



MACQUARIE GRADUATE SCHOOL OF MANAGEMENT

MGSM CASE STUDIES IN MANAGEMENT

Berri Pure Fruit Juice
Market Entry Strategy into Taiwan

Yiming Tang
Macquarie Graduate School of Management

MGSM Case 2002-3
June 2002

Disclaimer

MGSM Case Studies in Management are produced as a means of stimulating discussion amongst management scholars and students. The facts reported are meant for discussion only, and are not to be interpreted as imputing any value judgments on management decisions and actions.

Copyright© Yiming Tang

Research Office

Macquarie Graduate School of Management
Macquarie University
Sydney NSW 2109
Australia

Tel 612 9850 9016

Fax 612 9850 9942

Email gsm-research@mq.edu.au

URL <http://www.gsm.mq.edu.au/research>

Director of Research Professor John A. Mathews
Manager, Research Office Ms Kelly Callaghan

ISSN 1445-3126 Printed copy
1445-3142 Online copy

MGSM Case 2002-3

Berri Pure Fruit Juice

Market Entry Strategy into Taiwan

Dr Yiming Tang

Macquarie Graduate School of Management

Macquarie University Sydney NSW 2109

Tel: 612 9850 9042

Fax: 612 9850 9019

Email yiming.tang@mq.edu.au

Berri Pure Fruit Juice

Market Entry Strategy into Taiwan

ABSTRACT

Berri Limited, the largest fruit juice producer in Australia, has a very strong presence in the Asia Pacific region. Due to Asia's financial crisis in 1997, and due to the more recent global economic downturn resulting from the September 11th terrorist attack against USA, Berri's export sales in the region have been under tremendous pressure. David Cattell, International Manager of Berri Ltd's export division, was considering the option of defending Berri's Asia Pacific market position by entering the pure juice market in Taiwan. To ensure Berri's successful penetration into Taiwan's fresh juice market, David must select an appropriate international market entry strategy. He must also decide on the key marketing tactics, and properly manage any cross-cultural business issues that are associated with this proposed international market entry.

INTRODUCTION

In December 2001, David Cattell, International Manager of *Berri* Ltd's export division, was reflecting on the company's international operations. *Berri* products had been sold outside Australia for over several decades, with a strong presence in the Asia Pacific region, including New Zealand, Singapore, Hong Kong, Mauritius and Japan. In 1997, the region was hit by the worst financial crisis in its recent history. Due to the global contraction from late 2000 and onwards, the recovery was slow and short-lived. Then came the September 11th terrorist attack against USA, pushed the world market further into a global recession. Among the hardest hit countries in the region, Japan, Hong Kong and Singapore all happened to be *Berri*'s prime export markets. Needless to say, *Berri*'s export sales in the region were under a lot of pressure. Cattell understands that action must be taken soon if *Berri*'s export sales are to be sustained. Indeed he wonders how *Berri* could further expand its export market in this region. Specifically, he was currently evaluating a market entry opportunity: Taiwan. Labelled as one of the region's original "tiger economies", Taiwan has since 1997 achieved a very healthy GDP (Gross Domestic Product) growth rate of above 5% per year. In addition, Taiwan is making every effort to join WTO (World Trade Organisation) in 2002.

COMPANY OVERVIEW – *BERRI* LIMITED

Berri Limited, the largest fruit juice producer in Australia, is an association of cooperatives producing fruit, fruit juice and other foods. In 1945, when a group of Riverland cooperatives banded together in South Australia to support the Australian troops in World War II with locally produced fruit beverages, the *Berri* brand was born. After the war, the brand was successfully marketed both locally and increasingly into export markets. *Berri* Fruit Juices Co-Operatives was formed in 1961 and the company soon established offices around the country, making it Australia's first truly national fruit juice brand. During the 60's and 70's, a period of rapid growth followed, as the *Berri* product range blossomed and the company set up manufacturing sites around the nation. In 1985, Berrivale Orchards Limited was formed and funds injected into the company by the Australian Industry Development Corporation and the SGIC of south Australia. Then, in 1998, after a financial restructure and shareholder base extension, the company relocated its head office from Adelaide to Melbourne, at the same time changing its name from Berrivale Orchards to *Berri* Limited. Key acquisitions over the years have included Patra, Sunjuice, and Suncoast, and in November 1999 the company purchased the fruit juice division of National Foods - Sunburst National Foods Juice Ltd.

Exhibit 1. Major Subsidiaries of *Berri* Pty Ltd

<i>Berri</i>'s subsidiaries	<i>Berri</i>'s subsidiaries	<i>Berri</i>'s subsidiaries
Australian Nut Processors	Gildens	Sunjuice
Fayden	Patra Holdings	Cheryl's Bake-n-Serve
Palmwoods Citrus Unit Trust	Bropet Properties	O-Jay Food Products
Bar-Berri	Mr Juicy Brisbane	Waipat Juices

Source: *Berri Ltd.*

In the last decade, *Berri* has enjoyed healthy financial positions, averaging 30% plus growth each year over the ten years period of 1990-1999. In fiscal year 1999, *Berri* Ltd had a turnover of A\$550 million and a profit of A\$20 million. *Berri* currently has few financial constraints, demonstrating that it is financially capable and that it is in a position to look at long-term investments in the overseas markets.

Exhibit 2. *Berri's* Financial Position (A\$ millions)

	1990	1991	1992	1993	1996	1997	1998	1999
Turnover	182	258	264	269	389	383	380	550
Profit (net)	NA	0	4	NA	NA	-8	NA	20

Source: Euromonitor (2001); *Berri Ltd.*

FRUIT JUICE MARKET SEGMENTS – AUSTRALIA AND OVERSEAS

The Australian fruit-juice market has three segments in terms of product forms, including fruit drinks, 100% pure fruit juice at ambient temperature, and 100% pure fruit juice which is chilled at a temperature below 4 degrees C. *Berri* Ltd is the market leader in the chilled and ambient juice segments of the pure fruit juice category, with a combined market share of 60%. The *Berri* portfolio consists of *Berri Fruits* and *Prima* juice drinks, *Berri* and *Just Juice* brands in the 100% ambient juice and *Daily Juice*, *Australian Fresh*, *Quelch*, *Squeeze*, *Mr Juicy* in the 100% fresh chilled juices. These brands enjoy a very high level of consumer awareness. *Berri's* fruit juices are made from 100% Australian freshest fruit. The juices are completely unadulterated with no sugar or other additives. Production is carried out with state of the art technology in nine locations throughout Australia.

Exhibit 3. Fruit Juice Market Segments – Australia

Segment	%
Fruit drinks with 15% - 35% fruit juice concentrate	35%
100% fruit juice at ambient temperature (12 months shelf life)	40%
100% chilled (below 4 degrees C) fruit juice (21 days shelf life)	25%

Sources: *Berri Ltd*

The market segments in the broader Asia-Pacific region are defined somewhat differently. Again, *Berri* has very strong presence in these segments as well, although no specific information is available in terms of *Berri's* share in each of these segments.

Exhibit 4. *Berri's* Brands in the Overseas Fruit Juice Market

100% Fresh Juice	100% Long-life juice	Fruit and Vegetable Juice	Juice Drinks	Liquid concentrates	Nectars
<i>Berri Daily Juice</i> <i>Mr Juicy</i>	<i>Berri Glen Park</i> <i>All Juice</i>	<i>Berri Daily Juice</i> <i>Mr Juicy</i>	<i>Mr Juicy</i>	<i>Sunrise Cordial</i>	<i>Berri Squeeze</i>

Source: Euromonitor (2001).

TAIWAN: THE POTENTIAL MARKET¹

Geography, Demographics, and Social-cultural Environment

Taiwan, located in eastern Asia, consists of several islands, including Island of Taiwan, the Pescadores, Matsu, and Quemoy. It borders with the East China Sea, Philippine Sea, South China Sea, and Taiwan Strait, north of the Philippines, off the Southeastern coast of China. Taiwan has a total area of 35,980 square kilometres. The capital city is Taipei.

In 2001 Taiwan has an estimated population of 22 million, with a growth rate of 0.8%. Roughly 60% of the population lives in the northern region, encompassing Taipei, 22% in the southern region, and 18% in the central region. Taiwan's population is aging rapidly, with the middle-age (40-65 years old) segment growing fastest. Experts believe that within five years this segment will become the most important new consumer group. The average life expectancy in Taiwan is 75 years, and males comprise roughly 52% of the population.

Exhibit 5. Main metropolitan areas and their populations

Metropolitan	Population (million)	Metropolitan	Population (million)
Taipei	6.0	Taichung	2.3
Kaohsiung	2.6	Tainan	1.8

Source: CIA: *The World Factbook 2001* - Taiwan

Exhibit 6. Age and Ethnic Groupings' Proportion in Taiwan's Population

Age Group	% of Population	Ethnic Group	% of Population
Below 15	21.0	Taiwanese	52.0
15-65	70.0	Mainland Chinese	14.0
65 and over	9.0	Aborigines	2.0

Source: CIA: *The World Factbook 2001* - Taiwan

The literacy level for the total population has increased significantly over the last two decades, from an estimated level of 86% in 1980 to a reported level of 94% in 1998. The official language in Taiwan is Mandarin. English is the main business and government language. However, Taiwanese (Min) and Hakka are also widely used. Taiwan's workforce is technically competent, hard working, flexible and not afraid of change. Development of a knowledge-based economy is a key focus of the current government.

Buddhism, Confucianism and Taoism, the main religions of Taiwan, are practised by 93% of the population, with Christianity (4.5%) and others (2.5%) having minor influence. Indeed Confucianism heavily influences Taiwanese society, as evident in the level of respect and general esteem afforded to parents and elders by the younger generation.

¹ Figures quoted in this section are primarily drawn from CIA (Central Intelligence Agency): *The World Factbook 2001* - Taiwan; <http://www.odci.gov/cia/publications/factbook>; and from Berri's records, except otherwise specified.

The Political System and Political Risks

Taiwan has a democratic multiple-party political system, with its government headed by popularly elected president and vice president for a term of four years. The major governing bodies are Executive Yuan, Legislative Yuan, and Judicial Yuan. Taiwan's legal system is based on civil law system.

The Taiwan-China "Re-Unification" issue has existed for over 50 years. Statements by both Taiwan and the People's Republic of China (PRC) favour long term "Rapprochement". The PRC's view is straightforward: there is only one China, and Taiwan is a Chinese province with a true allegiance to mainland China. From Taiwan's perspective, it should be an economically independent nation, serving as a form umbilical cord linking China and the outside world as Hong Kong did until 1997. The debate on Taiwan independence has become acceptable within the mainstream of domestic politics on Taiwan. Political liberalization and the increased representation of opposition parties in Taiwan's legislature have opened public debate on the island's national identity. It is clear that the talk of Taiwan's independence will bring renewed pressure from mainland China, impacting very negatively on the overall investment conditions in Taiwan. Whatever its outcome may be, the issue of reunification will be addressed at some point in the future, and companies wishing to do business with and to invest in Taiwan must monitor the situation closely.

Economy

Taiwan's economy has evolved by following carefully planned policies that have transformed the economy from a traditional one relying on agriculture and labour-intensive manufacturing, to an export-driven, high-technology manufacturing and highly service-oriented modern economy. It invested in infrastructure and capital-intensive high technology industries including semiconductors, biotechnology, petrochemical, and information services. In 2000, the agriculture sector accounted for 3% of Taiwan's GDP, down from over 30% in 1970. In the same year the industrial sector contributed 33% to GDP, with the share of heavy industrial and technology-intensive products in the manufacturing sector increased from 65% to over 79% between 1990 and 1999. Traditional labour-intensive industries are steadily being moved offshore and replaced with more capital- and technology-intensive industries. Taiwan has become a major investor in China, Thailand, Indonesia, the Philippines, Malaysia, and Vietnam. Inflation and unemployment levels are low, estimated at 1.3% and 3.0% in 2000, respectively. Service is by far the biggest sector in Taiwan's current economy, employing over 55% of the labour force by the end of 1990s, and accounting for 64% of GDP in 2000.

International trade has been a significant driving force of Taiwan's economic development, with its proportional contribution to Taiwan's GDP reaching 74.7% in 2000, demonstrating the nature of dependence of Taiwan's economy on the world market. Having enjoyed a substantial trade surplus over the years, Taiwan has built up foreign reserves among the world's largest. Its currency, new Taiwan dollar (NT\$), has enjoyed a relatively stable exchange rate, approximately NT\$33.082 per US dollar or NT\$18.00 per A\$ dollar at the end of 2000. Taiwan's major export markets include USA, Hong Kong, Europe, ASEAN, and Japan. Its key import partners are Japan, US, and Europe, etc.

Exhibit 7. Taiwan's Major Trading Partners and Their Shares (2000)

Estimated shares (%)	USA	HK	Europe	ASEAN	Japan	Others
Export (\$148.38 billion)	23.5%	21.1%	16%	12.2%	11.2%	16.2%
Import (\$140.01 billion)	17.9%	NA	13.6%	NA	27.5%	NA

Source: CIA: *World Factbook 2001* - Taiwan.

Due largely to the government policies outlined above, its conservative financial approach and the country's entrepreneurial strengths, Taiwan suffered little from the Asian financial crisis in 1997, as compared with many of its neighbouring countries. Taiwan's GDP has achieved a nominal growth rate of over 5% since 1997, and reaching 6.3% in 2000. Based on purchasing power parity estimates, in 2000 Taiwan's GDP was US\$386 billion, with the per capita figure around US\$17,400. Growth in 2001 and onwards will depend largely on conditions in Taiwan's export markets, which are estimated to be about 5%.

Direct Investment Climate and Business Practice

The Taiwan government encourages foreign direct investment into Taiwan. Foreign investment approval is generally granted within 2-3 working days for investments of up to NT\$1.5 billion (US\$50 million). Investments over NT\$1.5 billion are screened by an inter-ministerial commission, with processing taking around 5-6 weeks. In March 1999, foreign ownership limits on listed companies were raised from 30% to 50%. As part of Taiwan's WTO application process, this 50% limit was abolished in early 2001. Regulations that affect foreign-invested enterprises are generally transparent and non-discriminatory. There are currently no known foreign investment disputes in Taiwan.

For operating and/or strategic reasons, most multinational corporations (MNCs) doing business in Taiwan have found it better to enter the market through a joint venture (JV) with a local partner. This provides an immediate link to pre-established buyer and supplier relationships and also enables access to local capital. It is advisable that foreign firms engaging in a JV arrangement seek FIA (foreign investment approval) status from the Taiwan government. This confers a variety of privileges and benefits, including tax credits, duty-free importation of machinery and capital equipment, as well as the ability to repatriate net profits, interest and invested capital.

It is extremely important to have a good local partner who is well connected in order to maximise business opportunities. It is also important to understand that agendas of family-owned Taiwanese businesses may not necessarily match the goals and objectives of foreign firms. If doing business with a semi-privatised enterprise, potential conflicts and difficulties should be considered. The Taiwanese industrial landscape is dominated by family-owned and managed small and medium enterprises (SMEs), very few of which turn over more than US\$100 million annually. These firms operate in an almost purely Chinese business environment and employ a Japanese/US hybrid style of management.

The Chinese business culture can be a stumbling block for foreign companies new to the Taiwanese market. Information obtained through personal networks and connections is often the key to competitiveness. It is also important to understand that

Chinese very rarely do business with strangers. Therefore a business introduction to commence the relationship is vital.

Taiwan has a very modern transportation infrastructure, covering two international airports located at the north and south ends of the island, and 18 domestic airports connect major cities and key offshore islands. There are five international harbours facilitating import and export trade. Toll highways and a round-the-island railway form an extensive inland transport network, including a north-south freeway.

Income, Consumption Patterns, and Consumer Behaviour

High economic growth has led to increased disposable income. Average per capita income for Taiwan's workforce of 9.2 million is over \$US18,000, the third highest in Asia, following Japan and Singapore. Food sales currently comprise 55% of an average consumer's retail expenditure. The government recently introduced legislation that brought the working week down from 5.5 to 5.25 days. The average consumer now has an increased amount of time to spend on shopping, and weekends have evolved as the new traditional shopping period. A recent survey stated that shopping was the average Taiwanese's second favourite leisure activity, next to watching television.

Busier lifestyles have led to an increased market demand for all types of convenience foods, and more convenient retail formats. There also appears to be very little consumer trust in manufacturers because of the large number of unregistered manufacturers, and the low quality of many products on the market. Most consumers therefore seek out a recognizable brand name. The prestige associated with product image also affects purchase decisions. Price dictates most purchase decisions for everyday food items. Freshness is also a key factor in the continued success of wet-markets. Taiwanese consumers continue to shop every day for perishable food items whenever possible.

Highly educated young consumers who have been exposed to western lifestyles through travel and advertising drive retail growth. Young consumers also have the highest average incomes. Many young Taiwanese buy expensive or high-end products for the image associated with the product, rather than the quality. The same holds true for modern retail facilities, where the store name is as important to consumers as product selection.

Middle-aged consumers are not as receptive to advertising as younger people. Due the constant introduction of new products and varieties, they have demonstrated little brand loyalty. More interested in quality and extremely health conscious, they are willing to pay a higher price if there is an immediate perceived benefit. Currently these people are viewed as a group that has not been adequately addressed to date.

Pure Juice Market In Taiwan

Over the recent years, the consumption level of fruit and vegetable juice in Taiwan, including both 100% pure juice and that with added elements, such as juice drinks, etc., has been fairly stable. Overall fruit and vegetable juice sales in Taiwan between

1995 and 2000 were between 285 to 298 million litres, with per capital consumption between 13.1 to 13.6 litres a year. This is slightly lower than that in Japan, but is quite comparable to that of Hong Kong, and is much higher than that in Singapore. Overall, per capital fruit and vegetable juice consumption levels in Asia Pacific countries, including Taiwan, Japan, Hong Kong, and Singapore, etc., are far below that of Australia, which range between 38.4 to 42.7 litres per year during the same period.

Exhibit 8. Asia Pacific Countries Fruit/Vegetable Juice Sale (1995-2000)

<u>Country</u>	<u>Categories</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
<u>Australia</u>	Value(US\$ mil)	930.9	1,043.2	1,030.6	897.6	915.1	885.6
	Volume (mil litre)	681.4	713.1	761.5	796.1	784.1	811.3
	Per Capital (litre)	38.4	39.2	41.3	42.7	41.6	42.5
<u>Hong Kong</u>	Value(US\$ mil)	158.7	169.3	179.1	186.5	195.9	194.1
	Volume (mil litre)	84.6	88.8	92.5	95.4	98.6	101.7
	Per Capital (litre)	14.2	14.2	14.4	14.5	14.6	14.7
<u>Japan</u>	Value(US\$ mil)	5,211.3	4,263.0	3,676.6	3,738.8	4,662.9	5,027.1
	Volume (mil litre)	2,028.8	1,913.1	1,850.7	2,058.7	2,234.1	2,306.1
	Per Capital (litre)	16.2	15.2	14.7	16.3	17.6	18.2
<u>Singapore</u>	Value(US\$ mil)	39.5	45.0	47.3	46.6	50.0	54.3
	Volume (mil litre)	24.3	27.1	30.4	33.2	36.6	40.3
	Per Capital (litre)	8.4	9.0	9.9	10.6	11.5	12.4
<u>Taiwan</u>	Value(US\$ mil)	491.9	500.8	462.6	437.0	475.3	479.7
	Volume (mil litre)	285.9	293.0	289.6	286.3	292.6	298.4
	Per Capital (litre)	13.5	13.6	13.3	13.1	13.2	13.4

Source: Euromonitor.

Exhibit 9. Asia Pacific Countries Fruit/Vegetable Juice Sale Forecast (2001-2005)

<u>Country</u>	<u>Categories</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>Australia</u>	Value (US\$ million)	910.6	939.3	973.2	1,010.4	1,044.2
	Volume (million litre)	836.9	867.4	902.2	942.4	978.4
	Per Capital (litre)	43.5	44.6	45.8	47.2	48.5
<u>Hong Kong</u>	Value (US\$ million)	200.6	208.1	215.8	224.8	233.2
	Volume (million litre)	104.9	108.7	112.5	117.0	121.2
	Per Capital (litre)	14.8	15.1	15.2	15.4	15.6
<u>Japan</u>	Value (US\$ million)	5,154.1	5,282.2	5,409.5	5,512.2	5,640.6
	Volume (million litre)	2,374.2	2,444.1	2,514.3	2,575.0	2,647.0
	Per Capital (litre)	18.7	19.2	19.8	20.2	20.8
<u>Singapore</u>	Value (US\$ million)	58.7	63.1	68.2	73.7	79.5
	Volume (million litre)	44.6	49.3	53.8	59.1	65.0
	Per Capital (litre)	13.6	14.8	15.8	17.0	18.4
<u>Taiwan</u>	Value (US\$ million)	498.1	520.4	545.6	574.6	601.2
	Volume (million litre)	304.9	312.2	320.3	329.0	337.1
	Per Capital (litre)	13.6	13.8	14.1	14.3	14.6

Source: Euromonitor. (Note: Value data for 2001 to 2005 are forecasted at 2000 prices)

According to figures from Taiwan Board of Trade, the 100% pure juice consumption in Taiwan accounts for just below a quarter of the total consumption of the fruit and vegetable juice products (refer to Exhibit 10).

Exhibit 10. Total Pure Juice Market Size in Taiwan (1998-2002)

	1998	1999	2000	2001(E)	2002(F)
Market Value (US\$ Mil)	85	82	85	76	76
Yearly Growth (%)	NA	-4%	4%	-11%	0%
Market Vol. (Mil Litres)	69	66	74	65	82
Volume Growth (%)	NA	-4%	12%	-12%	26%
Per capital consumption (litre)	3.16	2.98	3.32	2.90	3.62

E = estimated; F = forecasted. **Source:** Board of Foreign Trade (BFT).

Consumption Trends

In Taiwan, although the most popular drinks on the market in 1998 were tea drinks and high-concentration juice drinks, pure juice drinks are seen as having good potential for further growth. An increasing trend indicates that the population in Taiwan is becoming more health conscious. As most Taiwanese typically prefer a healthy diet to regular exercise, fruit and fruit juices are an integral part of their dietary intake. This trend would certainly encourage greater pure juice consumption. In addition, as the standard of living continues to rise, consumption of pure juice is expected to increase an estimated 6% annually over the next five years. Ready-made fruit juice also saves labour. Therefore, high labour cost countries tend to have a relatively high consumption of ready-made fruit juice.

Though a wide range of pure juices is consumed in Taiwan, the top three varieties of orange, tomato, and guava account for an estimated 46.6% of total pure juice consumption. The following table reflects the most popular consumer preferences for pure juice types in Taiwan.

Exhibit 11. Pure Juice Preferences in Taiwan

Juice Flavours	Market Share	Juice Flavours	Market Share
Orange	18.2%	Grape	1.8%
Tomato	14.6%	Apple	0.7%
Guava	13.8%	Grapefruit	0.7%
Mixed Fruit/Vegetable	11.0%	Others	39.2%

Source: FBR Statistical Analysis.

Domestic Versus Foreign Products

Though Taiwan is capable of producing several varieties of pure fruit juice more cost effectively, local consumers tend to view imported products as having higher quality. They also perceive the juice manufacturing methods of foreign countries to be superior in terms of sanitation and quality of ingredients. As a result, import brands are still gaining in popularity. While the total pure juice consumption has remained relatively stable, imports of higher quality juice have continued to rise steadily over the last five years, presenting a major competition to domestic pure juice producers in Taiwan. In early 1996, total fruit juice imports began to increase substantially. This was primarily the result of strong new consumer preference for coconut juice, particularly in central and southern Taiwan. Previously, coconut juice imports had

been minimal. BFT figures show that, in 1998, locally produced pure juice accounted for an estimated 70% of the total pure juice consumption in Taiwan, while foreign imported products have the remaining 30% of the market share, valued at US\$23.1 million.

While pure juice is imported into Taiwan from many countries, Thailand, Indonesia, South Africa, the United States, Vietnam and the Philippines account for about 86% of all pure juice imports. Australia, on the other hand, accounts for only 1% of the imports. The increasing demand for pure juice may provide an opportunity for Australia to gain its share of this market.

Exhibit 12. Countries Exporting Pure Juice into Taiwan and their Market Share

Country	Share	Country	Share	Country	Share
Thailand	46%	Vietnam	7%	Australia	1%
Indonesia	10%	Philippines	6%	Others*	7%
South Africa	10%	Brazil	2%		
U.S.A.	7%	Korea	2%		

*Including Israel, Austria, Cyprus, New Zealand, Belgium, India, Spain, Netherlands, France, Hong Kong, and Japan.

Source: Board of Foreign Trade

Major Brands In the Market

With a stable overall total consumption and increasing foreign imports entering Taiwan, competition within the pure juice market is intensifying. Several other factors also add competitive pressure. One comes from substitute products, including non-pure juices, and mineral water, etc. Other one relates to Taiwan's bid to join the WTO. It is anticipated that once Taiwan becomes a WTO member, import tariff will fall, encouraging new entrants into the market, and, in turn, further intensifying the competition. On the other hand, though, new entrants will bring new products and more marketing effort into Taiwan's pure juice market, resulting in stimulating the overall sales of pure juice. While there are many brands competing in this market, none has the dominant market share. Thus, individual brands have relatively limited market power over others. And both local and imported products offer quality. For the consumers, this means they have more choice in terms of flavors, quality and price, etc. As pure juice product is time-constrained and has limited shelf life, some of the customers may wait till the discounted price for fast-sell. In turn, competitors may be forced into pricing war to gain market share. Overall, there is a healthy level of competition within the pure juice market in Taiwan.

Exhibit 13. Top Pure Juice Brands in Taiwan

Top Brands (Origin?)	Market Share	Top Brands (Origin?)	Market Share	Top Brands (Origin?)	Market Share
CERES	11.1%	DING HAO	6.7%	WEICHUAN	2.8%
PRESIDENT	11.1%	WELCHES	5.6%	BUO MEI	2.3%
I-MEI	11.1%	SUNKIST	5.0%	OTHERS	44.3%

Source: FBR Statistical Analysis.

During a recent visit to several major retail outlets in Taipei, an independent consultant observed many pure fruit juice available in these outlets. Information displayed on the packaging of these products indicate that, of the major brands shown in Exhibit 13, only CERES is labeled as manufactured by the South Africa based company Ceres, while the rest are all manufactured by Taiwan based companies, including both locally or foreign owned companies. It indicates that many Taiwan based manufacturers import pure fruit juice from other countries in bulk form, and then packaged in Taiwan for the Taiwan market. David felt the need for further investigation and verification of this information.

Barriers to Foreign Entries

While it seems that many Taiwanese welcome foreign imported products, there are nevertheless several known barriers to foreign entrants. The first significant barrier to foreign imports is from Taiwan's import regulations. Though no quotas are currently in effect, importers of pure juice to Taiwan are levied a stiff tariff of 45% of the C.I.F. (cost, insurance and freight) price. It should be noted that Taiwan government has been making greater effort to join the World Trade Organisation (WTO). With successful entry anticipated in mid-2002, in theory, the heavy tariff is expected to be significantly reduced within a relatively short period of time.

In addition to the tariff, there are also several miscellaneous fees as listed in Exhibit 14. The Taiwan Department of Health requires that the first shipment of pure juice to arrive in Taiwan be tested as to its content and possible health hazards. The testing will take up to six working days and costs 0.2% of the F.O.B. (free on board) price of the shipment. After the initial test, additional tests will be performed randomly, but approximately every 20th shipment.

Exhibit 14, Tariff and Fee Schedule for Pure Juice Imports into Taiwan

Pure Juice Tariff	45% of CIF Price
Harbour Construction Fee	0.5% of CIF Price
Trade Promotion Fee	0.05% of CIF Price
Customs Clearance Fee Per Shipment	NT\$500 (US\$19.23)*
Health Department Testing Fee	0.2% of F.O.B. Price

* Ex Rate: US\$1=NT\$30.74 (14-03-2001);

Source: Board of Foreign Trade

Although there are no other known legal trade barriers, petty bribery and other illegal import barriers do exist. Instances are considered insignificant, however, and are unlikely to affect business dealings in Taiwan.

Overall, Taiwan's business environment seems to favour foreign investment in many areas, with conditions likely to improve further due to Taiwan's pending accession into the WTO. It is estimated that WTO entry will lead to a significant reduction of high tariffs on meat, fruit and vegetables, and will generate an extra A\$2.5 billion increases in agricultural imports. A recent reform of abolishing the 50% ownership limit on listed companies will further liberalise the Taiwan market and will allow foreign companies to enter the market with relative ease. This will almost certainly attract more foreign retailers into the Taiwan market in the near future.

Exhibit 15. Favourable Investment Conditions in Taiwan

Political stability	Sound industrial infrastructure
Sound social order	Favourable govt policy towards FDI
Adequate technical level	Liberalised trade policies
Fast economic growth	Relatively inexpensive brainpower
Good quality of operational personnel	An open foreign exchange policy

Source: Yip, George (1998) *Asian Advantage: Key Strategies for Winning in the Asia Pacific Region*, Addison Wesley, Reading.

Consumer Preferences – Packaging

Pure juices come in a variety of sizes but by far the most popular are the 236cc mini-litre and 946cc mini-litre container sizes. Industry sources indicate that the trend is towards more choices in size. One packaging manufacturing in particular, TETRA LAVEL, makers of the TETRA-PAK, has recently begun producing 300cc and 400cc aluminium foil packs. An estimated breakdown of the types of packaging materials prevalent in the market by percentage is depicted in the following table.

Exhibit 16. Pure Juice Packaging Preferences in Taiwan

Type	Share	Type	Share	Type	Share
Tetra Pak	30%	Glass Bottle	20%	Steel Can	5%
Pure Pak	30%	PET	10%	Aluminium Can	5%

Source: FBR Statistical Analysis

Competition in Food Retail Sector in Taiwan²

The number of retail outlets in Taiwan totalled 97,592 in 2000, an increase of 56% from 1996. Food outlets, whose number stood at 23,621 in 2000, comprised about a quarter of total retail outlets. Total retail sales through food retailers grew by around 25% during the same period, to NT\$464 billion in 2000. Hypermarkets and convenience stores were the two fastest growing retailing channels in Taiwan, witnessing rapid expansion in terms of outlets and sales growth. In contrast, sales turnover of independent grocers and wet markets were lacklustre and even declined.

President Enterprises is the largest food processing and retailing group in Taiwan. The company was formed in 1967, and produces dairy products, oils, grains and beverages. President Chain Store Corp was spun off from President's convenience store division, which was created as a separate division in 1987. It also operates the 7-Eleven chain, probably the largest convenience store chain in Taiwan with over 2200 stores. As part of Presicarre (an alliance between President and Carrefour), President is also a major player in the hypermarkets sub-sector.

The Dairy Farm Group is another major retail group in Taiwan, operating the Welcome and Ding Hao supermarket chains. In September 2000, the chain announced a merger with the Mei Chun supermarket chain, boosting its outlets to 108 island-wide. The merger has made Wellcome the largest supermarket chain in the country.

² This section is mainly drawn from Euromonitor: *“Retail Trade International – Taiwan,”* July 2001, except otherwise specified.

Exhibit 17. Numbers Of Outlets of Key Food Retailers:

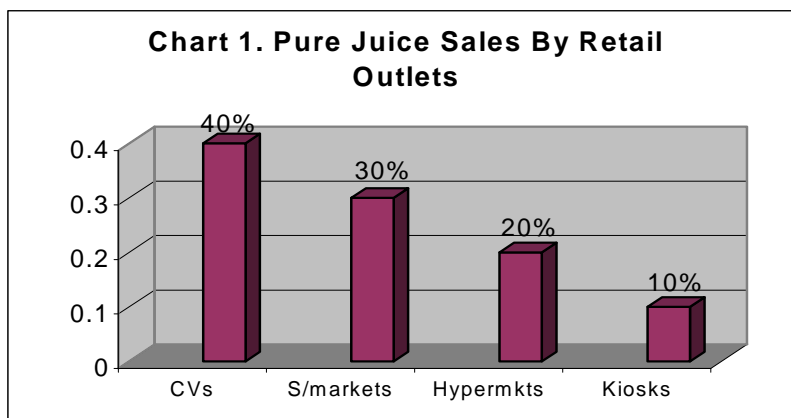
Retail Outlets	Numbers of Stores
Carrefours	25 stores
Sinon	31 stores
Makro	9 stores
Wellcome	100 stores
7 Eleven	2221 stores (541 owned; the rest are franchises)

Source: Berri Ltd Pty

Pure Juice Retail Outlets

In Taiwan, pure juice is sold among four sub-markets: Retail Outlets, Department Stores, Restaurants and Hotels and Night Markets. Until recently, family businesses and individually owned shops dominated retailing in Taiwan. However, department stores, supermarkets and 24-hour convenience stores are all becoming increasingly popular and a means for importers to distribute pure juice.

Consisting of hypermarkets, supermarkets, convenience stores (CVS), and street side kiosks, retail outlets are the largest sub-market for pure juice. Together, they account for an estimated 75% of total pure juice consumption in Taiwan in 2000. The respective market-share for each of these types of outlets is depicted in *Chart 1*.



Source: FBR Statistical Analysis

Along with changes in consumption and spending patterns has come a change in the method of retailing. In particular, a new channel for the distribution of pure juice opened in the late 1980's with the introduction of several hypermarket retail outlet stores. This kind of high-volume discounted price outlet is still new and confined to major metropolitan areas but it is proving to be a widely successful concept in Taiwan. Indeed recent press report suggests that the local retailing industry is poised for a rapid island-wide expansion of the hypermarkets.

Most major department stores throughout Taiwan operate snack bars and/or dining facilities, catering to an upper scale and affluent clientele. They account for an estimated 15% of total pure juice consumption. Currently the major department stores operating in Taiwan include Far Eastern, Takashimaya, Lai Lai, Tong Lin, Chung Yo, Mitsukoshi, and Rebar. Far Eastern is by far the largest department store in Taiwan, with the total number of its chain stores more than the other six competitors added up.

The smallest sub-market for pure juice is the restaurant and hotel market, accounting for an estimated 5% of total pure consumption. This market is comprised primarily of

middle to upper scale restaurants, particularly those serving western meals, and most international tourist hotels.

Night markets are an integral part of life in Taiwan where crowds of Taiwanese gather in the evening hours to dine on an extensive variety of inexpensive Chinese foods, drink beverages, and shop for everything from clothes to electronics. Nearly every evening, in almost every neighbourhood throughout Taiwan, street vendors begin assembling their wares, preparing their small food stalls, and laying out discount merchandise. Every major city in Taiwan typically has two or three larger and more permanent night markets stretching several blocks or more, and dozens of smaller impromptu markets that spring up in narrow alleys every evening. Nearly all the pure juice consumed at night markets is made by street vendors on the spot, primarily from fresh oranges, lemons, and red grapes. These night markets account for the remaining 5% of total pure juice consumption in Taiwan.

MARKET ENTRY

If *Berri* decides to enter Taiwan, there are several entry strategies available for *Berri* to consider. One is export, which can be done via direct or indirect route. The former provides *Berri* with direct involvement in, and thus, high management control over its export operation. Indirect export can be achieved via an agent located in either Australia or Taiwan. Operation costs for the indirect route may be lower than the former, as the agent will handle most of the onwards operation in Taiwan. However, *Berri* may have to give up, to a certain degree, its direct involvement in and control over the marketing activities in Taiwan. Another drawback for taking the indirect export route, from *Berri's* view point, is that it will have to share its margins with the agent as well. Current high import tariffs, on the other hand, may encourage foreign entrants to set up local assembly/production in Taiwan in which case *Berri* could either source local fruit to produce the pure juice products or ship the pure juice in bulk and have the packaging done in Taiwan. However, the high labour cost and constraints of land act in Taiwan act as deterrents to foreign entrants setting up local production, while protecting local producers. In addition, *Berri's* nine modern production locations in Australia provide ample capacity to serve another export market. Therefore, there has to be a very strong reason if *Berri* is going to build another plant in the region.

If the direct export route is taken, a local office is deemed necessary for coordinating the marketing activities in Taiwan. There are again two options *Berri* could follow to achieve this. One is that *Berri* opens a local export sales office in Taiwan as a wholly owned operation. Alternatively, this office can be set up as a JV or a strategic alliance between *Berri* and a local partner. The choice between the two options very much depend on how much control and risk *Berri* is willing to take, and whether *Berri* has all the necessary resources it needs in order to penetrate Taiwan's pure juice market.

A wholly owned operation will allow *Berri* to have total management control over its marketing activities. In Australia, *Berri* occupies the number one position in the chilled and ambient fruit juice segment, with very high brand awareness and nine modern production facilities. This, plus *Berri's* sound financial position, certainly provides *Berri* with the ability to easily open an export sales office in Taiwan. On the

other hand, the commitment of resources required by this option represents greater financial exposure and thus higher potential risk in a totally new business environment. In addition, *Berri* lacks experience and expertise in doing business Taiwan, where relationship building is considered critical for business success. Fresh fruit juice is a time-constrained commodity product. It must be sold within the stated shelf-time, or it will be worthless. Therefore, a mass distribution channel with ample shelf space and wide coverage is key to the marketing of such a product. *Berri* does not have such distribution system in Taiwan.

The other option is to set up a joint operation with a strategic partner in Taiwan. One key potential benefit from such a strategic alliance is that it may allow *Berri* to obtain access to the mass distribution channel in Taiwan's pure juice market. This presents *Berri* with the opportunity to gain instant market access and potentially deeper market penetration. This option would also allow *Berri* to share its business risks in Taiwan with the chosen strategic partner. However, if not well managed, this option will have major drawbacks. The involvement of both partners in key business decisions for example, may result in a slower decision-making process. A joint operation in which a local partner has access to *Berri*'s certain proprietary information, might also have long-term negative implications and/or risks for *Berri*.

MARKETING PROGRAM

In addition to the entry strategy, many other marketing tactics need to be worked out as well. Specifically, Cattell wonders whom *Berri* should target for its pure juice in Taiwan, and whether it makes sense to have a tiered target market, i.e., primary and secondary, etc. In defining the target market, Cattell wonders what specific characteristics he should apply in order to develop a target market profile.

Given increasing competition in the imported pure juice market in Taiwan, an appropriate positioning strategy is vital to win buyers. In addition, Taiwanese are becoming more health conscious but those living in the cities do not do much physical activity. Given these scenario, it seems that to position *Berri*'s pure juice as "**Healthy, Fresh N Pure Australian made**" in the mind and heart of consumers in the target markets is very appealing. However, information promoting health-consciousness in Taiwan is not currently directly linked to *Berri*'s products. Cattell wonders if he needs to obtain first hand data regarding Taiwan consumers' perception on pure fruit juice in general, and on *Berri*'s pure juice products specifically.

Based on his experience in other Asian countries, including Japan and Singapore, etc., Cattell is confident that consumers will recognise *Berri*'s pure juice as high quality products. Nevertheless, other product related decisions remain to be made, including the type of juice to be marketed in Taiwan, the translation of *Berri*'s name into Mandarin Chinese, the packing size, design and labelling details etc.

Current technology allows the temperature of the finished product to be reduced to minus (-) 4 degrees C, which will then be frozen into a SLUSH-like form with no change in taste and freshness. This will then be shipped to the destination ports in reefer containers. Upon arriving at the destination, the product's temperature will be

gradually increased to below 4 degree C under a controlled environment. At this stage the product’s onward shelf life will be 21 days.

Taiwan’s government regulations require that the package label may be written in English, and an additional and clearly legible Chinese label must also be placed on each container. This relates to both the brand/company name(s), and to all other labelling categories. From both internal and external sources, several alternative mandarin translations of “Berri” are received. The first option, “**貝梨**” (pronounced “*Bei Lee*”), is thought to be very good in that the characters in Chinese are natural-oriented, as “**貝**” means ‘shell’, and “**梨**” means ‘pear’, seemingly presenting a pure and fresh image. This is very close to the nature of *Berri*’s products. It is also close to the original pronunciation, and thus, easier to understand and to remember as well. The second option, “**百利**” (pronounced “*Bai Lee*”), also has a very similar pronunciation and is very suitable for the Chinese culture, The character in Chinese, “**百**”, means “hundred” or “all things”, while “**利**” means “favourable” or “profits”. Together, the name means “All things are favourable”. The third option “**百銳**” (pronounced “*Bai Rui*”) is the closest to the original English pronunciation. The character in Chinese, “**百**” is the same as the second option, and “**銳**” means “sharp” or “smart”. Together, they mean that “all things are sharp and smart”, which will bring *Berri* to stand out in the competition. Cattell wonders which translation *Berri* should use for the proposed Taiwan entry.

Cattell feels it is absolutely essential that the packaging for Taiwan must be consistent with *Berri*’s packaging design used in Australia, as illustrated in the right hand picture. That is, it must bear *Berri*’s logo, the “**PURE’ N FRESH**” wording, and the colourful graphics of the fruit concerned, emphasising that the juice is 100% Australian made, etc. A version of the mandarin translation of such wording is “**澳洲纯正鲜榨果汁**”, which literally means “**Australian Pure Freshly Squeezed Juice**”. The phrase “**鲜榨**” conveys an image of just freshly squeezed juice.



Exhibit 18. Additional Information Required on Product Packaging in Taiwan

Contents	Manufacturer/Importer’s contact details	Expiration Date
Net weight	Shelf Life / Best Before Date	Date of Manufacture

Source: *Berri Ltd.*

Pricing

Pricing for *Berri*’s juice in Taiwan depends on many factors, including shipping costs, *Berri*’s costs and targeted margin, the distributors’ required margins, the target market perception and the appropriate positioning strategy, etc. Normally, a consignment is

shipped on either FOB or CIF basis to the designated ports in Taiwan. Usually, exporters prefer FOB to CIF, simply because the former is a much easier option, as it leaves the work of organising insurance and freight to the importer. However, as a major exporter, *Berri* has years of experience and the expertise to negotiate the best freight and insurance rate. Therefore, the choice between the above two basis could mean significant cost savings, and thus, considerable difference in retail price and margins. The estimated freight from Australia to Taiwan is about A\$0.063 per litre.

According to sources within the industry, profit margins for importers selling directly to retailers average 30%. However, indirect sales through distributors lower importers' margins to approximately 15%, with the distributors themselves averaging a 25% mark-up. Several distributors stated that they would only consider carrying a pure juice product line if they are able to earn at least a 25% mark-up. Retailers' mark-up also averages 30%. Several local popular brands are recently selling around NT\$50 per 1 litre pack, and NT\$90 per 2 litre pack. Taiwanese tend to perceive the imported products as being higher quality. As a result, top imported brands of pure juice are on average 7% more expensive than local brands. However, comparable package sizes of imports are often somewhat smaller. Adjusting for differences in package sizes it is estimated import brands are as much as 25% higher than that of equivalent locally produced brands.

Importer Selection

There are two routes for *Berri's* products to reach the retail outlets in Taiwan. The first route is for the importer to sell *Berri's* products directly to large retailers. This will most likely enable *Berri* to achieve higher margins. The second channel is for the importer to sell to a distributor, who in turn sells to retail shops, convenience stores, other more remotely located retail outlets, restaurants, and department stores, etc. Approximately 70% of all imported pure juice is distributed via the first method, due largely to the fact that key players act as both importers and distributors. Larger pure juice importers such as PRESIDENT with significant market share simultaneously employ dual channels of distribution. Either way, a key decision for *Berri* is to select the appropriate importer.

An initial search yields two possible candidates: Chow Chu Distribution and NCH Foods Ltd. Detailed information is needed for *Berri* to conduct a more critical evaluation of each of them. An initial assessment reveals that Chow Chu Distribution has extensive experience in distributing brands well known to Australians, including Kellogg's, Greens, and Lindemans, etc. It employs a brand manager to handle each individual brand, category analysts, and a sales team 70 strong.

Given *Berri's* limited knowledge about food retail in Taiwan, Cattell feels it necessary to get the facts about retail activities in Taiwan via a close monitoring of how the chosen retail stores function, etc. Details of this proposed monitoring must to be worked out as well.

Advertising and Promotion

Communication and promotion are also somewhat tricky. Based on his experience, Cattell is aware that people in many Asian countries tend to be more group oriented

when making purchase decisions, even for products like pure fruit juice. Often a purchase is made not for the buyer him/herself, but on behalf of other family members. Therefore a key question is who is the primary target audience for an advertising campaign.

By western standards, the Taiwanese are particularly fond of soft drinks and 'functional' beverages, with most retail stores offering a staggering variety of flavoured milks, sodas, teas, iced coffees, sport drinks, fruit juices and fruit juice drinks. Thus, newcomers to the pure juice market face considerable competition from a wide range of competitors.

As Taiwanese in general prefer a healthy dietary intake to routine exercise, it is vital that an appropriate communication strategy to be formulated will have the ability to distinguish *Berri's* pure juice from the vast array of other beverages available in this market place. Based on his experience, Cattell is aware that many Asian consumers always critically evaluate the product information prior to purchase. He wonders, therefore, whether an advertising strategy with an emphasis on providing information, such as, "one glass of orange juice provides the daily Vitamin C requirements all naturally", will work better in Taiwan. Some of the information recently received seems to confuse the health benefit of consuming pure juice rather than promoting it in Taiwan. For example, a most recent independent consultant report revealed a scary research news heard over the radio in Taiwan that: "Drinking too much orange juice can cause fat problem. It is believed that fresh juice is good for babies. However, the sugar contained in fresh juice can also cause the babies to grow too fat...." It was funny because it reflects the fact that people are getting more concerned about healthy consumption, but it also shows information from different sources really conflicts and confuses the consumers.

Selection of appropriate media is also very important in order to reach the targeted audience. Besides advertising, a "below-the-line" media launch party and an exhibition at a popular venture might be useful to attract media attention, and to generate publicity for *Berri's* products. Other promotional activities, including trade and consumer promotions, and point-of-sale materials, etc., need to be sorted out as well. During his recent business travels to the region, Cattell has seen some unique ways of promoting products at local retail outlets. One which stands out in his mind is an army of uniformed sales girls lining up along sales counters to promote various products, ranging from personal hygiene products to fast-food items. He wonders whether the same method can be used for his juice products as well.

CONCLUSION

As Cattell ponders the options for *Berri*, he is very much aware of the very tight timeline *Berri* is facing. He wonders how these decisions should be made, and in what order. He also wonders whether he has missed any significant issues and/or overlooked any cross-cultural challenges. He is fully aware that whatever decisions to be made, they must ensure to meet *Berri's* marketing objectives of achieving at least 3% market share in its first year, and possibly reaching a double-digit figure in three years time in entering a new market. One thing clear to him is that further export market expansion into the Asia Pacific region, where *Berri* is already holding

significant business interests and operation, will result in increased sales, market share, and profits for *Berri* in the future.