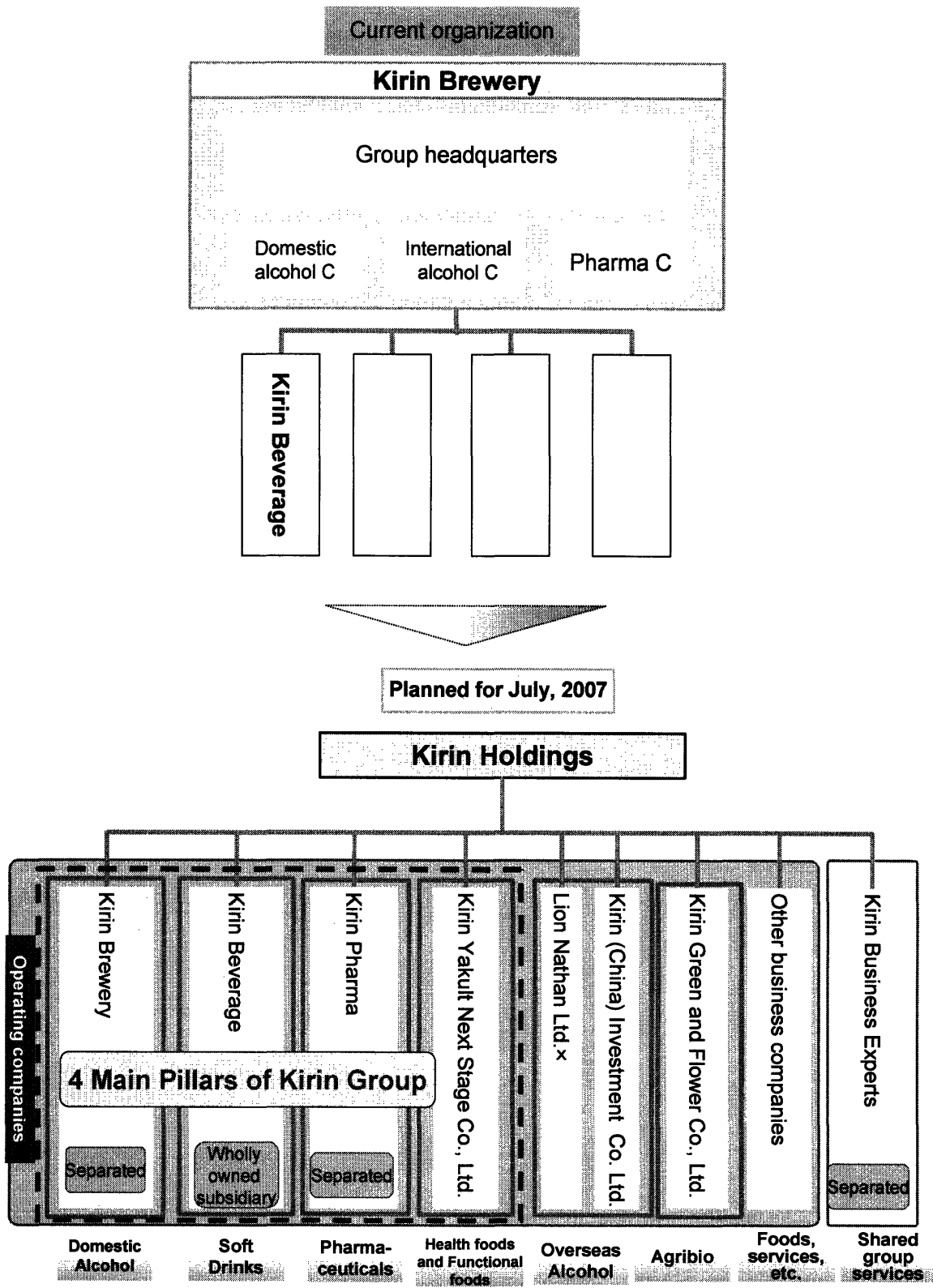
In pursuing KV 2015, Kirin aims to fully realize the potential of all employees and utilize this as an additional source of competitive advantage, driven by the guiding principles of challenge, commitment, and collaboration.

## **6.6 CHANGING THE COMPANY STRUCTURE**

To create an organizational structure capable of achieving high growth, Kirin will change to a management style where roles and responsibilities are clearly defined. In July 2007 Kirin plans to introduce a holding company structure that will place the alcoholic beverage, soft drink, pharmaceutical, and other businesses under the umbrella of a Group holding company. Exhibit 6.8 illustrates the new organization.

Previously, Kirin Beverage Corporation, its core soft drink business, was a wholly owned subsidiary as the result of a public tender offer in 2006. Kirin is also separating the domestic alcohol and pharmaceuticals businesses from the parent company and creating a shared services company that will handle back-office operations.

This holding company structure is expected to facilitate the adoption of a lean and responsive management approach, which should enable a more strategic distribution of resources in line with each business's growth strategy, and further unleash synergies between Group businesses.



**Exhibit 6.8 Outline of Kirin Holdings group businesses - planned for July 2007 -**

Source: Kirin Brewery, modified by author.

## 6.7 CONCLUSION

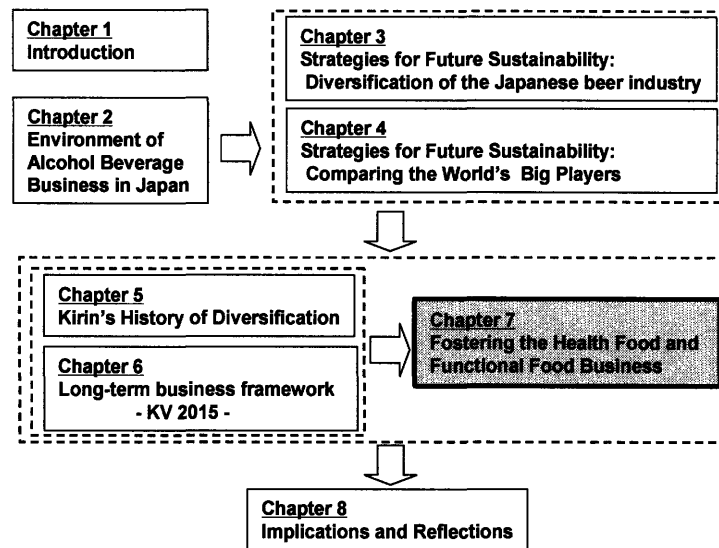
This business framework will enable Kirin to enter the next stage of diversification. During Kirin's second diversification, technology-oriented characteristics and a customer-oriented policy were emphasized to create bonds with the company's customers. Using the company's technical expertise, Kirin has made it clear that the health food and functional food business will be another business pillar, as well as enhancing the growth of the pharmaceutical business. This means these two business lines will not longer be considered as "diversified" but will be "main" businesses. Aramaki confirmed this when he said:

Entering or enhancing the health food and functional food business is not a typical diversification. I believe drugs, beverages, and functional foods are all closely connected with "technology," which the Kirin Group possesses as a core competency. I want to make this health food and functional food business a bridge that connects the integrated beverage and pharmaceutical business with the field of diet and health.

# CHAPTER 7

## Fostering the Health and Functional Food Business

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In this chapter, I examine in greater detail some strategies for Kirin's food business—a new subsidiary, Kirin Yakult NextStage, which was established in October 2006. I will conduct a case study of this subsidiary and apply the Delta Model (Hax & Wilde, 2001), followed by an examination of the effectiveness of the new company from this strategic viewpoint. Based on the Kirin Group Vision 2015, Kirin Yakult NextStage has a mid-term operating framework that functions from 2007 to 2009. I will examine this framework by applying each step of the Delta Model Integrated Strategy Framework.

## **7.1 OVERVIEW OF THE JAPANESE HEALTH AND FUNCTIONAL FOOD BUSINESS**

I will begin with an overview of the Japanese health food market (including functional health foods) from the perspective of the macro environment, market size, and market uncertainties.

### **7.1.1 Environment Surrounding the Japanese Health Food Market**

Three aspects of the macro environment have an impact on the Japanese health and functional food market: government and administration conditions, demographic conditions, and the diverse quality of life. Each of these is discussed briefly below.

#### **(1) Government and Administrative Conditions**

In recent years, the Japanese economy has begun to recover from the disastrous effects of the collapse of the “bubble economy.” With this recover, the Japanese government is planning to gradually phase out the proportional tax reduction that was implemented in 1999 in response to the economic slump. The phase-out began in 2006 and the end result is more financial burden for each family: ¥24,000 per ¥5 million income. Another tax burden on Japanese citizens is the high tax on liquor and tobacco (also implemented in 2006) and a sales tax that is expected to increase in 2007.

Another economic condition is higher medical expenses and a fall-off of retirement coverage. Individual medical expenses are increasing due to reforms of the insurance system. Dramatic revisions in social welfare for elderly people are occurring such as



reduction in pension benefits, increasing medical expenses, and a cutback in elderly care insurance.

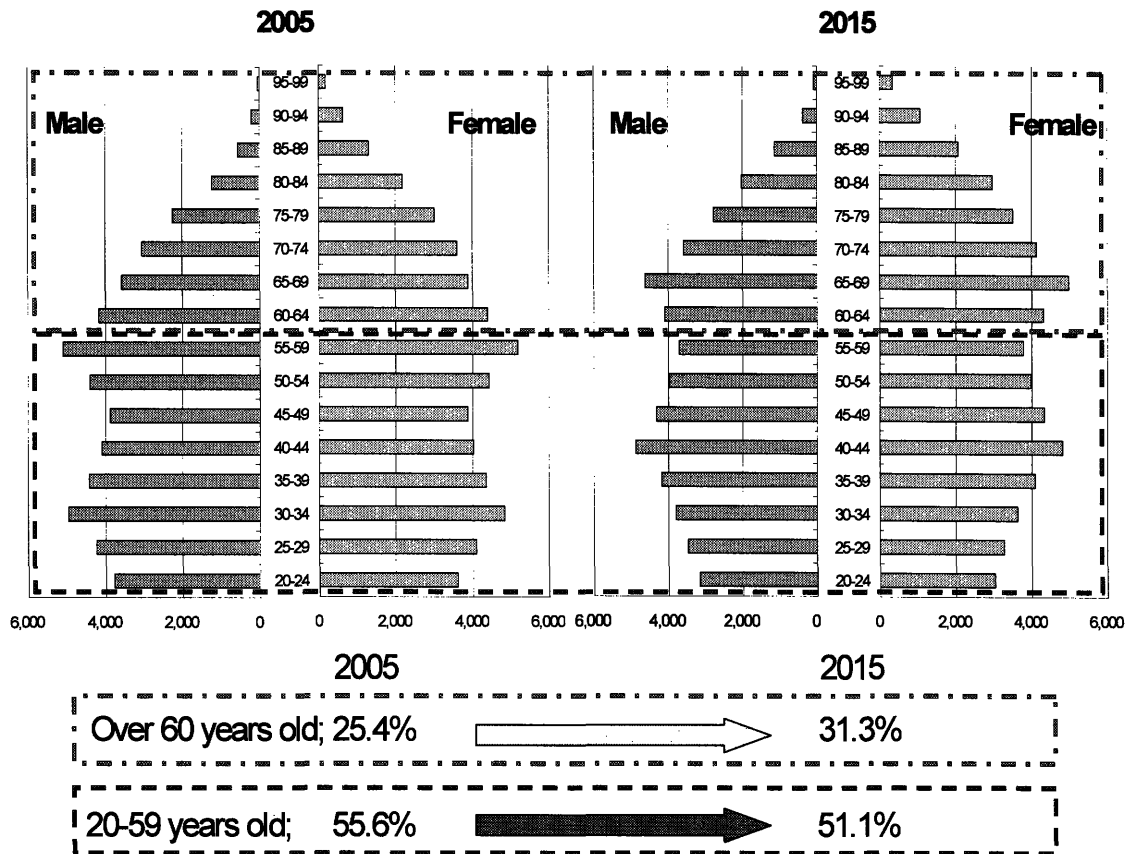
These uncertainties over the future make people more conscious of doing all they can to maintain their health. Furthermore, 56% of Japanese people are worried about recent deteriorations in security; 64% of workers feel stress and fatigue every day, life expectancy continues to increase (to be discussed below), and an increasing interest in lifestyles of health and sustainability.

In other words, it can be said that the lifestyle of today's Japanese citizen has become "health-oriented."

(2) Demographic Conditions

Japan's population has decreased due to a declining birthrate, with a corresponding increase in the number of elderly people. Exhibit 7.1 illustrates this change, showing that between 2005 and 2015 people of working age will decrease from 55.6% to 51.1% of the population, while those who are over 60 years old will increase from 25.4% to 31.3%.

This phenomenon suggests that markets targeting middle-age and elderly people who are affluent, should be expanded, especially markets for "anti-aging" and "health."



**Exhibit 7.1 Population dynamics of health food in Japan**

Source: National Institute of Population and Social Security Research, modified by author.

(3) Diversified Quality of Life

Customers’ tastes and preferences have changed recently (refer to Chapter 2.2). These changes can be seen in several areas, including improved working conditions as the economy recovers; changes in the environment brought on by concerns about global warming; an increasing criminal rate; illegal business practices that specifically target the elderly; the evolution of information technology, the Internet, and home networking; changed eating habits, including dining out more often; greater consciousness of health and safety; and buyer behavior that seeks real value for monies spent.

With all these factors coming into play, a business that supports people's health mentally and physically, and offers an enhanced quality of life, is becoming ever more important.

It is useful to clarify that "health" as mentioned above, does not mean curing sick people. Rather, it refers in general to people who do not have serious health yet have minor worries; those who want to prevent health problems from occurring; those who have a desire to maintain or enhance their currently healthy status.

### **7.1.2 Categorizing Japanese Health Foods**

There are several ways to categorize health foods in Japan.

#### **(1) Government-regulated food**

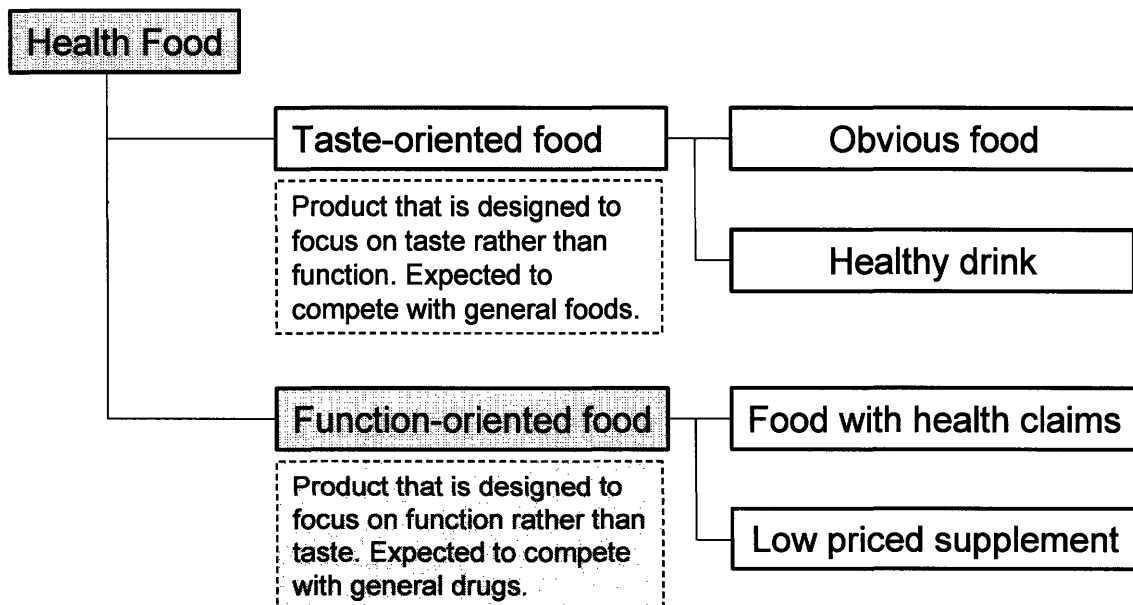
This category deals with foods that make health claims, and the government wants to oversee their marketing and use. Misleading and deceptive labeling is prohibited under the Health Promotion Law since health food products are positioned between drugs and general foods. Under this regulation by Japan's Ministry of Health, Labour and Welfare, health foods are labeled with certain nutritional or health functions, and are categorized into three groups, based on their different purpose and function:

- *Foods claiming nutrient value*: foods that are labeled with nutritional ingredients (vitamins and minerals)
- *Foods for specific health uses*: foods that claim to have physiological effects on the human body, and have been officially approved

- *Food for special dietary uses*: foods that are approved or are permitted to be displayed because the food is appropriate for specific dietary use, such as (a) formulas for pregnant or lactating women, (b) infant formulas, (c) foods for the elderly who have difficulty chewing or swallowing, and (d) medical foods specifically for ill patients.

(2) Foods Promoted by Business

Another category is that of the food business itself. There are two main categories in this view (see Exhibit 7.2): taste-oriented food and function-oriented food. Taste-oriented food (even though it is undoubtedly health-oriented) is designed to focus on taste rather than function. Therefore, this category competes with the broad range of processed foods in the market. On the other hand, function-oriented food is designed to focus on function rather than taste. It is expected to compete with general drugs.

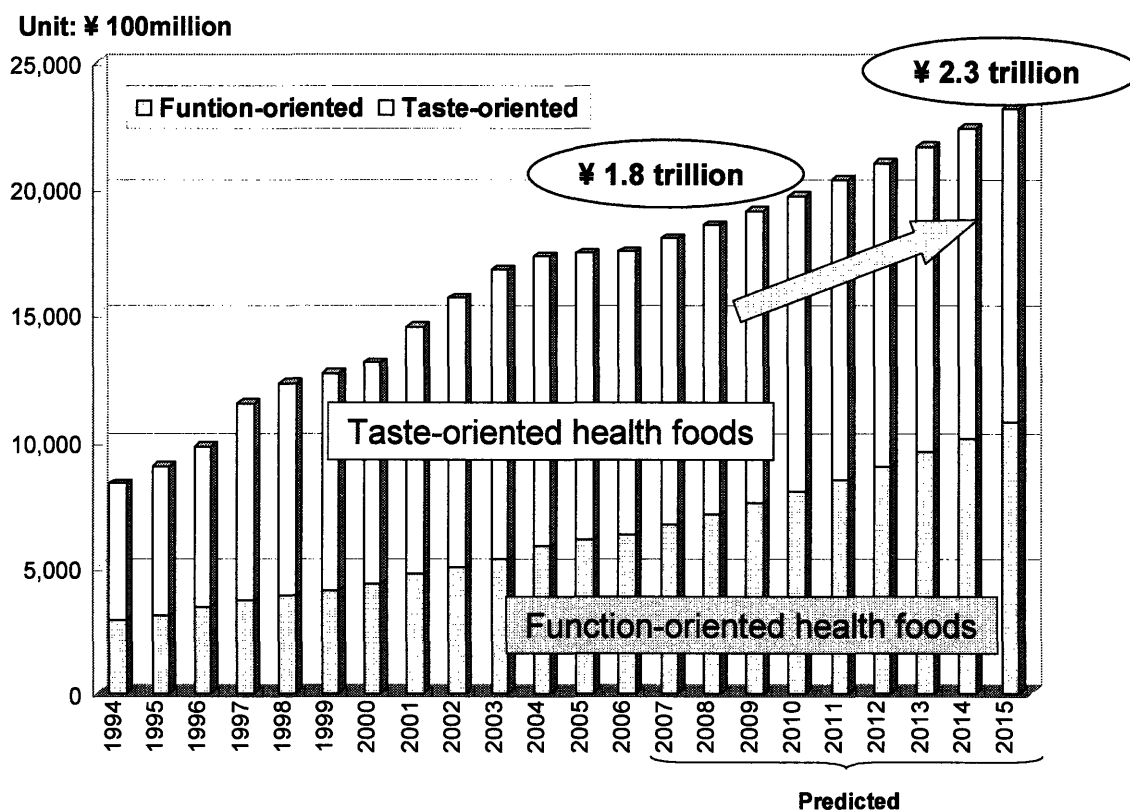


**Exhibit 7.2 Category of health food in Japan**

Source: Kirin Yakult NextStage, developed by author.

### 7.1.3 Market size

The value of foods that claim to be “healthy” has almost doubled in the past ten years to ¥1.8 trillion, and it is expected to grow over ¥2 trillion by 2015, with almost ¥500 billion to ¥600 billion expansion, as illustrated in Exhibit 7.3. This growth could be accelerated by a new value proposition with compelling products in which high efficacy or effectiveness of functional materials are embedded.



**Exhibit 7.3 Market size of health food in Japan**

Note: This growth was calculated based on the average growth rate between 2002 and 2005.

Source: Fuji-Keizai: Foods Marketing Almanac 2006, modified by author.

## **7.2 THE HEALTH FOOD BUSINESS**

### **7.2.1 History of the Kirin Health Food Business**

Kirin's health food business dates back to 1989 during the company's second diversification, which used byproducts from the beer-brewing process, such as spent grain and excess brewer's yeast. That yeast could be converted easily into the yeast food that is used for its vitamins and minerals. In 1997 Kirin expanded its health food business by entering into a business alliance contract with another health food company. After strengthening the partnership with that company, in 2003 Kirin established a joint venture called Kirin WellFoods, which produced and sold health foods such as health drinks, supplements, and diet foods.

As discussed in Chapter 6, Kirin positioned its health and functional food business as a fourth core business in its long-term business framework (KV2015), in addition to the three existing pillars of alcoholic beverages, soft drinks, and pharmaceuticals. Exhibit 7.4 shows the health and functional food business positioned as a bridge between the three other businesses.



foods business should expand on the basis of tasty and functional materials embedded in compelling products. Furthermore, these materials should evolve from the strong R&D base which Kirin Group possesses as a key competence, utilizing its findings and know-how for human science, bio-engineering, fauna and flora use, byproducts and biomass, microorganisms, and enzymes; which are already used to produce beer, soft drinks, and drugs.

### **7.2.2 Founding Kirin Yakult NextStage**

In June 2005, three companies—Kirin, Yakult Honsha Co., and Kirin Beverage Corporation (spun off in 1991, made a wholly owned subsidiary in 2006)—agreed to form a business alliance in Japan centered on health and functional foods. The new alliance represents the progression of a business collaboration begun in 2003 between Yakult Honsha and Kirin Beverage, under which the two companies sell each other's products in their vending machines. Since Yakult Group positioned “food and health” as an important business area and had developed beverages, foods, and pharmaceutical operations, it was a suitable tie-up for both Kirin and Yakult Groups. By making use of the R&D capabilities of the two groups, they expect to jointly develop a next-generation health and functional foods business. Moreover, in their existing beverage and food businesses they began reciprocal use of manufacturing and distribution functions, as well as strengthening their current vending machine business collaboration.

Yakult Honsha is a Japanese soft drink (fermented milk product) company that was established in 1955 although it had already produced fermented milk products under Yakult's brand name since 1935; in 2006 it reportedly gained ¥268 billion (\$2.3 billion). It has a strong development capability centered on lactic acid bacteria (*lactobacillus* fermentation)

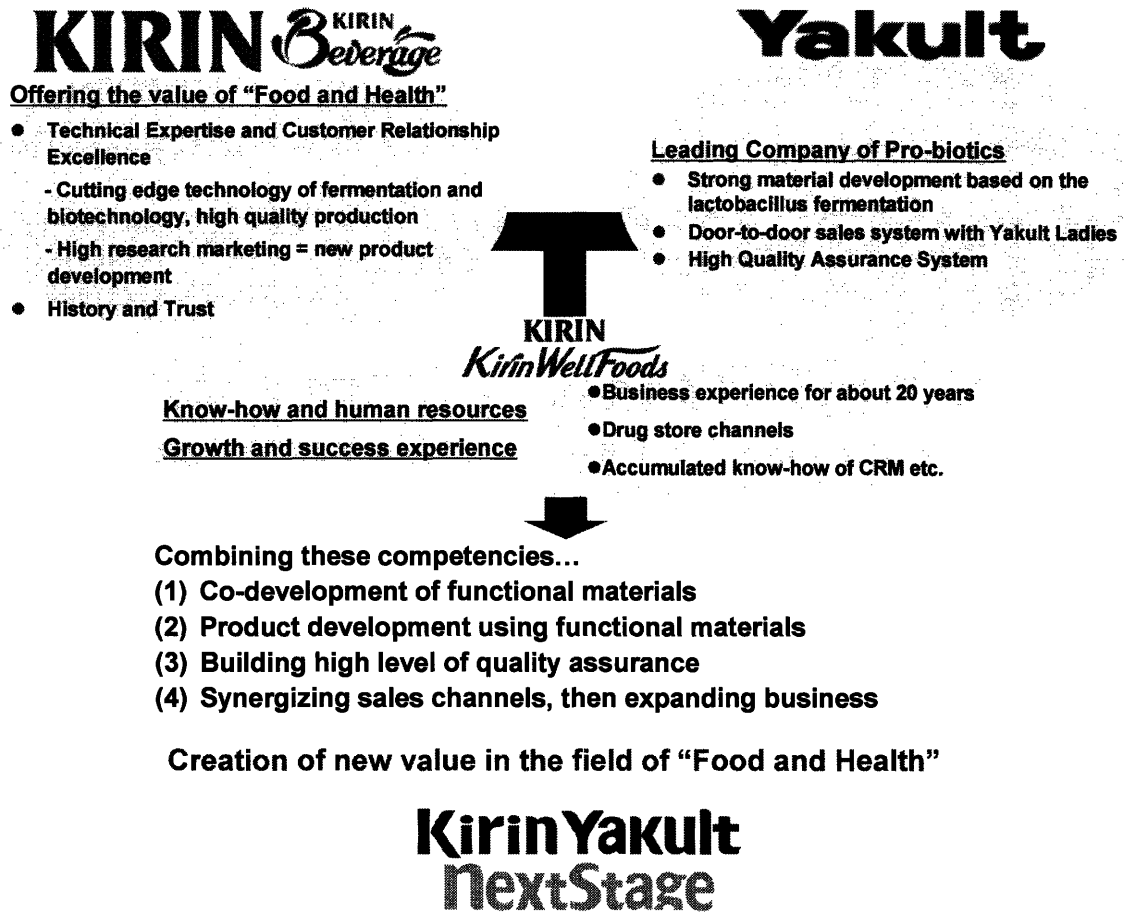


and utilizes a proprietary door-to-door “Yakult Ladies” sales system based on a network of regional sales companies. The company’s fermented milk product, Yakult, is drunk by 25 million people in more than 20 countries every day.

Before becoming a wholly owned subsidiary of Kirin, Kirin Beverage had an extensive sales network that included volume retailers, convenience stores, vending machines, and drug stores, and was developing beverage products for health-conscious consumers. Kirin also had a health food company, Kirin WellFoods, which was small but had almost 20 years of experience, with sales channel such as drugstores and some know-how regarding customer relationship management.

In October 2006, a joint venture, Kirin Yakult NextStage, was established based on Kirin’s long-term business plan and the combined competence of these parties: Kirin, with alcoholic beverages; Kirin Beverage Corporation with soft drinks; Yakult Honsha with its fermented milk product and door-to-door sales channel; Kirin WellFoods with its experience and know-how in the food business. The relationships of these associated parties and the formation of Kirin Yakult NextStage is illustrated in Exhibit 7.5.

The new joint venture, Kirin Yakult NextStage (KYNS), will undertake joint research and development to develop products based on the theme of “food and health.” The new product development and manufacturing will be supported by a high-level quality assurance system already used by both Kirin and Yakult Group throughout their long history of business. In addition, KYNS will expand the sale of products through the shared use of their sales channels to create a powerful value chain, and then will seek to increase business



**Exhibit 7.5 Kirin Yakult NextStage**

Source: Kirin Yakult NextStage, modified by author.

efficiency and competitiveness by realizing manufacturing and distribution synergies, adopting initiatives such as outsourcing manufacturing, sharing logistics functions.

KYNS's corporate philosophy was installed when it was founded: "We will seek the best function of food, and contribute to the healthy, enjoyable, and comfortable future of people in the world, with valuable products and services" [original in Japanese, translated into English by the author].

KYNS also carries out its business based on the following business guidelines:

1. We aim for product development using original technology.
2. We prioritize quality first in our supply chain of products in development, production, and sales.
3. We think and act from the view of our customers.
4. We value the creative work and teamwork based on trust.
5. We promise to comply with all social rules and appropriate behavior.
6. We will be environmentally friendly by conserving our resources and energy.

[original in Japanese, translated into English by the author]

These philosophies and guidelines govern the basic policy of Kirin's long-term business framework, which is "Challenge, Commitment, and Collaboration."

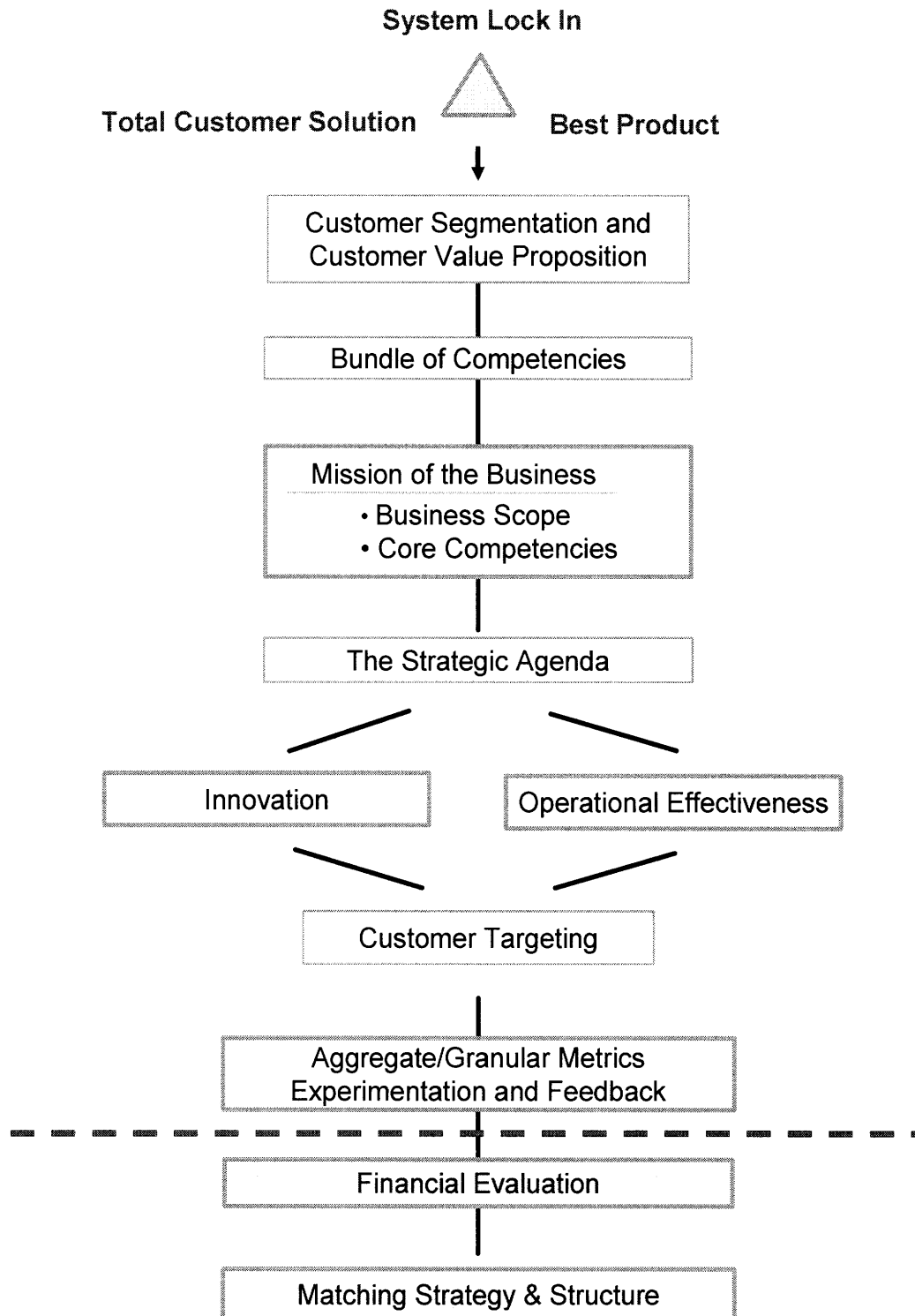
Other key facts of KYNS are as follows:

- Headquarters: 1-2-21 Ecchu-Jima, Koto-Ku, Tokyo, 135-0044, Japan
- Representative Director and President: Noboru Yamasaki
- Paid-in Capital: ¥1,150 million
- Ownership Stake: Kirin Brewery Co., Ltd 55%, Yakult Honsha 45%
- Employees: approx. 190 (as of January, 2007)
- Products: Health foods and functional foods

### **7.3 APPLYING THE DELTA MODEL: A CASE STUDY**

While Delta Model (the Triangle) offers strategic positioning for sustainable superior performance in new business, the Delta Model Integrated Strategy Framework provides the mechanism to devise and implement KYNS's strategy. This integrated framework is shown in Exhibit 7.6. I will use this framework to study the strategic planning process for nurturing the new pillar of Kirin Group. By applying this model to the new joint venture, I can study the validity of its long-term and mid-term business plans. Because KYNS is a new company, some applications of the Delta Model will be limited, although I will do what I can based on limited information supplied by the company combined with information from its parent company, Kirin.

The purpose of this case study is not to find pitfalls or shortfalls in the business plan, which is already in place. Rather, I intend to bring out KYNS's core competency and future promise, and make some suggestions that will help the company achieve a strong position quickly, thereby contributing to the quantum growth of Kirin Group.



**Exhibit 7.6 The Delta Model - An integrative strategic framework**

Source: Hax & Wilde, 2001.

### 7.3.1 Customer Segmentation and Value Proposition

There are two ways to segment customer, based on the concept “Who pays you in the entire supply chain?” The answer: the channel and end users. Since these two-dimensional tiers are closely connected, I will segment each tier group.

#### Segmenting by End Users

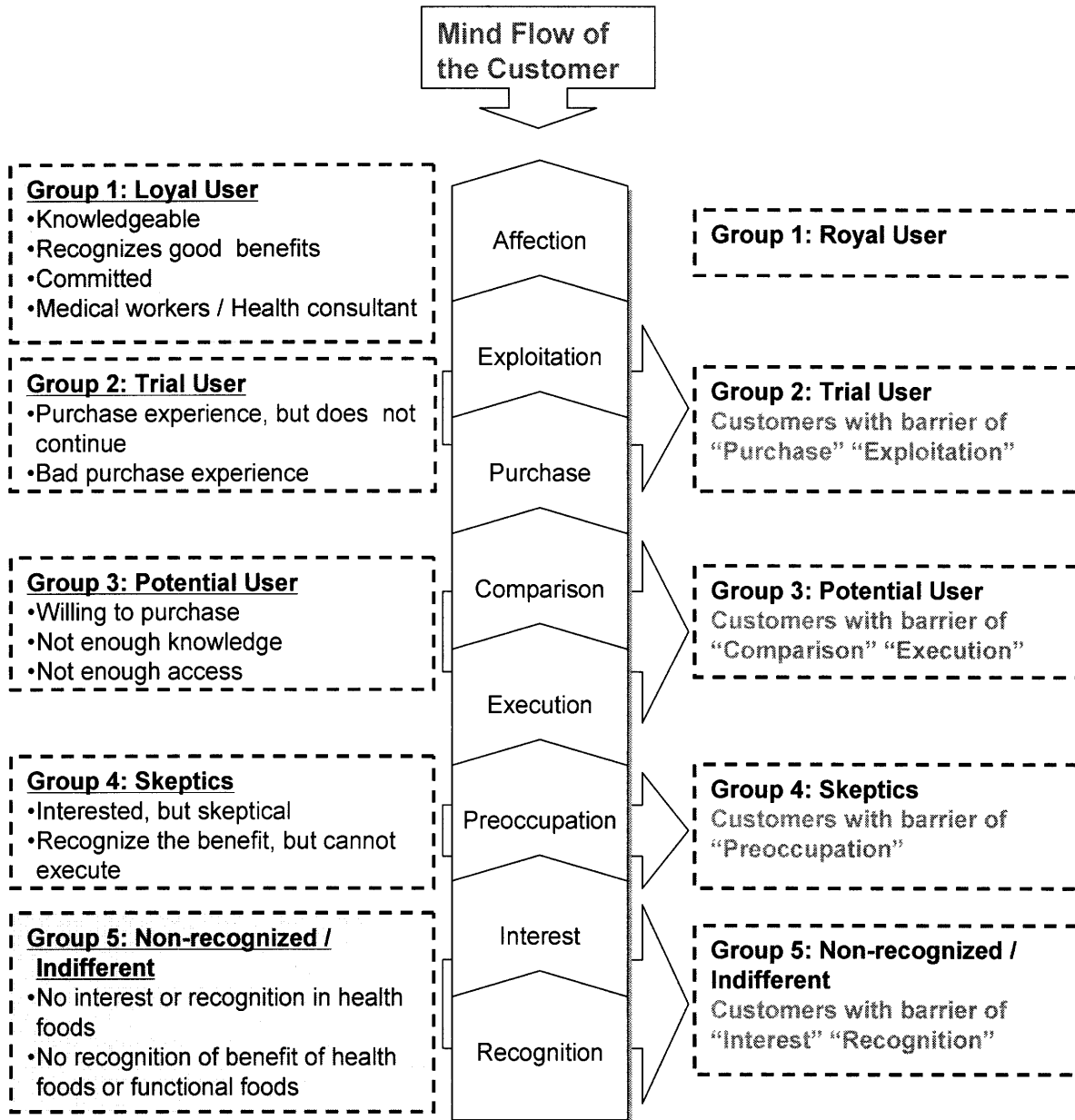
I will start segmenting the customers, i.e., the end users, based on eight levels of interest [Tom: “mind flow” is really strange; could you say “interest”? If yes, then it needs to be changed in the Exhibit(s)] in health foods that explains the customers’ purchase behaviors:

Affection, which consists of loyal end users with close bonding  
Exploitation  
Purchase  
Comparison  
Execution  
Preoccupation  
Interest  
Recognition, which is the loosest bonding.

These levels of interest suggest what barriers will stimulate or promote a customer’s purchase. Among these levels, I believe there are five End User Groups tiers (shown in Exhibit 7.7):

End User Group 1 (EUG 1) – Loyal User,  
EUG 2 – Trial User,  
EUG 3 – Potential User,  
EUG 4 – Skeptics, and  
EUG 5 – Non-recognized/Indifferences.

A good validation of this segmentation is that KYNS’s level of long-term profitability also aligns with the order from EUG 1 to EUG 4.



**Exhibit 7.7 Customer (end user) segmentation: interest levels of the customer**

Source: Kirin Brewery, developed by author.

### End User Group 1 – Loyal User

Loyal users are customers who are knowledgeable about health and functional foods, and recognize the benefits of using them. They are committed to their own health and lifestyle conditions, and have particular brands and/or foods that they purchase dependably. This group typically includes those who work in the medical fields or as health consultants.

### End User Group 2 – Trial User

These are customers who have purchased health foods, but do not take them continually nor do they feel a strong commitment to the products. This group also includes those who have had purchase experiences in the past. People in this group have the barriers of Purchase and Exploitation.

### End User Group 3 – Potential User

Customers in this group want to buy health foods but not knowledgeable, and/or do not have a particular idea about what to buy. This group also includes those who have an interest in these foods but do not have sufficient access to purchase them regularly. These customers have the barriers of Comparison and Execution.

### End User Group 4 – Skeptics

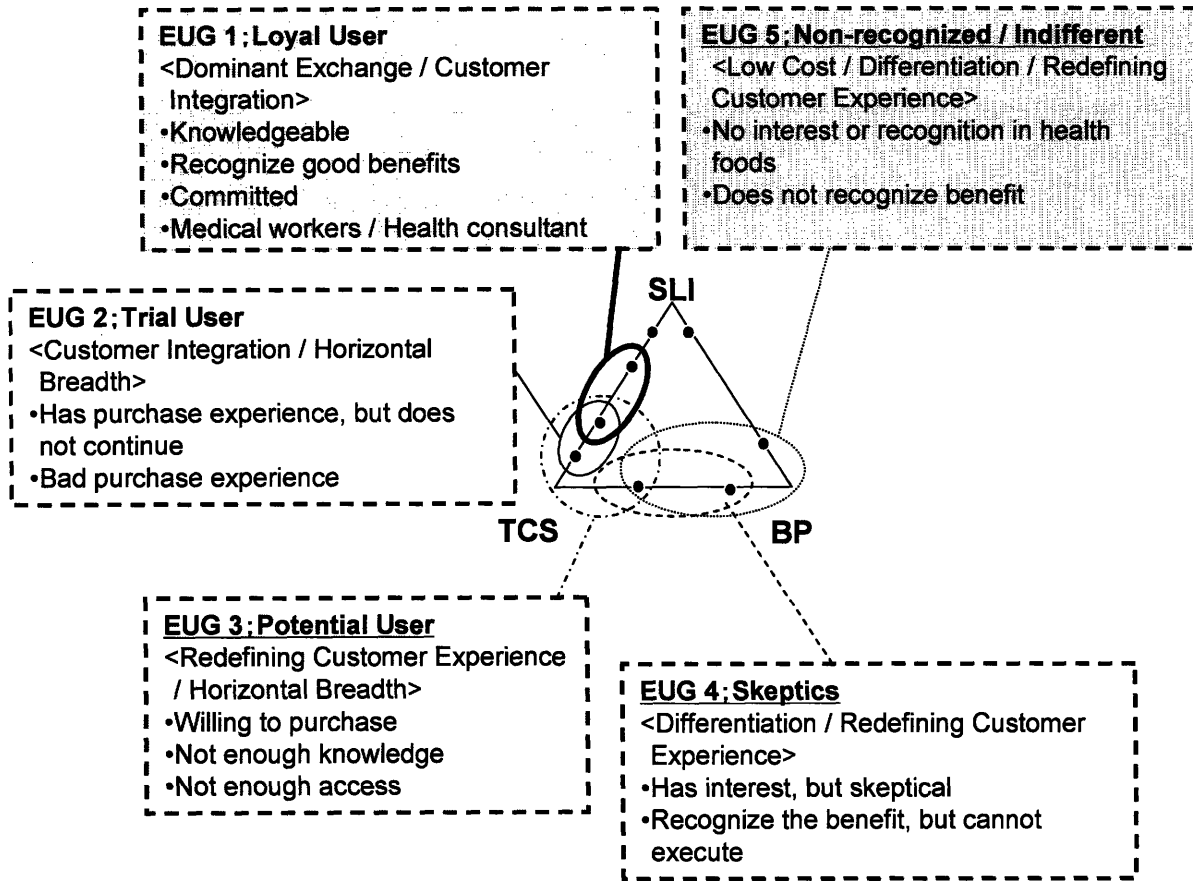
They are people who are interested in their own personal health and in health foods but remain skeptical about the efficacy of such foods; also those who recognize the benefit of these foods but cannot execute a purchase. People in this group have difficulty breaking away from their Preoccupation. However, there may be some hope that they could be loyal customers once they understand the efficacy and effectiveness of health food.



#### End User Group 5 – Not recognized/Indifferent

People in this group tend to have little or no interest in health foods, nor do they recognize specific foods. Although they recognize the existence of health foods, they have little or no recognition of the benefits. These people tend to have barriers of Interest and Recognition. Similar to EUG 4, there is also an expectation that they could be loyal customers once they understand the efficacy and effectiveness of health food.

Based on the segmentation described above, these five EUG tiers are located on the triangle in the Delta Model. EUG 1 could create closer bonding with KYNS, so the strategic position should be aimed for Total Customer Solutions and some portion of System Lock-in. EUGs 4 and 5 tend to have less bonding with KYNS, therefore, the initial approach would be the Best Product option and some part of the Total Customer Solution. This is illustrated in Exhibit 7.8.



Customer Tier	Description
[End User Group 1] Loyal User	<ul style="list-style-type: none"> <li>Customers, who are knowledgeable about health food and functional foods, recognize the benefit of using them.</li> <li>Customers who are committed to their own health and lifestyle conditions, and have own particular brands / foods.</li> <li>People who work in the medical fields or as health consultants.</li> </ul>
[End User Group 2] Trial User	<ul style="list-style-type: none"> <li>Customers who have experience purchasing health foods but do not take them with commitment.</li> <li>Customers who bad purchase experience in the past.</li> </ul>
[End User Group 3] Potential Users	<ul style="list-style-type: none"> <li>Customers who want to buy health foods but are not knowledgeable and do not have specific ideas about what to buy.</li> <li>Customers who have an interest in these foods, but do not have sufficient access to purchase regularly.</li> </ul>
[End User Group 4] Skeptics	<ul style="list-style-type: none"> <li>People who are interested in their health and in health foods, but are skeptical about their efficacy.</li> <li>People who recognize the benefits, but so not follow through with purchase.</li> </ul>
[End User Group 5] Not-recognized / Indifferent	<ul style="list-style-type: none"> <li>People with no interest in or recognition of health foods.</li> <li>People who do not recognize the benefits.</li> </ul>

**Exhibit 7.8 EUG segmentation**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

### Segmenting by Channel

Next, I will segment customer based on channels into five tiers. Exhibit 7.9 shows the customer segmentation and the main characteristics of the five tiers. Each tier represents a different level of customer bonding, with Tier 1 being the most bonded and Tier 5 the least. Like the end user groups, validation exists for segmentation in this order from Tier 1 to Tier 5. Given strategic bonding and profitability significance, KYNS should try to move customers from Tier 5 and move them toward Tiers 4, 3, 2, and 1. The characteristics of these five Tiers are shown in Exhibit 7.10.

#### Tier 1: Door-to-door sales

The customers in this tier are:

- Sales staff, buyers, or servers in specialty shops (e.g., aesthetic clubs, cosmetic shops, health food shops), restaurants, sports clubs.
- Health care providers and consultants.
- Customers who are loyal to a particular brand(s) combined with customized service and consultation from a salesperson who visits them.
- Customers who recognize the benefit of health foods or functional foods, but are skeptical. These may be a possibility to become new loyal customers.

This Tier corresponds mainly to EUGs 1, 3, and 4 described above.

Tier 2: Mail-order sales

The customers in this tier are:

- Those who are loyal to the particular brand(s) and purchase it (them) through either mail or web.
- Customers, who are relatively health conscious, and want to try or who have tried health foods or functional foods through either mail or web.
- There might be a good chance to enhance the bonding with us.

This tier corresponds mainly to EUGs 1, 2, and 3.

Tier 3: Over-the-counter sales #1

Customers in this tier are the relatively conventional ones with whom Kirin is accustomed to dealing. This group is divided into three tiers based on their characteristics, as follows:

- Sales staff, shop buyers, and wholesalers, who put our products on their shelves or serve our products, such as drugstores.
- Co-merchandize with drugs and a certain level of medical solutions.
- Recent phenomenon owing to tough price competition.

Because there is a wide range of people mentioned above, there is a corresponding wide range of end users, from EUG 1 to 5.

Tier 4 – Over-the-counter sales #2

The second group of over-the-counter sales can be described as follows:

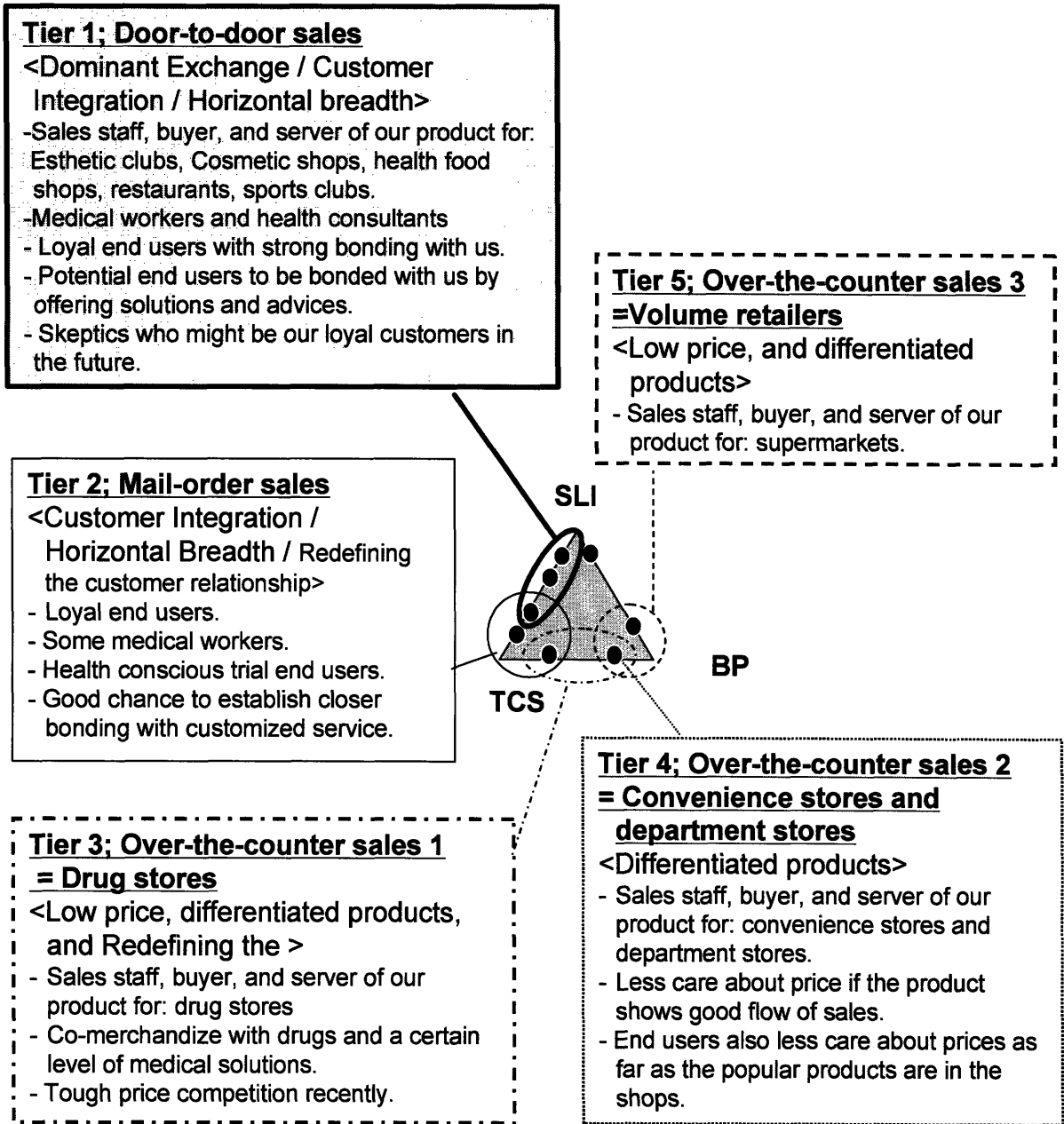
- Sales staff or buyers of shops and wholesalers, who put our products on the shelf or serve our product: convenience stores and department stores.
- Less care about price if the product shows good flow of sales.
- Similar to Tier 4 there are wide ranges of EUG 1 to 5, and these end users also less care about prices, as far as the popular products are in the shops.

#### Tier 5 – Over-the-counter sales #3

A third group of over-the-counter sales customers are:

- Sales staff or buyers of shops and wholesalers, who put our products on the shelf or serve our product: Volume retailers such as supermarkets.
- Those who mainly care about price.

Although this tier contains a wide range of end users (ranging from EUG 1 to 5), end users in this tier tend to care about low price and the popularity of the product.



**Exhibit 7.9 Customer Segmentation**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

Customer Tier	Description
<p>[Tier 1] Door to door sales</p>	<ul style="list-style-type: none"> <li>• Sales staff or buyer or server of specialty shops (ex. Esthetic clubs, Cosmetic shops, health food shops) restaurants, sports clubs.</li> <li>• Health care providers and health consultants.</li> <li>• Customers who are loyal to the particular brand(s) combined with customized service and consultation from our sales force who visit them.</li> <li>• Customers who recognize the benefit of health foods or functional foods, but skeptical. There might be a possibility to become our new loyal customer.</li> <li>• This tier corresponds to EUG 1, 3, and 4.</li> </ul>
<p>[Tier 2] Mail-order sales</p>	<ul style="list-style-type: none"> <li>• Customers who are loyal to the particular brand(s) and purchase it (them) through either mail or web.</li> <li>• Customers, who are relatively health conscious, and want to try or who have tried health foods or functional foods through either mail or web.</li> <li>• There might be a good chance to enhance the bonding with us.</li> <li>• This tier mainly corresponds to EUG 1, 2, and 3.</li> </ul>
<p>[Tier 3] Over-the-counter sales 1 = Drug stores</p>	<ul style="list-style-type: none"> <li>• Sales staff or buyers of shops and wholesalers, who put our products on the shelf or serve our product: drug stores.</li> <li>• Co-merchandise with drugs and a certain level of medical solutions.</li> <li>• Tough price competition recently.</li> <li>• Through people mentioned above, there are wide ranges of end users from EUG 1 to 5.</li> </ul>
<p>[Tier 4] Over-the-counter sales 2 = Convenience stores and department stores</p>	<ul style="list-style-type: none"> <li>• Sales staff or buyers of shops and wholesalers, who put our products on the shelf or serve our product: convenience stores and department stores.</li> <li>• Less care about price if the product shows good flow of sales.</li> <li>• Through people mentioned above, there are wide ranges of EUG 1 to 5. End users also less care about prices as far as the popular products are in the shops.</li> </ul>
<p>[Tier 5] Over-the-counter sales 3 = Volume retailers</p>	<ul style="list-style-type: none"> <li>• Sales staff or buyers of shops and wholesalers, who put our products on the shelf or serve our product: Volume retailers such as supermarkets.</li> <li>• Mainly care about price.</li> <li>• Through people mentioned above, there are wide ranges of EUG 1 to 5. End users tend to care about low price and popularity of the product.</li> </ul>

### Exhibit 7.10 Customer Segmentation

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

It may seem complicated to have two-dimensional customer segments as are described above. Therefore, it is worthwhile to clarify the relationships between the tiers and the EUGs, as shown in Exhibit 7.11.

		<b>EUG 1</b>	<b>EUG 2</b>	<b>EUG 3</b>	<b>EUG 4</b>	<b>EUG 5</b>
		<b>Royal User</b>	<b>Trial User</b>	<b>Potential User</b>	<b>Skeptics</b>	<b>Non-recognized / Indifferences</b>
<b>Tier 1</b>	<b>Door-to-door sales</b>	✓✓✓		✓✓	✓✓	✓
<b>Tier 2</b>	<b>Mail-order sales</b>	✓✓	✓✓✓	✓✓✓		✓
<b>Tier 3</b>	<b>Over-the-counter sales 1 = Drug stores</b>	✓	✓✓✓	✓✓	✓	✓✓
<b>Tier 4</b>	<b>Over-the-counter sales 2 = Convenience stores and department stores</b>	✓	✓	✓✓	✓	✓
<b>Tier 5</b>	<b>Over-the-counter sales 3 =Volume retailers</b>	✓	✓✓	✓✓	✓	✓✓✓

**Exhibit 7.11 Relationship between customer tiers and end user groups**

Note: The more check marks in each box, the greater correspondence between that tier and the EUG.  
Source: Developed by author.

Based on the customer segmentation, I prepared more detailed explanations for each tier and EUG from the perspective of what factors to consider when building the strategic plan. Seven dimensions are described: Products, Services, Customers, Channels, End users, Complementors, and the Firm's Core Competencies. Then the values proposed for each Tier and EUG are discussed from the perspective of: Experiences customers have with KYNS's products or services; Value Delivery System through which products and services are offered; how Bonding between customers and KYNS is established; Value Appropriation, which considers what kind of value is added to customers and KYNS. Discussion of this process for each tier and EUG follow below.



### Tier 1: Door-to-door sales

This tier has the strongest and most lasting bonding, which is expected by proper value proposition. Products and services, known as Yakult Ladies and Yakult Beauty, are provided by door-to-door salespeople. This system is Yakult's competency, and can be utilized in the new joint venture. With this sales function, more granularly customized products and consultation services, with absolutely safe and reliable products, should be proposed to this Tier. For end users who are loyal and knowledgeable about health foods—especially KYNS's particular brand—the sales function plays a key role not only in sales activity but also high levels of health consulting.

On the other hand, for those are skeptical and do not recognize health foods, the sales force works to educate them about the values of “food” and “health.” It will be challenging for Yakult Ladies and Yakult Beauty to obtain the knowledge and skills needed for area such as drugs, soft drinks, or the alcohol production process. More details are shown in Exhibit 7.12.

<b>Customer Dimension</b>	<b>Customer Tier 1: Door-to-door sales</b>
<b>Products</b>	<ul style="list-style-type: none"> <li>● More attractive, tasty, easy-to-take products.</li> <li>● Compelling products to attract skeptics.</li> </ul>
<b>Services</b>	<ul style="list-style-type: none"> <li>● Total health care, higher-level consultation.</li> <li>● Customized service for trial users and skeptics.</li> <li>● Automatic replenishment system.</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>● Sales staff, buyer, and server of Esthetic clubs, cosmetic shops, health food shops, restaurants, and sports clubs.</li> <li>● Health care providers, health consultants, sports instructors</li> </ul>
<b>Channels</b>	<ul style="list-style-type: none"> <li>● Door-to-door sales (Yakult Ladies, Yakult Beauty)</li> <li>● Individual web pages.</li> <li>● Referrals from satisfied existing customers.</li> </ul>
<b>End Users</b>	<ul style="list-style-type: none"> <li>● Loyal end users who have strong bonds with us.</li> <li>● Potential end users bond with us by offering solutions and advices.</li> <li>● Skeptics who might be loyal customer in the future.</li> <li>● Patients needing special dietary programs.</li> </ul>
<b>Complementors</b>	<ul style="list-style-type: none"> <li>● Pharmaceutical companies, soft drink companies, logistics companies</li> <li>● Hospitals and health monitoring service institutes.</li> <li>● Food processing firms.</li> <li>● Competitors with comprehensive competencies.</li> </ul>
<b>Unique Competencies</b>	<ul style="list-style-type: none"> <li>● Distinctive product with high efficacy and/or effectiveness.</li> <li>● R&amp;D and customer-related resources both from pharmaceutical business and beverage business in Kirin Group.</li> <li>● Door-to-door sales force (Yakult Ladies, Yakult Beauty).</li> </ul>

<b>Customer Tier 1: Door-to-door sales</b>	<b>Value Proposition Elements</b>
<b>Experiences we will provide to the tier</b>	<ul style="list-style-type: none"> <li>● More customized products and consultation service.</li> <li>● Absolutely safe and reliable products.</li> <li>● Various accessibility, alliances with sports club, esthetic salons.</li> <li>● Finding new value of healthy life.</li> </ul>
<b>Value delivery systems needed to provide the experiences</b>	<ul style="list-style-type: none"> <li>● Joint team with Kirin Pharma, Kirin Brewery, Kirin Beverage, and Yakult.</li> <li>● Direct door-to-door visit by them.</li> </ul>
<b>Value appropriation</b>	<p><b>Value gained by the customer</b></p> <ul style="list-style-type: none"> <li>● More attractive and specific needs-based products and services.</li> <li>● Total health consultation system.</li> </ul> <p>&lt;See Exhibits which show value to EUG, especially EUG 1&gt;</p>
	<p><b>Value gained by us</b></p> <ul style="list-style-type: none"> <li>● Stronger, more secure customer bonding.</li> <li>● Higher sales per customer.</li> <li>● More business opportunities</li> </ul>
	<p><b>Value gained by both</b></p> <ul style="list-style-type: none"> <li>● Co-development of new products and services.</li> <li>● Contributions to society as a health and medical business.</li> </ul>

**Exhibit 7.12 Business dimension and Value proposition for Tier 1**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

### Tier 2: Mail-order sales

Information technology will be fully deployed for this tier. Through special web pages for registered customers, customized consultations, a monitoring mechanism for continuation, and an automatic replenishment system will be implemented. Network building among customers is also offered so they can share information and encourage each other while dieting, etc. This platform provides more opportunities to elevate values both to customers and KYNS, and then create stronger bonding. The biggest challenge will be that this channel cannot conduct sales and marketing activities face-to-face. More details are provided in Exhibit 7.13.

Customer Dimension	Customer Tier 2: Mail-order sales
<b>Products</b>	<ul style="list-style-type: none"> <li>● Attractive, tasty, easy to take, safe products that create long-term relationships.</li> </ul>
<b>Services</b>	<ul style="list-style-type: none"> <li>● More customized consultation.</li> <li>● Monitoring mechanism for continuation</li> <li>● Automatic replenishment system.</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>● Some health care providers.</li> <li>● End users who have loyalty to a particular brand(s) and purchase it (them) through either mail or web.</li> <li>● Customers who are relatively health conscious and want to try or who have tried health foods or functional foods through either mail or web.</li> </ul>
<b>Channels</b>	<ul style="list-style-type: none"> <li>● Special web pages.</li> </ul>
<b>End Users</b>	<ul style="list-style-type: none"> <li>● Patients under dietary cures.</li> <li>● Same as customers, since this tier mainly purchases directly through mail order.</li> </ul>
<b>Complementors</b>	<ul style="list-style-type: none"> <li>● Pharmaceutical and soft drink companies, retail shops.</li> <li>● Monitoring device companies (e.g. diet scales, home test kit providers), health check service institutes.</li> <li>● IT vendors (for web page production and modification.)</li> </ul>
<b>Unique Competencies</b>	<ul style="list-style-type: none"> <li>● Distinctive product with high efficacy and/or effectiveness.</li> <li>● Strong brands in a certain field (diet, supplements).</li> <li>● R&amp;D and customer-related resources both from pharmaceutical, restaurant, and beverage business in Kirin Group.</li> </ul>

Customer Tier 2: Mail-order sales	Value Proposition Elements
<b>Experiences we will provide to the tier</b>	<ul style="list-style-type: none"> <li>● Long-term communication and relationship with us.</li> <li>● More customized offers or suggestions on health conditions.</li> </ul>
<b>Value delivery systems needed to provide the experiences</b>	<ul style="list-style-type: none"> <li>● Special web pages for registered customers with various profits.</li> <li>● Food life consultation from registered consultants.</li> </ul>
<b>Value appropriation</b>	<b>Value gained by the customer</b> <ul style="list-style-type: none"> <li>● More access to products and services.</li> <li>● More convenience.</li> <li>● Data and solution service especially for health care providers.</li> <li>● Automatic replenishment.</li> </ul> <End users>: see Exhibits which show value proposition to EUG, especially EUG 2.
	<b>Value gained by us</b> <ul style="list-style-type: none"> <li>● More secure customer base.</li> <li>● Possibility of customer lock in.</li> <li>● More exposure for the product.</li> </ul>
	<b>Value gained by both</b> <ul style="list-style-type: none"> <li>● More opportunities to create bonding.</li> <li>● More opportunities to identify customer needs.</li> <li>● New product development.</li> </ul>

**Exhibit 7.13 Business Dimension and Value Proposition for Tier 2**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

Tier 3: Over-the-counter sales, Type 1=Drug stores

This tier is relatively knowledgeable about drugs and health matters, so it is important to offer comprehensive customer service in conjunction with attractive products that have a strong brand identity. In the meantime, with drugstores becoming on more of a mass sales location, products should be competitively priced as well.

Regarding sales, the know-how from both Kirin Pharma and Yakult Ladies or Yakult Beauty can be effectively used to offer solutions related to health issues. Since some end users who are skeptical or do not recognize health foods might visit this tier, enlightenment or education to expose our brand is also important. More details are discussed in Exhibit 7.14.

<b>Customer Dimension</b>	<b>Customer Tier 3: Over-the-counter sales, Type 1 = Drug Stores</b>
<b>Products</b>	<ul style="list-style-type: none"> <li>● Attractive products with strong brand identity.</li> <li>● Price-competitive product.</li> </ul>
<b>Services</b>	<ul style="list-style-type: none"> <li>● Easily accessible consultation.</li> <li>● More accessibility to products.</li> <li>● Comprehensive customer service.</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>● Sales staff or buyers for shops and wholesalers, who put our products on the shelf or offer our product in drug stores.</li> </ul>
<b>Channels</b>	<ul style="list-style-type: none"> <li>● Sales force from Kirin Group (especially Kirin Pharma) and Yakult (Yakult Beauty).</li> </ul>
<b>End Users</b>	<ul style="list-style-type: none"> <li>● Wide range of customers who visit retailers with medical care needs.</li> </ul>
<b>Complementors</b>	<ul style="list-style-type: none"> <li>● Logistics companies from both manufacturers and customers.</li> <li>● Pharmaceutical companies</li> <li>● Food processing and packaging firms.</li> <li>● Advertising firms.</li> </ul>
<b>Unique Competencies</b>	<ul style="list-style-type: none"> <li>● Strong brands in a specific fields (e.g., diet, supplement).</li> <li>● R&amp;D and customer-related resources from Kirin Group and Yakult.</li> </ul>

<b>Customer Tier 3: Over-the-counter sales 1</b>	<b>Value Proposition Elements</b>
<b>Experiences we will provide to the tier</b>	<ul style="list-style-type: none"> <li>● Finding new products with affordable price.</li> </ul>
<b>Value delivery systems needed to provide the experiences</b>	<ul style="list-style-type: none"> <li>● Mass marketing at each retailer.</li> <li>● Easy-to-comprehend product.</li> </ul>
<b>Value appropriation</b>	<b>Value gained by customers</b> <ul style="list-style-type: none"> <li>● Extended convenience.</li> <li>● New solutions for health issues to offer customers.</li> <li>● Recognition of products and services in the health food.</li> </ul> <End users>: see the Exhibits, which show value proposition to EUG.
	<b>Value gained by us</b> <ul style="list-style-type: none"> <li>● Brand recognition.</li> <li>● Early stage enlightenment / education to expose our brand.</li> <li>● Wider access to new customers.</li> <li>● New product and service opportunities.</li> </ul>
	<b>Value gained by both</b> <ul style="list-style-type: none"> <li>● Potential expansion of the market.</li> <li>● More opportunities for information exchange and bonding through health consultations.</li> </ul>

**Exhibit 7.14 Business Dimension and Value Proposition for Tier 3**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

Tier 4: Over-the-counter sales, Type 2 = Convenience stores and department stores

This tier tends to carry and sell products that are popular and have a strong sales flow from the shelves, which then guarantees revenue. A wide range of customers visit retailers in this tier, and they tend to care less about prices, so attractive products with strong brand identity are extremely important. Distribution systems already in use to deliver beverages could be easily used here, although the batch size of deliveries would be smaller, and more customized based on the retailers' requirements.

Retailers have gained added bargaining power as buyers by being reorganized as chain stores. This means we must produce compelling products at reasonable prices, which will be challenging. More details are provided in Exhibit 7.15.

<b>Customer Dimension</b>	<b>Customer Tier 4: Over-the-counter sales Type 2 = Convenience &amp; Department Stores</b>
<b>Products</b>	<ul style="list-style-type: none"> <li>● Attractive products with strong brand identity.</li> </ul>
<b>Services</b>	<ul style="list-style-type: none"> <li>● Easily accessible consultation.</li> <li>● More accessibility to products.</li> <li>● Comprehensive customer service.</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>● Sales staff or buyers for shops and wholesalers, who put our products on the shelf or serve our product: convenience stores and department stores.</li> <li>● Less care about price if product shows good sales.</li> </ul>
<b>Channels</b>	<ul style="list-style-type: none"> <li>● Sales forces from Kirin Group and Yakult, using similar sales channels for beverages, dairy products, and drugs.</li> </ul>
<b>End Users</b>	<ul style="list-style-type: none"> <li>● Wide range of customers who visit retailers.</li> <li>● End users also less care about the prices of popular products in the shops.</li> </ul>
<b>Complementors</b>	<ul style="list-style-type: none"> <li>● Logistics companies from both manufacturers and customers.</li> <li>● Pharmaceutical companies.</li> <li>● Food processing and packaging firms.</li> <li>● Advertising firms.</li> </ul>
<b>Unique Competencies</b>	<ul style="list-style-type: none"> <li>● Strong brands in a field of diet, supplements, and foods.</li> <li>● R&amp;D and customer-related resources both from Kirin Group and Yakult.</li> <li>● Existing logistics system that carries beverages.</li> </ul>

<b>Customer Tier 4: Over-the-counter sales 2</b>	<b>Value Proposition Elements</b>
<b>Experiences we will provide to the tier</b>	<ul style="list-style-type: none"> <li>● Finding new products with affordable price.</li> </ul>
<b>Value delivery systems needed to provide the experiences</b>	<ul style="list-style-type: none"> <li>● Mass marketing at each retailer.</li> <li>● Easy-to-comprehend product.</li> </ul>
<b>Value appropriation</b>	<b>Value gained by the customer</b> <ul style="list-style-type: none"> <li>● Extended convenience.</li> <li>● New solutions for health issues.</li> <li>● Recognition of products and services in health foods.</li> </ul> <End users>: see exhibits that show value proposition to EUG.
	<b>Value gained by us</b> <ul style="list-style-type: none"> <li>● Brand recognition.</li> <li>● Early stage enlightenment / education to expose our brand.</li> <li>● Wider access to new customers.</li> <li>● New product and service opportunities.</li> </ul>
	<b>Value gained by both</b> <ul style="list-style-type: none"> <li>● Potential expansion of market.</li> <li>● Opportunities to bundle new products and services by sharing POS data.</li> </ul>

#### **Exhibit 7.15 Business Dimension and Value Proposition for Tier 4**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.



Tier 5: Over-the-counter sales, Type 3 = Volume retailers

This tier is similar to Tier 4; however, customers are much more sensitive about price and attractive products with strong brand identity. Products and services are delivered with conventional logistics system from both Kirin and Yakult. Although mass marketing will be used for each retailer since a wide range of end users visit those locations, we should also propose extension of convenience, new solutions to customers' health issues, and recognition of products and services in the health food business. This tier is also another opportunity to elevate to the level of Tiers 3, 2, and 1. More details are provided in Exhibit 7.16.

<b>Customer Dimension</b>	<b>Customer Tier 5: Over-the-counter sales Type 3 = Volume retailers (Supermarkets)</b>
<b>Products</b>	<ul style="list-style-type: none"> <li>● Attractive products with strong brand identity.</li> <li>● Price competitive product.</li> </ul>
<b>Services</b>	<ul style="list-style-type: none"> <li>● Easily accessible consultation.</li> <li>● More accessibility to products.</li> <li>● Comprehensive customer service.</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>● Sales staff or buyers for shops and wholesalers who put our products on the shelf or serve our products in supermarkets.</li> </ul>
<b>Channels</b>	<ul style="list-style-type: none"> <li>● Sales force from Kirin Group and Yakult, which is similar sales channels for beverages, daily products, and drugs.</li> </ul>
<b>End Users</b>	<ul style="list-style-type: none"> <li>● Wide range of customers who visit supermarkets.</li> </ul>
<b>Complementors</b>	<ul style="list-style-type: none"> <li>● Logistics companies</li> <li>● Pharmaceutical companies.</li> <li>● Food processing and packaging firms.</li> <li>● Advertising firms.</li> </ul>
<b>Unique Competencies</b>	<ul style="list-style-type: none"> <li>● Strong brands in certain fields (e.g., diet, supplement).</li> <li>● R&amp;D and customer-related resources both from Kirin Group and Yakult.</li> </ul>

<b>Customer Tier 5: Over-the-counter sales- Type 3</b>	<b>Value Proposition Elements</b>
<b>Experiences we will provide to the tier</b>	<ul style="list-style-type: none"> <li>● Finding new products with low prices.</li> <li>● Finding opportunities to think about health and quality of life.</li> </ul>
<b>Value delivery systems needed to provide the experiences</b>	<ul style="list-style-type: none"> <li>● Mass marketing at each supermarket.</li> <li>● Easy to comprehend product.</li> </ul>
<b>Value appropriation</b>	<b>Value gained by the customer</b> <ul style="list-style-type: none"> <li>● Extended convenience.</li> <li>● New solutions for health issues to offer customers.</li> <li>● Recognition of products and services in the health food field.</li> </ul> <End users>: see exhibits, which show value proposition to EUG.
	<b>Value gained by us</b> <ul style="list-style-type: none"> <li>● Brand recognition.</li> <li>● Early stage enlightenment / education to expose our brand.</li> <li>● Wider access to new customers.</li> <li>● New product and service opportunities.</li> </ul>
	<b>Value gained by both</b> <ul style="list-style-type: none"> <li>● Potential expansion of the market.</li> </ul>

**Exhibit 7.16 Business dimension and Value proposition for Tier 5**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

### EUG 1 – Loyal User

It is important to enhance the bond between Kirin and this EUG by offering more granularly customized products and consultation services, which is similar to Tier 1. There is a wide range of highly health-conscious users, including senior citizens over 60 and patients seeking dietary cures. The products and services are expected to be delivered by a door-to-door sales channel and customized web pages so as to co-merchandize to health care providers such as doctors. More details are discussed in Exhibit 7.17.

### EUG 2 – Trial User

In this EUG, people tend to be keen about their health but are one step below loyal users. Therefore, it is important to propose attractive, tasty, easy-to-take, and safe products so as to create long-term relationships. We can do this by offering more customized suggestions for health conditions. The primary targets are young females in their early twenties, or females who do not have to care for small children. Information technology is fully employed for this tier, including customized web pages that can offer consultations with registered consultants. More details are provided in Exhibit 7.18.

<b>Customer Dimension</b>	<b>Customer: EUG 1 - Loyal User</b>
<b>Products</b>	<ul style="list-style-type: none"> <li>● More attractive, tasty, easy-to-take products.</li> </ul>
<b>Services</b>	<ul style="list-style-type: none"> <li>● Total health care, higher-level consultation.</li> <li>● Automatic replenishment system.</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>● Health care providers, health consultants, sports instructors</li> </ul>
<b>Channels</b>	<ul style="list-style-type: none"> <li>● Door-to-door sales, Individual web pages.</li> <li>● Referrals from satisfied existing customers.</li> </ul>
<b>End Users</b>	<ul style="list-style-type: none"> <li>● Wide range of highly health-conscious users, including senior citizens and patients under dietary cures.</li> </ul>
<b>Complementors</b>	<ul style="list-style-type: none"> <li>● Pharmaceutical companies, soft drink companies, logistics companies,</li> <li>● Hospitals.</li> <li>● Competitors with comprehensive competencies.</li> <li>● Home test kit providers.</li> </ul>
<b>Unique Competencies</b>	<ul style="list-style-type: none"> <li>● Distinctive product with high efficacy and/or effectiveness</li> <li>● R&amp;D and customer-related resources from pharmaceutical and beverage businesses in Kirin Group.</li> </ul>

<b>Customer: EUG 1 - Loyal User</b>	<b>Value Proposition Elements</b>
<b>Experiences we will provide to the tier</b>	<ul style="list-style-type: none"> <li>● More granularly customized products and consultation service.</li> <li>● Absolutely safe and reliable products.</li> </ul>
<b>Value delivery systems needed to provide the experiences</b>	<ul style="list-style-type: none"> <li>● Joint team with Kirin Pharma, Kirin Brewery, and Kirin Beverage of Kirin Group.</li> <li>● Customized web pages for replenishment.</li> </ul>
<b>Value appropriation</b>	<b>Value gained by the customer</b> <ul style="list-style-type: none"> <li>● More attractive and specific needs-based products and services.</li> <li>● Total health consultation system.</li> </ul>
	<b>Value gained by us</b> <ul style="list-style-type: none"> <li>● Secure and stronger customer bonding.</li> <li>● Stronger customer lock-in.</li> <li>● Higher sales per customer.</li> </ul>
	<b>Value gained by both</b> <ul style="list-style-type: none"> <li>● Co-development of new products and services.</li> <li>● Contributions to society as a health and medical business.</li> </ul>

**Exhibit 7.17 Business Dimension and Value Proposition for EUG 1**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

<b>Customer Dimension</b>	<b>Customer: EUG 2 - Trial User</b>
<b>Products</b>	<ul style="list-style-type: none"> <li>● Attractive, tasty, easy-to-take, safe products that create long-term relationships</li> </ul>
<b>Services</b>	<ul style="list-style-type: none"> <li>● More customized consultations.</li> <li>● Monitoring mechanism to maintain service</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>● Those who are keen about their health but are one step below loyal users.</li> </ul>
<b>Channels</b>	<ul style="list-style-type: none"> <li>● Door-to-door sales, mail-order, special web pages.</li> <li>● Retailers (drugstores)</li> <li>● Sports clubs</li> </ul>
<b>End Users</b>	<ul style="list-style-type: none"> <li>● Mainly young females in their early 20s.</li> <li>● Females who do not have to care for small children.</li> </ul>
<b>Complementors</b>	<ul style="list-style-type: none"> <li>● Pharmaceutical companies, soft drink companies, retail shops.</li> <li>● Monitoring device companies (e.g., diet scales), Health monitoring services.</li> <li>● Competitors with specific competencies.</li> </ul>
<b>Unique Competencies</b>	<ul style="list-style-type: none"> <li>● Distinctive product with high efficacy and/or effectiveness</li> <li>● Strong brands in certain fields (e.g., diet, supplement).</li> <li>● R&amp;D and customer-related resources from pharmaceutical, restaurant, and beverage businesses in Kirin Group.</li> </ul>

<b>Customer: EUG 2 - Trial User</b>	<b>Value Proposition Elements</b>
<b>Experiences we will provide to the tier</b>	<ul style="list-style-type: none"> <li>● Long-term communication</li> <li>● More customized offers or suggestions on health conditions.</li> <li>● Various accessibility, alliances with sports club, esthetic salons.</li> </ul>
<b>Value delivery systems needed to provide the experiences</b>	<ul style="list-style-type: none"> <li>● Direct marketing through web as registered customers with various profits.</li> <li>● Food life consultation from registered consultants.</li> </ul>
<b>Value appropriation</b>	<b>Value gained by the customer</b> <ul style="list-style-type: none"> <li>● More access to products and services.</li> <li>● More convenience.</li> <li>● Establishment of customers' network.</li> </ul>
	<b>Value gained by us</b> <ul style="list-style-type: none"> <li>● More secure customer base.</li> <li>● Chance of customer lock-in.</li> <li>● More exposure for products.</li> </ul>
	<b>Value gained by both</b> <ul style="list-style-type: none"> <li>● More opportunities to create bonding.</li> <li>● More opportunities to identify customer needs.</li> <li>● New product development.</li> </ul>

**Exhibit 7.18 Business dimension and Value proposition for EUG 2**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

### EUG 3: Potential User

People in this EUG are relatively health conscious but find it harder to act on their own. Therefore it is important for KYNS to break the barriers of Comparison and Execution. This could be done by offering attractive products with strong brand identity, greater accessibility to products, and comprehensive customer service that explicitly identifies competitive advantages. Targets will be young females in their early twenties and thirties, or males in their forties and fifties. More details are provided in Exhibit 7.19.

### EUG 4: Skeptics

In this EUG, people do not believe in health foods, or they are confident with their own health control regimen, such as males in their thirties. There are also those who believe that health should come from daily nutrition, as is frequently observed in housewives. This appears to be a strong Preoccupation barrier, which may take some time to break. Strong brands with data-proven efficacy or effectiveness, easily accessible consultation, more accessibility to products, and comprehensive customer service should be offered patiently. There is some hope that they could become loyal customers if successful strategic approaches are implemented. More details are provided in Exhibit 7.20.

<b>Customer Dimension</b>	<b>Customer: EUG 3 - Potential User</b>
<b>Products</b>	<ul style="list-style-type: none"> <li>● Attractive products with strong brand identity.</li> </ul>
<b>Services</b>	<ul style="list-style-type: none"> <li>● Easily accessible consultation.</li> <li>● More accessibility to products.</li> <li>● Comprehensive customer service.</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>● Those who are relatively health conscious but find it harder to act by themselves.</li> </ul>
<b>Channels</b>	<ul style="list-style-type: none"> <li>● Door-to-door sales, mail-order selling, web pages.</li> <li>● Retailers (drugstores, convenience stores)</li> <li>● Sports clubs</li> </ul>
<b>End Users</b>	<ul style="list-style-type: none"> <li>● Mainly young females in early 20s and 30s.</li> <li>● Mainly males in 40s and 50s.</li> </ul>
<b>Complementors</b>	<ul style="list-style-type: none"> <li>● Pharmaceutical companies, soft drink companies, retail shops.</li> <li>● Health monitoring services.</li> </ul>
<b>Unique Competencies</b>	<ul style="list-style-type: none"> <li>● Strong brands in certain fields (e.g., diet, supplement).</li> <li>● R&amp;D and customer-related resources from the pharmaceutical, restaurant, and beverage businesses in Kirin Group.</li> </ul>

<b>Customer: EUG 3 - Potential User</b>	<b>Value Proposition Elements</b>
<b>Experiences we will provide to the tier</b>	<ul style="list-style-type: none"> <li>● Finding new value of healthy life.</li> </ul>
<b>Value delivery systems needed to provide the experiences</b>	<ul style="list-style-type: none"> <li>● Direct marketing.</li> <li>● Visit each customer.</li> <li>● Health tour (hot spas, Relaxing opportunities)</li> </ul>
<b>Value appropriation</b>	<b>Value gained by the customer</b> <ul style="list-style-type: none"> <li>● Extended convenience.</li> <li>● New solutions for health issues.</li> </ul>
	<b>Value gained by us</b> <ul style="list-style-type: none"> <li>● Competitive advantage.</li> <li>● Wider access to new customers.</li> <li>● New products and service opportunities.</li> </ul>
	<b>Value gained by both</b> <ul style="list-style-type: none"> <li>● Deeper mutual understanding.</li> </ul>

**Exhibit 7.19 Business Dimension and Value Proposition for EUG 3**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

<b>Customer Dimension</b>	<b>Customer: EUG 4 - Skeptics</b>
<b>Products</b>	<ul style="list-style-type: none"> <li>● Strong brand with data-proven efficacy and/or effectiveness.</li> </ul>
<b>Services</b>	<ul style="list-style-type: none"> <li>● More accessibility to products.</li> <li>● Comprehensive, data-based customer service.</li> <li>● Offer new life values (e.g., LOHAS*)</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>● Those who do not believe in health foods, or are confident with their own health control regimen.</li> <li>● Those who believe that health should come from daily nutrition.</li> </ul>
<b>Channels</b>	<ul style="list-style-type: none"> <li>● Door-to-door sales, mail-order selling, web pages.</li> <li>● Retailers (drugstores, convenience stores)</li> </ul>
<b>End Users</b>	<ul style="list-style-type: none"> <li>● Mainly males in 30s.</li> <li>● Housewives.</li> </ul>
<b>Complementors</b>	<ul style="list-style-type: none"> <li>● Pharmaceutical companies, soft drink companies, retail shops.</li> <li>● Health monitoring services.</li> <li>● General food companies, dairy food companies.</li> </ul>
<b>Unique Competencies</b>	<ul style="list-style-type: none"> <li>● Strong brands in certain fields (e.g., diet, supplements).</li> <li>● Customer-related resources from pharmaceutical, restaurant, and beverage business in Kirin Group.</li> </ul>

\*LOHAS: Lifestyle Of Health And Sustainability

<b>Customer: EUG 4 - Skeptics</b>	<b>Value Proposition Elements</b>
<b>Experiences we will provide to the tier</b>	<ul style="list-style-type: none"> <li>● Finding new life values.</li> <li>● Safety and assurance</li> </ul>
<b>Value delivery systems needed to provide the experiences</b>	<ul style="list-style-type: none"> <li>● Diversified customer contacts (kiosks, convenience stores)</li> <li>● Careful direct marketing (data-based, etc.)</li> </ul>
<b>Value appropriation</b>	<ul style="list-style-type: none"> <li>● <b>Value gained by the customer</b></li> <li>● Reduce resistance to health foods.</li> </ul>
	<ul style="list-style-type: none"> <li>● <b>Value gained by us</b></li> <li>● Opportunities to establish a strong brand.</li> <li>● More learning opportunities for general customers.</li> <li>● Identify needs and benefits for customers.</li> </ul>
	<ul style="list-style-type: none"> <li>● <b>Value gained by both</b></li> <li>● New opportunities for bonding.</li> </ul>

### **Exhibit 7.20 Business Dimension and Value Proposition for EUG 4**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.



EUG 5: Non-recognized or Indifferent

Customers in this EUG do not recognize health issues, typically those who are confident about their current health condition. It would be difficult to persuade them with the specific efficacy or effectiveness of health food. Instead, easy foods, function-less foods, and low-price products could be proposed as the entry level. This would be delivered by direct marketing via cross-merchandizing with beverages in Kirin Group. These products and services would offer opportunities to consider health and quality of life, and hopefully leverage them into potential customers, since there is some hope that they would be KYNS's next customers. More details are provided in Exhibit 7.21.

<b>Customer Dimension</b>	<b>Customer: EUG 5 - Non-recognized / Indifferent</b>
<b>Products</b>	<ul style="list-style-type: none"> <li>● Easy foods.</li> <li>● Function-less foods.</li> <li>● Low-price product at entry level.</li> </ul>
<b>Services</b>	<ul style="list-style-type: none"> <li>● More accessibility to products.</li> <li>● Health consultation &amp; nutrition seminars</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>● Those who do not recognize health issues.</li> <li>● Those who are confident about their current health.</li> </ul>
<b>Channels</b>	<ul style="list-style-type: none"> <li>● Mail-order selling, web pages.</li> <li>● Retailers (drugstores, convenience stores, supermarkets)</li> </ul>
<b>End Users</b>	<ul style="list-style-type: none"> <li>● Mainly males in 20s.</li> </ul>
<b>Complementors</b>	<ul style="list-style-type: none"> <li>● Pharmaceutical companies, soft drink companies, retail shops.</li> <li>● General food companies, dairy food companies.</li> </ul>
<b>Unique Competencies</b>	<ul style="list-style-type: none"> <li>● Strong brands in certain fields (e.g., diet, supplement).</li> <li>● Various sales and marketing channels especially for beverage and food (restaurant) business in Kirin Group.</li> </ul>

<b>Customer : EUG 5 - Non-recognized / Indifferent</b>	<b>Value Proposition Elements</b>
<b>Experiences we will provide to the tier</b>	<ul style="list-style-type: none"> <li>● Offer opportunities to think about health and quality of life.</li> </ul>
<b>Value delivery systems needed to provide the experiences</b>	<ul style="list-style-type: none"> <li>● Easy-to-comprehend product.</li> <li>● Direct marketing via cross-merchandizing with Kirin beverages.</li> <li>● On-line advertising.</li> </ul>
<b>Value appropriation</b>	<b>Value gained by the customer</b>
	<ul style="list-style-type: none"> <li>● Recognition of products and services in the health food field.</li> <li>● Opportunities to think about health.</li> </ul>
	<b>Value gained by us</b>
	<ul style="list-style-type: none"> <li>● Potential new business opportunity.</li> <li>● Early stage enlightenment / education to expose our brand.</li> </ul>
	<b>Value gained by both</b>
	<ul style="list-style-type: none"> <li>● Potential expansion of the market.</li> </ul>

### **Exhibit 7.21 Business Dimension and Value Proposition for EUG 5**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

I conclude the customer segmentation and customer value proposition discussion with an analysis of the quality of the resulting proposal. This is done via tests for the quality of customer segmentation and value proposition from the following aspects:

- How differentiated is the Value Proposition for each tier, meaning how much different is it from state-of-the-art offerings by relevant competitors?
- If the Value Proposition is unique, how difficult is it for competitors to imitate or counteract it? In other words, how sustainable and long-lasting is the differentiating quality of the Value Proposition?
- How much value-added to the customer is implicit in the Value Proposition, meaning what is the size of the benefits that customers will receive?
- What is the resulting degree of bonding between Kirin and the customer, meaning what is the amount of switching costs, and how much loyalty does the Value Proposition create between the customer and Kirin?

Exhibit 7.22 and Exhibit 7.23 show the results of test on both customer segments in Tiers and End User Groups.

	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
	Door-to-door Sales	Mail-order Sales	Over-the-counter Sales1	Over-the-counter Sales2	Over-the-counter Sales3
Degree of Differentiation	✓✓✓	✓✓	✓✓	✓	✓
Difficulty of Imitation	✓✓✓	✓✓	✓		
Amount of Value-Added	✓✓✓	✓✓	✓✓	✓✓	✓✓
Amount of Bonding	✓✓✓	✓✓	✓✓	✓	✓

**Exhibit 7.22 Tests for quality of customer segmentation and value position  
(Tier 1 – Tier 5)**

Source: Developed by author.

	EUG 1	EUG 2	EUG3	EUG 4	EUG 5
	Loyal User	Trial User	Potential User	Skeptics	Non-recognized / Indifferent
Degree of Differentiation	✓✓✓	✓✓✓	✓✓	✓✓✓	✓✓
Difficulty of Imitation	✓✓✓	✓	✓		
Amount of Value-Added	✓✓✓	✓✓	✓	✓✓	✓
Size of Bonding	✓✓	✓✓	✓✓	✓	✓

**Exhibit 7.23 Tests for the quality of customer segmentation and value position  
(EUG 1 – EUG 5)**

NOTE: More check marks in each box means greater appropriateness or higher quality of each segment of a particular Tier or EUG. Values range from no checkmarks (very weak or non-applicable) to three checkmarks (most appropriate or very high, strong position).

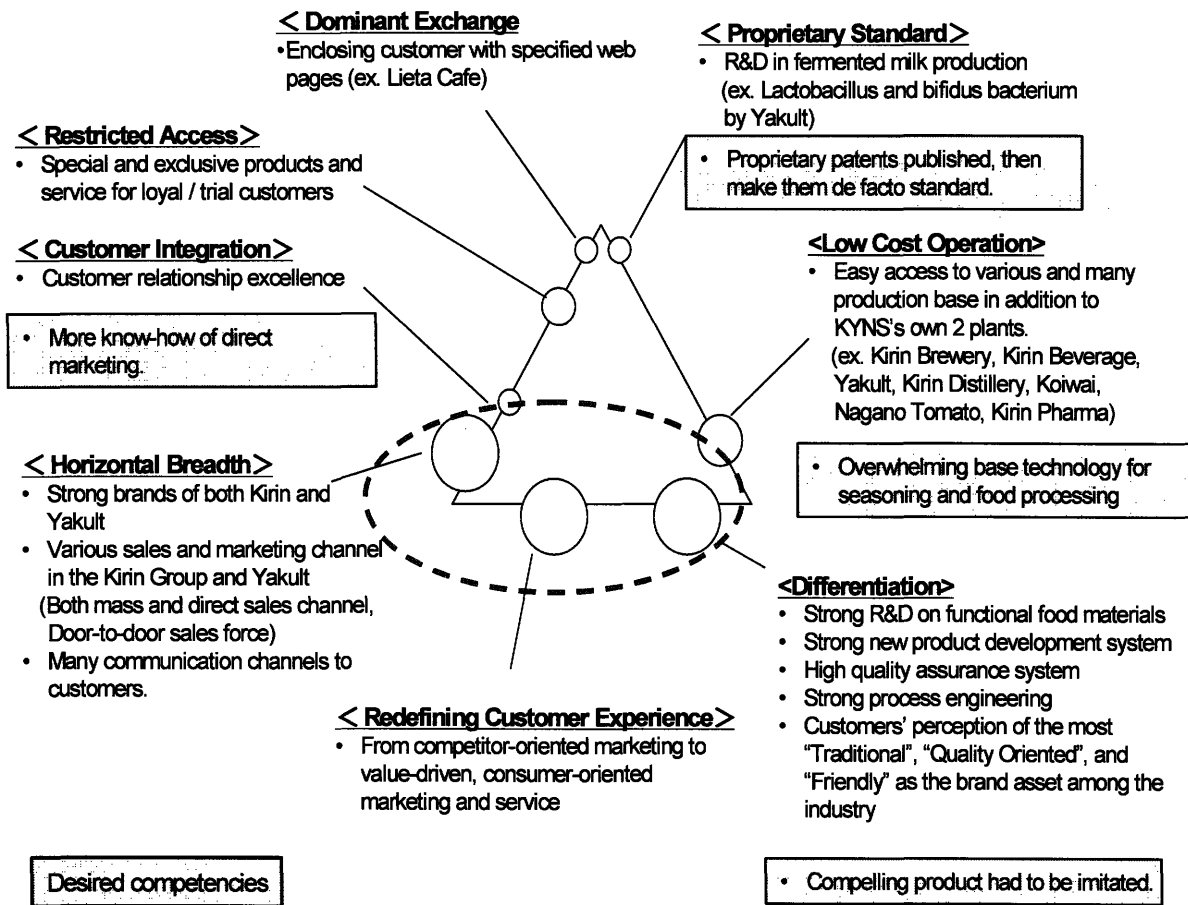
Source: Developed by author.

By employing competencies, value propositions are differentiated and add more to the customer and to KYNS (especially those surrounded by red dashed lines).

There is, however, an inherent issue in this industry that the more the value positions shift to Best Product (such as Tiers 3, 4, 5 and EUG 3, 4, 5), the more easily they will be imitated by competitors (those surrounded by blue dashed lines). This suggests that the competition tends to occur in the lower price range, and then to sacrifice profits.

### **7.3.2 The Bundle of Competencies**

When thinking about the insights deriving from an analysis using the Delta Model, the firm should be thought of as a bundle of competencies, not merely an engine for developing, making, and distributing products. That is why I discussed customer segmentation, to provide an in-depth understanding of KYNS's customer needs. Customer segmentation and value proposition, research, and insights into Kirin and Yakult (including my own experience in Kirin) suggest current and desired competencies as shown in Exhibit 7.24.



**Exhibit 7.24 Kirin Yakult NextStage: bundle of competencies**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

From the triangle, KYNS has stronger positions in Differentiation, Redefining Customer Experience, and Horizontal Breadth. Since KYNS is a newly established company, these competencies are derived from competencies already possessed by Kirin and Yakult at the time of the company's founding. For example, strong R&D functions, a high-quality assurance system, customers' perception of the brands, and various sales and marketing channels are common competitive advantages that Kirin and Yakult can utilize in their core

businesses. The triangle also implies that KYNS has yet not reached the level of close and long-lasting bonds with its customers, especially in the System Lock-in option.

Low Cost: Both Kirin Group and Yakult Group have their own production base (e.g., Kirin Brewery, Kirin Beverage, Yakult, Kirin Distillery, Koiwai, Nagano Tomato, Kirin Pharma), which are efficiently operated. These give KYNS easy access to a variety of production bases so that once a product can utilize current production processes, then low-cost operations are easily achieved. The challenge will be securing good seasoning and food processing capabilities, and encouraging external contractors to lead in cutting costs.

Differentiation: Like alcoholic beverages, health foods are more difficult to differentiate unless the products have compelling efficacy or effectiveness in a health function. With good raw materials, strong collaboration among R&D laboratories will enable KYNS to change from customers' needs to actual products as well as a strong new product development system and process engineering expertise.

According to an external survey, Kirin is evaluated as the most “traditional”, “trustworthy”, and “friendly” manufacturer by its customers and purchasers of its products. Yakult has also a similar reputation as a “trustworthy” and “quality-oriented” company. This corporate brand asset is invaluable in product differentiation and the ripple effects in advertising.

Redefining Experience: With the implementation of its new policy, KYNS has enhanced its marketing from competitor-oriented to value-driven, consumer-oriented marketing and service. This is the basis of all service and behavior when everyone in the group communicates with customers.

Horizontal Breadth: Kirin and Yakult have strong brands in most of the business segments they operate. Moreover, in order to match customers' lifestyles, both have a wide-ranging product lineup in terms of taste and package size. Various sales and marketing channels in Kirin Group and Yakult are expected to create synergies with mass and direct sales channels and a door-to-door sales force. Kirin's many channels for direct communication with customers—its well-received website, soccer sponsorship for more than a decade, facilities for experiencing beer production, a concentrated call center, and special teams nationwide to respond to customers' inquiries and complaints—support the Horizontal Breadth position.

Customer Integration: Although KYNS can make best use of its excellent customer relationship with Kirin, it needs to accumulate more knowledge of direct marketing (door-to-door sales etc.)

Restricted Access: Before merging with KYNS, Kirin WellFoods had developed some special and exclusive products and services. These are inherited by KYNS, mainly for loyal or trial customers. However, to date the company has not been successful in creating a strong positioning for itself here.

Dominant Exchange: With its diet food product, KYNS has captured some customers with specified web pages.

Proprietary Standard: Although Kirin holds patents on many production methods and technologies for its beverage and pharmaceutical businesses, they have not reached industry standards. Yakult possesses some strength in fermented milk production such as *Lactobacillus* and *Bifidus* bacteria. KYNS needs to obtain proprietary patents, and then make them a *de facto* standard.



### 7.3.3 Mission of the business

In this section, I will discuss the KYNS mission as a starting point for a suggested reformulation of its business strategy.

#### 7.3.3.1 The Statement of the Mission of the business

The Mission Statement of any business represents its current and future expected product scope, market scope, and geographical scope, as well as its unique competencies that must be developed in order to achieve its desired competitive position.

Based on my analysis, the following Mission Statement would be applicable to KYNS (Exhibit 7.25). This is developed based on the long- and mid-term business plan for KYNS and includes some input from the author. Although the statement seems to fulfill every scope well, there are some areas that are not fully covered or clearly explained.

	<b>From founding to the present</b>	<b>Future (New Mission)</b>
<b>Customer Scope</b>	No special description. (Same positioning as end users sold mainly through mass marketing.)	Customers newly segmented or redefined by channels.
<b>End-User Scope</b>	Those who are health conscious or committed to curing health issues (sickness, obesity, style, balanced food life, etc.)	Expand to include those not so focused on health issues, but seeking a healthy quality of life.
<b>Channel Scope</b>	Mass channels: - Drugstores, convenience stores, supermarkets, mail-order, and web	Strengthen direct channels: - Special set-up system - Door-to-door sales
<b>Complementor Scope</b>	- Food processing firms. - Material providers (raw material and packaging materials etc.) - Distributors and wholesalers - Lower level health care providers	<In addition to current complementors> - Health consulting - Health care providers
<b>Geographic Scope</b>	Japan	Expand into Asia and Oceania, which matches the long-term business framework (KV2015).

(continued next page)

<b>Service Scope</b>	Customized service based on consciousness and receptivity of end users.	Integrated service that contributes to food and health in every customer tier through strong collaboration with complementors.
<b>Product Scope</b>	Current products transitioned from previous company; strengthens the position of each product in the market.	<ol style="list-style-type: none"> <li>1. Compelling new products co-developed using competencies of Kirin Group and Yakult.</li> <li>2. Solutions that combine products and granularly customized services.</li> </ol>
<b>Unique Competencies</b>	<ol style="list-style-type: none"> <li>1. Technical expertise and customer relationship excellence.</li> <li>2. Heritage and trust.</li> <li>3. High quality assurance system.</li> <li>4. Material development based on the lactobacillus.</li> <li>5. Various types of sales channels.</li> <li>6. Rapidly accumulating know-how's on customer relationship management.</li> </ol>	<ol style="list-style-type: none"> <li>1. Ability to co-develop functional materials and compelling new products.</li> <li>2. Higher level of quality assurance offering secure and safe food products.</li> <li>3. Integrated/transformed sales channel making best use of current sales and marketing system.</li> </ol>

### **Exhibit 7.25 Mission of the business**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

While this first attempt is helpful, this mission statement will also lead to some challenges for KYNS. These are discussed below.

#### 1. Challenges in Customer Scope

- Time to acquire deeper knowledge and understanding of newly segmented or redefined customer Tiers and EUGs.

#### 2. Challenges in End-User Scope

- Enhance intermediary methods to gain access to those who are less serious about health issues but seeking a healthy quality of life.
- Build intermediary methods to break every EUG barrier.

#### 3. Challenges in Channel Scope

- Need new system to integrate both mass channels (drugstores, convenience stores, supermarkets, mail-order and web sales) and direct channels (special set-up web system, door-to-door sales).

#### 4. Challenges in Complementor Scope

- Need deeper discussions about how to address these challenges.
- Need new system to capture health care providers effectively.

#### 5. Challenges in Geographical Scope

- Develop familiarity and feasibility study of business and professional relationships with new foreign countries, including time frame.

#### 6. Challenges in Service Scope

- Build teams that will integrate services that contribute to food and health in every customer tier through strong collaboration with complementors.
- Build a sufficient network of complementors to provide a high level of service (e.g., Tier 1 and EUG 1).

#### 7. Challenges in Product Scope

- Acquire or develop deeper expertise in industry verticals, especially in purchasing raw materials.
- Strengthen technical design, development skills, and knowledge.
- Schedule management.

#### 8. Challenges in Unique Competencies

- Establish dominant technical design strength.
- Integrate/transform the sales channel to make best use of current sales and marketing system.

#### **7.3.3.2 Industry structure**

I am now in a position to analyze the industry using Porter's Five Forces Model. The five forces are: Barriers to Entry, Rivalry Among Competitors, Threat of Substitutes, Bargaining Power of Buyers, and Bargaining Power of Suppliers. These are discussed in the sections following Exhibit 7.26.

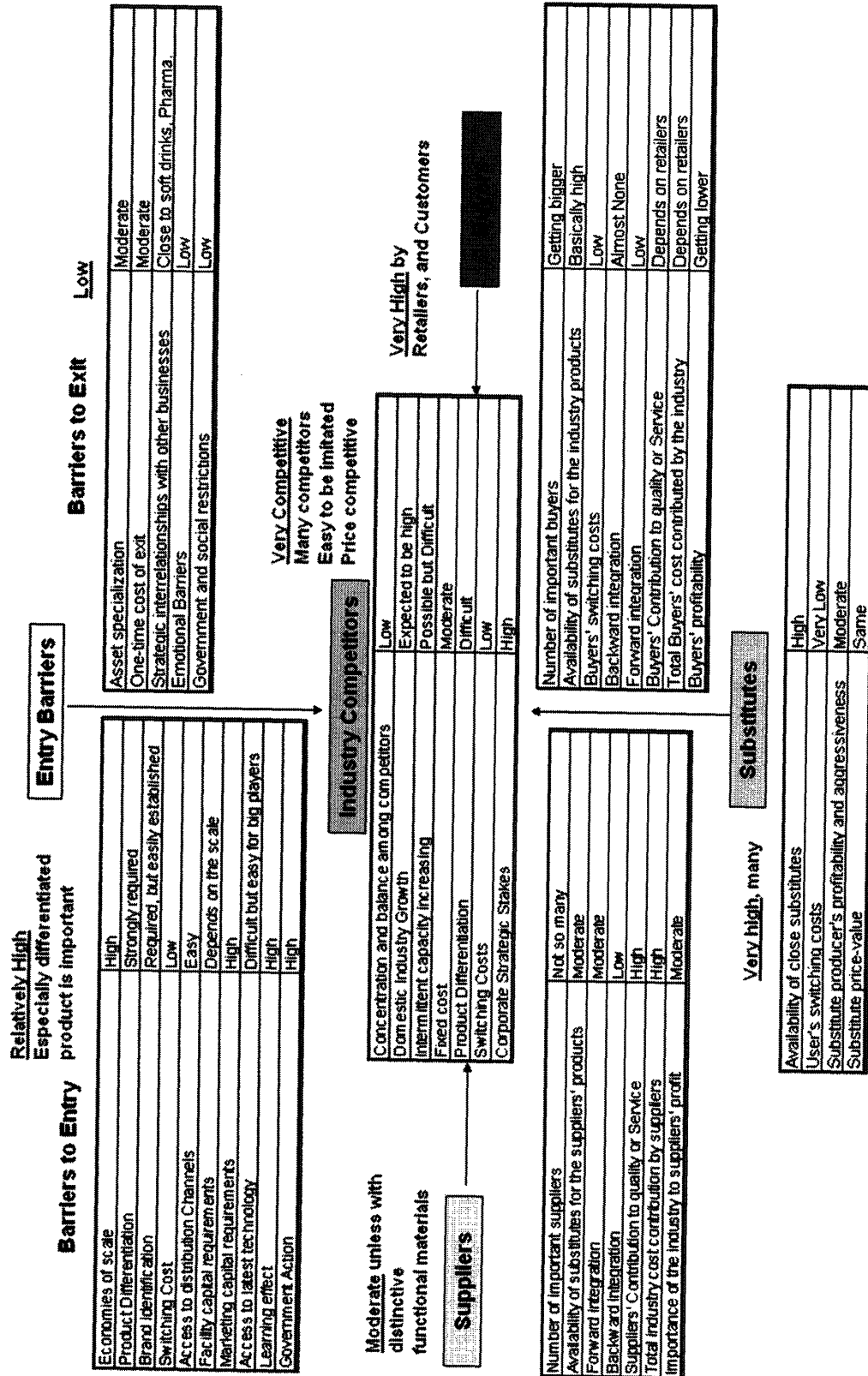


Exhibit 7.26 Five forces

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

New Entrants		
<b>Barriers to Entry</b>		
Economies of scale	High	Depends on the scale
Product Differentiation	Strongly required	It is difficult to do it unless with compelling functional materials.
Brand identification	Required, but easily established	Easily established with compelling product.
Switching Cost	Low	
Access to distribution Channels	Easy	Various channels
Facility capital requirements	Depends on the scale	
Marketing capital requirements	High	High Marketing cost
Access to latest technology	Difficult but easy for big players	
Learning effect	High	
Government Action	High	Government regulation on the labeling to proclaim the efficacy.

Industry Competitors		
<b>Rivalry Among Competitors</b>		
Concentration and balance among competitors	Low	Many competitors
Domestic Industry Growth	Expected to be high	
Intermittent capacity increasing	Possible but Difficult	Apparatus Industry
Fixed cost	Moderate	Easy to outsource
Product Differentiation	Difficult	Customer can switch brands very easily
Switching Costs	Low	
Corporate Strategic Stakes	High	Product and corporate brand strategy are critical.
<b>Barriers to Exit</b>		
Asset specialization	Moderate	Depends how vertically integrated.
One-time cost of exit	Moderate	Depends how vertically integrated.
Strategic interrelationships with other businesses	Close to soft drinks, Pharma.	
Emotional Barriers	Low	Relatively new business.
Government and social restrictions	Low	

Substitutes		
<b>Threat of Substitutes</b>		
Availability of close substitutes	High	Many substitutes
User's switching costs	Very Low	Consumers switch what they take based on the conditions frequently.
Substitute producer's profitability and aggressiveness	Moderate	
Substitute price-value	Same	

Buyers		
<b>Bargaining Power of Buyers</b>		
Number of important buyers	Getting bigger	Based on the macro-environments, it will increase.
Availability of substitutes for the industry products	Basically high	
Buyers' switching costs	Low	Restaurants and General consumers switch brands easily.
Backward integration	Almost None	
Forward integration	Low	
Buyers' Contribution to quality or Service	Depends on retailers	
Total Buyers' cost contributed by the industry	Depends on retailers	National chain stores have become stronger.
Buyers' profitability	Getting lower	Price competition.

Suppliers		
<b>Bargaining Power of Suppliers</b>		
Number of important suppliers	Not so many	
Availability of substitutes for the suppliers' products	Moderate	Low if the functional materials are developed
Forward integration	Moderate	High if the functional materials are developed
Backward integration	Low	
Suppliers' Contribution to quality or Service	High	Japanese customers have become very strict on this.
Total industry cost contribution by suppliers	High	Material cost are critical.
Importance of the industry to suppliers' profit	Moderate	Depends on how vertically integrated.

### Exhibit 7.26 Five forces (continued)

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

### Barriers to Entry

The barriers to entering the health food industry are relatively high, especially because an entrant needs a differentiated product. As mentioned in Section 7.1, government regulations monitor a firm's claims of efficacy or effectiveness of a certain product or function and what is put on product labels.

The food industry is basically an apparatus industry although its scale is relatively smaller than the beverage business. As such, a relatively large investment is required in order to achieve mass production. However, it would be easier for a firm to enter this industry if it only handles sales and marketing by receiving products from outsourced manufacturers.

In terms of technology, materials that are proven effective by a specific date should be developed and used to produce and sell differentiated products.

### Rivalry Among Competitors

Rivalry among competitors is very harsh because there are so many companies in the industry and less concentration among them—and more competitors are trying to enter, expecting strong market growth. The ambiguity of health foods themselves tends to make differentiation relatively difficult, although each manufacturer will try hard to make such a differentiation. Consequently, a product can be imitated and this leads to price competition.

Establishing a strong brand identity for both the company and its products is critical. Customers choose products based on their perceptions, what Kirin calls “perceptual quality,” as observed in the low alcohol business.

### Threat of Substitutes

There are many substitutes in this industry. The biggest substitute is the normally obtainable foods that people purchase throughout their daily lives. Many people believe that

nutrition plays an important role in health, and they believe that nutrition should come from ordinary foods. Therefore the likelihood of users' switching is very low.

#### Bargaining Power of Buyers

As seen in the customer segmentation, because there are various channels for selling the product, bargaining power resides with the retailers or end users. However, a recent trend in reorganization among chain retailers has increased the number of important buyers, which in turn makes switching costs from one product to another very low. Because buyers' profitability is low unless the product proves to have compelling efficacy, the pressure to lower the price tends to increase.

#### Bargaining Power of Suppliers

Manufacturers of health foods and functional foods have three primary types of suppliers involved in their products: raw materials, processors that make foods tasty and easy to take, and suppliers of packaging materials.

The bargaining power of suppliers is moderate because the industry's buying power is relatively large due to economies of scale. On the other hand, once particular materials are found to be effective, the suppliers' bargaining power becomes stronger unless the firm vertically integrates them.

Analysis of this industry suggests that since the health food and functional food market is a still growing market —

- It is imperative to develop compelling products with high efficacy, quality, and good taste, which will lead the firm to a stronger position.
- It is important to establish a competitive sales and marketing system to overcome buyer's bargaining power, which has recently become stronger.

- Development and supply of effective functional materials should be vertically integrated so they become an internal competitive advantage.

### **7.3.3.3 Competitive Positioning**

In this section I will analyze the competitive positioning of KYNS using Porter's Value Chain framework.

KYNS's competitive advantage arises primarily from its strong R&D functions derived from Kirin and Yakult, combined with its high-quality products. This competency is enhanced by three channels also derived from Kirin and Yakult: over-the-counter sales, mail-order sales, and door-to-door sales. See Exhibit 7.27 for a detailed analysis. The following are key primary activities that provide competitive advantage.

Operations: The company's two operations and production base from Kirin and Yakult excel in production process and quality assurance, so that safe and secure product can be manufactured and shipped. A wide variety of plants and processes offer equally wide variety of products especially beverages.

Sales and Marketing: KYNS has its own product development laboratories, and the sales functions from Kirin and Yakult cover wide channels, such as mass marketing for distributors and retailers, and direct marketing using Yakult Ladies and Yakult Beauty.



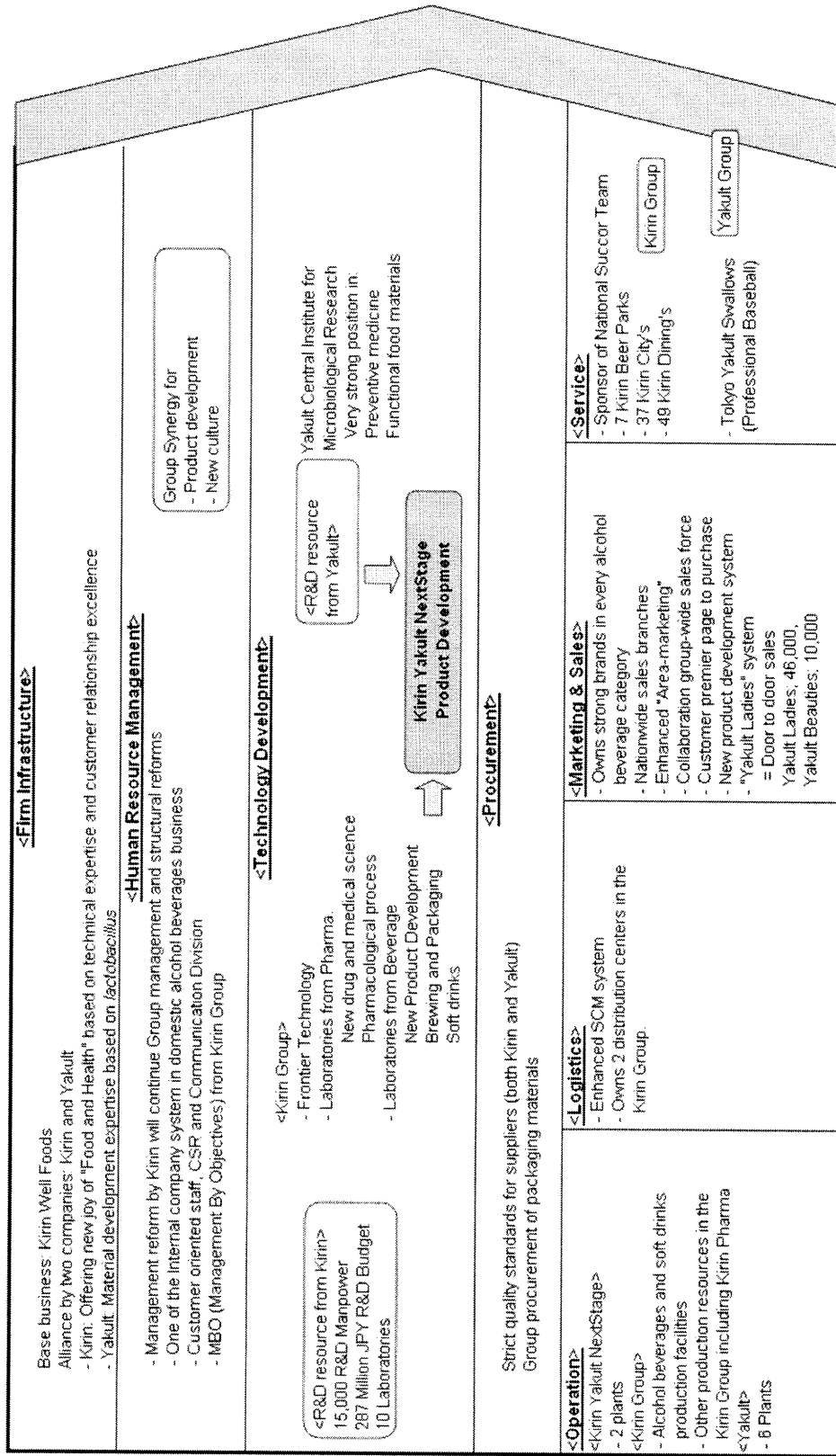


Exhibit 7.27 Value Chain analysis

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

### 7.3.4 The Strategic Agenda

Corporate strategic thrusts are the primarily action-oriented issues the firm has to address in order to achieve the desired strategic positioning. The statement of strategic thrusts should include:

- Specific planning challenges - the assignment of responsibilities at the corporate, business, and functional levels for the formulation and implementation of strategic programs addressing each strategic thrust.
- Relevant measurements of performance - identification of appropriate indicators to monitor the operational and strategic results associated with each thrust.

The mid-term business framework of KYNS was integrated into a strategic agenda that includes 16 strategic thrusts (see Exhibit 7.28), mapping of ownership and responsibilities into the organizational structure, identifying business processes that cut across organizational units, and monitoring through key performance metrics.

The set of strategic thrusts has been evaluated against the following quality factors:

1. *Comprehensiveness*: The agenda extends across all of KYNS's services, geographies, and market segments including customers, end-users, channels, and complementors.
2. *Stretch*: Performance measures for each thrust provides achievable but stretch goals for the organization.
3. *Monitoring & Control - Ease of implementation*: Milestones established throughout the process allow for continuous monitoring and change in strategy if and as required.
4. *Motivation – Quality of Working Environment*: The mission combined with clear strategic thrust energizes the organization with a common set of goals and flexibility to innovate and grow.
5. *Vulnerability*: No critical material vulnerabilities have been identified at this time, although the company should carefully watch the uncertainty and ambiguity of the market.

Strategic Thrusts	Organizational Units											Business Process	Performance Measurements		
	President, COO	Planning Department	CRM Department	Sales Department	Sales Branches	Marketing Department	Production Department	Plants	Product Development Department	Product Development Laboratory	Quality Assurance Department				
<b>Continuous development of compelling new product (function, taste, process technology)</b>															
1 Development of original functional material	1					2	1	2	C	1	1	1	B/CT	# of developed functional materials / # of new product / Increase of market share.	
2 Collaborate among Kirin's and Yakult's R&D	C					2	2	2	1	1	1	1	B/CT	- # of new products / year.	
3 Obtain evidences for health maintenance and enhancement	2					2	2	2	1	1	C	1	ICT	- # of patent applications by 2009.	
4 Progress management for R&D	1					2	1	2	C	1	1	1	1	Implementation of the Technology Road Map	
5 Alliance with external partners that have food process technology	1	C	2			2	1	1	1	1	1	1	B/CT	# of external partners and quality level of their production	
6 Clarification of in-house production and outsourcing	1	1				2	1	1	C	1	1	1	CE/CT	# of outsourcing firms, customer complaints about quality	
<b>Strengthening the direct marketing</b>															
7 Building dual communication infrastructure	2	1	C	1	1	1	1	1	1	1	2	2	CT/I	High quality relationship leads into more exposure and sales volume.	
8 Collaborate with Yakult Ladies	2	2	C	1	1	1	1	1	1	1	1	1	B/CT		
9 Establishing and executing the fulfillment infrastructure	2	2	C	1	1	1	1	1	2	2	2	2	CT/OE/I	Completion of system building by 2009	
10 Accumulate direct marketing skills, know-how's on CRM	2	2	C	1	1	1	1	1	1	1	1	1	CT/I	Increase of market share, revenue, and profit	
11 New relationship with drug stores	2	2	C	1	1	1	1	1	1	1	1	1	CT/I		
<b>Safe and secure product, customer's trust on the corporate quality</b>															
12 Complete traceability of raw materials		2				2	1	1	1	1	1	1	C	OE/I	Rate of self procurement by KINS by 2009. (Completion of self procurement by 2013)
13 Integrate the quality assurance system	2					2	1	1	2	2	2	2	C	OE/I	# of customer complaints
14 Enhance Corporate Social Responsibility	C	1	2	2	2	2	2	2	2	2	2	2	1	CC	Implementation of new system # of environmental dispute (=0) Energy saving rate <Comparison with 2006>
15 Develop skills and knowledges of employees	C	1	1	1	1	1	1	1	1	1	1	1	1	CC	Customer satisfaction, brand royalty index <Comparison with 2006>
16 Committed and autonomous executions	C	1	1	1	1	1	1	1	1	1	1	1	1	CC	# of suggestions, # of installed new systems and idea.
<b>Improved profit (high productivity)</b>															
17 Cut production cost	2	2							C	1	2	2	2	OE	Decrease of disposal due to process troubles. Production unit cost <Comparison with 2006>
18 Increase profit on the point of sales	2	2							C	1	2	2	2	OE	Decrease of discarded products <Comparison with 2006>

1- Key role  
 2-Support and concurrence  
 C-Champion  
 B-Business Model  
 OE-Operational Effectiveness  
 CT-Customer Targeting  
 I-Innovation  
 CC-Corporate Culture

**Exhibit 7.28 Strategic Agenda**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

Having established the Mission and Strategic Agenda for KYNS, I can now move forward to ensure that execution is aligned with the strategy. This is achieved through adapting the Delta Model by linking Customer Targeting, Operational Effectiveness, and the Innovation processes of the organization with the defined strategy. This process is discussed in the following three sections.

### **7.3.5 Customer Targeting**

Customer targeting, which is a marketing strategy, is aimed at attracting, satisfying, and retaining desirable customers which results in increased revenue streams for the organization.

#### **7.3.5.1 Customer targeting requirements**

I begin by assessing the customer targeting requirements associated with each strategic thrust identified for the business. Exhibit 7.29 presents a detailed review of requirements by strategic thrust.

This assessment shows that KYNS tends to rely on new product development at the early stage of the company. Therefore marketing requirements also tend to be associated with new product development.

Another key is how KYNS makes good use of the Yakult Ladies system which Yakult originally possessed as its door-to-door sales functions. These ladies were trained so they were knowledgeable enough to create close bonds with each customer or end user.

Both of these important keys need some time to be fully executed so KYNS can achieve the goals set in the strategic agenda. They need a good balance of time, financial resources, and performance.

	<b>Strategic Thrust</b>	<b>Customer Targeting Requirements</b>
1	Development of original functional material	Identify specific needs of customer from each tier, and identify effectiveness of each material.
2	Collaboration between Kirin and Yakult R&D	Make best use of customer relationship excellence from both parties, and use the strength of the brand values.
3	Obtain evidence for health maintenance and enhancement	Explain in a way customers can easily understand with various communication tools.
4	Progress management for R&D	Develop and nurture new products quickly.
5	Alliance with external partners that have food process technology	Identify specific factors for customers to take in easy and tasty conditions. Target specific end users who will benefit from how foods are processed.
6	Clarification of in-house production and outsourcing	Identify strengths that should continue to be produced with information and messages on products delivered to customer.
7	Build dual communication infrastructure	Establish dual communication tools to inaugurate. Improve and modify the framework in quick response.
8	Collaborate with Yakult Ladies	Utilize the strength of this system, and modify to overwhelming excellence. Train other sales personnel based on this system.
9	Establish and execute the fulfillment of infrastructure	Assign dedicated business relationship personnel, identify customer tiers to be installed, develop detailed plans. Obtain necessary complementors to support planning. Execute as an integrated system.
10	Accumulate direct marketing skills and know-how about CRM	Form a task force to design a business model that accommodate customer benefit for each tier.
11	New relationship with drugstores	Specify retailers who are customer-oriented not price-oriented, and can be expected to establish long-term relationships with us. Form a joint team to maximize customer benefits.
12	Complete traceability of raw materials	Secure safety and security of the customer.
13	Integrate the quality assurance system	Comply with assessment system to offer absolutely safe and secure products to customers.

(continued next page)

	<b>Strategic Thrust</b>	<b>Customer Targeting Requirements</b>
14	Enhance Corporate Social Responsibility	Specify the problems and reasons for return and discard throughout the supply chain. Plan to develop products/merchandizing materials with "green" purchase and utilization.
15	Develop skills and knowledge of employees	Identify key strengths and skills required for target markets of Kirin Yakult NextStage. Build joint program among the Kirin Group, Yakult, and network complementors.
16	Committed and autonomous executions	Set up the evaluation system for each employee.
17	Cut production costs	Identify the cause of high production cost. Target to cut the raw material cost.
18	Increase profit on the point of sales	Specify the customer target to make more profit.

### **Exhibit 7.29 Customer targeting requirements from thrusts**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

#### **7.3.5.2 Competitive Profile and Environmental Scan**

As the analysis of the industry structure has shown, the health food market is in a growth stage. Although there are many competitors, and products with mixed quality, efficacy, and effectiveness, the possibilities for growth remains huge. Some key questions to be asked include:

- What external environmental forces are shaping today's market?
- What factors determine the speed of evolution?
- What issues pose opportunities and threats in the potential global market?

In this section, I conduct a broad scan of the environment by first comparing KYNS to a competitor (Suntory) (see Exhibit 7.30), followed by an in-depth analysis of critical factors. Six major strategic positions serve as the criteria for judging the strategic performance of customer targeting: Product Strategy, Customer Strategy, Distribution Strategy, Efficient Price Strategy, Promotion and Advertising Strategy, and Service Strategy.

Indicators	Very Weak	Weak	Even	Strong	Very Strong
<b>1. Product Strategy</b>					
Sales growth			●		
Market share		●			
Relative market share		●			
Breadth of product line, market coverage, degree of differentiation			●		
Rate of successful new product introductions		●			
Product bundling		●			
<b>2. Customer strategy</b>					
Customer share		●			
Customer retention		●			
Profitability by customer		●			
Customer involvement in joint product development		●			
Degree of customization of product offering		●			
<b>3. Distribution strategy</b>					
Efficiency of distribution channels		●			
Customer service levels				●	
Distribution costs per channel	●				
Distribution and sales force productivity		●			
<b>4. Price Strategy</b>					
Price sensitivity		●			
Pricing of marketing mix		●			
<b>5. Promotion and advertising strategy</b>					
Product segmentation			●		
Brand acceptance			●		
Marketing intelligence: Ability to anticipate customer needs and so detect changes in marketing trends				●	
<b>6. Service strategy</b>					
Service growth rate				●	
Breadth of service offering			●		
Degree of customization of			●		
Service profitability		●			
Service performance per		●			

**Relevant Competitor: Suntory**

**Exhibit 7.30 Competitive profile of customer targeting**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

Exhibit 7.31 further explores the environment using critical factors such as Market Factors, Competitive Factors, Economic Factors, Government and Political Factors, Regulatory Factors, Technological Factors, Legal Factors, Social Factors, Human Resource and Labor Factors, and Environmental Factors.

From this analysis, I found that KYNS's sales and marketing function is relatively weaker than Suntory, its primary competitor. Suntory has reportedly focused on the mail-order sales channel rather than enhancing its over-the-counter sales channel. It is important for KYNS to build a strong position in each channel and create synergies among these three main channels—door-to-door, mail-order, and over-the-counter sales—by identifying and marketing to the tastes and preferences of end users. In contrast, an obvious KYNS strength is that once a product or service is introduced, its quality is perceived by the customer to be very high.

Critical External Factors	Impact	
	Positive (Opportunities)	Negative (Threats)
<b>Market Factors</b> - Expected ¥2 trillion market in 2015 - Demographic change: more elder people - Stronger bargaining power of buyers - Expansion of general drug sales.	<ul style="list-style-type: none"> <li>● More business opportunities</li> <li>● More sales per customer</li> </ul>	<ul style="list-style-type: none"> <li>● More competitors</li> <li>● Tougher price competition</li> <li>● Conflict with drug business.</li> </ul>
<b>Competitive Factors</b> - Suntory focuses on mail-order sales - Price competitive with retailers	<ul style="list-style-type: none"> <li>● Strong brand names</li> <li>● Three channels (Over-the-counter, Mail-order, Door-to-door)</li> </ul>	<ul style="list-style-type: none"> <li>● Expected to become weaker against mass marketing channels</li> </ul>
<b>Economic Factors</b> - Japanese economy is improving.	<ul style="list-style-type: none"> <li>● More sales per customer</li> </ul>	<ul style="list-style-type: none"> <li>● Value seeking customers</li> </ul>
<b>Government and Political Factors</b>		

(continued next page)



<b>Regulatory Factors</b> - Strict nutrition labeling monitored by government.		<ul style="list-style-type: none"> <li>● Uncertainty of efficacy or effectiveness, hard to appeal to customers</li> </ul>
<b>Technological Factors</b> - IT trends keep changing	<ul style="list-style-type: none"> <li>● More and customized communication methods to customers</li> </ul>	<ul style="list-style-type: none"> <li>● Easily imitated.</li> <li>● Many substitute services</li> </ul>
<b>Legal Factors</b>		
<b>Social Factors</b> - Recent criticism of effectiveness of foods. - Customers stricter on product safety and security.	<ul style="list-style-type: none"> <li>● Strong quality assurance background in Kirin and Yakult.</li> </ul>	<ul style="list-style-type: none"> <li>● Expensive cost of product development and assessment.</li> </ul>
<b>Human Resources and Labor Factors</b> - Trend toward less work time among Japanese workers	<ul style="list-style-type: none"> <li>● Effective marketing channels and production bases in Kirin and Yakult.</li> </ul>	<ul style="list-style-type: none"> <li>● Need productivity improvement.</li> </ul>
<b>Environmental Factors</b>	<ul style="list-style-type: none"> <li>● Enforced CSR policy by Kirin Group.</li> </ul>	<ul style="list-style-type: none"> <li>● Stricter environmental restrictions.</li> </ul>

### Exhibit 7.31 Environmental scan (Customer targeting)

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

#### 7.3.5.3 Internal Scrutiny

In this analysis I applied this process only to the Tiers, not the End User Groups because it is easier to obtain the “big picture” of the framework when studying KYNS’s strategic planning.

As discussed in the value chain analysis, the company has competencies in product development, R&D, and three sales channels (over-the-counter sales, mail-order sales, and door-to-door sales). These are strong competencies for both Kirin and Yakult in their core businesses. However, there is no guarantee that their experience can be duplicated successfully in the health food business.

The business should be tested for further market expansion and growth of the company. Exhibit 7.32 shows an analysis of KYNS’s present customer targeting activities.

Decision Category	Description of Policy	Strengths	Weaknesses
Marketing Intelligence	<b>Tier 1: Door-to-door sales:</b> <ul style="list-style-type: none"> <li>● Close bonding with customers or new opportunities of business.</li> </ul>	<ul style="list-style-type: none"> <li>● Yakult's direct-marketing know-how and Kirin's customer relationship excellence could be combined.</li> </ul>	<ul style="list-style-type: none"> <li>● Takes time to establish close bonding with customers.</li> </ul>
	<b>Tier 2: Mail-order sales:</b> <ul style="list-style-type: none"> <li>● Create and maintain mutually beneficial relationship.</li> <li>● On-line health solution provider.</li> <li>● Networking opportunity</li> </ul>	<ul style="list-style-type: none"> <li>● IT technology can support this system.</li> <li>● Accumulating experience through current products.</li> </ul>	<ul style="list-style-type: none"> <li>● Lacks skills. Need to look at intangible benefits.</li> </ul>
	<b>Tier 3: Over-the-counter sales 1:</b> <ul style="list-style-type: none"> <li>● Contribute health solutions for retailers to offer their customers.</li> </ul>	<ul style="list-style-type: none"> <li>● Kirin's existing customer relationship excellence.</li> </ul>	<ul style="list-style-type: none"> <li>● Can easily become a price war.</li> <li>● Easily switched to other brands if service levels decline.</li> </ul>
	<b>Tier 4: Over-the-counter sales 2:</b> <ul style="list-style-type: none"> <li>● Differentiate from competitors with compelling product.</li> </ul>	<ul style="list-style-type: none"> <li>● High-quality product.</li> <li>● Capabilities of product development once compelling materials are obtained.</li> </ul>	<ul style="list-style-type: none"> <li>● Can easily become price war.</li> <li>● Easily switched to other brands.</li> <li>● Easily imitated by competitors with similar products.</li> </ul>
	<b>Tier 5: Over-the-counter sales 3:</b> <ul style="list-style-type: none"> <li>● Stress competitive price and treated as normal foods.</li> </ul>	<ul style="list-style-type: none"> <li>● Enough experience with beverages, including bundling strategies.</li> </ul>	<ul style="list-style-type: none"> <li>● Could stimulate a price war.</li> <li>● Easily switched to other brands.</li> </ul>
Defining and Analyzing Markets	<b>Tier 1: Door-to-door sales:</b> <ul style="list-style-type: none"> <li>● Main competitors are other cosmetics firms who have a similar system.</li> </ul>	<ul style="list-style-type: none"> <li>● Kirin's customer relationship excellence could be combined.</li> </ul>	<ul style="list-style-type: none"> <li>● Takes time to establish close bonding with customers.</li> </ul>
	<b>Tier 2: Mail-order sales:</b> <ul style="list-style-type: none"> <li>● Mainly end users and some health care providers.</li> <li>● Customers who visit the web site for a specific purpose.</li> </ul>	<ul style="list-style-type: none"> <li>● IT technology can support this system.</li> <li>● Accumulate experience through current products.</li> </ul>	<ul style="list-style-type: none"> <li>● Insufficient skills.</li> <li>● Look at intangible benefits.</li> </ul>
	<b>Tier 3: Over-the-counter sales 1:</b> <ul style="list-style-type: none"> <li>● Mainly those who work for retailers, and a wide range of end users.</li> <li>● Bundling with drugs.</li> </ul>	<ul style="list-style-type: none"> <li>● Experiences through pharmaceutical business.</li> </ul>	<ul style="list-style-type: none"> <li>● Experience with pharmaceutical business not necessarily for drug stores.</li> </ul>
	<b>Tier 4: Over-the-counter sales 2:</b> <ul style="list-style-type: none"> <li>● Mainly those who work for retailers, and a wide range of end users.</li> </ul>	<ul style="list-style-type: none"> <li>● Experience with beverages will be strong with these channels.</li> </ul>	<ul style="list-style-type: none"> <li>● Stronger bargaining power of buyers.</li> </ul>
	<b>Tier 5: Over-the-counter sales 3:</b> <ul style="list-style-type: none"> <li>● Mainly those who work for retailers, and a wide range of end users.</li> </ul>	<ul style="list-style-type: none"> <li>● Experience with beverages will be strong with these channels.</li> </ul>	<ul style="list-style-type: none"> <li>● Much stronger bargaining power of buyers.</li> <li>● Very price elastic.</li> </ul>

(continued next page)

Decision Category	Description of Policy	Strengths	Weaknesses
Product Strategies	<b>Tier 1: Door-to-door sales:</b> <ul style="list-style-type: none"> <li>● Specific products will be offered to closely bonded customers.</li> <li>● Wide variety of products will be offered to potential customers.</li> </ul>	<ul style="list-style-type: none"> <li>● Could be bundled with pharmaceutical products or services.</li> <li>● Good way to train personnel and learn from customer.</li> </ul>	<ul style="list-style-type: none"> <li>● High investment expected in order to keep satisfying this tier.</li> </ul>
	<b>Tier 2: Mail-order sales:</b> <ul style="list-style-type: none"> <li>● It is important to keep convincing customers to stay with the company's products and services.</li> <li>● Close communication will build common values with customers.</li> </ul>	<ul style="list-style-type: none"> <li>● IT technology can support this system.</li> <li>● Logistics system from both Kirin and Yakult will work as strong complementors.</li> </ul>	<ul style="list-style-type: none"> <li>● Monitoring customer relationships will be critical since it is hard to maintain direct communications.</li> </ul>
	<b>Tier 3: Over-the-counter sales 1:</b> <ul style="list-style-type: none"> <li>● Offer as many products as possible with health solution services.</li> </ul>	<ul style="list-style-type: none"> <li>● Cross merchandizing with health drinks.</li> <li>● Shared sales and marketing resources.</li> </ul>	<ul style="list-style-type: none"> <li>● Possible fierce competition in commodity market.</li> </ul>
	<b>Tier 4: Over-the-counter sales 2:</b> <ul style="list-style-type: none"> <li>● Offer as many and differentiated products as possible with reasonable price.</li> </ul>	<ul style="list-style-type: none"> <li>● Cross merchandizing with other beverages.</li> <li>● Shared sales and marketing resources.</li> </ul>	<ul style="list-style-type: none"> <li>● Once sales decline, then easily removed from store shelves.</li> </ul>
	<b>Tier 5: Over-the-counter sales 3:</b> <ul style="list-style-type: none"> <li>● Offer as many products as possible with low price.</li> </ul>	<ul style="list-style-type: none"> <li>● Cross merchandizing with other beverages.</li> <li>● Shared sales and marketing resources.</li> </ul>	<ul style="list-style-type: none"> <li>● Easily imitated with very competitive price.</li> </ul>
New Products Development and Introduction	<ul style="list-style-type: none"> <li>● Continuous introduction of new products is crucial for company's future growth.</li> </ul>	<ul style="list-style-type: none"> <li>● Potentially new and larger revenue.</li> <li>● Opportunity to synergize this joint venture.</li> <li>● Better response to customers' needs.</li> </ul>	<ul style="list-style-type: none"> <li>● Depends on the functional materials developed.</li> <li>● Lack of new products.</li> <li>● Timing is also critical.</li> <li>● Stretch work force thin.</li> </ul>

(continued next page)

Decision Category	Description of Policy	Strengths	Weaknesses
Distribution Strategy	<b>Tier 1: Door-to-door sales:</b> <ul style="list-style-type: none"> <li>● Direct channel through human relationship with either intermediate customers or end users.</li> <li>● Referral from highly satisfied customers.</li> </ul>	<ul style="list-style-type: none"> <li>● Full use of Yakult Ladies and Yakult Beauty.</li> <li>● Opportunity to train personnel for new type of distribution.</li> </ul>	<ul style="list-style-type: none"> <li>● Need to train Yakult Ladies and beauties on particular food product.</li> <li>● Need to expand scope of customer base.</li> </ul>
	<b>Tier 2: Mail-order sales:</b> <ul style="list-style-type: none"> <li>● Direct channel to customers or end users through web or mail.</li> <li>● Referral from highly satisfied customers.</li> </ul>	<ul style="list-style-type: none"> <li>● Possibly to expand customer base through existing customers' network.</li> </ul>	<ul style="list-style-type: none"> <li>● Once quality or distribution troubles happen, it is hard to bring customers back though after establishing bonding.</li> </ul>
	<b>Tier 3: Over-the-counter sales 1:</b> <ul style="list-style-type: none"> <li>● Direct channel to retailers.</li> <li>● Indirect channel to end users.</li> </ul>	<ul style="list-style-type: none"> <li>● Existing distribution system.</li> </ul>	<ul style="list-style-type: none"> <li>● Bargaining power of buyers could cause higher costs.</li> </ul>
	<b>Tier 4: Over-the-counter sales 2:</b> <ul style="list-style-type: none"> <li>● Direct channel to retailers.</li> <li>● Indirect channel to end users.</li> </ul>	<ul style="list-style-type: none"> <li>● Existing distribution system.</li> <li>● POS (Point of sales) data.</li> </ul>	<ul style="list-style-type: none"> <li>● Bargaining power of buyers could cause higher costs.</li> </ul>
	<b>Tier 5: Over-the-counter sales 3:</b> <ul style="list-style-type: none"> <li>● Direct channel to retailers.</li> <li>● Indirect channel to end users.</li> </ul>	<ul style="list-style-type: none"> <li>● Existing distribution system.</li> </ul>	<ul style="list-style-type: none"> <li>● Bargaining power of buyers could cause higher costs.</li> </ul>
Price Strategy	<b>Tier 1: Door-to-door sales:</b> <ul style="list-style-type: none"> <li>● High price for customers with long-term relationship.</li> <li>● Need to prepare low price line-up for new customers.</li> </ul>	<ul style="list-style-type: none"> <li>● High revenue and high margin from loyal customers.</li> <li>● High revenue from new customers.</li> </ul>	<ul style="list-style-type: none"> <li>● Need to deeply understand customers' needs, and then granularly customized service.</li> </ul>
	<b>Tier 2: Mail-order sales:</b> <ul style="list-style-type: none"> <li>● Need to prepare moderate pricing.</li> </ul>	<ul style="list-style-type: none"> <li>● Customers are willing to pay once the sound relationships are established.</li> </ul>	<ul style="list-style-type: none"> <li>● Need to avoid price competition with competitors.</li> <li>● Need to avoid too low price.</li> </ul>
	<b>Tier 3: Over-the-counter sales 1:</b> <ul style="list-style-type: none"> <li>● Need to take good balance between the product quality / efficacy or effectiveness and pricing.</li> </ul>	<ul style="list-style-type: none"> <li>● Bundling with beverages, then negotiable with buyers.</li> </ul>	<ul style="list-style-type: none"> <li>● Getting stronger buyer's power.</li> </ul>
	<b>Tier 4: Over-the-counter sales 2:</b> <ul style="list-style-type: none"> <li>● Need to take good balance between the product quality / efficacy or effectiveness and pricing.</li> </ul>	<ul style="list-style-type: none"> <li>● Bundling with beverages, then negotiable with buyers.</li> <li>● Popular product does not have to be low price.</li> </ul>	<ul style="list-style-type: none"> <li>● Once the sales goes down, and then easily removed from the shelf.</li> <li>● Yet bargaining power of buyers could cause higher costs.</li> </ul>
	<b>Tier 5: Over-the-counter sales 3:</b> <ul style="list-style-type: none"> <li>● Need to be price competitive.</li> </ul>	<ul style="list-style-type: none"> <li>● Bundling with beverages, then negotiable with buyers.</li> </ul>	<ul style="list-style-type: none"> <li>● Limited profits.</li> </ul>

(continued next page)

<b>Decision Category</b>	<b>Description of Policy</b>	<b>Strengths</b>	<b>Weaknesses</b>
<b>Sales Strategy</b>	<ul style="list-style-type: none"> <li>● Need to be careful to offer benefits or values, not price.</li> <li>● &lt;Customer-driven not competitor-driven&gt;</li> <li>● Need standardized customer engagement to ensure service quality and business chance.</li> </ul>	<ul style="list-style-type: none"> <li>● Door-to-door sales can achieve horizontal breadth.</li> <li>● Cross-merchandizing or bundling with beverages or daily products.</li> </ul>	<ul style="list-style-type: none"> <li>● Sometimes higher cost associated.</li> <li>● Easily tend to fall into the price war.</li> </ul>
<b>Promotion and Advertising Strategy</b>	<ul style="list-style-type: none"> <li>● For the time being, focus on Japanese market.</li> <li>● Make best use of brand name both from Kirin and Yakult.</li> <li>● Web presence</li> </ul>	<ul style="list-style-type: none"> <li>● Strong brand names.</li> </ul>	<ul style="list-style-type: none"> <li>● Basically a "Push" strategy, to elevate to a "Pull" strategy, still will take time.</li> <li>● Sometimes hard to target at right customer segments.</li> </ul>
<b>Service Strategy</b>	<ul style="list-style-type: none"> <li>● For loyal customers in Tier 1 and 2, integrated and customized services as the health solution.</li> <li>● More accessibility</li> <li>● Ensure customers' satisfaction by everyone in the firm.</li> </ul>	<ul style="list-style-type: none"> <li>● Experiences on customer relationship through beverage business.</li> </ul>	<ul style="list-style-type: none"> <li>● High cost for maintenance.</li> <li>● Need careful customer management to avoid any risk of customers' feeling ignored.</li> </ul>
<b>Marketing Organization and Managerial Infrastructure</b>	<ul style="list-style-type: none"> <li>● Dedicated department.</li> <li>● Build on geographical teams.</li> </ul>	<ul style="list-style-type: none"> <li>● Know customer well at front-end.</li> </ul>	<ul style="list-style-type: none"> <li>● Risk of forming functional silos.</li> <li>● Time consuming task to build customer relationships.</li> </ul>

**Exhibit 7.32 Customer targeting policies**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

Reviewing KYNS's marketing intelligence capability, I found that KYNS's sources of intelligence come from understanding its strengths and weaknesses, especially in analyzing markets and product strategies. Nevertheless, it is urgent that KYNS develop as many functional materials as possible so the company can convert its competency in new product development to create distinctive new products in the industry.

In sales and marketing, the analysis suggests that KYNS has not been as successful in distinguishing itself in Tiers 3, 4, and 5 in distribution and pricing strategy. The company might wish to look into reforming its relationships with these tiers.

#### **7.3.5.4 Customer Targeting Strategic Agenda**

Having identified customer targeting requirements, and conducted an environmental scan and internal scrutiny based on information supplied by the company, I can now prepare the strategic thrusts for KYNS's customer targeting. Eight specific thrusts as shown in Exhibit 7.33, with owners and primary and secondary participants for each are formulated. The type of business process and key performance measures for each are also identified. Key thrusts are summarized as follows:

- Develop new products and reorganize the current line-up. This is crucial to maximizing benefits to customers.
- Establish more customer communication tools.
- Reorganize existing channels (Tiers 3, 4, and 5), and enhance channels for Tiers 1 and 2 to build closer bonds with customer (including end users).

Strategic Thrusts	Organizational Units												Business Process	Performance Measurements
	President, COO	Planning Department	CRM Department	Sales Department	Sales Branches	Marketing Department	Production Department	Plants	Product Development Department	Product Development Laboratory	Quality Assurance Department			
1 Develop compelling new products and services based on customers' benefits	1					2	1	2	C	1	1	1	I/CT	Number of new product
2 Reorganize current product line-up combined with new product development to maximize customers' benefits	1		1			C	2	2	1	1	2	2	CT/I	Revenue Market share Number of product
3 Establish customer communication tools through IT so as to build the one-to-one marketing	2					C	2	2	1	1	2	2	I/CT	Product recognition rate Product preference rate Attractive web pages.
4 Prepare various points of contact with customers utilizing Yakult Ladies and the Group infrastructure	1		C	1	1	1	2	2	2	2	2	2	CT/OE	Revenue Profit Market share
5 Enhance mail-order sales through dual communication with customers	2		C	1		1	2	2	2	2	2	2	CT	Number of registered customers
6 Reorganize geographical segments for sales and marketing			1	C	1	1							OE	Operating profit
7 Reorganize existing channels (Tier 3,4,5) and enhance Tier 1,2 channels.	1		C	1		1	2		1	2		2	OE/CC	Operating profit
8 Improve skills of sales force through successful experiences and training			1	C	1	1	2		2		2	2	CC/OE	Implemented systems, classes

- 1- Key role
- 2-Support and concurrence
- C-Champion
- B-Business Model
- OE-Operational Effectiveness
- CT-Customer Targeting
- I-Innovation
- CC-Corporate Culture

**Exhibit 7.33 Customer targeting strategic agenda**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

### 7.3.6 Operational Effectiveness

#### 7.3.6.1 Operational effectiveness requirements

Operational effectiveness is a supply-chain strategy. Similar to customer targeting, I prepared the operational effectiveness requirements associated with each strategic thrust identified for the business. See Exhibit 7.34 for a detailed review of requirements by strategic thrust.

	Strategic Thrust	Operational Effectiveness Requirements
1	Development of original functional material	<ul style="list-style-type: none"> <li>● Collaborate with all R&amp;D resource in the Group and external institutes such as universities.</li> </ul>
2	Collaborate among Kirin's and Yakult's R&D	<ul style="list-style-type: none"> <li>● Share R&amp;D workforce efficiently.</li> </ul>
3	Obtain evidence for health maintenance and enhancement	<ul style="list-style-type: none"> <li>● Obtain accountable complementors for evaluation and internal enhancement of analytical technologies.</li> </ul>
4	Progress management for R&D	<ul style="list-style-type: none"> <li>● Build R&amp;D roadmap to prioritize and efficiently develop functional materials and products.</li> </ul>
5	Alliance with external partners that have food process technology	<ul style="list-style-type: none"> <li>● Specify what food process technology is needed.</li> </ul>
6	Clarify in-house production and outsourcing	<ul style="list-style-type: none"> <li>● Balance between company's technological core competencies when outsourcing</li> <li>● Identify production modules that could be outsourced.</li> </ul>
7	Building dual communication infrastructure	<ul style="list-style-type: none"> <li>● Build a customer database that is registered through special web pages.</li> </ul>
8	Collaborate with Yakult Ladies	<ul style="list-style-type: none"> <li>● Train an efficient sales and marketing workforce so products flow in the same channel as their counterparts, such as beverages.</li> </ul>
9	Establish and execute a fulfillment infrastructure	<ul style="list-style-type: none"> <li>● Establish automatic replenishment system based on customer database.</li> </ul>
10	Accumulate direct marketing skills and CRM know-how	<ul style="list-style-type: none"> <li>● Focus on mail-order sales and door-to-door sales (Tiers 1 and 2).</li> </ul>
11	New relationship with drug stores	<ul style="list-style-type: none"> <li>● Focus on service negotiation, not price negotiation.</li> </ul>
12	Complete traceability of raw materials	<ul style="list-style-type: none"> <li>● Establish quality evaluation system for raw materials.</li> <li>● Select accountable suppliers, and purchase directly.</li> </ul>
13	Integrate the quality assurance system	<ul style="list-style-type: none"> <li>● Total coverage from raw material to sales.</li> </ul>

**Exhibit 7.34 Operational effectiveness from thrusts**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.



The assessment shows that R&D competencies should be used to build strong collaborations between Kirin Group and Yakult, and effectively use functional material development and product development. In the same line, it is also important that KYNS secure a reliable source for safe raw materials with traceability, for the sake of customers.

The acquired competence of the door-to-door sales channel, which is so successfully used by Yakult Ladies, must not be wasted but used to enhance product and service quality. It depends on training a sales and marketing workforce in an efficient manner.

#### **7.3.6.2 Competitive Profile and Environmental scan**

I conducted a broad scan of the environment by first comparing KYNS to a competitor (Suntory), followed by an in-depth analysis of critical factors (see Exhibit 7.35). In doing this, three major strategic positions serve as the primary criteria for measuring the performance of operational effectiveness: Procurement Measurements, Manufacturing Measurements, and Distribution Measurements. Exhibit 7.36 further explores the environment based on the same critical factors as were used for customer targeting.

Indicators	Very Weak	Weak	Even	Strong	Very Strong
<b>1. Procurement Measurements</b>					
Cost of procured goods		●			
Purchasing administrative costs			●		
Inventory turnover		●			
Service Quality		●			
Vender relationships			●		
<b>2. Manufacturing Measurements</b>					
Cost		●			
Delivery				●	
Quality				●	
Flexibility to volume changes		●			
Flexibility to new product introduction				●	
<b>3. Distribution Measurements</b>					
Efficiency of distribution channels		●			
Customer service levels			●		
Distribution costs				●	
Distribution and sales force productivity		●			

**Relevant Competitor: Suntory**

**Exhibit 7.35 Competitive profile of operational effectiveness**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

Critical External Factors	Impact	
	Positive (Opportunities)	Negative (Threats)
<b>Market Factors</b> - Expected 12 trillion market in 2015 - Demographic change: more elder people.	<ul style="list-style-type: none"> <li>● Technology expertise and customer relationship excellence to introduce new products efficiently.</li> </ul>	<ul style="list-style-type: none"> <li>● More competition among the same food category such as: diet, supplement etc.</li> </ul>
<b>Competitive Factors</b> - Suntory is focusing on the mail-order sales tier - Price competitive in the retailers	<ul style="list-style-type: none"> <li>● Strong existing logistics system from Kirin especially for Tier 3.</li> </ul>	<ul style="list-style-type: none"> <li>● More competitions in the same channel.</li> </ul>
<b>Economic Factors</b> - Japanese economy is improving.	<ul style="list-style-type: none"> <li>● More options for recruiting.</li> </ul>	<ul style="list-style-type: none"> <li>● Increasing labor cost.</li> </ul>
<b>Government and Political Factors</b>		
<b>Regulatory Factors</b> - Under the strict nutrition labeling by the government.	<ul style="list-style-type: none"> <li>● Accumulate skills and knowledge on food business for future productive operation.</li> </ul>	<ul style="list-style-type: none"> <li>● Increasing cost during the test phases.</li> </ul>
<b>Legal Factors</b>		
<b>Technological Factors</b> - Speed of product development. - Speed of functional food materials. - Trend of IT changes.	<ul style="list-style-type: none"> <li>● Collaboration between Kirin Group and Yakult.</li> </ul>	<ul style="list-style-type: none"> <li>● Increasing sunk cost.</li> </ul>
<b>Social Factors</b> - Shift of Japanese demographic trend to older.	<ul style="list-style-type: none"> <li>● More skilled and experienced work force.</li> </ul>	<ul style="list-style-type: none"> <li>● Harder to recruit younger and talented people.</li> </ul>
<b>Human Resources and Labor Factors</b> - Trend of less work time among Japanese workers	<ul style="list-style-type: none"> <li>● More sales workforce from Kirin Group and Yakult.</li> </ul>	<ul style="list-style-type: none"> <li>● Implementation of the working hours reduction policy.</li> </ul>
<b>Environmental Factors</b>	<ul style="list-style-type: none"> <li>● Enforced CSR policy by Kirin Group.</li> </ul>	<ul style="list-style-type: none"> <li>● Stricter environmental restrictions.</li> </ul>

### Exhibit 7.36 Environmental Scan (Operational effectiveness)

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

This analysis indicates that thanks to the accumulated experiences of Kirin and Yakult, Manufacturing Measurements is stronger for KYNS in Delivery, Quality, and Flexibility to New Product Introduction. Therefore, a wide range of competencies in manufacturing and distribution should be employed so that KYNS produces and sells high-

quality products. An excellent quality assurance system accumulated from various experiences can be deployed. On the other hand, a significantly different product, such as food, should be carefully handled since standardization of quality in food processing is a new area for groups whose main business has been liquid-based products.

Another issue is procurement of raw materials, which KYNS has not yet obtained resolved satisfactorily. In addition, effective information gathering and utilization of the voice of the customer, are critical, and operational efficiency, productivity, and cost-cutting cannot be forgotten.

### **7.3.6.3 Internal Scrutiny**

Similar to customer targeting, Exhibit 7.37 shows a detailed analysis of KYNS's present operational effectiveness policies. Reviewing the policy suggests that:

- KYNS is expected to excel in manufacturing and quality assurance, which are derived from the cumulative and competitive advantages of both Kirin and Yakult.
- Food processing technologies, including quality assurance, is one of the most important factors for producing tasty products, no matter whether in liquid or solid form. This should be learned from external complementors and vertically integrated.
- Raw material procurement should also be vertically integrated by switching from outsourcing contractors to an internal procurement system that secures the traceability of materials' origins and their safety.
- Success for a company like KYNS depends on the quality of its people. Therefore the entire operational effectiveness depends on labor force recruiting and training. Training

existing people and recruiting good people should be executed in balanced manner to maximize the sales and marketing functions begun by Yakult Ladies.

Decision Category	Description of Policy	Strengths	Weaknesses
Supply Chain Intelligence	<ul style="list-style-type: none"> <li>● Make best use of existing supply chain.</li> <li>● Contribute to the profit improvement.</li> </ul>	<ul style="list-style-type: none"> <li>● Economies of scale by co-procurement as the Group.</li> </ul>	<ul style="list-style-type: none"> <li>● Uncertainty of what kind of raw materials are used for new products.</li> </ul>
Selection, Evaluation, and Development of Suppliers Vertical Integration	<ul style="list-style-type: none"> <li>● Complete traceability of raw materials: 100% raw materials procurement by the company itself.</li> </ul>	<ul style="list-style-type: none"> <li>● Existing quality assurance and evaluation technologies and skills.</li> </ul>	<ul style="list-style-type: none"> <li>● Possible quality issues due to the raw material procurement by outsourced firms.</li> </ul>
Material Management of Purchased Goods Value Analysis, Price/Cost Analysis, and Standardization Quality Management of Purchased and Manufactured Goods	<ul style="list-style-type: none"> <li>● Integrate the quality assurance system.</li> <li>● Implement consolidated financial analysis system.</li> </ul>	<ul style="list-style-type: none"> <li>● Kirin's existing ISO 9000 skills.</li> <li>● Existing quality assurance and evaluation technologies and skills.</li> </ul>	<ul style="list-style-type: none"> <li>● Time consuming process to integrate various existing process, but must be accelerated.</li> </ul>
Facilities Capacity	<ul style="list-style-type: none"> <li>● Clarification of in-house production and outsourcing</li> </ul>	<ul style="list-style-type: none"> <li>● Various R&amp;D and production bases.</li> </ul>	<ul style="list-style-type: none"> <li>● Need to reorganize for optimum allocation.</li> </ul>
Process Technologies	<ul style="list-style-type: none"> <li>● Synergize all technology expertise in the Group.</li> </ul>	<ul style="list-style-type: none"> <li>● Accumulated automation and process control technology from brewing and fermentation.</li> </ul>	<ul style="list-style-type: none"> <li>● Hard to identify the degree of automation.</li> </ul>
Product Scope and Introduction of New Products	<ul style="list-style-type: none"> <li>● Accelerate introduction of new product in short time frame.</li> </ul>	<ul style="list-style-type: none"> <li>● Accumulated competencies of product development especially in beverages, including market research expertise.</li> </ul>	<ul style="list-style-type: none"> <li>● Lack of many compelling products yet.</li> <li>● Rely on existing product line-up.</li> </ul>
Distribution Strategy	<ul style="list-style-type: none"> <li>● Enhance customer bonding through door-to-door and mail-order sales.</li> </ul>	<ul style="list-style-type: none"> <li>● Existing logistics system.</li> </ul>	<ul style="list-style-type: none"> <li>● Not enough skills and know-how's for Tier 1 and 2.</li> </ul>

(continued next page)

<b>Decision Category</b>	<b>Description of Policy</b>	<b>Strengths</b>	<b>Weaknesses</b>
Human Resources	<ul style="list-style-type: none"> <li>● Train workforce to catch up with company's new business environment.</li> <li>● 3C policy: Challenge, Collaboration, and Commitment.</li> </ul>	<ul style="list-style-type: none"> <li>● Human resource development system especially for technical personnel such as the Techno Academy.</li> </ul>	<ul style="list-style-type: none"> <li>● No systematic training system for sales force yet.</li> <li>● Need to collaborate and integrate Yakult Ladies and Yakult Beauty system.</li> </ul>
Supply Chain Organization and Managerial Infrastructure	<ul style="list-style-type: none"> <li>● Synergize as the Group, but autonomous system must be built and implemented.</li> </ul>	<ul style="list-style-type: none"> <li>● Supporting mechanism from Kirin and Yakult.</li> </ul>	<ul style="list-style-type: none"> <li>● Post merger integration between Kirin Group and Yakult, as new startup.</li> </ul>

**Exhibit 7.37 Operational effectiveness policies**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

#### **7.3.6.4 Operational Effectiveness Strategic Agenda**

Having identified operational effectiveness requirements, and conducted an environmental scan and internal scrutiny based on information supplied by the company, I can now prepare the strategic thrusts for KYNS's operational effectiveness. Nine specific thrusts (see Exhibit 7.38) were formulated, with owners and primary and secondary participants for each. The type of business process and key performance measures for each are also identified. Key thrusts are summarized as follows:

- Employ manufacturing excellence.
- Integrate the quality assurance system by extracting them from Kirin and Yakult, along with newly learned systems, especially from food processing complementors.
- Increase productivity in manufacturing and sales activities so as to improve financial performance.

Strategic Thrusts	Organizational Units											Business Process	Performance Measurements	
	President, COO	Planning Department	CRM Department	Sales Department	Sales Department	Branches	Marketing Department	Production Department	Plants	Product Development Department	Product Development Laboratory			Quality Assurance Department
1 Cost conscious product development	2						1	1	1	1	1	1	I/OE	R&D cost, Production cost, Number of new product
2 Build and make best use of the customer database	1	1	C	1	1	1	2	2	2	2	2	2	CT/OE	Number of registered customers in the specially set-up web pages, Rate of faulty data, duplicated data
3 Complete traceability of raw materials: 100% self-procurement of raw materials	2	2				2	C	C	1	1	1	1	I/OE	Number of suppliers purchased directly by the company
4 Integrate the quality assurance system, eliminating duplication and wasteful standards	2	2				2	1	1	1	1	C	C	OE/I	Implementation of integrated quality assurance system, production cost
5 Establish supply and demand adjustment system		2		1	1	2	C	1	1	1	2	2	OE/I	Time to reach customer, profit
6 Reorganize outsourcing firms (Reduce the numbers of outsourcing firms in necessary)	1	1						C	1	1	2	1	OE/I	Production cost
7 Comprehensive return and discard reduction system	2	2		1	1	1	1	1	1	1	1	1	OE	Operating profit
8 Eliminate old and bad merchandizing habits (ex. huge rebates, incentive system), and then establish lean sales system	1	1		C	1	1							OE/CC	Operating profit
9 Reorganize distributors and retailer relationship	2	2	C	1	1	1	1	1	1	1	1	1	OE/CT/B	Number of firms with successful negotiation

- 1- Key role
- 2- Support and concurrence
- C-Champion
- B-Business Model
- OE-Operational Effectiveness
- CT-Customer Targeting
- I-Innovation
- CC-Corporate Culture

**Exhibit 7.38 Operational effectiveness strategic agenda**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.



### **7.3.7 Innovations (Technology)**

Innovation strategies, as used in this section, mean technology strategies. I will continue to use the Integrated Framework of the Delta Model to define innovation processes that leverage technology to help KYNS achieve its business strategy.

#### **7.3.7.1 Innovation (Technology) Requirements**

Similar to the sections on customer targeting and operational effectiveness, I prepared technology requirements associated with each strategic thrust identified for the business. Exhibit 7.39 shows a detailed review of requirements by strategic thrust.

This assessment indicates that it is important to expand the role of the product development laboratories so they can develop effective materials derived from sprouting agricultural plants and fermentation, and discover new uses for raw materials that can become proprietary standards. The laboratories should be enhanced by additional upscale manpower, more research areas, and augmenting the skills of the staff.

Another key is developing food processing and other production technologies, which could be achieved through strategic alliances. KYNS should obtain apprehensible functionality and evidence, and then develop tools for effectively communicating its information technologies to customers.

	<b>Strategic Thrust</b>	<b>Technology Requirements</b>
1	Develop of original functional material	<ul style="list-style-type: none"> <li>● Need compelling functional material for new product.</li> <li>● Use materials Kirin has as its competency to bring out functionality from the aspects of malting and fermentation.</li> <li>● Produce “delicious” products by expanding the taste variations by functional materials.</li> </ul>
2	Collaborate among Kirin's and Yakult's R&D	<ul style="list-style-type: none"> <li>● Identify collaborative functions that create synergized competencies between beverage production and drugs to avoid conflicts and cannibalization.</li> <li>● Specify product form—either beverages, supplements (like drugs), or foods—then select relevant R&amp;D sources in the Group.</li> <li>● Form dedicated team for each material or product to be developed based on specified product forms.</li> </ul>
3	Obtain evidences for health maintenance and enhancement	<ul style="list-style-type: none"> <li>● Identify the efficacy or effectiveness on which evidences are to be obtained.</li> <li>● Search for complementary firms which can conduct assessments in a accountable and quick manner, along with establishing internal evaluation skills and technologies.</li> </ul>
4	Progress management for R&D	<ul style="list-style-type: none"> <li>● Use a roadmap to manage items to be developed, time, resources, and outcome.</li> <li>● Build a database system that supports the roadmap, is linked to other databases both with the Group and with external institutions.</li> </ul>
5	Alliance with external partners that have food process technology	<ul style="list-style-type: none"> <li>● Specify area and product forms to be developed as the food process technology.</li> <li>● Conduct due diligence, technical competencies to tie-up with.</li> <li>● Establish long-term relationships with those that have compelling skills and technologies, including acquisition.</li> </ul>
6	Clarification of in-house production and outsourcing	<ul style="list-style-type: none"> <li>● Specify the base and production technologies that can be transferred to outside producers.</li> <li>● Establish long-term relationships with promising manufacturers, including acquisition.</li> </ul>
7	Building dual communication infrastructure	<ul style="list-style-type: none"> <li>● Match the trend of IT, especially web-based marketing, logistics, and evaluation system.</li> </ul>
8	Collaborate with Yakult Ladies	
9	Establishing and executing of the fulfillment infrastructure	
10	Accumulate direct marketing skills, know-how's on CRM	
11	New relationship with drug stores	
12	Complete traceability of raw materials	<ul style="list-style-type: none"> <li>● Identify necessary analytical technologies.</li> <li>● Collaborate with analytical sources in the Group, and co-develop specific associated technologies.</li> </ul>
13	Integrate the quality assurance system	<ul style="list-style-type: none"> <li>● Integrate with the R&amp;D road map and database.</li> </ul>
14	Enhance Corporate Social Responsibility	

(continue next page)

15	Develop skills and knowledge of employees	<ul style="list-style-type: none"> <li>● Utilize all R&amp;D opportunities to train personnel skills.</li> <li>● Increase the man power, research area, and skills of laboratories.</li> </ul>
16	Committed and autonomous executions	
17	Cut production cost	<ul style="list-style-type: none"> <li>● Apply accumulated process technologies and skills learned in the Kirin Group.</li> <li>● Integrate newly learned skills and technologies from Yakult.</li> </ul>
18	Increase profit at point of sales	

### **Exhibit 7.39 Innovation (technology) from thrusts**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

#### **7.3.7.2 Technology Attractiveness**

Next I explored KYNS's technology attractiveness from the viewpoint of:

- Potential for enhancing competitive advantages,
- Impact on value-added chain,
- Availability of Proprietary positions,
- Rate of technological change,
- Impact on entry barriers, and
- Impact on alternative technologies.

Exhibit 7.40 shows the results of the assessment, which suggest that once the company obtains the technological competence to keep developing compelling functional materials that are efficacious or effective, these technologies will be highly attractive. However, this attractiveness might cease since competitors try to imitate similar efficacy with higher effectiveness in the same food category.

Factors contributing to Technology	Highly Unatt.	Mildly Unatt.	Neutral	Mildly Att.	Highly Att.
Potential for enhancing competitive advantage in:					
Product application				●	
Process application			●		
Impact on value-added chain					
Cost				●	
Performance				●	
Quality				●	
Differentiation			●		
Proprietary positions available					●
Rate of technological change			●		
Impact on entry barriers		●			
Impact of alternative technologies					
Maturity and volatility		●			
Complexity				●	

**Exhibit 7.40 Technology attractiveness**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

### 7.3.7.3 Identification of STUs for Competitive Advantage

A strategic technology unit (STU) includes the skills or disciplines that are applied to a particular product, service, or process that addresses a specific market need. In this concept, KYNS's associated technologies are divided into 10 STUs that give a picture of the technology categories described in Exhibit 7.41.

Identifying the company's competitive strengths indicates that most of the STUs come from technical competencies used in the core businesses of both Kirin and Yakult. In particular, the technologies of malting; fermentation with brewer's yeast or *lactobacillus* organisms including gene manipulation of various microorganisms; quality assurance; and plant engineering can be effectively implemented. On the other hand, new technologies such as food processing, assessment, and functionality enhancement should be acquired in an effective and timely manner.

	<b>Strategic Technical Unit</b>	<b>Description</b>
1	Malting and fermentation technologies	<ul style="list-style-type: none"> <li>● Core competencies that embody product taste and function, accumulated during the Group's long history.</li> <li>● Fermentation comes from brewers yeast and associated microorganisms from Kirin, and <i>Lactobacillus</i> from Yakult.</li> <li>● Technologies include bio-enzyme control, and produce functionality and taste.</li> </ul>
2	Gene manipulation technologies	<ul style="list-style-type: none"> <li>● Core technologies for microbiological manipulations for beverage production and drug production.</li> </ul>
3	Functionality enhancement technologies	<ul style="list-style-type: none"> <li>● Identified functionality from raw materials that are used for products: already identified, extracted, and utilized; newly researched, and extracted, enriched, and assessed for practical use.</li> </ul>
4	Plant engineering technologies	<ul style="list-style-type: none"> <li>● Accumulated engineering technologies for brewery and soft drink operations, which are very strong in the beverage industry.</li> </ul>
5	Food processing technologies	<ul style="list-style-type: none"> <li>● Food processing technologies that maintain functionality of materials and create delicious foods; needs to be developed as a new field.</li> </ul>
6	Assessment technologies for functionality and efficacy or effectiveness	<ul style="list-style-type: none"> <li>● Evidence or proof technologies and skills for functionality and efficacy or effectiveness to be enhanced and newly obtained.</li> </ul>
7	Quality assurance technologies and skills	<ul style="list-style-type: none"> <li>● Accumulated quality assurance technologies, know-how's, and skills.</li> <li>● Collaborated and integrated standard which contributes to the customers' absolute safety and security.</li> </ul>
8	Market research and customer relationship management system	<ul style="list-style-type: none"> <li>● One of the core competencies from the Group with market research and other customer relationship excellence mainly in the field of mass-marketing (Tier 3).</li> <li>● Integrated management system combined with direct marketing (Tier 1, and 2) to be enhanced and newly developed.</li> </ul>
9	Integrated and collaborative development tools	<ul style="list-style-type: none"> <li>● Combination of IT technologies, databases, and human resource development system.</li> </ul>
10	Frontier development system	<ul style="list-style-type: none"> <li>● Open and free functions in the organization, which create technologies through integrated development tools.</li> </ul>

#### **Exhibit 7.41 Identification of STUs for competitive advantage**

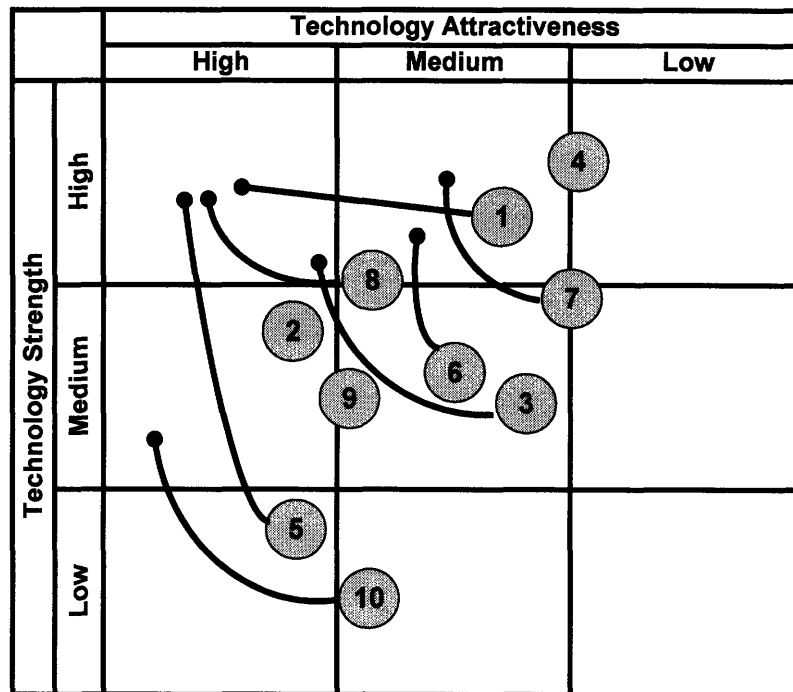
Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

#### **7.3.7.4 Technology Portfolio Matrix**

Segmenting STUs produces a technology portfolio that can be analyzed based on its attractiveness and importance to KYNS, against KYNS's technology strength or how well KYNS understands the technologies. The portfolio shows key technologies the firm needs to embody in its products and processes in order to achieve competitive advantage. Exhibit 7.42 is based on the author's evaluation of the current position of each STU versus where it should be positioned.

It is mandatory for KYNS's growth that it attains high positions in both attractiveness and strength in the STUs for malting and fermentation, food-processing, and market research and customer relationship management system. In particular, food-processing technologies should be acquired and integrated into the company system to enhance its currently weak position.

On the other hand, the company should be cautious about the use of gene-manipulation technology because genetically modified materials are not always well perceived by customers.



- 1 Malting and fermentation technologies
- 2 Gene manipulation technologies
- 3 Functionality enhancement technologies
- 4 Plant engineering technologies
- 5 Food processing technologies
- 6 Assessment technologies for functionality and efficacy
- 7 Quality assurance technologies and skills
- 8 Market research and customer relationship management system
- 9 Integrated and collaborative development tools
- 10 Frontier development system

**Exhibit 7.42 Technology portfolio matrix**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

### 7.3.7.5 STU Options

The portfolio described above leads to a question: Which technologies does KYNS possess, and which ones should it acquire in order to protect and enhance its competitive capabilities? Exhibit 7.43 suggests actions for each STU showing options to lead, compete, sustain, harvest, purchase, or abandon.

	STU	Lead	Compete	Sustain	Harvest	Purchase	Abandon
1	Malting and fermentation technologies	✓					
2	Gene manipulation technologies			✓			
3	Functionality enhancement technologies		✓				
4	Plant engineering technologies				✓		
5	Food processing technologies					✓	
6	Assessment technologies for functionality and efficacy		✓				
7	Quality assurance technologies and skills	✓					
8	Market research and customer relationship management system	✓					
9	Integrated and collaborative development tools		✓				
10	Frontier development system	✓					

**Exhibit 7.43 STU options**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

The analysis reveals that KYNS should continue to lead in its relatively strong STU areas to develop functional materials that match customers' tastes and preferences, then increase its technology strength in most STUs, and work toward new product development. Food-processing technology should be obtained from external resources and integrated into KYNS's production and high-quality assurance system.

### 7.3.7.6 Competitive Profile and Environmental Scan

Similar to the sections on customer targeting and operational effectiveness, a broad scan of the environment was conducted—first by comparing KYNS to Suntory, then an in-depth analysis of critical factors (see Exhibit 7.44).



Factors contributing to Technology	Very Weak	Weak	Even	Strong	Very Strong
Rate of technological innovation		●			
Technology productivity			●		
Rate of return in technology investment		●			
Resources allocated to technology				●	
Impact on rate of new product		●			
Impact on process capabilities		●			
Impact on technology-based Royalties or sales or Training time of people on new technology			●		
Level of technological competence				●	
Human resources				●	
Patent positioning	●				

**Relevant Competitor: Suntory**

**Exhibit 7.44 Competitive profile of innovation (technology)**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

Ten major strategic positions serve as the primary criteria for innovative strategic performance:

1. Rate of technological innovation
2. Technology productivity
3. Rate of return in technology investment
4. Resources allocated
5. Impact of rate of new product introduction
6. Impact on process capabilities
7. Impact on technology-based diversification
8. Level of technological competence
9. Human resources
10. Patent positioning.

Exhibit 7.45 shows the environmental scan, which identifies technological opportunities and threats based on environmental perspectives such as: Market factors,

Economic factors, Government and political factors, Regulatory factors, Technical factors, Legal factors, Social factors, and Environment factors.

The comparison with Suntory shows that although KYNS has resources and promising capabilities to compete technically with its rivals, especially those based on Kirin and Yakult experiences, it has not successfully demonstrated them yet, for example, in numbers of functional materials or market shares in a particular sub-category.

The technology environment is summarized as follows:

- Supported by expectation of market growth, there will be many opportunities for KYNS to penetrate using its technical competencies, and then establish a strong position with specified functional materials.
- Uncertainty over technologies, and how a technology appeals to customers, tends to lead KYNS to increase its sunk costs spent on R&D.
- The inherent characteristics of health food, coupled with strict governmental regulations, tend to be used to proclaim a product's efficacy or effectiveness, but evaluation technology is needed to prepare persuasive data or proof. In addition, Japanese customers are also very cautious about the safety and security of products due to recent criticisms of sloppy quality control. KYNS has a strong quality assurance background, derived from both Kirin and Yakult, and it is crucial to elevate its quality standard and degree of integration.

Critical External Factors	Impact	
	Positive (Opportunities)	Negative (Threats)
<b>Market Factors</b> - Expected ¥2 trillion market in 2015 - More elder people - Stronger bargaining power of buyers - Expansion of general drug sales.	<ul style="list-style-type: none"> <li>● Competencies in product development and production in malting, fermentation, and segmented drug.</li> <li>● New markets that force the development of new products and technologies.</li> </ul>	<ul style="list-style-type: none"> <li>● More competitors with various claims of functionality and efficacy or effectiveness.</li> <li>● Uncertainty how a technology is compelling to customers.</li> <li>● Rapidly changing technology trends.</li> <li>● Conflicts with drug products.</li> </ul>
<b>Competitive Factors</b> - Suntory is focusing on mail-order sales - Price competitive among retailers	<ul style="list-style-type: none"> <li>● Strong technology (if established) is hard to be imitated.</li> <li>● Cumulative base of technologies from Kirin and Yakult.</li> </ul>	<ul style="list-style-type: none"> <li>● A hit product tends to be easily imitated.</li> </ul>
<b>Economic Factors</b> - Japanese economy is improving.	<ul style="list-style-type: none"> <li>● More capital spending, leading to increase demand for wide range of leading, compelling technology.</li> </ul>	<ul style="list-style-type: none"> <li>● Higher sunk cost, especially if invested in wrong technology.</li> </ul>
<b>Government and Political Factors</b>	<ul style="list-style-type: none"> <li>● Possibilities of partnering with foreign corporations, especially in Asia and Oceania</li> </ul>	<ul style="list-style-type: none"> <li>● Careful attention needed re regulations in each country.</li> </ul>
<b>Regulatory Factors</b> - Under the strict nutrition labeling by the government.		<ul style="list-style-type: none"> <li>● Stricter regulation under the experience and balance between drugs.</li> </ul>
<b>Technological Factors</b> - Functional material and food processing are the keys to this business. - IT trends keep changing	<ul style="list-style-type: none"> <li>● Newly developed technologies with wide applicability.</li> <li>● Create differentiation, and then opportunities to proprietary position.</li> </ul>	<ul style="list-style-type: none"> <li>● Easy to be imitated.</li> <li>● Many substitutes.</li> </ul>
<b>Legal Factors</b>		<ul style="list-style-type: none"> <li>● Poor management of intellectual property, and cause piracy problems.</li> </ul>
<b>Social Factors</b> - Recent heated criticism of functional efficacy or effectiveness of foods. - Customers' stricter eyes on the product safety and security.	<ul style="list-style-type: none"> <li>● Strong quality assurance backgrounds from both Kirin and Yakult.</li> </ul>	<ul style="list-style-type: none"> <li>● Expensive cost of assessment (proving data preparation and explanation).</li> </ul>
<b>Human Resources and Labor Factors</b>	<ul style="list-style-type: none"> <li>● Existing resources in the Group.</li> </ul>	<ul style="list-style-type: none"> <li>● Need productivity improvement.</li> </ul>
<b>Environmental Factors</b>	<ul style="list-style-type: none"> <li>● Opportunities to develop environmental technologies.</li> </ul>	<ul style="list-style-type: none"> <li>● Stricter environmental restrictions.</li> </ul>

### Exhibit 7.45 Environmental scan (Innovation)

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

### **7.3.7.7 Internal scrutiny**

Similar to customer targeting and operational effectiveness, Exhibit 7.46 shows a detailed analysis of KYNS's present technology policies. A review of the policies suggests that:

- KYNS is clear about positioning its fundamental technologies, which are derived from the core businesses of its parent companies, Kirin and Yakult. Based on this, each product is defined such that the company's complementary resources are fully utilized. It would be helpful for the company to set up a dedicated team to allocate its resources effectively, especially in project selection, evaluation, and schedule control.
- The company is flexible and market-driven when determining the timing of new technology introductions, given the speedy nature of technology advance. The main reason KYNS should seek external food processing technology(ies) is if the product simultaneously bore the features of taste, ease of consumption, and efficacy or effectiveness. Balancing the acquisition of technology should be always taken into consideration so as to synchronize the development of materials.

Decision Category	Description of Policy	Strengths	Weaknesses
Technology Intelligence	<ul style="list-style-type: none"> <li>● Malting and fermentation technologies and functionality enhancement technologies - Use and enhance any possible sources as the functionality materials.</li> <li>● Gene manipulation technologies - Use mainly for enrichment of the functions, and physiological evaluation.</li> <li>● Engineering technologies - Focus on the food processing technologies.</li> <li>● Assessment technologies for functionality and efficacy or effectiveness - Obtain and new technologies and skills.</li> <li>● Quality assurance technologies and skills - Integrate Standardize existing system.</li> <li>● Market research and customer relationship management system - Enhance existing competencies and develop new skills on direct marketing.</li> <li>● Frontier development system - Research "Coming true spoken in a jest" technologies.</li> </ul>	<ul style="list-style-type: none"> <li>● Well understanding and product development skills.</li> <li>● Existing competencies in the Group's pharmaceutical business.</li> <li>● Strong plant engineering.</li> <li>● Existing quality assurance and assessment system.</li> <li>● Cumulative know-how's from beverage business.</li> <li>● Corporate R&amp;D function to manage the activity.</li> </ul>	<ul style="list-style-type: none"> <li>● Limited resource since the pharmaceutical business is also growing/</li> <li>● Limited or lack of food processing technologies.</li> <li>● Risk of post merger integration.</li> <li>● New field especially for Tier 1 and 2.</li> <li>● Uncertainty of area to research, limited resources.</li> </ul>
Technology Selection	<ul style="list-style-type: none"> <li>● Formal selection process including: market potential, cost (entry barrier), expected speed of development, and existing knowledge.</li> </ul>	<ul style="list-style-type: none"> <li>● Corporate R&amp;D and pharmaceutical laboratories.</li> </ul>	<ul style="list-style-type: none"> <li>● May sacrifice short-term benefit for long-term benefit.</li> <li>● High cost of investment in wrong technology.</li> </ul>
Timing of New Technology Introduction	<ul style="list-style-type: none"> <li>● Prioritize to introduce as many new products as possible.</li> <li>● Speed-up and fast ramp-up are the keys to success.</li> </ul>	<ul style="list-style-type: none"> <li>● Flexibility as relatively small company in the Group.</li> </ul>	<ul style="list-style-type: none"> <li>● Relying on the development of materials and processing.</li> </ul>
Modes of Technology Acquisition	<ul style="list-style-type: none"> <li>● Internal development of technologies is used most often for technologies which are integral to the products the company provides.</li> <li>● Acquire especially in the field of food processing which make the product easy to take and tasty.</li> </ul>	<ul style="list-style-type: none"> <li>● Existing technology platform to integrate acquired technologies.</li> </ul>	<ul style="list-style-type: none"> <li>● Need to be sensitive on trend of technology development.</li> </ul>

(continued next page)

<b>Decision Category</b>	<b>Description of Policy</b>	<b>Strengths</b>	<b>Weaknesses</b>
Horizontal Strategy of Technology	<ul style="list-style-type: none"> <li>● Share most technologies within the Group, synergize to develop materials or products in each business segment; newly developed materials could be used for beverage products or drugs.</li> <li>● Best practices will be standardized and shared within Group.</li> </ul>	<ul style="list-style-type: none"> <li>● High-quality products, long history of standardization.</li> <li>● Technical information exchange forum system.</li> </ul>	
Project Selection, Evaluation, Resource Allocation, & Control	<ul style="list-style-type: none"> <li>● Prioritize and manage projects based on R&amp;D roadmap.</li> </ul>	<ul style="list-style-type: none"> <li>● Easily set up cross-segmentation R&amp;D team in the Group.</li> </ul>	<ul style="list-style-type: none"> <li>● Lack of clear policy of resource allocation.</li> </ul>
Technology Organizational & Managerial Infrastructure	<ul style="list-style-type: none"> <li>● Own its dedicated R&amp;D function in spite of existing R&amp;D resources in the Group.</li> </ul>	<ul style="list-style-type: none"> <li>● Dedicated organization in the company with full support of Corporate R&amp;D from Kirin Group.</li> </ul>	<ul style="list-style-type: none"> <li>● Lack of experience developing enough products and materials.</li> </ul>

**Exhibit 7.46 Innovations (Technology) policies**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

### 7.3.7.8 Innovation (Technology) Strategic Agenda

Having identified technology requirements, STUs, the technology portfolio matrix, STU options, conducted an environmental scan and internal scrutiny based on information supplied by the company, the strategic thrusts for KYNS's technology are now apparent. Eleven specific thrusts (shown in Exhibit 7.47) are formulated. Key thrusts are summarized as follows:

- Develop functional materials to maintain and enhance customers' health in conjunction with obtaining persuasive evidence, which is supported by a collaborative R&D system.

- Secure the safety and quality of products and services, especially when procuring raw materials with clear traceability.
- Establish and control a roadmap for a new product pipeline and associated technologies so that KYNS can introduce delicious health foods in configurations other than capsule or granule form.
- Develop technical and human skills so employees can focus not just on products but also establish closer bonding with customers via IT technologies or other communication infrastructure.

Strategic Thrusts	Organizational Units											Business Process	Performance Measurements	
	President, COO	Planning Department	CRM Department	Sales Department	Sales Department	Branches	Marketing Department	Production Department	Plants	Product Development Department	Product Development Laboratory			Quality Assurance Department
1 Develop of original and compelling functional material	1						2	1	2	C	1	1	B//CT	Number of developed materials, and their efficacy
2 Build a collaborative base among Kirin's and Yakult's R&D	1						2	1	2	C	1	1	B//CC	Implemented system
3 Establish new product development skills with safe, high quality, and high functionality.	1						2	1	2	C	1	1	I/CT	Number of new products, revenue, profit
4 Obtain new and various production configurations, including alliances with external complementors	2						1	1	1	C	1	1	CT/OE/I	Number and element of acquired production methods.
5 Improvement of quality and taste of existing products.	2						1	1	2	C	1	1	CT/I	Revenue, customer complaints
6 Obtaining evidences which contributes health maintenance and enhancement	1						2	1	1	C	1	1	OE//ICT	Data obtained, number of data and evidence contributed the new materials or products
7 Building dual communication infrastructure through IT	2						1	1	1	1	2	2	CT/I	Number of hits in the web pages, customer comments and complaints, revenue
8 Build a product pipeline plan and R&D road map	1						1	1	2	C	1	2	CT//OE	Implemented system, number of developed new materials and products, revenue
9 Train personnel to gain knowledge and skills of material, food industry, governmental regulations, and intellectual properties	1						1	1	2	1	2	1	CC/OE	Personnel evaluation
10 Establish production technology reporting system	1						2	2	1	2		2	OE/CC	Number of reports, literatures, patents etc.
11 Develop a mid-term plan for the complementors such as farms and other material suppliers	1						2	2	2	2		1	OE/B	Implemented system, production cost

1- Key role  
 2-Support and concurrence  
 C-Champion  
 B-Business Model  
 OE-Operational Effectiveness  
 CT-Customer Targeting  
 I-Innovation  
 CC-Corporate Culture

**Exhibit 7.47 Innovation (Technology) strategic agenda**

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.



### 7.3.8 Mapping and monitoring strategy: Balanced scorecard

The final step in this framework is to map all strategic plans and monitor KYNS's execution of customer targeting, operational effectiveness, and innovative strategies. This process is illustrated in the concept of the balanced scorecard, which represents changes in key cost drivers (displayed in Exhibit 7.48):

Financial perspective: shows the goal KYNS should aim for so that the company can achieve its vision—in this case, volume, revenue, operational profit, and Economic Value Added (EVA).

Customer perspective: shows how KYNS can propose value to its customers which leads to their satisfaction. The company has three major categories in this perspective:

- Customer satisfaction with safety and security, and then trust on the KYNS brand
- Customer's recognition on the product with "joy" and "functionality",
- Customer's bonding with KYNS through point of contact, service, and information.

Process perspective: In this perspective it is important to map and then monitor how KYNS innovates its business activities to satisfy customers and establish closer bonding with them.

The company has five major domains in this perspective:

- Safety and security of products and services
- Alliances and collaborations related to collaborative actions with external firms or institutions
- Technical expertise associated with internal core competencies in R&D
- Strengthening its CRM base, which is closely related to sales and marketing for new channels such as the “door-to-door” sales
- New collaborations with current sales and marketing channels.

Organizational learning perspective: the human resource base for executing the strategies mentioned above, asking what skills and how everyone should obtain them, to stimulate innovation and change in each level of business activities.

This strategy map reflects all the Strategic Thrusts discussed above, segmented again into each department level in KYNS (CRM Department, Sales Department, Marketing Department, Production Department, Product Development Department, Quality Assurance Department, and Planning Department). Subsequently each department has drawn up its own granular plans to achieve the company's vision and goals.

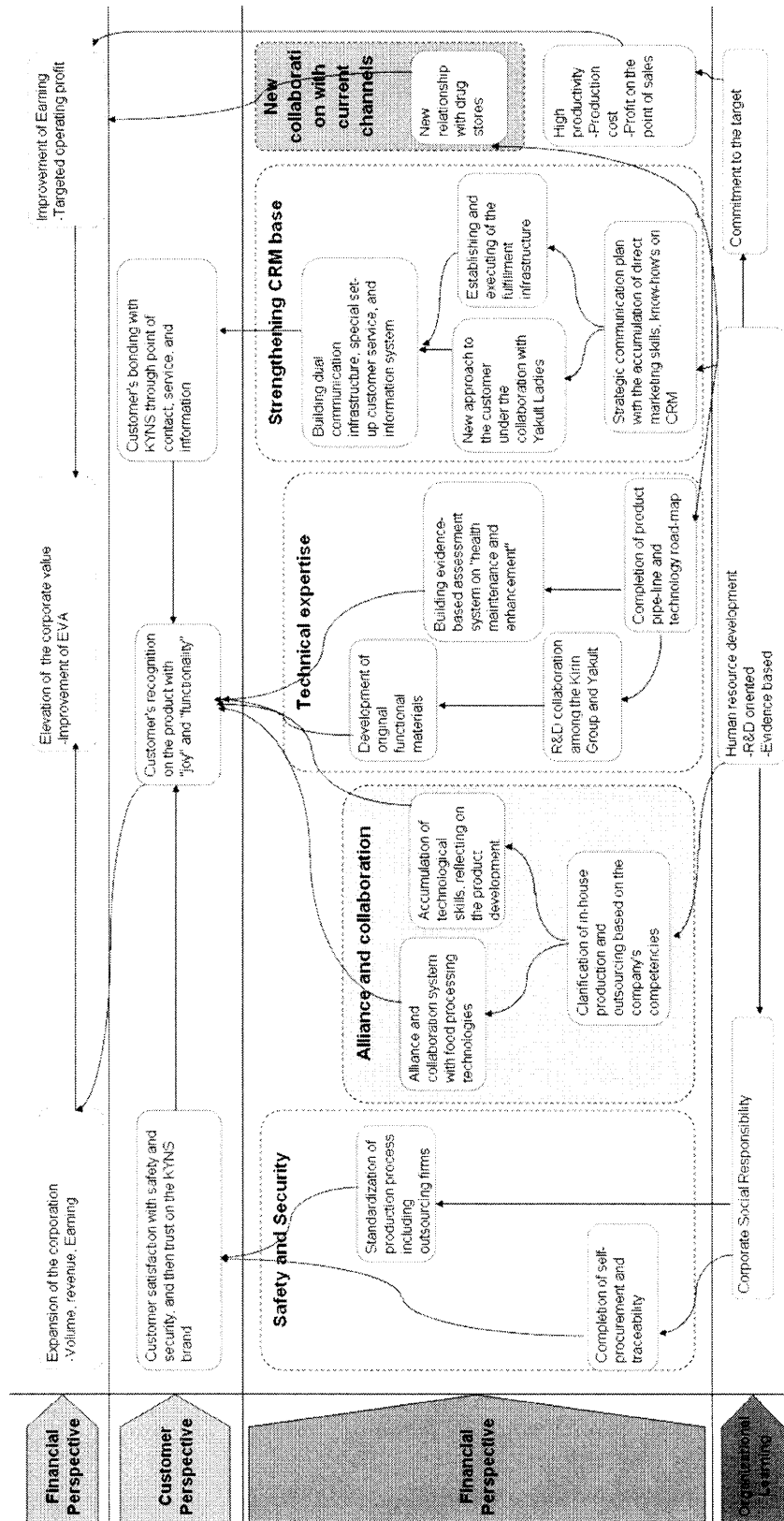


Exhibit 7.48 Balanced score card (Kirin Yakult NextStage)

Source: Kirin Brewery and Kirin Yakult NextStage, developed by author.

## 7.4 CONCLUSION

In this chapter, I applied the Delta Model Integrated Business Framework to the long- and mid-term business strategies of KYNS. The detailed analysis provided shows that there is no critical slip in KYNS's strategic planning. Rather, the following *competencies* were revealed:

1. Owing to promising market growth, there will be many opportunities for KYNS to penetrate the market using its own technical competencies, and then establish a strong position with specified functional materials.
2. Resources from Kirin and Yakult can be fully utilized, especially in quality control, collaborative R&D resources, and product development knowledge, including market research excellence.
3. In addition to conventional sales and marketing channels, more direct sales and marketing functions, including door-to-door sales, could enhance the bonding between KYNS and its customers.

I also offer some *suggestions* for further study so that KYNS can establish a long-lasting and stronger position in the market, enabling it to contribute to the quantum growth that is the aim of Kirin's long-term business framework by 2015:

1. More granular customer segmentation and value proposition could be defined, and sales and marketing strategies be prepared for each segmented customer tier. For example, a customer should be reviewed from the point of view of "Who pays you?" If this was done, two types of customers would emerge, such as an end user and intermediate buyer (as discussed in 7.3.1.1.).

2. KYNS tends to rely on new product development. Therefore marketing requirements also tend to be associated with new product development. While it is clear that new product development is the key to KYNS growth, it is also mandatory that the company focus on building bonds with customers in their daily business activities; through information and service that is perceived as added value. In the same vein, pricing strategies in conventional sales channels should be more carefully examined and reorganized.
3. Although the Yakult Ladies and Yakult Beauty system promise to expand the company's door-to-door channel and enhance customer bonding, KYNS may need to establish training systems for them. Handling health foods is an additional task for Yakult Ladies and Yakult Beauty, over and above their normal business. Since the necessary knowledge and consulting skills would be a large load for the sales force, human resource management is crucial in areas such as training, development, and motivation.
4. So far, KYNS is looking primarily at working adults and the older generations as end users. It may be possible for the company to extend its business to younger generations. The importance of nutritious care from an early age is becoming more important due to changes of lifestyle. For example, children tend to stay at home longer playing computer games and studying for entrance examinations, and many mothers work late and have less time to cook. In this case, baby food companies and schools could be considered as new customers or new complementors for KYNS. This would enable KYNS to cover a wider range of generations and establish close bonding earlier in people's lives.

In spite of the market growth trend and future expectations, there are still many uncertainties in the health food and functional food industry. Why? I believe there are several factors that should be considered:

- There is some uncertainty about the efficacy and effectiveness of health foods. Although many undergo a rigorous assessment and authorization process, drugs tend to show clearer efficacy and effectiveness. However, health foods and functional foods cannot claim that so clearly, consequently people tend to be confused between efficacy and effectiveness.
- It is hard to distinguish the effects of health foods from those of general foods, supplements, and drugs in daily life. In Asian countries, including Japan, there is the concept of *Ishoku-Dogen*, which means there is some kind of treatment in simple daily eating habits. For example, vitamins are available in vegetables and fruits; they can also be obtained in vitamin supplement capsules. In the end, it depends on the subjective discretion of the customers as to which way is chosen.
- Sometimes taking health foods leads to a stressful experience. For example, continuing with diet foods is costly, painful, and there is no guarantee of weight control, since the effectiveness is heavily dependent on the physical constitution and discipline of each person.
- Offering a weaker, less-effective service than, say, the pharmaceutical business, could result in a lack of information, or even lead people in the wrong direction. For instance, there was a fabrication scandal involving a Japanese television health program in January 2007. The following is from a UPI article dated January 21, 2007:

A Japanese television show reportedly gave viewers faulty information about a diet that was said to greatly help with weight loss. *Yomiuri Shimbun* said Osaka-based KTV aired "Hakkutsu! Aru Aru Daijiten II" ("Encyclopedia of Living") on Jan. 7. The program touted natto beans\* as a miracle for weight loss.

The show reportedly recommended two servings of natto beans a day for rapid weight loss results. After the show aired, stores across Japan saw a massive surge in sales of the beans, the newspaper said.

But the show's producer conceded that the information was wrong, the newspaper said. Speaking at a news conference, KTV President Soichiro Chigusa apologized and said the program would be taken off the air.

*\* Natto: A traditional Japanese food made from fermented soybeans, especially popular at breakfast. A rich source of protein, natto and the soybean paste miso formed a vital source of nutrition in feudal Japan. For some, natto is an acquired taste due to its powerful smell, strong flavor, and sticky consistency.(WIKIPEDIA)*

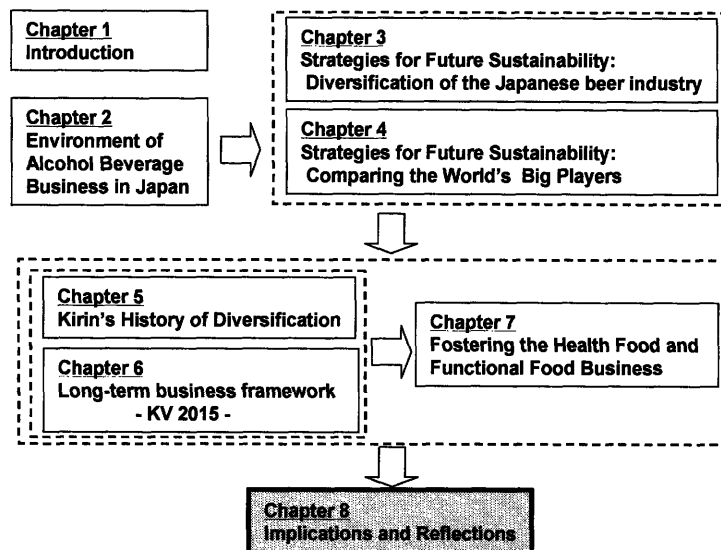
This kind of scandal creates contrary-effect to the health food market.

Under these circumstances, KYNS should consider involving health-care providers such as doctors, dietitians, and health consultants to ensure that the company conveys accurate information about its products and services.

In closing this chapter, I strongly urge KYNS to seek functionality of its food products using highly sophisticated technology, while simultaneously respecting Japan's historical food culture in the market. KYNS should be the company that integrates the tradition of food with cutting-edge technologies that utilize the power of science.

# CHAPTER 8

## Implications and Reflections



It is clear that all corporations need growth strategies for their future survival and sustainability. However, I believe there are four major options that everyone can include as part of their corporate strategy.

- Option 1:** Strengthen the core business to the level of either dominant or proprietary position in a particular industry.
- Option 2:** Maintain or enhance the core business, and then expand horizontally.
- Option 3:** Make use of core competencies in technology and know-how gained from the company's core business, and then diversify that business to other business fields.



**Option 4:** Expand and diversify the company's business up to the level of "conglomerate," founded on its core business as a "cash cow."

As discussed in Chapters 2 and 3, the Japanese alcohol industry, especially beer-type products, is structured with a few companies who are central in the market and each one scrambles to gain/maintain/regain market share. The reasons are due to the closed nature of the market, specifically Japan's mono-cultural background, which has gradually changed due to recent demographic trends, consumer preferences, and globalization. Most of the major alcoholic beverage companies have diversified their businesses along the lines of Option 3 because:

1. Under the threat of a split ordered by governmental regulations, such as an anti-monopoly law, one company turned its interests to another area (Kirin).
2. A giant player dominated the market; therefore it was forced to seek other business areas in order to survive (Asahi, Sapporo).
3. Market trends changed, and a specific sub-category was shrinking rapidly; therefore there was no other choice than to diversify (Suntory).

For these reasons, each of the four companies are looking to establish another core pillar that will distinguish the company from others in conjunction with their global operations—although they still remain focused on their core business, e.g., alcohol beverages and associated businesses in domestic Japanese market.

I also studied other major global players that produce and sell beer products. In most cases, a company focuses on its core business, namely, beer business, with a lesser focus on other alcoholic beverages, so as to demonstrate profitability to shareholders. Especially in the

case of giant global players such as Anheuser-Busch of the U.S. and Heineken of the Netherlands, both are supported by enormous financial power and extremely strong brand power, which allows them to extend their businesses geographically and enhance their brand positioning by exercising local responsiveness in whatever markets they enter. I observe the recent reorganization of global players, achieved mainly through M&A, as part of the process in Option 2 mentioned above.

On the other hand, some companies, such as Lion Nathan, which choose to pursue the strategy in Option 1—to enhance their core business in a closed market.

The challenge for each company that chooses Options 1 or 2 is how long they can be sustainable with a single business portfolio even though they become “comprehensive” alcoholic beverage companies by adding sub-categories such as wine and hard liquors.

The company that chose Option 4 is San Miguel of the Philippines. San Miguel’s business strategy can be characterized as a kind of “vertical” diversification, since the company is expanding by acquiring strong brands that are related to either beverages or foods in the company’s geographic territory. At the same time the company is leveraging its logistical strength, which reach virtually every corner of a country that consists of more than 7,000 islands. Although San Miguel is building an empire in the Philippine with powerful government support, it is challenging for the company to apply the same business strategy to other global markets to achieve long-lasting growth.

These summaries are illustrated in Exhibit 8.1.

		Description of the strategy	Background of the strategy	Example of major alcohol beverage company
Focus on the Core Business	Option 1	Strengthen its core business to the level of either dominant or proprietary position.	<ul style="list-style-type: none"> <li>● Shareholders' expectations.</li> <li>● Strong position in a closed market.</li> </ul>	Lion Nathan (Australia, New Zealand)
	Option 2	Maintain or enhance its core business, and then expand horizontally (geographically).	<ul style="list-style-type: none"> <li>● Shareholders' expectations.</li> <li>● Affluent financial power.</li> <li>● Strong brand power.</li> </ul>	Anheuser-Busch (U.S.A.) Heineken (The Netherlands)
Diversification	Option 3	Diversify its business to another business field, making use of core competencies in its core business.	<ul style="list-style-type: none"> <li>● Tough competition in a mono-cultural market.</li> <li>● Existence of dominant player</li> <li>● Dramatic changes in market trends</li> </ul>	Kirin, Asahi, Sapporo, Suntory (Japan)
	Option 4	Expand and diversify the company's business up to the level of a conglomerate by acquiring strong brands.	<ul style="list-style-type: none"> <li>● Strong position in a closed market.</li> <li>● Restricted Access position. (The Delta Model) = Strong logistics system.</li> <li>● Government support</li> </ul>	San Miguel (Philippines)

### Exhibit 8.1 Summary of growth strategies of major alcohol beverage companies

Source: Developed by the author.

If I apply the triangle from the Delta Model to the business activities of Japanese and other major international alcoholic beverage companies, most of the strategies tend to settle in the *Best Product* option, which consists of Low Cost and Differentiation. These are inherent characteristics in the industry, whose business is producing and selling consumer products. However, it is also a common phenomenon that everyone has tried to reposition its customers based on the local environment in each country, the market, and the company itself; and to build closer customer bonding, which shifts its strategic option from *Best Product* to *Total Customer Solutions*. The company who reaches the strategic option of

*System Lock-In* has either the geographic strength that applies to the Restricted Access position or the extremely strong brand that applies to the Dominant Exchange position.

On the other hand, there are few companies that have explicit technologies or services that attain the Proprietary Standard, which would be one of the biggest challenges in the future as to when and how a company could take this advantage.

In Chapter 5, I studied in greater detail the diversification strategies of Kirin Brewery. I showed how Kirin started to diversify its business portfolio, passively from businesses that were close to its main business (beer) in first phase. Then it entered new fields, such as pharmaceuticals, by utilizing its technical expertise in fermentation and biotechnology.

In Chapter 6, I explained Kirin's new strategy of diversification. The company is fostering a fourth pillar in its business portfolio: the health foods and functional foods business, which is positioned as a bridge between beverages (alcoholic beverages and soft drinks) and drugs.

The lesson Kirin learned from its loss of market share to Asahi has changed its philosophy from "competitor-driven" to "customer-driven," and any new strategic planning will be established on these philosophies.

Whereas there is some ambiguity or uncertainty about the market, health foods and functional foods seem to be promising. In Chapter 7, I applied the Delta Model Integrated Strategy Framework in a detailed case study of the long- and mid-term strategic plan of Kirin's health food company, Kirin Yakult NextStage (KYNS), which was established in an alliance with Yakult Honsha, Japan. The purpose of this case study was to gain insight about the company's strategy so that this fourth business pillar could grow quickly and contribute to the growth of Kirin Group in today's rapidly changing market environment.

What I learned through this process is summarized below:

1. It is easy to say, “the customer is important” or “we need to put the customer at the center of our strategy.” It is much harder to reflect those policies in each business plan. The most important considerations are segmenting the customers sufficiently well, such as channels and end users, so as to establish concrete business plans that are appreciated by everyone in the corporation. There are various types of analytical methods and planning strategies, such as SWOT, ABC, 4C’s, etc. However, these are meaningless unless the needs and values proposed for carefully segmented customers are considered.
2. Every company has its own core competencies and leverages them as a competitive advantage to build barriers to competitors or new entrants, and then establish a relatively stronger position. It is more important to create unique and differentiated offerings to the customer, engage the customer as part of the network, and keep adding value to that network while simultaneously involving associated complementors.

In these respects, the Delta Model Integrated Strategy Framework is extremely useful for thinking back to the origin of a strategy, reviewing the strategy-building processes, and preparing for the next stage of a more strategic and enhanced business.

One more important factor needs to be mentioned: the process should not stop with strategy (Hax, 2001). A compelling strategy without effective execution is meaningless, as is efficient execution without carefully planned strategy. The single most important point is to execute with carefully planned wisdom, and to construct bonds among team members in the firm, extend the bond to complementors, and establish intimate bonds with the consumer market.

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