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Land of the Rising Soy

An Internationalization Plan for Nutre to the Japanese Soy Milk Market

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Abstract

The present work project studies the next step in the internationalization process of Shoyce, the soy milk products brand of Nutre. In order to select the best target market in the Asia-Pacific for Nutre to export, a sequential screening process was developed using two complementary approaches: preliminary country screening and country ranking, followed by an in-depth analysis of the country ranking first. The analysis revealed Japan as the most attractive country for Shoyce's international expansion. Potential entry modes in the Japanese soy milk market were then evaluated, whereby direct exporting via a local distributor was found to be the most appropriate.

Keywords: Internationalization; Shoyce; Japan; Soy Milk

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CONTENTS

Introduction	4
Literature Review	5
Methodology	7
Company Situation Analysis	7
Internal Analysis	7
Asia Pacific Milk Products Industry Analysis	9
Competitive Advantage Analysis.....	11
SWOT and TOWS Analysis	13
Organizational Global Readiness	13
Country Selection.....	14
Country Screening.....	15
Choice of Entry Mode	18
Japan’s Environmental Analysis	18
Japan’s Milk Products Industry Analysis.....	19
Entry Mode.....	21
Financial Analysis	22
Export Risk Assessment.....	23
Conclusions and Recommendations.....	24
References	26

Nutre – Indústrias Alimentares (‘Nutre IA’) is the only Portuguese producer of soy-based products. The firm’s main objectives for 2017 are: (1) to achieve revenues of €15 million; and (2) to export 50% of its sales of Shoyce, its brand of soy milk products. For that purpose, the company wants to further internationalize Shoyce, which is currently exported directly to Spain, China, Taiwan, Hong Kong and Macau through local distributors, while expansion to Finland, Turkey, Israel and Nigeria is being negotiated. The firm’s decision to internationalize was motivated by proactive drivers, which include profit goals, growth objectives and management motivation reflecting the desire, drive and enthusiasm towards international marketing activities. The international ambition of Nutre IA is to further expand its presence in the Asia-Pacific region, which is mainly justified by the region’s high percentage of lactose-intolerants and high consumption of soy milk.

Accordingly, the purpose of the present work project is to address the following questions:

- (1) Which is the most promising market in the Asia-Pacific region for Nutre IA’s products?
- (2) What entry mode should be adopted in selling to the selected country?

In order to assess and select the best target market for Nutre IA’s products, the Asia-Pacific individual markets will be investigated using a sequential screening process consisting of two complementary approaches: preliminary country screening and country ranking.

The work project is structured as follows. The next section reviews the relevant literature used to select the foreign country and the mode of entry. The third section sets out the methodology used in the present work project to collect the relevant data. The fourth section provides an in-depth situation analysis of Nutre IA. The fifth section identifies which country from the Asia-Pacific region is the best target market for Nutre IA and its products and this is followed by a section discussing the best mode of entry for the firm’s products and the inherent risks and costs of exporting to the selected country. The final section summarizes the important conclusions, providing, in addition, recommendations for the international expansion.

Several studies of international business describe the internationalization of firms as a process in which the firms progressively increase their international involvement (Johanson and Vahlne, 1977). Literature on the internationalization process of SMEs suggests three main theories - the Process Models, the Network Perspective and the International Entrepreneurship. The contemporary business environment, represented by trends which facilitated the internationalization of firms of all ages and sizes, has stimulated the widespread emergence of firms that internationalize at their founding, *Born Globals*, and the rise of the International Entrepreneurship field of study, which is focused on the innovative, proactive, and risk-seeking behavior that crosses national borders (Oviatt and McDougall, 2000). This theory is the most appropriate to explain Nutre IA's international expansion, since its management is fully-committed to exporting, continuously searching for new attractive foreign markets and displaying ambitious exporting goals. The company resembles a born global since it started its exporting operations in less than three years after it started, exporting 20% of its Shoyce sales.

Market Entry Strategies

According to Root (1987), when internationalizing, the firm must develop a tailored entry strategy plan for each product in each foreign market, due to the different responses that might arise. Market entry strategies often comprise decisions on (1) the choice of a target market, (2) the objectives and goals in that market, (3) the selection of an entry mode, (4) the marketing plan and (5) the control system to monitor performance in the target market (Koch, 2001; Root, 1987). Two out of these five decisions will be examined, namely the choice of the target market and the selection of an entry mode.

Target market selection

Firms trying to expand internationally are faced with the complex task of determining which foreign markets are suitable for entry (Cavusgil *et al.*, 2004). According to Cavusgil (1985),

firm's resources are spent in a more effective and efficient manner in a sequential screening process, rather than in an unstructured procedure for analyzing foreign market opportunities.

Most models (Cavusgil, 1985; Root, 1994; Kumar *et al.*, 1994) perceive a foreign market evaluation and selection process as being composed of three stages: (preliminary) screening, in-depth screening or identification and (final) selection (Kock, 2001). They propose that, in the first stage, macro-level indicators are used to eliminate many unsuitable markets from further investigation (Cavusgil, 1985; Kumar *et al.*, 1994). The second stage involves assessing industry-specific information for each selected foreign market. At this stage, market access, product potential and local distribution and production should be investigated (Cavusgil, 1985). Finally, the selection stage entails assessing company-specific information, such as profitability and product compatibility with the existing portfolio to select the foreign market or markets to enter (Koch, 2001). Other authors propose different structures for market selection, with Johanson (1997) suggesting a four-stage approach with a different sequence.

International Entry Mode

International entry mode has been described as the institutional arrangement that enables a firm's products, technology, management, human skills, or other resources to enter into a foreign market (Root, 1987; Sarkar and Cavusgil, 1996). The literature of the subject often classifies entry modes into exports, contractual and investment modes (Driscoll and Paliwoda, 1997; Root, 1987).

In an export entry mode, a firm can manufacture in the domestic market or in a third country and then sell its products in the target region. Indirect exporting uses an intermediary in the domestic market to actually do the exporting. In direct exporting, the firm may also use an intermediary but located in the host country (Root, 1987).

Contractual entry modes comprise diverse arrangements such as franchising, licensing, co-production agreements and management, service or construction contracts. These arrangements commonly involve a long-term association between the firm and an entity in the host country

(which does not entail equity) where human skills or technology are transferred from the firm to the overseas entity (Driscoll and Paliwoda, 1997).

Investment entry modes involve firm ownership of production facilities in the host country. These facilities may range from assembly plants to plants that fully manufacture the product (Root, 1987). Investment entry modes may be classified as sole or as joint ventures.

Several scholars have suggested that the key dimensions distinguishing these entry modes are the varying levels of resource commitment, control, dissemination risk, and flexibility that each one entails (Driscoll and Paliwoda, 1997; Root, 1987; Dunning 1988b; Douglas and Craig 1989; Hill *et al.* 1990; Agarwal and Ramaswami 1992; Erramilli and Rao 1993).

METHODOLOGY

To collect the data, a hybrid method was used, merging two sources. Firstly, seven semi-structured interviews to Dr. João Vitor, Nutre's business director and the executive responsible for the international business activities of the firm, were conducted. The interviews covered a variety of topics, including the history of the company's international involvement, the nature of current international activities and strategic intents, and major company and brand characteristics¹. Secondly, data was also gathered from secondary sources such as, strategy and international business books, documents and journals, as well as web resources, as presented in the references section.

COMPANY SITUATION ANALYSIS

INTERNAL ANALYSIS

Company Overview

Nutre Group is a multinational group with Portuguese origin engaged in the production and commercialization of agricultural and agro-industrial cereal based products. It is present in the agri-food sector since 2005, operating in four business areas – agriculture, extraction, biofuels and food products. Its activities are developed with full integration of the value chain, exploiting agricultural land in Romania, Brazil and Mozambique and operating plants in

¹Due to the existence of confidentiality policies, financial data on the company's activities was not provided

Angola, Romania and Portugal. Nutre Group employed over 200 people and recorded revenues of approximately €10 million in 2014. Nutre SGPS, S.A., 80% owned by Ceres Agriculture Holdings Cooperatief U.A. and 20% by Martifer – SGPS, S.A., and headquartered in Portugal, manages the shareholdings of Nutre Group.ⁱ

Nutre IA, a subsidiary of Nutre SGPS, is the only Portuguese producer of soya based products. Constituted in December of 2010, it started to produce private-label soy milk (with a beany taste) for Pingo Doce, Continente, Auchan and Dia in the end of 2012, having achieved a 70% market share in the soy milk private-label segment in Portugalⁱⁱ in 2015. Its plant in the Industrial Area of Vagos, Portugal, which has the capacity to produce 40 million liters of soy beverages per year, mobilized an investment of €13 million, partly financed by European Union programs. Nutre IA sells soy milk and in October of 2015 it added to its portfolio soy milk for kids and soya yogurts². In addition, the company plans to launch rice milk until the end of the year. As of 2014, 42 jobs were created and the unit recorded revenues of approximately €4.4 million, which represented a growth of 322% in 2014 (**Appendix 1**). Nutre IA expects to end 2015 with revenues of €7.5 million. The firm sold 13 million liters of soy milk over 2015 until November.

Product Analysis

Shoyce is Nutre IA's soy milk brand. Its soya beverages are produced with selected non-genetically modified soyabeans. Shoyce is the soy milk closest to cow's milk in terms of taste, color, texture, protein, calcium and vitamins (**Appendix 2**). However, as it is plant-based, its vegetable protein is a source of fiber and it is free from lactose, gluten and cholesterol. Its products have no colorants, preservatives or sweeteners. The brand strategy is thus to show that Shoyce is different from the ordinary soya beverages and that it is the best alternative to milk. The brand's portfolio is composed by original, light, chocolate and vanilla soy milks sold in 1 liter and 200 milliliters packages; introduced to the market in the end of 2014, they were elected product of the year by consumers in 2015. Shoyce is sold in more than 300 Portuguese

²As these products were just recently added, the present work project will be focused solely on **soy milk**.

super- and hypermarkets, at prices lower than other vendor brands (**Appendix 3**). Moreover, Nutre IA engaged in a partnership with Nutricafés, to sell its products in the Horeca distribution channel, in more than 5,000 points of sale.

As of October 2015, Shoyce's export sales accounted for approximately 20% of its total sales. In the Asian market, the company avails itself of the perceived greater quality of European products to charge premium prices and to obtain higher margins than in the domestic market.

ASIA PACIFIC MILK PRODUCTS INDUSTRY ANALYSIS

Market Definition: The product market to be considered will be **Milk Products** ('MP'), which can be segmented into two main divisions: **Milk**, which includes plain, flavored and powdered milk, and **Non-Dairy Milk Alternatives**, which includes soy milk and other non-dairy milk alternatives such as oat, almond, rice and coconut milk. These are the milk varieties considered as relevant, since their prices influence the market for soy milk. Moreover, as Nutre IA intends to expand its presence in the **Asia Pacific**, this will be the region analyzed in detail.

Market Analysis³: Global MP experienced a growth of 4% in 2014 (and a CAGR of 3.6% over 2010-14) to achieve value sales of \$173 billion, which are expected to increase to \$216 billion in 2020 (**Appendix 4**). Demand was fueled mainly by **population growth** and **urbanization**. Out of all the MP, milk (cow's and goat) was the largest sub-category by far (representing 66% of overall MP). As of 2014, 46% of the global demand was from the Asia Pacific region (**Appendix 5**), registering a sales value of \$80 billion and a CAGR of 7.7% over 2010-15. China accounted for 57% of the Asia Pacific MP sales value, followed by India which accounted for a further 11.8% (**Appendix 6**).

Regarding the non-dairy milk alternatives category, these are primarily consumed by vegans, lactose or dairy intolerant individuals, and people with milk allergies. As they are plant-based, non-dairy milk alternatives have a low fat content and a low cholesterol level, being an alternative to meat diet. Therefore, its demand is driven by the increase in **awareness of lactose intolerance, rising health concerns, and the increasing vegan population**. This

³ This analysis will be mainly focused on the Global MP market due to the lack of comprehensive information for the Asia Pacific. However, whenever possible, specific information for the latter market will be given. 9

category experienced a 6% value growth globally in 2014 (**Appendix 7**). In volume terms, the category rose by approximately 5.7% in 2012 to achieve a volume of 24.2 billion liters and is expected to increase to 29.1 billion liters in 2016 (**Appendix 8**). Concerning the soy milk sub-category, its demand is rising with the changing trends in the market and **growing disposable income** as people are becoming health conscious and tend to spend a higher amount of their income in healthy drinks. In addition, the market for soy milk is being driven by the **population growth** and the **increasing urbanization**. Soy milk's functional properties of containing calcium, potassium and being rich in protein also attract consumers towards its consumption. The category experienced a volume growth of approximately 4.2% in 2012 to achieve a volume of 17.4 billion liters (representing 12.4% of overall MP) and is expected to rise to 19.6 billion liters in 2016. As of 2014, 92.3% of the global total volume was from Asia Pacific (**Appendix 9**). It experienced a volume CAGR of approximately 1.8% in the Greater China and of 4.9% in the Rest of Asia Pacific over 2011-14 (**Appendix 10**). Asia-Pacific led global value sales of soy milk in 2012 with sales reaching \$2.1 billion (**Appendix 11**). Soy milk commands a much higher unit price (\$1.65 per liter) than conventional milk (\$1.15 per liter) which is heavily commoditized and shows a higher private label share (21% vs 6%).ⁱⁱⁱ There are several key players engaged in soy milk production and distribution, namely WhiteWave Foods, Unilever Group, Blue Diamond Growers, VitaSoy International Holdings and Kikkoman, the global top five players in value terms in 2014 (**Appendix 12**). These firms are developing market strategies such as mergers and acquisitions, joint ventures, new product development and expansion to increase their market share in the global soy milk market. Global private label share lies at 6% for non-dairy milk alternatives leaving plenty of space for brands to offer value-added products at a higher price compared to private label counterparts.

Six Forces Analysis: In order to assess the current status and likely evolution of the Asia-Pacific MP industry and evaluate whether its dynamics are favorable for Nutre IA, the Six Forces Framework will be used:

Table 1 – Brief Six Forces Analysis of the Asia Pacific MP Industry⁴

<p>Threat of Entry Moderate and Increasing</p>	<ul style="list-style-type: none"> • Entering on a small-scale does not require abundant amounts of capital • The industry’s historic growth is likely to attract potential newcomers • Value-added products are experiencing the highest growth rates and are not much commoditized. Thus, these categories are particularly attractive, especially to private label players • Firms are increasingly interested in expanding through M&A to achieve the needed leverage over the competition • Scale economies in production are particularly important in countries where a consolidated market means that players are forced to compete intensely on price • Leading MP players have strong brands aimed at retaining end-user loyalty, thus new players will have a more difficult task trying to distinguish their own brands • Most countries have strict laws regarding food safety, increasing compliance costs
<p>Buyer Power Moderate and Increasing</p>	<ul style="list-style-type: none"> • Super and hypermarkets, as well as independent small grocers and other grocery retailers are considered to be the major buyers (42.7% and 46.6% of the total retail value in 2014, respectively) • End consumers are price-sensitive, forcing players to compete to gain contracts with the large retailers • Non-dairy milk alternatives are more differentiated and benefit from the pro health trend, lowering the power of final buyers to make decisions on price alone • Food retailers are motivated to stock milk given its importance in consumers’ beverages purchases • Backward integration, especially in the non-dairy milk alternatives, is a distinct possibility
<p>Supplier Power Moderate and Stable</p>	<ul style="list-style-type: none"> • Key suppliers to this market are dairy farmers and producers of soybean, rice, almond and other vegetables • Players are heavily reliant on suppliers (as there are no real alternatives to raw materials) • Soy milk market players’ purchases constitute only a small portion of soybean producers’ total revenue • Suppliers are fairly limited in their ability to differentiate their products
<p>Threat of Substitutes Low but Increasing</p>	<ul style="list-style-type: none"> • MP are unlikely to be completely substituted • Consumers’ alternatives to milk include other dairy products (e.g. cheese and yogurt), which provide comparable nutritional benefits, soft drinks and other similar beverages: this means low switching costs • Some alternatives have cheaper storage, longer life, or higher margins, which are advantages for retailers • Substitution in ingredient applications is usually driven by price volatility. With the increase in fluctuation of prices, some firms may be driven to use a more price-stable substitute such as maltodextrin
<p>Complements</p>	<ul style="list-style-type: none"> • Breakfast cereals, cocoa, coffee, sugar and honey are the most relevant complements • Consumer expenditure on coffee, tea and cocoa grew at a CAGR of 5.2% over 2009-14. The breakfast cereals’ market value also increased at a CAGR of 7.3% over 2010-15 • These products, and in particular coffee and breakfast cereals, can drive the market value of the industry
<p>Internal Rivalry Moderate and Increasing</p>	<ul style="list-style-type: none"> • Conventional milk is heavily commoditized, showing a high private label share • Competitors are mainly diversified into other dairy products such as yogurts and cheese and some operate in other fast moving consumer goods markets • Local milk producers lack geographical expansion and present similar business models • Industrial production of MP requires a substantial amount of specialized assets, increasing the exit costs • Buyers’ switching costs are not particularly high, but some retailers allocate contracts to single suppliers • The five-firm concentration ratio increased from 33.6% in 2013 to 35.2% in 2014, signaling that the market is becoming less competitive • Given the perishable nature of most MP, sales orders and deliveries are frequent • Non-dairy milk alternatives are experiencing a high growth and this trend is expected to continue. Thus, the players of this category can expand their own output without stealing from competitors

In conclusion, the Asia Pacific milk products industry is not a particularly attractive industry to compete in, as its potential for profit does not seem to be promising.

COMPETITIVE ADVANTAGE ANALYSIS

Competitive Landscape

Nutre IA direct competitors are producers of soy milk, with presence in Portugal. Within this category, Ecotrading is the market leader in Portugal.^{iv} It registered a 6% sales value growth in 2015^v, relying mainly on the success of its Alpro and Provamel brands. However, this growth is driven not only by its non-dairy milk alternatives, but also by (and mainly due to) other

⁴ A more detailed Six Forces analysis can be found in **Appendix 13**. Whenever it is possible, specific information regarding the soy milk sub-category will be given.

vegetable options such as yogurts, cream and desserts. Its almond and coconut vegetable beverages are registering the highest growth within the non-dairy milk alternatives. The firm's country of origin is Belgium and the main markets are North America and Western Europe. The brand has no presence in Asia Pacific. The second largest player in the market is Leche Pascual, with its brand Vive Soy. This Spanish firm, which also produces other vegetable beverages and soya-based products besides soy milk, witnessed its value sales rise by 9% in 2015. Both players' brands are widely distributed in 'standard' modern grocery retailers and benefit from being displayed in both the health and wellness and milk sections. There are also other players' brands such as Sojasun, Frías, Special Line and Diese.

Key Success Factors

After determining the industry's potential for profit, one should identify those factors within the firm's market environment that determine the firm's ability to survive and prosper – its key success factors. The key success factors in the MP industry are the combination of differentiation with low cost: differentiating products requires a speedy response to changing health and wellness trends, reputation, taste, and quality and an effective marketing, while cost efficiency requires the existence of large-scale plants in low-cost locations with rapid capacity adjustment (**Appendix 14**).

Competitive Advantage

Nutre IA exhibits key operating strengths, such as its capability to innovate and its plant's location in a relatively low-wage country (**Appendix 15**). These competence and specialized asset establish a competitive advantage for the firm, since they are both relevant and scarce (**Appendix 16**). Nonetheless, the established competitive advantage is not sustainable, since the increasing pace of changing health and wellness trends, taste and quality, the useful life span of most products previously considered as innovative is shortened, meaning that innovation is not durable. Moreover, plants in relatively low-wage countries can be built by a

player with the necessary financial resources which are not particularly significant for key players, thus the location is replicable.

SWOT AND TOWS ANALYSIS

The following SWOT analysis summarizes the internal and external analysis of Nutre IA previously presented:

Table 2. SWOT matrix of Nutre IA.

Strengths ('S')	Weaknesses ('W')
1.Focus on product innovation 2.Main supplier of soybeans belongs to the same group as Nutre IA 3.Quality recognition (Elected product of the year by consumers in 2015) 4.Produces under private label	1.Narrow product portfolio (which does not allow the company to cater to multiple needs of consumers) 2.Absence of patented-products 3.Limited geographical presence (when compared to most of its peers) which can restrict its growth potential as it is able to reach a very limited customer base
Opportunities ('O')	Threats ('T')
1.Naturally produced, organic milk in high demand 2.Growing concerns over life-style related health issues are encouraging consumers to make a shift in their preferences (towards healthy, fat-free and no-sugar options) 3.European products are perceived as high quality products in Asia Pacific	1.Private label penetration is likely to increase (Even though Nutre IA is a major private label supplier in Portugal, a consumer shift towards private label due to economic concerns has a significant impact on its profit margins) 2.Rise in food safety regulations can increase compliance costs 3.Cereal and nut-based products may continue to gain share from soy milk (increasing competition from non-soy-based dairy milk alternatives as these varieties are emerging as a significant long-term growth market) 4.Growing awareness that soy accounts among one of the most common food allergens

Based on the SWOT analysis, a TOWS analysis will be performed to determine how Nutre IA may deploy its resources to implement strategies aimed at managing its environment:

Table 3. TOWS matrix of Nutre IA.

SO	ST
Extend geographic coverage of soy products by growing presence in emerging markets (S1,S3,O3)	Leverage reputation on quality to avoid competing only on prices (S3,T1)
WO	WT
Launch an organic soy milk to leverage the growing demand for organic products and further enhance its product line (W1,O1) Launch new products that have the same taste but reduced levels of sugar and fewer calories to target the health-conscious consumers (W1, O2)	Expand non-soy-based dairy milk alternatives to cater to the increasing number of consumers suffering from food allergies and intolerances (W1,T3,T4) Look to expand into more product categories, offer more organic variants and use functional claims (W1,W2,T3,T4)

ORGANIZATIONAL GLOBAL READINESS

Even though Nutre IA had started its export operations in just the past 9 months, it already exports 20% of total Shoyce sales and the objective is to increase it to 50% by the end of 2017.

Nutre IA's management attaches a high level of importance to the foreign market opportunity analysis since a high emphasis on exporting is placed. Currently, the firm relies mainly on the

soy milk market dimension and growth as well as on the size of the middle class and above to identify potentially attractive new foreign markets. Shoyce is exported to Spain and four Asian markets. The firm is committed in expanding its presence in China and to start exporting to new markets in Asia-Pacific. Thus, its exporting activities in the Asian countries where it is already present should be closely monitored. As a complementary approach to evaluate the firm's readiness to further internationalize, CORE tool⁵ was used (**Appendix 17**). The tool's results revealed that the company and its products are moderately ready to export. Therefore, Nutre IA seems to have the necessary conditions to further internationalize.

COUNTRY SELECTION

The purpose of this section is to identify which country is the **best target market** for Nutre IA's products, in order for the company to further expand its market internationally. To identify the foreign markets with the best potential, Cavusgil (1985) recommends a three-step approach, as mentioned in the *Literature Review*. **Country screening** is commonly accepted to be the first stage, whatever the process may be (Cavusgil *et al.* 2004). In addition, Cavusgil *et al.* (2004) suggest that a firm wishing to identify the best market to enter should use a **country ranking** technique in the country screening stage. As such, a **preliminary screening** will be used to exclude, from a deeper analysis, those countries that are unsuitable for market entry, based on macro indicators. Then, countries will be ranked on a set of meaningful indicators of market potential. **Macro indicators** will be used to identify the most attractive countries, jointly with **industry-specific indicators** to closely represent desirable market characteristics for soy milk and to assess industry market potential. As secondary data geared to specific company objectives and industry characteristics will be used, and since some authors recommend it for ultimate country selection, the country with the highest overall index, ranking first in the model, will be the selected target market for Nutre IA with regard to its products, unless the in-depth evaluation of that country deems it unsuitable due to a factor not

⁵ Tool to determine a firm's readiness to expand its operations internationally and ascertain its ability to export a particular product 14

included in the original country ranking. The methodology for ranking the countries in this section will be adapted for the export entry mode.

Nonetheless, prior to the preliminary screening, the 43 countries from the **Asia Pacific** region were selected for the study, since this is the region to which Nutre IA intends to further expand its presence and due to the region's favorable characteristics for the firm's products. For instance, soy milk is a staple drink of Asian cuisine and the region is the leading consumer of soy milk products, with more than 90% market share of global volume sales of soy milk in 2014. Moreover, this market is of great interest to the firm, mainly due to the region's high prevalence of lactose intolerance (approximately 80% of the population is lactose intolerant) (**Appendix 18**). As Nutre IA already exports to 4 countries in the target region, those countries will be filtered out, leaving a final set of 39 countries for the country screening.

COUNTRY SCREENING

Preliminary Screening

Three indicators were used to exclude those countries which were considered to be too costly or too risky for a market entry or not particularly attractive due to their relatively small potential number of consumers. The indicators used were the *Index of Economic Freedom*, the *Country Risk Rating* and the *Urban Population* (**Appendix 19**). The countries excluded at this stage were the ones which (1) fitted in the repressed category of the Index of Economic Freedom, or (2) were labeled as sensitive or high risk countries in the Country Risk Rating, or (3) had an urban population lower than one million people. Once all of the criteria were applied, a final set of 10 countries was achieved (**Appendix 20**).

Country Ranking

To begin, internationally comparable indicators were gathered from publicly available secondary data sources and incorporated into the customized ranking (**Appendices 21 and 22**). The macro indicators included in the country ranking were the following: Urban Population, Education Index, Forecasted Real GDP Growth, the GNI per Capita, Number of Middle Class

and Above Adults, Index of Economic Freedom, Trade Freedom, Country Risk and Currency risk. As for the industry-specific indicators, the following were used: Value Sales of Soy Milk, Number of Lactose Intolerants, Forecast Value Sales of Soy Milk, Inferior Herfindahl-Hirschman Index, Tariffs on Imports of Portuguese Soy Milk, Ratio of Soy Milk to MP, Expenditure on Soy Milk per capita and Consumption of Soy Milk per capita.

Each of the indicators' importance is briefly described, as follows:

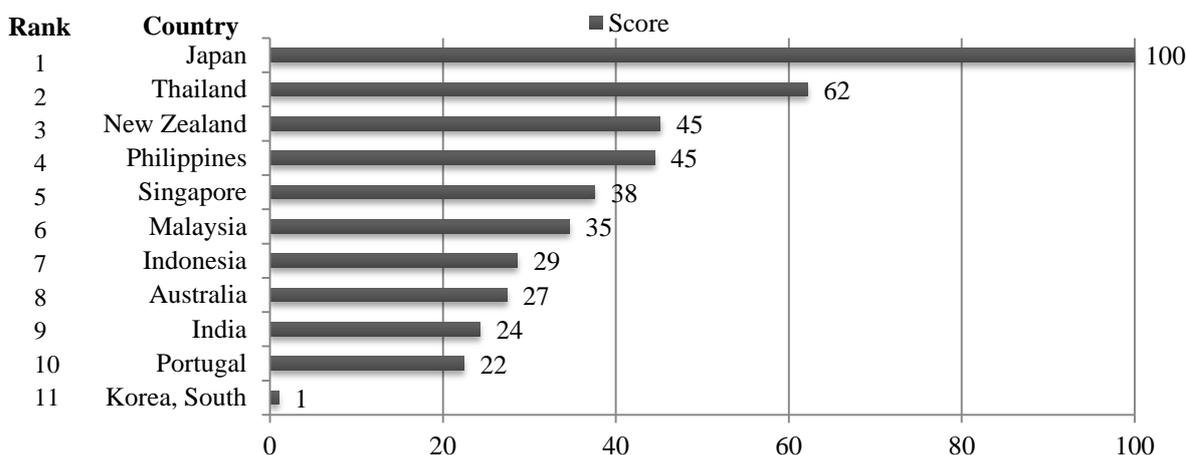
(1) The **urban population** measures a country's maximum number of consumers, as a rough estimate of market potential size; (2) The **education index** indicates the relative importance of a country's market size and development. Countries with a higher education index are expected to have more educated consumers regarding soy milk's functional properties and its potential health benefits, and more aware of lactose intolerance. More educated consumers tend to be more health conscious and to spend a higher amount of their income on healthy drinks; (3) The **Forecasted Real GDP Growth Rate** is a rough estimate of a country's economy growth and it triggers expenditures on a wide variety of goods and services; (4) The **GNI per capita** is a good proxy of a country's habitants' disposable income per capita and of a market's intensity; (5) The **Number of Middle Class and Above Adults** measures a country's maximum number of consumers, as soy milk is a more expensive alternative to milk, as a rough estimate of market potential size; (6) The **Index of Economic Freedom** and (7) the **Index of Trade Freedom** serve as comparative measures of a country's market structure, where higher indexes represent freer markets. Trade freedom, which is a measure of the existence of tariff and non-tariff barriers that affect imports and exports of goods and services, is particularly important to Nutre IA, since it desires to export to another country; (8) The **Country Risk Rating** indicates the relative likelihood that possible changes in the business environment arise and adversely affect the profits in the country; (9) The **Currency Risk Rating** serves as comparative measure of the likelihood that a change in the value of a country's currency against another occurs. If a country's currency depreciates against the euro, the company's profits will be negatively

impacted; (10) The **Value Sales of Soy Milk** indicates the total market value one company can, at most, absorb and the relative market size of a country; (11) The **Number of Lactose Intolerants** is a rough estimate of the market size as soy milk is a particularly attractive alternative for the people who cannot endure lactose; (12) The **Forecasted Value Sales Growth of Soy Milk** is a proxy of a country's soy milk market growth prospects; (13) The **Inferior Herfindahl- Hirschman Index** ('HHI') is a measure of a market's competitive structure and concentration. A country with a lower HHI is more likely to have a market structure closer to perfect competition and thus to present fiercer competition and lower profits; (14) The **Tariff on Imports of Portuguese Soy Milk** is used to restrict trade, by increasing the price of imported goods or by decreasing its margins. They serve as a comparative measure of a country's openness and receptivity to other country's products; (15) The **Ratio of Soy Milk to MP** indicates the relative importance of soy milk in the MP industry; (16) The **Expenditure on Soy Milk per capita** and (17) the **Consumption of Soy Milk per capita**, are a rough estimate of market's intensity measured in monetary and in unit terms, respectively. Both measures are used to take into account the price differences across markets.

In order to minimize the scale effects and to prevent artificial weighting, all the variables were standardized and converted to a scale of 1-100 (**Appendix 23**) using the approach recommended by Cavusgil *et al.* (2004) (**Appendix 24**). In addition, one variable with negative impact on market potential, the Tariff on Imports of Portuguese Soy Milk, was reversed. In the resulting scores, a country showing the most favorable characteristic in a certain indicator was assigned the value 100 whereas the country with the least favorable characteristic was attributed the value 1. Then, individual indicators were attributed a weight (**Appendix 25**) based on Nutre IA's past internationalization experiences and strategic intents, industry knowledge and review of the literature (primarily Cavusgil *et al.* 2004; Douglas and Craig, 1995). The weight of variables with a strong correlation (**Appendix 26**) was adjusted and reduced accordingly. Having standardized and weighted the variables, average values were

calculated and an overall score for each country was obtained, which was also standardized. The final index indicates aggregate market attractiveness of the 10 foreign markets and Portugal from Nutre IA’s perspective. Portugal was included in the country ranking only for comparison purposes. The final market attractiveness index was the following:

Graph 1. Overall Market Attractiveness Index Ranking and Scores.



According to the developed country ranking, the most attractive country for Nutre IA’s international expansion is Japan, followed by Thailand and New Zealand. Japan was the best overall performing country on industry-specific indicators and the second best on macro indicators (**Appendix 27**), following Singapore.

Best Target Market

The selected best target market for Nutre IA’s products is Japan, since the country had highest overall index, ranking first in the model. Therefore, in the next section an in-depth analysis of this country will be developed to better understand the industry within the country.

CHOICE OF ENTRY MODE

JAPAN’S ENVIRONMENTAL ANALYSIS

Japan is the 3rd largest economy in the world, with stable macroeconomic policies and a robust democratic system. The country enjoys political stability, with its Liberal Democratic Party (LDP) party government having a strong position in parliament. Japan is negotiating the Trans Pacific Partnership (TPP), a free trade agreement, with eleven other countries. Nonetheless, to

enter the partnership, it will have to make concessions on the measures designed to protect its agricultural sector. Japan has a high standard of living which is reflected in the country's high GDP per capita of \$36,426.3 in 2014, which is forecasted to increase to \$38,174.2 by 2020^{vi}. However, it has one of the highest levels of public debt in the world, roughly 247% of GDP as of 2014. The country's deflation has been a concern for years but in 2014 prices increased by 2.7%. Nonetheless, inflation is forecasted to decrease to 0.8% in 2015. In 2014 private consumption at real prices declined by 2% and it is expected to decline by 1.3% in 2015, due to the VAT tax increase from 5% to 8% in 2014^{vii}. Japan's agricultural sector is small, gradually shrinking and uncompetitive. Food products, domestically produced, are extremely expensive. Japan has fared well on several social measures. It has high education levels and is continually progressing towards better education levels. However, the country is facing the burden of an aging population, which can have serious implications for Japan's economic activity and finances. Moreover, Japan's population has been declining every year since 2010 and in 2014 stood at approximately 127 million.

The country has a strong knowledge base. It is one of the most innovative and technologically advanced countries in the world, having one of the highest R&D spending.

Japan's legal system is strong. However, many of its sectors are highly regulated, inhibiting competition. In addition, the high tax rate and tax compliance costs are a burden to businesses.

Regarding its environment, the increasing levels of air pollution and radioactive pollution are a source of concern. A more detailed PESTLE analysis of Japan can be found in **Appendix 28**.

JAPAN'S MILK PRODUCTS INDUSTRY ANALYSIS

Market size and Growth: MP in Japan were negatively impacted mainly by the decline in the country's population, particularly the decline in the number of children and young people who are, traditionally, the key consumers of milk in Japan. Current value sales of MP fell by 1% in 2014 to \$6,336.3M (**Appendix 29**) and are expected to continue falling at a CAGR of -1% at constant 2015 prices over the forecast period (2015-20). Nonetheless, the soy milk category

registered a value growth of 9% in 2014 to \$905.9M, experiencing the fastest growth in its industry, where it claims 14% of total MP market value (**Appendix 30**). This was mainly due to the increasing awareness of soy milk's strong health benefits and increasing importance of health for consumers. In particular, soy milk with fruit juice, which has a fruity and sweet taste compared with plain soy milk, is especially attractive to females and children who usually prefer sweet flavor; thus, this product became the strongest driving force of soy milk sales in 2015. The new flavors of soy milk and its solid health benefits are expected to continue sustaining the category's strongest growth amongst its industry over the forecast period. In addition, as the taste of coffee and tea with soy milk is gaining popularity, further diversification of flavor options is likely to occur, contributing to the expansion of the customer base. As such, the soy milk sales value is estimated to increase at a CAGR of 4% over 2015-20 at constant 2015 prices to reach \$1,155.9M in 2020. In 2014, the average price per liter of soy milk rose by 1.4% to \$3.15⁶ and was 46% higher than the average price per liter of cow's milk. Other non-dairy milk alternatives are still on the introduction stage of their product life cycle in Japan.

Competitive Analysis: The MP industry is relatively fragmented, with the top four players - Megmilk Snow Brand, Meiji, Morinaga Milk Industry and Kikkoman Inryo - accounting for 35% of the total market value in 2015.^{viii} These are followed by a large number of players presenting similar business models.

Regarding the soy milk category in specific, the largest players are Kikkoman Inryo and Marusanai, both domestic firms. Kikkoman, continued to be the leading player in soy milk in 2015, holding a 36% share of the soy milk market (but only 5.5% of the MP industry). Its position has been reinforced by its wide-ranging portfolio (soy sauce being its most popular product), with different flavors that meet various consumers' needs. Kikkoman has the highest variety of soy milk flavors, comprising mango, chocolate, lemonade and melon. In addition, it introduced a new flavor – peach – in 2015. These fruity and sweet tastes are gaining popularity

⁶ For comparison purposes, the average price per liter of soy milk in Portugal was \$1.83 in 2014.

amongst children and females as already mentioned. The company also retails a mixture of espresso and soy milk ('soypresso'), which has been popular amongst consumers as a rising number of them prefer to consume soy milk when they drink coffee in cafés as it provides new flavors and tastes. Marusanai is the second largest brand of soy milk in Japan, claiming 2.6% of the industry's retail value sales in 2015. Besides soy milk, it also sells soft drinks and miso.

Channel Analysis: Supermarkets are the most important retail channel for the industry, commanding 79% of MP retail value sales in 2015. Though still dominant, they have seen their share gradually eroded by convenience stores, which are the second most significant channel, with a retail value share of 17.4% in 2015. Typically, in convenience stores, smaller packages are sold and the array of flavors is much larger. Traditional grocery retailers, non-grocery specialists and non-store retailing remain relatively small in Japan, accounting for the remaining 3.6%.

ENTRY MODE

Following the decision to sell in the Japanese market, Nutre IA has to choose the respective mode of entry. In this context, it ought to take a decision based upon characteristics of the host market and its current expertise in internationalization, so as to guarantee alignment with the strategic intent of this new venture. The most appropriate way for Nutre IA to enter in the Japanese soy milk market is **direct exporting via a local distributor**. As previously mentioned, the firm can leverage past experience of past entries in all other markets through this exact same mode (as well as still operating this way in those markets).

Nonetheless, different entry modes could be considered. Presenting a lower level of involvement, one choice could be *indirect exporting using middlemen located in the firm's own country* (Root, 1987). However, the resultant lower level of operational control is undesirable, since Nutre IA's business director pretends to guarantee the oversight of local marketing and servicing of the products and secure the firm's reputation abroad. On the other hand, since middlemen often handle the exports of other firms' products, they might be tempted to favor

the ones which guarantee them higher profit margins. In addition, although this export channel would result in a lower cost for the company, it would also involve a lower net margin. Lastly, there could be considerably less risk in choosing this channel over direct exporting; nonetheless, the host market does not present *per se* much macroeconomic uncertainty, especially when comparing with other foreign markets where the firm currently operates, such as China (**Appendix 31**). Alternatively, Nutre IA could favor an entry mode with a higher level of involvement, such as *direct subsidiary exporting* or *foreign direct investment*. Unfortunately, its bare nine months of exposure to internationalization seem to be too short for the necessary experiential knowledge in the subsequent expansion of operations. Besides, these alternatives could first be undertaken in those markets where it already operates, where it has higher market knowledge and relatively less risk than in Japan: this is the case for Hong Kong (**Appendix 32**). Furthermore, these later entry modes require a higher level of resource commitment, which could undermine the firm's ability to enter in other markets as planned. Consequently, Nutre IA should opt – at an initial stage – for directly exporting its products through a local distributor in Japan.

FINANTIAL ANALYSIS

As previously mentioned, Nutre IA currently has spare capacity (68%), thus it is not required to hire additional workforce neither to make an investment to expand its plant in the near future, in order to expand internationally. However, to export to Japan the firm has to take into consideration the costs it may incur in. Under a distributorship contract, the middleman will earn a commission rate which varies according to the product and contract terms⁷. Generally, sales commission range from 5 to 10% for ongoing business transactions^{ix}. Also, in order to protect its trademark against unauthorized use, the firm should consider its trademark's registration, which will have a given cost associated. In addition, a tariff on the imports of 11.5% over the selling price charged to the middleman must be paid and the firm will have to incur in shipping costs. Generally, labeling for most imported products is not required in Japan

⁷ Usually, the supplier sells the product to the distributor, who is then free to add to the purchase price 22 whatever markup it chooses in determining the sales price to the customer.

at the customs clearance stage, but at the point of sale. Consequently, it is common for a Japanese importer to affix a label to an imported product after it has cleared customs. Thus, the labeling cost is likely to be absorbed by the middleman. In fact, the tariff may also be paid by the middleman, depending on the negotiated contract terms. Additionally, an effective marketing of the brand and its products may be needed, thus increasing the expansion's fixed costs. Nonetheless, marketing expenses are usually absorbed by the distributor. In order to select the right distributor, Nutre IA's business director will most likely have to do business trips to Japan since most Japanese business people prefer to do business with someone only when they have been properly introduced and have met face-to-face, to dispel reluctance. Overall, an investment is not required in the near future and the fixed costs to be considered are limited, as well as the exit costs, since the chosen entry mode does not require the firm to commit substantial resources, as such, the firm should focus on estimating the margin it expects to obtain. Even though a margin cannot be calculated due to the lack of data (such as the retailer's margin), since (i) the market to which the company is devoting the highest attention, China, has a lower average price per liter of soy milk (\$1.3 vs \$3.2) and (ii) the tariffs applied to imports of Portuguese soy milk are lower than in China (26.5% vs 11.5%), exporting to Japan is likely to yield a positive impact for the company (although shipping costs to Japan are probably higher).

EXPORT RISK ASSESSMENT

If Nutre IA decides to export to Japan, it must be cognizant of the risks it may face. As such, the most relevant inherent risks of exporting to Japan are: **(1) replication risk** - the firm's products might be imitated if it does not hold a patent; **(2) currency risk** - the Bank of Japan is committed to its "quantitative and qualitative" easing programme, which is likely to keep downward pressure on the yen; however, it is also aimed to increase inflation, thus minimizing the negative impact on Nutre IA's revenues; **(3) competition risk** - the leading player in the soy milk Japanese market, Kikkoman, is one of the top global firms in the market; as such, it

may choose undermine Nutre IA's entry; nonetheless, Nutre IA already faces this major player in the Chinese market and no deterrence strategy was carried out so far; **(4) VAT related risk** - regarding the expected increase in the Japanese VAT by 2% in 2017, the suggested local distributor may endeavor to renegotiate prices; and **(5) risks arising from the dynamics of TPP** - despite the liberalization of the agricultural sector being positive for the firm, the agreed reduction on tariffs and other barriers to exports will grant the agreement partners cheaper access to the market, which may invite more competitors, tightening competition. Exit risks are not considered relevant enough to impact Nutre IA's decision making process, given the low level of involvement associated with the chosen entry mode. Finally, even though the risks associated to Nutre IA's internationalization to Japan are beyond the ones highlighted (for instance, the deflation risk mentioned in previous sub-sections), these are the most important as they can materially impact Nutre IA's expansion process.

CONCLUSION AND RECOMMENDATIONS

The selected best target market in the Asia-Pacific region for Nutre IA's products, at this stage, is Japan, since it ranked the highest in the country screening, indicating that it is the most promising country for Nutre IA's international expansion; an in-depth analysis of the market did not show any factors as potential threats capable of undermining the company's international goals. Additionally, the most appropriate mode of entry in the Japanese soy milk market for Nutre IA is direct exporting via a local distributor.

According to Cavusgil (1985), in the third and final stage of the market selection process, *estimating company sales and profitability*, field research is required. Thus, some type of primary data collection should be undertaken in the foreign market. The author suggests that one of the best ways to gather the needed information is to visit, survey and do direct mail campaigns to potential foreign end users and distributors, participate in overseas industry trade shows and fairs and place advertisements in trade journals.

The main suggestion to Nutre IA is thus to perform a field market research in Japan. That way, it can assess the sales potential in the Japanese market, and by more accurately forecasting its volume sales, it can determine if it needs to expand its production capacity; and if so, use a cost-benefit analysis to assess whether and when this endeavor pays-off⁸. Other major purposes of the research relate to the identification, selection, and evaluation of local distributors.

An effective way for Nutre IA to meet distributors and thousands of buyers from around the world and to get to know better the Japanese market is by exhibiting at the FOODEX Japan event, which is one of the biggest and most important international trade shows relating to the food and drink market in Asia. Afterwards, when evaluating foreign distributors, their appropriateness should be assessed from various aspects including their sector knowledge, experience and presence of a clear marketing strategy, as well as their market coverage and their network in Japan regarding prospective end-users. The local partner should try to leverage the fact that Shoyce is already distributed in the 7-Eleven convenience stores in Hong Kong, to make it available in the subsidiary stores in Japan (which is Japan's mass grocery retailer with the highest number of outlets in the country).

Nutre IA should also consider protecting its intellectual property and expanding its flavor varieties; in particular, adding a coffee flavor which is quite popular in Japan. More importantly, it should accelerate its launch of rice milk since other non-dairy milk alternatives are still almost inexistent in Japan.

Finally, Nutre IA must define more comprehensively the objectives in the market, as well as its marketing plan and the control system it is going to use to monitor its performance in Japan.

⁸ The denial of financial data on the company's activities and the lack of publicly available information did not allow the computation of the expected margins in Japan. 25

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