HOW KIRIN CAN MAXIMIZE THE SYNERGIES OF ITS GROUP COMPANIES TO ATTAIN SUSTAINABLE GROWTH

by

KEI WATANABE

BA, Law and Politics, Rikkyo University, Japan (1989)

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Signature of Author: ______________________________
MIT Sloan School of Management
May 6, 2005

Certified by: ______________________________
Michael A. Cusumano
Sloan Management Review Professor of Management
Thesis Advisor

Accepted by: ______________________________
Stephen J. Sacca
Director, Sloan Fellows Program in
Innovation and Global Leadership

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Abstract

At the end of twentieth century, Kirin Brewery Co. began a strategic move to break out of the saturated domestic market by adopting an international orientation and diversification effort to become a leading company in the Asia and Oceania markets. Following consolidation of its distribution channels and plant networks in the target region through successful strategic alliances with Lion Nathan Ltd. and Sun Miguel Corporation, Kirin Group has now grown into a large corporate group. However, history is full of examples of food/beverage companies that encountered difficulties achieving sustainable growth after early experiences of rocketing sales at takeoff—even though many such companies know that the key to success is taking advantage of group synergies.

This thesis identifies a corporate strategy for Kirin that can be realized by creating two kinds of synergies: synergies of resource sharing in various phases of the value chain in order to upgrade Kirin Group's set of resources, and a synergy in the company's strategic thrusts.

My research found that sharing intangible resources could play an important role in attaining architectural innovation. Each resource sharing idea builds on three strategic thrusts that could counter the external environment in the target geographic region. I address how to create synergies across multiple positive feedback loops that consist of the three strategic thrusts as a virtuous cycle. I stress that kicking on path dependence of the multiple loops could snowball Kirin's growth.

Then I discuss ways to shift a leading organization in order to achieve a new strategy. Possible methods for managing this proposed organizational change include invigorating group dynamics by managing the Communication Loop, Career Anchor, and Creative Tension; activating organization dynamics by controlling Informal Network, Inquiry and Advocacy; and treating deep-rooted organizational culture by tracing the steps of each individual's Ladder of Inference.

I argue that upgrading Kirin's resources to enable it to compete through sharing intangible resources, firing up the company's development engines to encourage growth by linking multiple positive feedbacks, and reinforcing the organization by invigorating human resources, will enable Kirin Group to build strong customer bonding through Total Customer Solution.

The central focus of Kirin's corporate strategy in this thesis is its alcohol business, which accounts for 74% of sales and 75% of operating income within the alcohol and soft drink business in 2004. The market scope is the off-premise market in which opportunities and threats grow larger as global retailers continue to expand their reach beyond their own national borders.

Thesis Advisor: Michael A. Cusumano
Title: Sloan Management Review Professor of Management

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INTRODUCTION

Having reached their physical limits after enjoying great organic growth in their home markets, brewers today are aggressively seeking entrance into global markets through various strategies, including strategic alliances, joint ventures, or M&A. Since the industry has been fragmented, and the brewer's market value is less expensive compared to other industries, the beer business has become caught in a firestorm of consolidations. The world's top three brewing giants—InBev, Anheuser-Busch, and SABMiller—are pursuing outstanding competitiveness (in terms of volume) by continually purchasing new assets. For example, SABMiller acquired 99.8% of Italy-based Birra Peroni in 2004, and the firm continues to show strong interest in purchasing smaller regional breweries in India and making a bid for Canadian Molson Inc. in 2005. In other examples, Anheuser-Busch purchased China's Harbin Brewery Group by securing 99.66% of its shares in 2004, and InBev is ready to increase its share in Russia's SUN Interbrew and to buy shares of InBev's owner in Brazil, AmBev. All these moves help the companies maintain their competitive positioning through increased cash flows and scale expansions.

In addition, other Japanese breweries have expanded their business reach beyond the national borders. Asahi Brewery currently operates five production/sales bases and is part of a joint venture with Tsingtao Beer in China; it also purchased 15% of Highstar Co. importing and selling alcohol products in 2004. It also distributes its brand brewed by Molson Inc. (Canada) in the U.S. and another brewed by Prazske Pivovary (Czechoslovakia) in Europe. Meanwhile, Suntory consolidated its position in Shanghai by purchasing a 74% share of Shanghai Donghai Brewery Co. through Suntory China Investment Co. in 2005.

As for Kirin Brewery Co., it established Kirin China Investment Co. in 2005 affiliating with Dalian Daxue Brewery Co. (Kirin Brewery has 25% share) and Zhuhai Kirin President Brewery Co. in 2004. In Southeast Asia and Oceania, Kirin increased its share of San Miguel Co. to 19.67% and secured a 46.13% share of Lion Nathan Ltd. In the West, Kirin produces and sells its brand by utilizing the plant and distribution channels of Anheuser-Busch Co. in the U.S. and Charles Wells (UK) in Europe.

In addition to geographic expansion, the Kirin product line is also diversifying. It now has the Four Roses Brand and Distillery, and Raymond Vineyard and Cellar, Inc. in the U.S. These players may realize exponential sales growth by widening the product line, production bases, or distribution networks of each group company during the early stages of geographic expansion.

However, the *perceived problem* is that the growth that results from physical resource sharing could soon reach the mature stage and might not be sustainable because of rapid changes in the alcohol beverage market; also, the tendency toward short-term rather than sustainable growth in the foreign capital market can dramatically shorten product lifecycles. Therefore, my interest is the driving force that exists beyond physical resource sharing which can enhance an organization's ability to attain sustainable growth.

One concept that derives from existing theories is that creating group synergies can be a key to sustainable growth for well-diversified corporations. That notion leads to my research question: How can Kirin Group maximize its group companies' synergies to attain sustainable growth? The central analytic frameworks, which I will use to answer this question, are “The Ten Tasks” by Arnoldo C. Hax and Nicolas S. Majluf (1996) and “The Delta Model” by Arnoldo C. Hax and Dean L. Wilde (2001).

Based on this research question, in Chapter 1 I start by comparing the differences in strategic positioning in the home market of four Japanese breweries. I will highlight Kirin Brewery’s Total Customer Solution (TCS) orientation using “The Triangle” by Hax and Wilde (2001). Thus far, the brewery’s TCS has been realized by providing customers with a wide range of product lines and in-store category management services. In the future, to nurture further customer bonding, better TCS should be achieved by providing a more complete set of products and services that respond to changes in customer needs in both local and global markets. This new version of TCS can be attained by taking advantage of synergized power between group companies. Such power can be created by resource sharing across the group companies and business units.

Look more closely at the scope of a “more complete” set of value propositions, in Chapter 2 I expand the business scope from products to services. The geographic and market scope would also be expanded to successfully prototype and elaborate the product and service scope. I discuss the important points needed to realize the new service scope: how to cooperate with customer, where to concentrate, and to whom to customize.

In seeking group synergy effects that will encourage Kirin Group’s strategy, in Chapter 3 I categorize the forms of synergy by analyzing the HBS case, “Cola Wars Continue: Coke and Pepsi in the Twenty-First Century” by David B. Yoffie as well as Japanese brewers’ current moves toward international orientation. Whether each form of synergy comes from tangible or intangible resource sharing will be revealed. What is stressed is the form of synergy and the type of resource sharing on which Kirin Group should focus in its pursuit of economies of scope.

In Chapter 4, I scan the external environment of the target region where Kirin Group will focus in the future. Through an industrial analysis of China and Australasia that uses Michael E. Porter's "National Diamond" (1990) and an analysis of Japan using Porter's "Five Forces Model" (1980), I discuss the opportunities and threats related to the width of consumer preferences, the speed of product lifecycles, the impact of suppliers and buyers, and price competition.

Kirin Group's strengths and weaknesses regarding its reservoir of resources, the firm's marketing concepts, and its mindset regarding customer solutions are revealed through a resource assessment based on the "Resource-based View of the Firm" (Birger Wernerfelt, 1984) that is conducted in Chapter 5. Further, possible areas of resource bridging, both horizontal and vertical, are discussed based on my original Resource Sharing Matrix.

With a view to seizing opportunities and countering threats by leveraging its strengths and complementing its weaknesses, in Chapter 6 I define Kirin Group's strategic thrusts, each of which could be strengthened by resource bridging. Second, I design business dynamics that can drive the corporation's sustainable growth in a path-dependent system, by applying Sterman's principles found in "Positive Feedback: The Engine of Corporate Growth" (2000). Finally, the method for achieving Kirin Group's enhanced TCS positioning is broken down to the role of a business process that enables the strategy to be aligned with the execution suggested by Hax and Wilde in "Adaptive Processes" (2001).

Kirin Group's strategy and resource bridging cannot be successfully executed without a shift to a flexible and networked organization. Then what bring this leading organization to life as an enacted system is effective human resource management. In the end, it is all about people. I explore in Chapter 7 possible ways to manage the function of individuals in teams, a network across teams, and the cultural norms underlying the organization. I apply principles taken from Kolb's "Individual Learning Style" (1974) and Van Maanen's "Informal Network" (taken from class notes, 2005), Schein's *Career Anchors* (1990), Senge's "Framework of Conversation" (from class notes, 2005), and *The Fifth Discipline* (1992), and Orlikowski's "Habits of Thought" (from class notes, 2005).

Through the strategy planning undertaken in this thesis, I hope to attain three goals:

(1) find possible forms of resource sharing that can create group synergies,

(2) design business dynamics that can create strategic synergies, and

(3) understand human resource management in order to maximize these two synergy effects.

CHAPTER 1

Strategic Positioning

In this chapter, I address how the strategic positioning of Japanese four breweries in their home markets have changed as the external environment has changed. One of these breweries, which learned that relying heavily on product differentiation and cost leadership strategy eventually comes down to price competition, is moving toward pursuing a strategy of Total Customer Solution (TCS) to increase customer (retailer) bonding. Thus, what enables TCS could be the breadth and depth of value proposition brought about by group synergy.

1.1 Conventional Strategy

The beginning of the 21^{st} century witnessed dramatic changes in the Japanese beer industry. The government increased the beer tax as sales of *happo-shu* (low malt/low tax beer) shot up. Since then, although the breweries have been working hard to develop products that would avoid the high beer tax (which accounts for 46.5% of the retail price), the possibility remains that the government would increase taxes again by imposing a heavier tax on new products if sales of the product increase. Accordingly, the breweries and the government are playing a kind of cat-and-mouse game that virtually prevents beer manufacturers from engaging in technological innovation in the blossoming *happo-shu* category. In the meantime, a number of substitutes for beer and *happo-shu* have emerged, so that distinctions among low-alcohol product categories have virtually disappeared. In addition, retailers acquired much stronger buying power than ever before as oligopolies proceeded, which forced manufacturers to spend more for individual rebates subsidized by their large sales volume. For these reasons, the competition to develop less-expensive *happo-shu* and volume discount selling to reach a high breakeven point, tended to be intense to the point that the industry was becoming exhausted.

Under these circumstances, the four major breweries were pursuing a "Best Product" strategy, each in their own way. Kirin Brewery expanded its product lineup in response to customer-driven requests for innovation, while Kirin's competitors, Asahi Brewery and Sapporo Brewery, were pursuing low-cost operations and low retail prices to expand their shelf space on retailers' shelves. Suntory was working to generate a new brewing recipe that would result in a beer tax shield.

In the overall $25.4 billion Japanese beer market in 2003, Kirin held approximately 35.7% of market share with $9 billion in sales, followed by Sapporo at 13.1%, Suntory at 10.4%, and chasing Asahi at 39.9%.

1.2 Changes in Strategy

Having experienced head-to-head price competition, Kirin Brewery's strategy began to change. The company recognized that the product differentiation and cost leadership strategies that its competitors are pursuing have definite limitations because the central focus of those strategies is all about products. Kirin learned that any strategy that concentrates solely on products inevitably ends up in a price war with its competitors. In a scenario in which retailers' needs have shifted from products to services, Kirin is at the point of needing to focus on services that it can offer to retailers.

Today, the differences between each company's strategic positioning are becoming clear. Kirin's toughest competitor, Asahi, which has enjoyed good success with its "Asahi Super Dry" brand, does not feel a need to move from its "Best Product" strategy because it is attracting customers by the inherent characteristics of the product itself. Asahi has enhanced its brand image by spending $1.45 billion on a 2003 advertising and sales promotion campaign and by deploying all-out bulk display of the single brand to maximize its presence at the retailer's storefront. By specializing in capital and sales force, Asahi is seeking economies of scale.

The other two competitors, Suntory and Sapporo, continue with a "Best Product" strategy by offering deep discounts in their regular beer category and launching substitutes with lower retail prices owing to their ability to avoid the beer tax by applying some twists in the manufacturing processes and ingredients. Sapporo pursues its cost leadership strategy in 2004 by launching a unique beer made with soybeans instead of barley, which enabled Sapporo to drop the retail price lower than ordinary *happo-shu* due to the further liquor tax shield. By avoiding direct conflict with the two giants, Kirin and Asahi, Sapporo seeks ways to increase profit by deliberately pursuing a follower strategy.

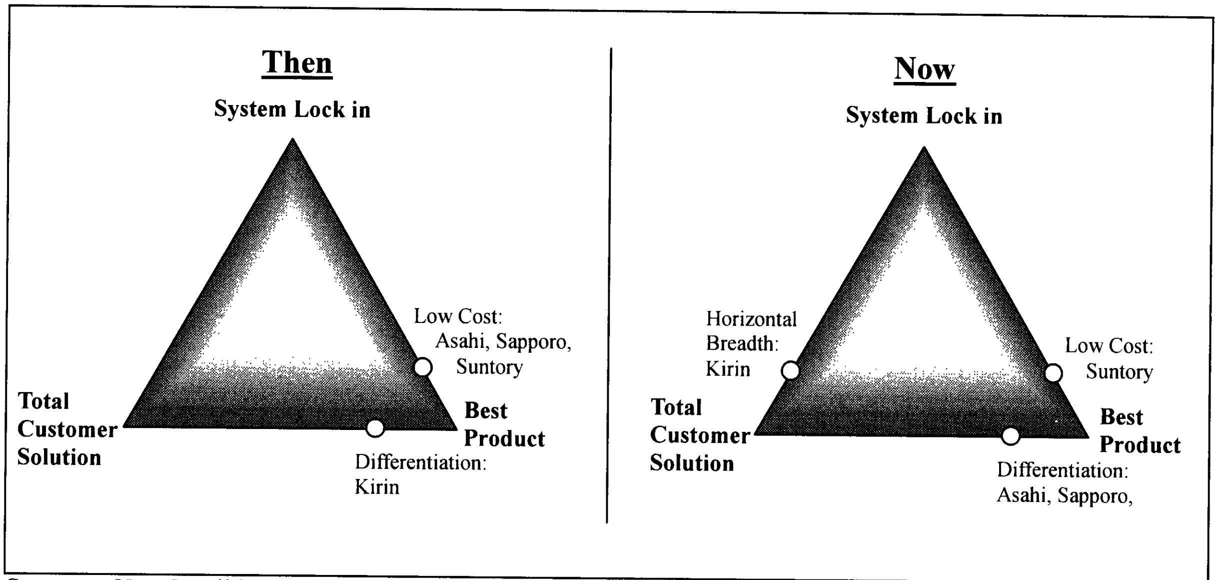
Suntory, the niche brewer with the smallest market share, continues to pay rebates to retailers for aggressive price promotion. Defining its beer category as a loss leader and mixing the profits of the entire product lineup including the whiskey, wine, and spirits it owns, the brewer is seeking ways to maximize its profit.

Returning to Kirin, in addition to driving product differentiation, the company has just oriented itself to a Total Customer Solution by expanding the scope of value proposition since it realized there was an increasing gap between customers' expected service and the service being offered—a gap that is highlighted as more mass merchandisers evolve their retail operational expertise. Customers' expected service was not necessarily a prevailing price promotion of some isolated product but customized in-store merchandising and retail operations support that maximizes their own profit. They want manufacturers to offer category solutions for the entire line of low-alcohol beverages rather than price promotions for isolated items.

In an effort to strengthen customer bonding based on service, Kirin has begun to offer in-store category management to target retailers who were chosen based on a reasonable method of customer segmentation. The selection criteria included each retailer's capabilities for Efficient Customer Response (ECR), the retailer's growth potential, and the profits brought to Kirin by the retailer.

Today, the services expected of the world's best retailers are expanding in the direction of horizontal category solutions and vertical supply chain solutions. Therefore, Kirin Group's next challenge for strengthening customer bonding is to provide a broader scope of products and services by taking advantage of group synergies within and outside of Japan, which would also help Kirin to counter the bargaining power of other global retailers. Group synergies could be attained through sharing and transferring the existing resources of group companies.

Exhibit 1-1 The Triangle



Source: Hax & Wilde, 2001, adapted by author, 2005

CHAPTER 2
Mission of the Firm

To articulate the scope of group synergy, I first need to define the mission of the business. I begin with Kirin Group's business scope which determines where to compete. Three dimensions – product scope, market scope, geographical scope – are articulated in both current and future states at the left side of each table (see Tables 2-1, 2-2, and 2-3). For priority, the amount of effort and resources is marked at the right side based on the characteristics detailed in the cell.

Second, the unique competencies at the level of the parent company are overviewed and prioritized in the same way (further details about unique competencies are presented in Chapter 5). In each case, I expand the business scope beyond the existing domestic view to seek the potential for broad group synergies.

2.1 Business Scope of Kirin Group

I have adapted Hax and Majluf's priority assessment criteria for business scope, as follows.

Priority assessment scale for business scope		
Scope	**Priority**	**The product, market, or geographical location …**
Existing	--	… is being divested or exited from.
	-	… will be assigned a low level of importance.
	E	… will continue to receive the current level of resources.
	+	… is assigned a high level of importance and additional resources to achieve a better competitive position.
	++	… is assigned the highest level of importance and the resources needed to achieve as outstanding a competitive position as possible.
Emerging	--	… is very tentatively considered for business activity.
	-	… is tentatively considered for business activity.
	E	… will receive the necessary level of resources.
	+	… will be assigned a high level of importance and the necessary resources to achieve a strong competitive position.
	++	… will be assigned the highest level of importance and the resources needed to achieve as outstanding a competitive position as possible.

2.1.1 Product and Service Scope

Table 2-1 shows that beer, *happo-shu,* and RTD categories continue to be the mainstay of Kirin Group in light of their high distribution ratio in the alcohol and beverage business, the accumulated brewing technologies, and the group's strategic focus on low alcohol products. Whisky and wine come next, which could play a crucial role in product line reinforcement if there is a strong need to offer diverse products to meet consumer preferences. Especially in markets where consumer demand shifts from quantity to quality, there is still room for Kirin Group's high-end whisky and wine brands to grow.

In addition to product differentiation, Kirin Group's future scope for competing successfully is total retail service which can enhance customer relationships and the attractiveness of product and service simultaneously. Retailers' needs for a brewer have changed from individual price promotions supported by irregular brewer rebates to retail know-how support that can help ensure differentiation. Therefore, In-store Category Management which maximizes their profit at the storefront, Value Chan Management which reduces inventory and delivery costs, and Joint Product Development which creates new opportunities to benefit from first-mover advantage, can build strong ties between Kirin Group and its retailers.

Table 2-1 Product and Service Scope of Kirin Group (numbers based on 2003 actual)

Existing products and services scope	--	-	E	+	++
Beer: Japan's top-selling category with continuous down trend whose distribution ratio to total domestic beer and *happo-shu* decreases to 61% (▲2% over the previous year.) Accounting for 45% of Kirin's world alcohol and beverage sales. Kirin has flagship brand in the category.					●
Happo-shu: Japan's second selling category with up trend whose distribution ratio to total domestic beer and *happo-shu* sales increases to 39% (plus 2% over the previous year.) Accounting for 21% of Kirin's world alcohol and beverage sales. Kirin has bestseller brand in the category.					●
Shochu: Japan's third selling category with up trend but all the way after beer and *happo-shu* in terms of sales volume.			●		
Whisky: The category in which Kirin has international brand accounting for 2% of Kirin's world alcohol and beverage sales along with wines and spirits.				●	
Wine: The category in which Kirin has premium Australia wine and California wine accounting for 2% of Kirin's world alcohol and beverage sales along with whiskies and spirits.				●	
Flavored Alcohol Beverages (FAB): Japan's fourth selling category with rapid growth in which Kirin has bestseller brand that constitutes 4% of Kirin's world alcohol and beverage sales.					●
Soft Drinks: Accounting for 24% of Kirin's world alcohol and beverage sales.				●	
Possible product and service scope	--	-	E	+	++
In-store category management: ▪ Retailers' expected service after price competition. ▪ Prompt impact on both Kirin and retailers' sales and profits because it directly upgrades the storefront operation and enhances relationships with buyers. ▪ Challenge level is moderate.					●
Value Chain Management (VCM) with customer: ▪ Advanced retailers' expected service after having implemented in-store category management. ▪ Delayed impact on Kirin and retailers' sales and profits due to ambitious and laborious system innovations in integrated value chain ▪ Developing VCM could give advantages to competitors and countervailing measures to keep arm's-length transaction with growing giant retailers. ▪ Challenge level is highest.				●	
Joint Product Development with customer: ▪ Potential service to partner retailer which could realize iterative prototyping and strong customer (retailer) bonding simultaneously. ▪ Prompt impact on Kirin and retailer's sales and profits. ▪ Iterative small-scale test marketing could double opportunities to exert Kirin's R/D and marketing capabilities.			●		

2.1.2 Market Scope

Table 2-2 shows that Nationwide and Regional Chain Supermarkets with ubiquitous consumer interface and large sales volume are effective distribution channels for Kirin Group due to their centralized system of buying and delivery, and of supervising their retail operation. The market scope deserves to receive additional resources in order for Kirin Group to achieve outstanding competitive positioning.

In the meantime, Liquor Discount Retailers is also considerable market scope because of their bulk selling power but their distribution efficiencies are low compared with Nationwide and Regional Chain Supermarkets. On-premise Dealers that sell to the restaurant business will continue to receive current levels of resources, or less, given the relatively lower profitability they have brought to Kirin, their fewer interfaces, or no consumer contact.

In 2005 Wal*Mart is struggling to expand into Japan by affiliating with Seiyu; also Carrefour withdrew from the Japanese market by selling off its assets to AEON Group. These actions imply that global retailers are encountering difficulty in their attempts to expand geographically. However, their evolving store format could be Kirin Group's emerging market scope. As consumers' opportunity cost of shopping rises due to their busier lifecycles and the increase of working women, the store format of a Global Supermarket, Global Supercenter, Neighborhood Market, and Global Wholesale Club—which have multiple traffic-builder categories that enable quick, one-stop shopping—will play an important role in the near future.

Table 2-2 Market Scope of Kirin Group (numbers based on 2003 actual)

Existing market scope	--	-	E	+	++
Nationwide Chain Supermarket: ▪ Huge consumer interface nationwide ▪ Developed in-house distribution system. (*Japan*: Jusco, Ito Yokado, Seiyu-Wal*Mart, Daiei // *US*: Kroger, Whole Foods, Safeway // *Australia*: Woolworth, Coles Myer // *China*: Sogo, Taiheiyo, Ito Yokado)					●
Regional Chain Supermarket: ▪ Moderate consumer interface in particular regions ▪ Developing in-house distribution system. (*Japan*: Tokyu Store, Maruetsu, Summit // *US*: Stop and Shop, Shaw's, Publix)					●
Local Chain Supermarket: ▪ Little consumer interface in local area ▪ Outsourced distribution system.			●		
Liquor discount retailer: ▪ Relatively little consumer interface in local area ▪ Bulk selling power.				●	
On-Premise Dealer: ▪ Specialized transactions with restaurant business. ▪ No consumer interface.			●		
Emerging market scope	--	-	E	+	++
Dg.S: New arrival in Japanese alcohol market; tends to sell alcohol product as loss leader.		●			
DIY: New arrival in Japanese alcohol market; little experience in food sales.		●			
Global Super Center & Neighborhood Market: ▪ Hybrid store format with high shopping frequency owing to double traffic builder (food and non-food). ▪ Functions internationally. (Wal*Mart, K-mart, Target, etc.)					●
Global Supermarket: ▪ Traditional store format in food retailing ▪ Functions internationally. (Jusco, Ito-Yokado, Carrefour, Tesco, Metro, Ahold, etc.)				●	
Global Wholesale Club: ▪ Traditional store format for bulk selling. ▪ Functions internationally. (Costco, Sum's Club, etc.)				●	

2.1.3 Geographical Scope

Table 2-3 shows that although the U.S. and Europe are important areas with huge market volumes, Kirin Group's priority at present is to consolidate its first footsteps in growing China where there is huge market potential. China became the world's largest market in terms of both production volume and consumption volume, and the market is expected to expand rapidly as a result of strong economic growth (China's real GDP growth rate was 9.3% in 2003 and 9.5% in 2004.)

Furthermore, considering the government's decision to attract foreign capital investment, China should be assigned the highest level of importance in international market and be given the resources needed to achieve outstanding competitive position.

Another major geographic region is Australasia, Australia and New Zealand have marked steady economic growth of 3.8% and 3.3% real GDP growth in 2003 and show great potential for diverse consumer preferences.

Table 2-3 Geographical Scope of Kirin Group (numbers are based on 2003 actual)

Existing geographic scope	--	-	E	+	++
Japan: ▪ Ranked #6 in world in beer consumption (6.5 M kl), 6.4% decrease over previous year ▪ Ranked 30th in per capita beer consumption (50.9 liter). ▪ 86% of Kirin Group's world alcohol sales come from here. ▪ R&D base of Kirin Group.					●
U.S.: ▪ Ranked #2 in world in beer consumption (23.7 M kl), 0.4% decrease over previous year ▪ Ranked 13th in per capita beer consumption (81.6 liter). ▪ Kirin has production and customer base of beer products in western US ▪ Beer export route to Canada.			●		
Europe: ▪ Ranked #1 in world in beer consumption (48.9 M kl) ▪ Highly fragmented geographic market ▪ Kirin has beer production base in England ▪ Beer export route to Russia.			●		

Emerging geographic scope	--	-	E	+	++
Australasia (Australia and New Zealand): ▪ Ranked 14th in world in beer consumption (1.99 M kl) ▪ Ranked 11th in per capita beer consumption (83 liter). Approx. 11% of Kirin Group's total alcohol sales come from the region.				●	
China: ▪ Ranked #1 in world in total beer consumption (25 M kl) and production (25.1 M kl) ▪ 6.4% growth. ▪ Per capita beer consumption is 19.7 liter.					●

2.2 Unique Competencies of the Parent Company

Here I touch on Kirin Brewery's unique competencies by adopting Hax and Majluf's criteria for priority assessment. Kirin Brewery's unique competencies will be scrutinized in detail, along with other companies, in Chapter 5.

Priority Assessment Scale for Unique Competencies		
Scope	**Priority**	**The unique competency ...**
Existing	--	... no longer provides competitive advantage
	-	... will only provide a minor competitive advantage.
	E	... will be a source of significant competitive advantage.
	+	... will be a source of very high competitive advantage.
	++	... will be a source of most critical competitive advantage.
Emerging	--	... could become a source of competitive advantage, but its significance is highly uncertain.
	-	... could become a source of competitive advantage, but its significance is mildly uncertain.
	E	... will be a source of significant competitive advantage.
	+	... will be a source of very high competitive advantage.
	++	... will be a source of most critical competitive advantage.

Table 2-4 shows that Kirin Brewery's present unique competencies are its R&D capability and its market analysis skill, which have enabled the continual launch of value-added products. Other unique competencies are its sales force which enhances labor productivity, the company's expertise at in-store merchandising, and its leadership that pushes innovation toward reshaping the home market.

In the future, in addition to these functional resources on the value chain, the ability to bridge the scattered resources of diverse companies could be a crucial competency for Kirin Brewery as parent company.

Table 2-4 Kirin Brewery's existing and potential unique competencies

Existing unique competencies	--	-	E	+	++
R/D capability					●
Market surveys and analysis skill					●
Sales force and expertise				●	
Leadership in reforming domestic beer market			●		
Possible new unique competencies	--	-	E	+	++
Resource bridging system					●
Multifunctional team management				●	
Flat and flexible organizational process				●	

2.3 Segmentation

2.3.1 Product vs. Market Segmentation

Table 2-5 shows that since Nationwide and Regional Chain Supermarkets (SM) and Convenience Stores (CVS) will continue to be an attractive market due to their large sales volume and area coverage resulting from ongoing consolidation, it makes sense for Kirin Group to offer them In-store Category Management which could expand shelf space for Kirin products in multiple alcohol categories. However, the partner retailers of Joint Supply Chain Management should not be National Chain SM or CVS operating a developed in-house distribution system that manufacturers may be locked in; Regional Chain SM or CVS that have not yet developed a distribution system may be easier to be locked into a manufacturer's system. In contrast, the partner with Joint Product Development should be a National Chain SM or CVS because their nationwide consumer interface will enable Kirin

Group to implement test marketing in any desired area and to collect diverse consumer data about the desire for new products.

As for emerging market scope, Table 2-5 also shows that global retailers seem to be not only a lucrative market to sell existing products but also an excellent partner for the three emerging services. However, Kirin Group should be careful when making specialized investment in those retailers because it could result in a "holdup" problem—that is, once it has invested in, for example, a data exchange system or pallet cargo that is compatible only with the retailer, Kirin Group puts itself in an adverse position with the retailer. To avoid the problem in arm's-length transactions, Kirin Group should organize joint ventures and share design costs based on a long-term contract.

Table 2-5 Product vs. Market Segmentation

	Existing Market Scope	National Chain SM & CVS	Regional Chain SM & CVS	Local Chain SM & CVS	Liquor discount retailer	On-Premise Dealer	**Emerging Market scope**	Dg.S	DIY	Global Super Center	Global SM	Global Wholesale Club
Existing Product and Service Scope		++	++	E	+			-	-	++	+	+
Beer	++	●	●	◐	●	●		○	○	●	●	●
Happo-shu	++	●	●	◐	●	●		○	○	●	●	●
Shochu	E	◐	◐	○	●	◐		○	○	○	○	○
Whisky	+	◐	◐	○	●	◐		○	○	○	●	○
Wine	+	●	●	○	●	●		○	○	●	●	◐
FAB	++	●	●	◐	●	◐		○	○	●	●	◐
Soft Drink	++	●	●	◐	◐	◐		◐	◐	●	◐	●
Emerging Product and Service Scope												
In-store Category Management	++	●	●	○	○	○		○	○	●	●	○
Joint SCM with customer	++	○	●	○	○	○		○	○	◐	◐	◐
Joint Product Development with customer	+	●	○	○	○	○		○	○	◐	◐	○

Key ●: high attractiveness, ◐: medium attractiveness, ○: low attractiveness

2.3.2 Product vs. Geography Segmentation

Japan. The *Happo-shu* (a low malt/low tax beer) category should be leveraged in Japan as long as the current deflationary spiral continues to reduce consumer spending and the heavy beer tax (which imposes a tax that accounts for 46.5% of the retail price) remains unchanged. Encouraged by strong demand for consumer-friendly, low-price beer substitutes, this category will continue to be the main competitive battlefield. At the same time, total retail support should be offered to respond to retailer demand for operating efficiency resulting from the proliferation of point-of-sales due to the deregulation of liquor license control.

China, which in 2003 became the world's largest market in terms of beer production and consumption, represents a huge geographic prize for riding the surging demand for beer. Although the per capita beer consumption of 19.7 liter is much smaller than the U.S.'s 81.8 liter, this does not mean a low demand for beer. If I consider that most beer is consumed in urban areas that hold 580 M population because low income does not allow farmers in rural area to buy beer, then the potential figure for per capita beer consumption in urban areas would be about 43 liters. Such a number implies that beer is a popular category, with a higher growth rate than any other alcohol categories. Since demand in the beer industry is still growing, a focus on product diversification within the beer category rather than attempting to foray into the entire alcohol category would be a better strategy for this country.

Another point Kirin must remember when pushing its products in large countries is not to push its brand nationwide as some brewers do but instead to segment the country and introduce the most suitable beer brand for each region according to local customs and lifestyle. Joint product development is one way to support this product diversification.

Australasia, which in 2003 was ranked 14th in total beer consumption and 11th in per capita beer consumption (83 liter), can be divided into six areas: Queensland, South Australia, Western Australia, New South Wales, Victoria, and New Zealand. After hitting a peak in 2000, beer consumption began to decline and the demand for quality and/or variety has been shaping the urban market—a common occurrence in any developed countries where the market has reached saturation.

Further, the rise of Flavored Alcohol Beverages (FAB) is spurring the behavior of variety-seeking consumers in this region. Therefore, Kirin Group should not limit itself only to the beer category but strengthen all its alcohol lineups, including beer and FAB, high-end wine, and whiskey. Table 2-6 illustrates these various geographic product segments.

Table 2-6 Product vs. Geography Segmentation

	Existing Geographical Scope	Japan	US	Europe	**Emerging Geographical Scope**	Australia	China
Existing Product and Service Scope		++	E	E		+	++
Beer	++	◐	◐	◐		●	●
Happo-shu	++	●	○	○		○	○
Shochu	E	◐	○	○		○	○
Whisky	+	◐	◐	●		●	◐
Wine	+	◐	◐	◐		●	○
FAB	++	●	●	○		●	○
Emerging Product and Service Scope							
Category management	++	●	◐	◐		○	○
Joint VCM with customer	++	●	○	○		○	○
Joint product development	+	●	◐	○		○	●

Key ●: high attractiveness, ◐: medium attractiveness, ○: low attractiveness

2.4 Mission Statement

Having prioritized the business scope and unique competencies, I can now summarize the overall business position as a mission statement of the firm, as follows.

<table>
<tr><th colspan="3">Product and Service Scope of Kirin Group</th></tr>
<tr><td></td><td>Japan</td><td>Overseas</td></tr>
<tr><td>Now</td><td>▪ Manufacture and distribute a complete range of alcohol and soft drink products.
▪ Distribute In-Store Merchandising service.
▪ Start Joint Product Development with top CVS.</td><td>▪ Manufacture and distribute beer and soft drinks, whiskey and wine in US, beer in Europe, Australia and China.</td></tr>
<tr><td>Future</td><td>▪ Strengthen flagship beer brand
▪ Develop value-added beer/happo-shu.
▪ Enhance current retail service to In-store Category Management
▪ Develop prototype of efficient Value Chain Management system and Joint Product Development method through co-working with customer.</td><td>▪ Expand Four Roses and California wine to areas outside of US.
▪ Continue to focus on semi-premium beer category in China.</td></tr>
<tr><th colspan="3">Market scope of Kirin Group</th></tr>
<tr><td></td><td>Japan</td><td>Overseas</td></tr>
<tr><td>Now</td><td>▪ Allocate resources to Chain Supermarket (SM), Convenience Stores (CVS), Discount retailer (DS), Liquor shops in proportion to Kirin products' sales volume.</td><td>▪ Provide product to SM, CVS, DS channel which account for 64% of total retail food volume in Australia.
▪ Provide product through meshed agent system in China.</td></tr>
<tr><td rowspan="2">Future</td><td>▪ Focus on co-working with key Chain SM and CVS accounts that have high profitability for Kirin and potential for growth.</td><td>▪ Keep tight relationship with Woolworth and Coles Myer which account for 38% of total retail food volume in Australia.
▪ Build partnership with global retailers that have efficient in-house distribution system in China.</td></tr>
<tr><td colspan="2">▪ Expand scope to global retailers that have ECR capabilities
▪ Strengthen relationships with Super Centers, Neighborhood Markets, and Wholesale Clubs which have double traffic builder (food and non-food).</td></tr>
<tr><th colspan="3">Geographic scope of Kirin Group</th></tr>
<tr><td></td><td>Japan</td><td>Overseas</td></tr>
<tr><td>Now</td><td>▪ Decentralize throughout Japan.</td><td>▪ US, Europe, China, Oceania.</td></tr>
<tr><td>Future</td><td>▪ Mildly centralize to Hokkaido, Kanto, Tokyo, Chugoku, Shikoku, and Kyushu.</td><td>▪ Narrow focus to three urban areas where consumer spending is high in China.
▪ Continue to deploy resources heavily in NSW, Australia.</td></tr>
<tr><th colspan="3">Unique competencies of Kirin Brewery</th></tr>
<tr><td></td><td>Japan</td><td>Overseas</td></tr>
<tr><td>Now</td><td colspan="2">▪ High R&D resources and Marketing skills are foundation of Kirin Brewery's #1 position in happo-shu and FAB categories.
▪ Sales expertise of in-store Category Management has enabled Kirin Brewery to build good partnerships with retailers.
▪ Leadership in reforming Japanese beer industry's price structure has enabled Kirin Brewery to focus less on price competition and more on product development, consultative marketing, and selling.</td></tr>
<tr><td>Future</td><td colspan="2">▪ Invigorate resource bridging to develop value-added products and services worldwide.
▪ Reform networked, flat and flexible organization
▪ Reinforce management know-how of transfunctional teams.</td></tr>
</table>

2.5 Conclusion

Based on the three business scopes (product and service, market, geography), and Kirin Brewery's unique competencies and the segmentations, I can now highlight three keys about where and how to compete: Co-working, Concentration, and Customization.

Co-working. Kirin Group can fortify itself by expanding its scope beyond products to include services as well. This can be achieved by *Co-working* with a partner retailer. In addition to product differentiation and geographic expansion, by providing a more complete set of services, such as Category Management, Value Chain Management, and Joint Product Development, the Total Customer Solution can open doors for further customer bonding.

Concentration and Customization. With a market scope that maximizes the co-working benefit, it is inevitable that Kirin Group will *concentrate* on the Chain Supermarkets that have a huge consumer interface and efficient distribution system, as well as global retailers that create new store formats. Also, service should be *customized* in response to needs and opportunities in each market scope.

Kirin Group's existing geographic scope in Asia and Oceania has enormous potential for growth. *Concentrating* resources on the segmented three coastal regions in China and New South Wales in Australia, and *customization* of product in response to regional differences is vital.

Existing competencies in the parent company level (Kirin Brewery) which underpin Co-working, Concentration, and Customization, are the company's R&D resources, its marketing skills, sales force, and leadership in market reform. The three keys will be even further invigorated if the power of Kirin Group companies is converged by a resource bridging system across the group companies, by vigorous human resource management, and by a flat and flexible, networked, and global organization. Together, these represent Kirin Group's future competencies.

CHAPTER 3
Types of Group Synergy

To learn about the types of group synergy, it is helpful to learn how the soft drink companies—which experienced diversification and an international orientation—bridged their resources and what forms their synergies took.

In this chapter I analyze the Harvard Business School case, "Cola Wars Continue: Coke and Pepsi in the Twenty-First Century" by Yoffie (2002), from the viewpoint of synergies. My analysis reveals four types of synergies: (1) *Know-how sharing*, (2) *Profit mixing,* (3) *Negotiation power pooling*, and (4) *Value chain optimization.*

With the case as background, I then look at current moves toward an international orientation among Japanese breweries. This will clarify the differences between Kirin's and Asahi's strategies in terms of whether to pursue economies of scope or economies of scale.

3.1 Analysis of the Soft Drink Industry
(Diversification and synergy strategies of a food/beverage company)

3.1.1 System lock-in

Brand is not enough to explain the huge profits that Coca-Cola and Pepsi have extracted from the market. Profitability has been achieved by locking in the customer (bottler) and locking out competitors through restricted access to supply and distribution chains. Restricted access was achieved by Coca-Cola and Pepsi's bulk purchasing negotiation with its bottlers' suppliers of packages and sweeteners, which enables the bottlers to enjoy economies of scale. It has also been attained by the two companies' strong support of marketing, advertising and promotion, and logistics such as Direct Store Delivery, which, along with exclusive territorial rights, all foster the bottlers' commitment to Coca-Cola and Pepsi. Besides customer bonding, retailer bonding is achieved through a virtuous cycle— retailers expand shelf space for the most space-efficient products with high demand and turnover, which enhances consumer accessibility and creates more demand.

All of these System Lock In (SLI) effects were underpinned and leveraged by CEO Robert Goizueta's strategy of focusing on "bubbly sugar water" rather than the broader generic beverage category. Today, however, consumer demand has diversified into non-carbonated soft drinks, and the need for an international orientation, as the result of a demand plateau in the US market, is inevitable.

However, the more diversified the product portfolio and geographic area, the more difficult it is to obtain economies of scale and to concentrate market power, which are the main factors in SLI positioning. The question is: How can these two giants balance diversification with the consequent dilution of SLI power? Any hint of not weakening bottler bonding would undermine how they bridge the resources captured through diversification. The sections below discuss several strategies for accomplishing this task.

3.1.2 Horizontal expansion

Product Line

Diversification at Coca-Cola and Pepsi began in the 1960s. Not only did they expand their product portfolio within the soft drink categories, but the companies also diversified into non-soft-drink industries. However, the notions of diversification differ between each of these firms. Coke's purchases of Minute Maid, Duncan Foods, and Belmont Spring Water were based on the relatedness of products rather than on resources. On the other hand, Pepsi's merger with snack food giant Frito-Lay seems to be an effort not just for product line expansion but also the effective use of resources such as shared customer targets, store-door delivery systems, and marketing skills. Its successful marketing program, the "Pepsi Challenge" (a blind taste-testing rolled out nationwide in 1974) is one example of *Know-how sharing* which took advantage of Frito-Lay's marketing skills and bridged them to Pepsi's advantage. Considering that Frito-Lay has been ranked by retailers as the fifth most innovative marketing programmer and the fourth best brand marketer next to Coca-Cola (both of Frito-Lay's ranking are higher than Pepsi's), the acquisition made sense in order for Pepsi to realize group synergies in marketing, and the marketing program benefited their bottlers as well.

Profit Mixing

Coca-Cola's diversification based on relatedness of products can generate the synergy effect of *profit mixing* of extensive product lines. For example, the proliferation of package types and sizes produces different interests among concentrate producers and bottlers. This can be a big obstacle for concentrate producers that are trying to maintain strong partnerships with their bottlers. It means that Coca-Cola and Pepsi want to sell the large size bottle at an attractive retail price because their earnings come from volume of liquid concentrate sold. Therefore, their marketing programs tend toward end-of-aisle displays of unchilled 2-liter PET bottles of carbonated soft drinks (CSD) that are sold 4-for-$5. On the other hand, because bottlers want to sell high-margin products, they tend toward marketing programs that sell chilled 20-ounce CSD for a value-added price, say, $1.19 to 1.25 per bottle. To solve the problem, Coca-Cola and Pepsi have to balance sales volume and price in order to offer bottlers the profit-mix marketing program that covers total beverages in addition to CSD. By doing this, the bottler's total profit will be improved by handling not only cola products but also other product lines such as juice, tea, and sports drinks which are profitable and not likely to be sold through volume dumping.

In this regard, Japan Coca-Cola National Beverage Co. (CCNBC, a joint venture between Coca-Cola and bottlers, established in October 2003), is an example where profit mixing brought about by product diversification led to strong bottler bonding by integrating a full range of products into a Supply Chain Management (SCM) system. The conventional business model, in which bottlers receive little benefit from selling "toll products" (non-CSD such as juice, tea, or sports drinks) for which they have to pay a considerable manufacturing toll to Coca-Cola Japan or its subsidiary (Coca-Cola Tea Products Co.), needed to be reformed. A new integrated system that includes a "franchise product" (CSD and coffee) and the toll product, helped CCNBC realize comprehensive central control of material purchasing, manufacturing, and distribution; it allowed bottlers to realize more benefit from non-CSD than ever before and strengthened the bottler bonding.

Geographic Area

Another horizontal expansion for Coca-Cola was its international orientation. Here again the decision was made based on SLI strategy. How did the company maintain bottler bonding in the international market? Through both market and non-market actions. First, bottler bonding was achieved when Coca-Cola carefully targeted a market that had high potential for growth and would be profitable for bottlers. A growing market enables bottlers to benefit from scale operations, requires them to invest for increasing volume, and locks them into the business. In contrast, Pepsi first tried to enter relatively established international markets which were often Coca-Cola fortresses. These "guerilla tactics" did nothing but fatigue the bottler and eventually led to the defection of a major bottler.

Second, bottler bonding can be attained by offering flexible area marketing, such as adopting an immediate consumption, or returnable, or refillable packaging in response to each country's consumer preferences and regulations. A packaging approach, based on regional characteristics that optimize the balance of sales volume and price, has been a key method for strengthening bottler bonding, especially when the beverage business is run internationally.

Third, non-market action to overcome the barrier that prevents Coca-Cola from entering the industry sometimes fortifies bottler bonding. For example, the Japanese government issued Coca-Cola a foreign exchange permit only after Coca-Cola awarded its most potentially profitable bottling franchises to Kirin Brewery and it implemented some political actions. Such non-market actions are a strong motivation for a partner company in a host country to sell Coca-Cola product because the partner needs to pay negotiating costs with the government.

3.1.3 Vertical Expansion

Forward Integration

As the so-called "Cola War" heated up in the 1980s, its effects weakened small independent franchise bottlers. In addition to the inherent capital-intensive structure of the bottling industry, the increased advertising spending, product and packaging lineups, and widespread retail price discounting added further capital requirements to bottlers while lowering their margins. For concentrate producers, however, the maturity of the industry increased the importance of advertising and new product introductions, and which required considerable transaction costs to negotiate with individual bottlers. Under these circumstances, Coca-Cola's effort to restructure its exhausted distribution channel by buying independent bottlers and reselling them to Coca-Cola Enterprises (the "anchor bottler" for Coca-Cola) enhanced its concentration of power and operational efficiency.

These forms of synergy are *Negotiating power pool* and *Value chain optimization*. First, Coca-Cola Enterprise's action in consolidating poorly managed small territories into well-operated large territories accelerated its oligopoly control over a wider region, which gave it strong buying power with package and sweetener suppliers and boosted its selling power to retail channels. In addition, merging redundant distribution channels and material purchasing routes reduced inventory costs and investment in trucks and distribution network, which optimized product flow in the firm's value chain. Therefore, Coca-Cola's bottler bonding through vertical integration pushed the negotiating power pool and produced transaction cost savings.

Pepsi's forward integration began at the very end of its value chain: the restaurant business. Its acquisition of Pizza Hut (1978), Taco Bell (1986), and KFC (1986) and then spinning them off under the name of Tricon illustrates the form of synergy known as *Know-how/Information sharing*. Pepsi's experience in the restaurant business allowed it to learn downstream demand, which enhanced its ability to manage the bottling business and helped it promote bottler consolidation in the late 1980s to mid-1990s. Even after it spun off the food business in 1997, a strong relationship based on the alliance with Tricon Global Restaurants should have helped Pepsi accumulate the merchandising know-how in fountain channels (on-premise markets), which led to the success of Pepsi Bottling Group retaining its market position.

In the meantime, for Tricon, which is the world's largest restaurant owner, Pepsi's powerful brand and marketing programs are critical. Here a synergy effect emerges: Frito-Lay's brand marketing know-how is transferred to Pepsi, and its fountain beverage division applies it to Tricon. On the contrary, Tricon's consumer preference information and its knowledge of managing the restaurant business is shared with Pepsi and Pepsi Bottling Group, both of which use the knowledge in consumer promotions, product development, and brand marketing programs for beverages and snacks.

Because Coca-Cola had historically focused on fountain channels rather than retail outlets and the exclusive agreement based on rebate with giant restaurant chains such as Mac Donald's and Burger King had worked well, it did not have to expand its reach of vertical integration to restaurant business but to bottlers. On the other hand, Pepsi needed to enter the restaurant business as a challenger and chose the way to acquire the business, which consequently enabled them to create the knowledge flow across the group and yielded the synergy effect from intangible resources sharing.

Backward integration

Coca-Cola and Pepsi also partially integrated backward to make some of their own cans in 1960s and 1970s, although they eventually exited that business by 1990. The form of synergy brought by this partial backward integration was *Know-how/Information sharing* of the supply phase. Although the initial incentive was transaction cost savings, there were other benefits. Assuming the lowest possible purchase price for a can in the open market owing to their strong buying power stemming from intense competition and chronic excess supply, the opportunity cost for Coca-Cola and Pepsi to run the packaging business themselves would be higher than the benefit generated by the transaction cost savings. Therefore, their main incentive would have shifted to accessing useful information about production cost in order to successfully negotiate with their can supplier in the open market. In this case, partial backward integration could improve their bargaining power with bottlers' can suppliers. Maximizing negotiating power through *Know-how/Information Sharing* helped Coca-Cola and Pepsi to lower purchasing price and give benefit to bottlers, which fortified bottler bonding.

In summary, synergies resulting from diversification take one of four forms according to the incentives, each of which could be one factor in achieving customer (bottler) bonding. To articulate the type of synergy effect and convert it to customer benefit is crucial for a diversified company to keep its SLI positioning.

3.2 Analysis of the Beer Industry
(Diversification and synergy strategies of a beer company)

3.2.1 Economies of Scale or Scope

Judging from market attractiveness, the emerging battlefield for Japan's top two breweries will be China, which is the number one volume consumer of beer (25 million kiloliters) and has the highest production volume (25.1 million kiloliters). China also has high market growth (6.4%) resulting from increased consumer spending (8.7%) in 2003 and the Chinese government's economic reform policies after its accession to WTO in late 2001.

Although competition in China's beer industry is intense due to excess supply, it is also true that the fragmented power of provincial players and the absence of a dominant nationwide player offer Kirin lucrative opportunities for joint ventures or M&As in order to realize quick entry into the market. Even though several foreign breweries failed to tap the market with their own brand (e.g., Britain's Bass, Australia's Fosters and Lion Nathan, and Denmark's Carlsberg) and pulled out of the China market after recording considerable losses, other foreign giants like Anheuser-Busch, SABMiller, and San Miguel are trying to expand their reach into China through acquisitions of promising breweries in each province. Consolidation within the industry has proceeded dramatically, as illustrated by Anheuser-Busch increasing its share of Tsingtao Beer to 27% (including convertible bonds divided into three terms) in 2002, then acquiring Harbin Brewery Group after a hard-fought battle with SABMiller in 2004.

As for Kirin, its business position in China is not strong. Suntory has 50% or more market share in Shanghai following its 74% purchase of shares of Shanghai Donghai Brewery Co. the second-largest volume producer in Shanghai. And Asahi has five production and sales base in Beijing, Shandong, Hangzhou, Fujian, Shenzen in addition to a strategic alliance with Tsingtao Brewery, the largest brewery in China. However, Kirin Group's resource transfers from its other business units (San Miguel, Lion Nathan, and Kirin Brewery), which have strong business positions, will boost its strength in the market. In the Pearl River Delta, the most prosperous market in China, with the top growth ratio in production volume, number two in population, and number three in GDP per capita per region, Kirin is now attempting to cover the region by maximizing synergies with San Miguel Co. which has two breweries in Guangzhou and Shunde.

Kirin could have affiliated with Lion Nathan, which has two factories in Wuxi and Suzhou, which would have enabled Kirin to build a strong position in the Yangtze River Delta, which includes Shanghai, where the distribution ratio of the premium and sub-premium categories is high due to higher purchasing power and demand for business use, and consumers will spend money for high value products. However, the Australian brewer withdrew from China in 2004, and Kirin Group is now searching for new possibilities to take advantage of group synergies in the area.

The northeast region, which has the biggest production volume among ten regions in China and huge potential for beer consumption encouraged by the government policy for regional development, will be covered by strategic alliances with Dailian Daxue Brewery Co., Ltd.

Geographic expansions by Japan's top two giant brewers differ from each other in terms of the form of their focused economic effect. Asahi focuses on **economies of scale** by spreading out a single brand (Asahi Super Dry) to diverse market settings and specializing its capital (plant and distribution channel), which leads to reducing the long-run average cost to the point where *diminishing marginal return* emerges.

On the other hand, Kirin's focus has been **economies of scope** by *sharing intangible know-how* through applying its draft brewing technology or area marketing expertise supported by high research and analysis skill to multiple brands, and *pooling negotiating power* through centralized operation of material purchasing. The launch of different brands in several areas (Yangtze River Delta, Pearl River Delta, and Taiwan) in response to each area's diverse consumer preferences is an example of *sharing intangible know-how*. In the future, Kirin's efforts to pursue **economies of scope** in the diversified Chinese market will be further underpinned by Kirin (China) Investment Co., Ltd. established in 2005.

3.2.2 The Chinese Market Today

A beer price war broke out in January 2005 when Tsingtao Brewery (China's largest) started marketing its low-end beer through its own delivery team in Beijing where China's number two brewer, Yanjing Brewery, is based with 90% of the region's market share. Soon the country's third largest brewer, China Resources Beer, and Asahi Brewery, joined the war. For Kirin, going into head-to-head price competition with indigenous breweries that have strength and history on their side does not seem to be smart at this point.

Instead, by adopting a *JUDO* strategy (Yoffie and Kwak, 2001), Kirin Group can avoid full-scale attack and successfully penetrate the market. Using this strategy, the company first positions its products in the premium and sub-premium markets, which are much smaller than the mainstream and low-end markets, the main battlefield. In addition, it builds its initial position by appealing to early adopters in the market where consumer spending is relatively high due to their high income and high demand from tourists and businessmen.

Second, it consolidates its competitive space by offering high-end consumers Kirin's premium beer at a medium retail price.

Finally, Kirin Group accelerates its product development cycle by leveraging its strength in R&D and market research in an effort to shorten the development and production lifecycle of the entire beer market so that competitors cannot keep up with the rapid pace of market change.

In this way, Kirin Group redefines its business model for the Chinese beer industry, which incumbent players have not yet successfully achieved due to their desperate pursuit of economies of scale caused by specialization. Deregulation and foreign investment not only raises consumption volume but also widens consumer preferences, which happened in other Chinese industries. Therefore, Kirin Group's ability to develop the product agilely to meet or lead quick changes in consumption trends will be one source of competitive advantage.

3.3 Conclusion

I have discussed four types of synergy: *Know-how sharing*, *Profit mixing*, *Negotiation power pooling*, and *Value chain optimization*.

Profit mixing stems from breadth of product; Negotiation power pooling comes from scale operations; Value chain optimization is brought about by product flow coordination. All three are achieved by sharing or integrating tangible resources such as product lines, production bases, or distribution channels. These are the primary objectives in the early stage of diversification, and they are strategies that Coca-Cola, Pepsi, Kirin and Asahi have pursued.

However, having now reached the mature stage of the market lifecycle following skyrocketing growth during the takeoff stage, the firms are being required to make a big jump to discontinuous innovation. What will drive that jump is **knowledge transfer** which I will discuss in Chapter 5 where the issue of resource bridging is centralized.

CHAPTER 4
External Scan

In this chapter, I will examine the external environment at the corporate level (the alcoholic beverage business worldwide). In addition to economic and industry factors in the main geographic regions, this examination will reveal potential threats from backward integration by global retailers that have developed an in-house logistics system with a database of transactional information and are seeking opportunities to lock in manufacturers into their own systems. At the same time, the opportunities and benefits of co-working between manufacturers and retailers will also emerge if manufacturers carefully open their interface.

4.1 China

4.1.1 Economic factors

Despite the Chinese government's efforts since the mid-1990s to "cool down" the overheated Chinese economy, its economic reform policies and accession to WTO have instead resulted in rapid economic growth: $1,648 billion (Yuan 13,651 billion) in nominal GDP (the world's seventh highest) and 9.5% real growth in 2004.

Total retail sales of consumer goods reached Yuan 5,395 billion, up by 13.3% over the previous year. Of that, the growth in urban areas was 14.7%, 4% higher than in rural areas. The inflation rate was 3.9% (commodity, 2.8%), and by category, the price of food increased by 9.9%. A 7.7% growth in per capita disposable spending among urban households (the highest record since 1997) means consumers can afford an increased retail price. Some of this data could be a sign of an emerging semi-premium market in urban areas.

4.1.2 Industrial Factors

Factor Conditions

China has 14.67 million hectare of crop acreage, with grain output of 469.5 million tons, which account for 35% and 65%, respectively, of world totals. Although this huge resource is a strong basis for the Chinese food industry's advantage, due to undeveloped infrastructures, the crops are not fully consumed and manufactured, and the effort to enhance quality has fallen short due in part to the legacy of a planned economy in which short supply and high demand are common.

Moreover, electricity, which amounted to 440 million kw in 2004, is in short supply. Beijing was forced to restrict some production plants last summer, and Shanghai required manufacturers to shift their hours of operation to holidays this winter due to the nation's electricity shortage.

As for human resources, China announced a population of 1.3 billion in January 2005. The population exchange of 580 million in urban areas and 720 million in rural areas has been restricted by an agricultural domiciliary registration system, except for temporary migrant workers. Although that system was enacted out of a desire not to depress the Chinese agricultural industry, which constitutes 15% of the nation's 2004's GDP with 6.3% growth, it in fact caused considerable disparity in levels of income and education. Per capita disposable income in urban areas is about 3.2 times higher than in rural areas, and increased university tuition (caused by the nation's financial deficit) means that poorer, rural people are virtually kept out of the education system. Seeking a solution, beginning in 2003 the government has gradually repealed the registration system and removed the barriers between the two areas. But this will cause further concentration of population in the coastal area. In addition, the proliferation of people in urban areas raises the possibility of diffusing human resources to overseas areas if they are unable to find employment domestically.

Foreign capital is an important resource in China. A surge of Foreign Direct Investment (FDI) boosted China to the top position as an attractive FDI destination in 2003 and international investment reached \$60.6 billion in 2004, an increase of 13.2% over the previous year.

Since China has chosen not to protect the food industry for any political, economic, or national security reasons, but instead wants to upgrade the industry to make it competitive at a global level, the nation is openly attracting foreign capital to the food industry and is benefiting through the introduction of new technologies and management systems. In the future, further international investment would shorten product life cycle due to technological innovations and the impatience of foreign capital markets seeking short-term returns. Therefore, competition will inevitably become intense and local players that have run their businesses without sophisticated business strategies or the support of local authorities or banks will be forced out of business or will have to merge with competitors.

Demand Conditions

China's food industry has grown by 13.1% on average every year for 20 years since 1980, but it still faces more demand than it can fulfill, which causes inflation and less concern for quality among manufacturers. Although demand for beer also grew at 5-8% in the 1990s, excess supply among China's 400 breweries led to intense competition at the beginning of the 21st century. Being in a phase of skyrocketing sales on the *S-curve* of the market lifecycle, and partly because of the innate luxury of beer itself regardless of the quality, domestic demand for beer was unsophisticated. Therefore, product design and production technology have not been stimulated. For example, many Chinese breweries were using plants that dated from the 1970s and 1980s which had no capability for a cold-filtration process but instead used pasteurization. In addition, approximately 80% of breweries had annual production capacity below 50,000 tons and were operating inefficiently. Furthermore, the domestic breweries' pass rate for bottle quality inspection was 83.6% because most of them relied on human eyes rather than appropriate facilities for bottle inspection.

However, by 2004 the rapidly increasing per capita disposable income of urban households (Yuan 9,422, a 7.7% growth in 2004) (per capita net income among rural households was Yuan 2,936) and consumers' experiences with imported brand greatly increased the demand for better quality. Consumer preferences shifted from "nutritional repletion" to "taste and health repletion" which will shape product design for the next generation. Enhanced product quality and production technology in response to compelling domestic demand can be achieved by introducing foreign technologies and management systems. Foreign capital will contribute to enhancing the Chinese beer industry's capabilities so it can compete in global market, while at the same time satisfying swelling Chinese demand by offering high-quality products with a shortened production cycle.

Related and Supporting Industries

The agricultural and service industries are related to and support the beer industry. Although the nation has vast crop acreage that enables large grain output, the agricultural industry has serious problems owing to extreme poverty among farmers and a surplus of labor resulting from long-time restrictions on migration to urban areas. These restrictions were effective in not depressing China's primary industry and not boosting the unemployment rate in urban areas (4.2%). But heavy agricultural taxes and an unbalanced educational system brought frequent agrarian disturbances and lobbying since late 2004. Today, more effort to keep farmers in their rural areas is required by the government. If the government succeeds in offering farmers more attractive treatment, such as repealing the agricultural tax, this supporting industry could realize its latent potential by leveraging its physical resources encouraged by new advanced technologies, which would strengthen China's food industry.

Thanks to a new open door policy for the service sector, which has previously been heavily regulated and protected by the government, many foreign capital retailers and convenience chain stores have moved into the Shanghai market. They are building direct distribution systems from manufacturers and bypassing traditional agents. The surge of manufacturers engaged in direct sales may spread to other regions where the agent-selling system has been common for many years.

Thus far, allied breweries or subsidiaries of foreign manufacturers have built a meshed agent network to sell their products. However, due to the relatively small area covered by each agent, manufacturers have been forced to disperse their own sales forces to achieve greater coverage. If global retailers with a large consumer interface and in-house distribution network prevail, supported by central purchasing and bulk selling capabilities, manufacturers can focus on efficient direct delivery systems.

This scenario could not be drawn without the institutional changes of 2004 in the service sector which allow foreign investment companies to engage in wholesaling, retailing, and servicing their subordinated Chinese firm's products, and to import and sell the parent company's products. Owing to deregulation by the government which intends to leverage the service sector, supporting industries should be able to dramatically boost consumer demand and the operating efficiency of the food industry.

Home Rivalry

Heated rivalry in the Chinese beer industry is stimulating the overall evolution of the industry. The industry is highly fragmented, and the top three firms (Tsingtao Brewery, Yanjing Brewery and Huarun Brewery) hold an aggregate market share of less than 40%. The result has been a storm of consolidation and technological innovation. The intense home rivalry has forced small breweries out of business or pulled them under the umbrella of larger or foreign breweries, which has weeded out inferior technologies, enhanced the productivity of big breweries, and reduced their unit cost through scale operation.

On another front, an ongoing price war as brought more participants into the battlefield and caused fatigue throughout the industry. Excessive price competition, which is often inevitable during the skyrocketing phase of the *S-curve,* will continue to erode the profitability of the breweries until strong leaders like Anheuser-Busch can force through price increases as they did in 1993 and 1998 in the U.S. market and Kirin did in 2005 in Japan. If the resulting profits were used for R&D or advanced marketing programs rather than price competition, industry demand would increase and the positive effects of home rivalry, enhancing the industry's competitiveness in the global market, could occur.

4.2 Australasia (Australia and New Zealand)

4.2.1 Economic Factors

In 2003, Australia's nominal GDP was A$788.6 billion, twelfth-highest among OECD countries; real growth rate was 3.8%. Its GDP per capita, $26,900 in purchasing power parity (PPP), puts it behind Japan by only $1,800 (OECD's tenth–ranked country). Australia's low inflation rate of 2.3% and its 4% growth in consumer expenditures in 2003 indicate robust consumer confidence. Growing ties with Japan, its number one export market, account for 18.3% of total exports of A$107.9 billion. China is Australia's number three export market, accounting for 8.4% of the total. All of these support robust economic growth for Australia.

New Zealand's GDP was $75.4 billion, with a real growth rate of 3.3% in March 2004. The GDP per capita in PPP was $21,100. Its inflation rate of 1.5% and 2.3% growth in consumer expenditures (2.0% in the food category) indicate resilient economic growth, although a slowdown in agricultural products trade is slowly creeping up in response to the global economic slowdown.

Retail sales in 2003 in Australasia were $138,626 million, with 27% growth, including $54,103 million in food retail sales at the same growth rate. Of that number, sales of alcohol products were $10,695 million with 24% growth over the previous year. The distribution ratio of alcohol retail to total food retail sales (19.8%) is high compared to that of Japan (11%) and the U.S. (16%). Beer sales were $5,659 million (a 23% increase) or 1,489 million liters (a 0.2% decline) over the previous year. Even deducting the impact of Australasia's inflation rate of 1.2% and the appreciation in Australian and New Zealand dollars in the exchange rate (US$/A$ increased by 19.6% and US$/NZ$ increased by 31.1% over the previous year), all the above numbers, except beer sales, show steady real growth.

4.2.2 Industrial Factors

Factor Conditions

Australia's physical resources are vast, and include minerals such as bauxite, coal, iron ore, copper, tin. The Australian continent of 768,230 kilo hectares includes 50,304 kilo hectares of arable land to support agricultural growth and exports. The country's geographic location as the base of the Asia-Pacific region with 440 airports and well-developed infrastructures, has helped the nation achieve economic growth based on foreign trade for a decade. Although the populations of 20 million in Australia and 4 million in New Zealand (2004) are not as large compared to Japan or China, Australia's multilingual, highly educated, skilled, and computer-literate human resources are supported by the world's sixth largest public spending and national scholarship. A low outflow of resources from the country is another factor in its successful economic growth. Furthermore, capital resources have been attracted from foreign countries through a transparent and liberal screening process, institutions offer expanded scope for business deductions and favorable corporate tax rates, and a national investment agency, Invest Australia all attract positive foreign investment into the country.

Government's policies toward the capital market, seeking to enhance the nation's industry and foreign direct investment, continue to be a significant support for increasing capital resources. The flood of information from other Asian countries, in addition to the U.S. and U.K. will not only improve the region's technology and knowledge bases but also give Australian consumers more choices and create quality-conscious demand.

Demand Conditions

Domestic demand in the food industry has become increasingly sophisticated over the last five years. Eating habits among younger Australians have diversified due to increased availability of exotic ingredients. In addition, the nation's strong demand for small, healthy and nutritious fast food has emerged because increasing time pressures make it harder for consumer to prepare conventional slow food. Indeed, the common perception today is, "It is healthier to eat five small meals a day which consist of various nutritional elements than three large ones." Moreover, many consistently follow a low-fat diet due to high-profile government policies and warnings about an "obesity epidemic," and they are willing to pay for healthier organic food. Also, more people are pursuing a single lifestyle, which means greater demand for convenient ready-to-prepare meals with single-serving portions. Simply stated, changes in demand—from slow, traditional foods to those with added value, such as quick, healthy, nutritious, natural and fresh—are occurring in Australia.

Supermarkets and specialized food outlets are also spurring these changes. For example, Woolworth (20.6% food market share in 2003) and Coles Myer (17.3%) have applied their store format to Australians' busier lifestyles by expanding their petrol station-based convenience store operations, by offering fresh food with short-time delivery through a well-developed chain distribution system, and by offering more private-label products that appeal to consumers because of lower prices and added value. Specialized food outlets are also proliferating, selling products that are convenient and high-quality.

For these reasons, the ongoing changes in consumers' eating habits coupled with evolving marketing activities among retailers are reshaping the core design of the nation's food products.

When considering the beverage industry specifically, Australia enjoys a 92.6 liters of alcohol consumption per capita in 2003. This number was composed of 69.7% beer, 18.8% wine, 8.7% FAB, 1.2% whisky/brandy/cognac, 0.9% spirits, and 0.2% of cider and perry (pear wine). Among these categories, the retail volume of FAB skyrocketed 40% in 2003, supported by a major increase in alcohol consumption among young woman and a boom in convenient ready-to-drink (RTD) products. Another growth category is red wine, with the consumption trend turning toward semi-premium and premium products.

As for beer, the consumption volume of 1,272 million liters (in 2003) was actually a 0.7% decline over the previous year. However, retail sales increased 1.9%. This dichotomy can be partially explained by the emergence of the premium beer market even if the impact of the nation's inflation rate of 2.3% is deducted. Indeed, it has been said that beer has reached the connoisseur stage in urban areas, and consumers are eager to taste a wide range of products with added features rather than limit themselves to one favorite brand.

The declining category is cider and perry, which is currently perceived as low status, with no "class," unlike wine. The whiskey and spirits category has also decreased due to consumers who are wary of higher alcohol content and increasing social concerns about alcoholism, which has been stimulated by a government campaign and reports about public attitudes toward drinking alcohol released by Turning Point Alcohol and Drug Centre in Melbourne. Furthermore, this category has been directly influenced by the huge growth of FAB.

In summary, domestic demand in the alcohol industry is changing: from quantity to quality, from heavy to light, from loyalty to one drink item to variety seeking, and "drink-for-drunk" to "drink-for-taste," — all supported by premium prices.

Related and Supporting Industries

The Australian agricultural industry supports the food and beer industry in Australasia. The GDP from agriculture accounts for about 3.5% of the nation's GDP in 2003, which is not high compared to other OECD countries. However, since it constitutes 16% of the nation's total export, the industry plays an important role in Australasia and Asia. The presence of an internationally competitive supporting industry, which has a high level of agricultural technology along with its physical assets, could produce advantages for downstream industries. That is, the food and alcohol industries could reap the benefit through realizing early and rapid access to the co-effective inputs of ingredients, efficient linkage of the value chain with industry, and applying new technologies in the advanced industry.

Home Rivalry

Australia's beer market accounts for 85% of Australasia's total beer retail volume of 1,489 million liters. This market is mainly divided among two giant breweries, Lion Nathan Ltd. with 40% market share in 2003 and Foster's Group Ltd. with 53% (including Carlton and United Beverages). In New Zealand, Lion Nathan holds 53%, DB Breweries 34.5%, and Foster's Group 4.4 % of market share, respectively. In spite of the oligopolistic market situation, the beer industry's efforts to shift FAB consumers back to beer have resulted in *architectural innovations* such as low-carb beer. Although FAB's tremendous growth over the last five years has all but disappeared today, during that time it created a new market that today accounts for 8.7% of total alcohol retailing. It raises a question about the future of conventional product designs for all the alcohol categories as drink occasions and scenarios expand.

4.3 Japan

4.3.1 Economic Factors

Japan holds the world's number two position following the U.S. in terms of nominal GDP, with ¥504.5893 trillion ($4.7157 trillion) (exchange rate = ¥107 / $1) by 2.6% of real GDP growth in 2004. Its per capita GDP of $28,700 in PPP rate was ranked number ten in

OECD countries. However, Japan's inflation rate has been declining for over five years since October 1999, which indicates a serious deflationary spiral with continuing declines in consumer expenditures, as seen in its 0.6% decrease in 2002 and 0.2% decrease in 2003. Total retail sales declined to ¥127.8 trillion (down 2.3%) and retail food sales decreased to ¥37.15 trillion, down 1.3%.

4.3.2 Industrial Factors

Substitutes

For a decade, substitutes for beer have been developed by many manufacturers who have been motivated by two incentives: responding to diversification of consumer preferences, and countering the high tax on beer. Consumers have begun to experience a proliferation of different kinds of meal and more women have begun to drink alcohol, which has driven strong consumer demand for FAB. Partly because FAB's product expansion in line with fruit-flavor has been a relatively easy way to expand shelf space in retail stores, the category has snowballed to ¥267.5 billion, a 6.9% growth in 2003, and 6.5% of Japan's total alcohol sales. Supported by a consumer-friendly retail price owing to the relatively low liquor tax on the category, this skyrocketing market offers huge opportunities today. However, over the long term, the shift from beer to FABs will also bring a proliferation of competitors. This could be a serious threat for breweries because the category's much shorter product cycle and the absence of a leader in the category could lead to more intense price competition.

Because the Japanese beer tax comprises 46.5% of the retail price (nine times higher than the U.S. and three to eighteen times higher than Europe), the breweries' efforts to produce *happo-shu* (a low malt/low tax beer) at a reasonable retail price has been extremely intense. Currently the battle for a tax shield has heated up, and a beer-like product made with soybeans instead of barley was launched by three of four Japanese breweries. This has reinvigorated demand among price-conscious consumers. However, threats remain: the government's negative response to the breweries' ongoing challenges to bypass the beer tax regulations; the shrinking market for regular or premium beer. Any or all of these could undermine the competitiveness of the Japanese beer industry in the global market.

Barriers to New Entrants

Because of the need for upfront plant development and a distribution channel that covers a wide area, the barriers to entry into the beer industry have traditionally been considered high. However, the barriers will soon become lower for foreign breweries due to the Japanese government's decision in 2003 to attract additional foreign capital with the intention of doubling the nation's balance of capital within five years. If the revision of Japanese commercial law passes the Japanese Diet session in 2005, it will allow foreign firms to merge or acquire Japanese firms via stock swaps without the imposition of taxes. This change would make it much easier for foreign firms to enter into M&As with Japanese breweries, with the backing of their higher share value. If an acquired Japanese brewery's *happo-shu* product was produced in a cost-competitive country like China (production and import costs 25% lower than Japan) and then distributed through the acquired Japanese brewery's channel, the threat could emerge that the entire market will return to intense price competition again. Furthermore, more M&As could increase the opportunities for giant retailers to engage in joint product development or toll manufacturing of their private labels based on foreign brewers' co-working policies and methods.

Bargaining Power of Suppliers

The power of barley farmers is relatively weak in Japan because of excess supply of barley and declining demand from brewers. Although the farmer's business is protected to some extent by guaranteed production volume (three year contractual cultivation agreement between barley farmers' group and brewers, and by the government's bargain price guidance), the quantity and quality to be contracted remain major issues to be resolved. In the three-year agreement signed in 2003, the farmers' excess supply and low demand by Japan's four breweries were adjusted, and the required quality standard of barley was raised. Since brewers have a diverse supply channel in the U.S., U.K., and Australia, all of which produce price competitive and high-quality barley, Japanese brewers enjoy relatively strong buying power in their negotiations with domestic barley farmers. Indeed, the price of imported barley (¥34,000/ton) is much lower compared to that of the second-class barley grown in Japan (¥150,000/ton). In addition, exemption from import customs duties applied to a certain amount of purchases helps Japanese brewers maintain their strong bargaining position. Therefore, domestic suppliers will not be a threat. At the same time, the expanding supply route to countries such as Australia, which encourages agricultural product exports, could offer lucrative opportunities to brewers as long as the current import tariff quota system continues.

Bargaining Power of Buyers

Buyers in the beer industry are Supermarkets (SM, the sector's composition ratio to Kirin Brewery's domestic beer/*happo-shu* sales in 2003 is 22%), Convenience Stores (CVS, 13%), Discount Liquor Stores (DS, 22%), "Ma-and-Pa" liquor stores (14%), and On-premise Dealers (22%). Among these, SM, CVS, and DS have been growing considerably among consumers and have increased their bargaining power due to the brewers' market share orientation and deregulation of liquor license control.

During the 1990s, brewers focused on outselling their competitors rather than pleasing consumers, so retailers exploited that head-to-head competition as a golden opportunity to extract huge rebates from brewers. Because there is no brand switching cost, retailers could take advantage of this weakness, and indeed, many retailers put heavy pressure on brewers. Currently, the deregulation of liquor license control has incurred a proliferation of point-of-sales transactions, and retailers who have many stores are becoming stronger. However, it is not easy for retailers to operate an increasing number of liquor retail points due to inexperience in liquor retail operations. Therefore, retail operations support from manufacturers could be an opportunity for manufacturers to neutralize retailers' power and achieve customer bonding.

In the near future, it is expected that there will be a rush of global retailers attracted by the Japanese government's policies change easing foreign direct investment by the stock swap method. Numerous global retailers will descend on Japan through joint ventures or M&As with well-developed, in-house distribution methods supported by their own information data exchange system. The threat to manufacturers is being locked in a system that creates great operating efficiencies for retailers but few for manufacturers. For manufacturers, making specialized investment in a system that is incompatible with other retailers could cause "hold up" problems.

4.4 Opportunities and Threats: the "4V's"

4.4.1 Velocity of Product Lifecycles

Increasing international investment makes product lifecycles dramatically shorter because of the short-term nature of the foreign capital markets and rapid changes in consumer preferences due to the flood of information and products. These could be serious threats to alcohol producers who have fewer resources or who specializes resources and capitals to seek economies of scale. However, the same threats could be opportunities for those who pursue economies of scope by applying their resources to multiple product lines. Only manufacturers who follow or lead this increasingly rapid market change will survive.

4.4.2 Variety of Consumer Preferences

A growing economy and diversifying lifestyles are shaping each target country's domestic demand for value-added products at semi-premium prices. The survivors will not be those who expand their value-added product lines within existing categories through *incremental innovation,* but those who create new categories such as healthy, fresh, natural, light, small, through *architectural innovation.*

4.4.3 Vitality of Suppliers and Buyers

There are opportunities to achieve operational efficiency by closely linking the brewers' value chain to those of advanced suppliers in Australasia, or by taking advantage of other global retailers' distribution channels in China. Meanwhile, China's vulnerable agricultural industry could be a threat for manufacturers if they are relying heavily on China's cost-competitive supply chain before Chinese government policies to revitalize the agricultural industry show signs of success.

4.4.4 Vying By Price

Ironically, if breweries actually grabbed all of the opportunities discussed above, the threat of price competition would actually increase. This is because the velocity of market change and the variety of consumer preferences would force manufacturers into frequent clearance sales before the next new brand arrived. In addition, coordination of the value chain would reduce distribution costs, and the benefit would be transferred to discounts by retailers. What is needed is a subsystem to avoid price competition, which might be a total retail service such as In-Store-Merchandising and inventory control.

CHAPTER 5

Internal Scrutiny

To obtain economies of scope and create a new value proposition through group synergies, I consider resources that can be shared and applied to a range of product lines and services.

In this chapter, I first define the strategic business unit (SBU) within which the resource could exist and where effective management normally takes place. Then I address the resources in the SBU using a "Resource Based View of the Firm" (1984), which assesses a company's internal capabilities in the light of the external industry environment. Applying the criteria for resource assessment as outlined by Collis and Montgomery (1995), I compared Kirin's resources with those of competitors and assessed whether they could be sources for creating group synergies. They must pass the test of inimitability and unsubstitutability, durability, appropriability, competitive superiority—all based on objective data from the market. Consequently, this assessment highlights the strengths and weaknesses of Kirin Group.

5.1 Business Segmentation

The SBU is defined not only by product but also by complex dimensions such as external environment, market and geographic areas, and its function. Table 5-1 lists 11 SBUs, and described the rationales for their segmentation as follows.

Table 5-1 SBUs and their Rational for Segmentation (Numbers as of Jan, 2005)

Business unit	Rationale for segmentation
Kirin Brewery Co Domestic Alcohol Biz	Brew or buy full range of alcohol products, sell them via wholesale channel in Japan. Arsenal and lab of R/D resources.
Kirin Brewery of America	Sell Kirin brand brewed at A-B plants through A-B distribution channels in US. Joint Venture with A-B; Kirin holds 90% of shares.
Anheuser-Busch Co. (A-B)	Brew and sell Kirin brand under licensing in US along with its own brands.
Kirin Europe	Sell Kirin brand brewed by Charles Wells (UK). Collect information about raw material, manufacturing, technology. Kirin holds 100% of shares.
Lion Nathan	Brew and sell Kirin brand along with its own brand in Australia/NZ. Kirin holds 46.13% of shares.
San Miguel Co.	Brew Kirin brand in Hong Kong. Test market in Philippines. Deploy in SE Asia and China. Kirin holds 19.67% of shares.
Kirin China Investment Co., (includes Zhuhai Kirin President Brewery, Dailian Daxue Brewery)	Market, brew, sell Kirin brand and local brand in China by affiliating with Zhuhai Kirin President Brewery (Kirin holds 4% and KCIC holds 21% of shares) and Dailian Daxue Brewery (KCIC holds 60% of shares) and establishing sales dept. in Shanghai.
Taiwan Kirin Co.	Sell Kirin beer and Japanese sake in Taiwan.
Coca-Cola Bottling Co of Northern New England	Finalize, bottle and distribute Coca-cola products in northern New England.
Four Roses Distillery	Distill Four Roses whiskey in Kentucky; sell to Japan, Spain France etc.
Raymond Vineyard and Cellar	Brew and sell high-end California wine.

5.2 Resource Overview

Having defined the business unit, now I can address the resources of four focused business units as follows.

5.2.1 Kirin Brewery Domestic Alcohol Biz

One of the competitive resources of Kirin Brewery's Domestic Alcohol Biz (KBD) is its R&D capability. This resulted in huge successes in ready-to-drink (RTD) cocktails, *Hyoketsu*, which are producing top sales in the *Chu-hi* market in Japan, and the launch of value-added beer which features the characteristics of ingredients. In addition, the corporate R&D effort across Kirin Group companies was responsible for discovering *lactobacillus KW*, a type of lactic bacteria that is effective for preventing allergic reactions. Compared with other competitors' incremental innovations—developing a method for reducing the substances that deteriorate the flavor of finished beer, prolonging the fresh taste of beer during the process of turning barley into malt—I would say that Kirin's R&D resources have the potential to achieve *architectural innovations,* which reinforces the product's core concept and reconfigures the relationship to link together existing components.

However, technological uniqueness itself is not enough to create and capture value because uniqueness does not last long. What helps is complementary assets, accumulated market analysis know-how, sales expertise, and leadership to reform the weakened beer industry structure due to lengthy price competition.

First, KBD's market survey and analysis know-how (among the top three in the worldwide consumer industry) enables the company to achieve manufacturer-driven innovations in product development. Once KBD builds a reasonable method of joint product development with a retailer, it can connect each innovation to the market more tightly by capturing the voices of innovative lead users early, then implementing iterative test marketing within limited channels at low risk.

KBD's sales expertise in In-store Category Management accomplishes consultative selling by offering customers not only single-item sales promotions but also solutions for the entire alcohol category, which maximize the retailer's profit and helps KBD consolidate its lead position and nurture strong partnerships with customers.

Finally, KBD's leadership in reforming the business platform by introducing an open price system, and its policies for enhancing wholesaler and retailer autonomy enables all brewers to focus less on price competition and more on product development and consultative selling.

5.2.2 Anheuser-Busch

In addition to the world's best-selling beer brand, Budweiser, Anheuser-Busch (A-B) has considerable resources in terms of retail services. The superiority of its data-driven consultative selling skills has been proven by the "Category Advisor" awards it received in 2003. Therefore, customer intimacy and its ability to leverage supply chain resources in order to realize value-added services and cost savings are two of the company's most important intangible resources.

Other resources that help it achieve sustainable growth are its wide-ranging network of brewing agreements with leading breweries in five of the top ten beer-selling countries, and innovative marketing skills that enhance Budweiser's "freshness advantage" in the U.S.

and burnish its global brand image internationally, exemplified by its sponsorship of premier international sports, music, and entertainment events.

Looking at the vertical direction of its value chain, it is apparent that A-B has considerable resources for producing beverage containers, given that it is one of the largest manufacturers and recyclers of aluminum beverage containers in the U.S.

As for the horizontal direction, A-B has the know-how to operate ten theme parks in the U.S. where it sells its own brand at concession stands. The company takes every opportunity to realize the concept of "life enjoinment" by expanding occasions for drink through promotional appeals such as "BBQ and Bud," or "Burger and Bud."

Finally, its management skill with local sales and marketing professionals has made its successful international operation happen.

5.2.3 Lion Nathan Ltd.

Lion Nathan is the number one brewery in New Zealand with 53% of the market share, and number two in Australia with 40% in 2003. In addition to a business platform consisting of three plants in New Zealand and four in Australia, two in China (withdrew in 2004), another of its resources is a strong market position with different brands in each area of Australasia.

An interesting physical resource in the backward direction of its value chain is its new business named Maltexo, which provides malt extract used as a raw ingredient in the manufacturing process of everyday food products such as breakfast cereal, confectioneries, baking ingredients, and every malt-based drink.

Another resource—one that Kirin Brewery does not have—is retail liquor know-how as the result of operating 37 retail outlets throughout New Zealand. These resources offer opportunities for creating vertical efficiencies from material purchasing to retailing.

5.2.4 San Miguel Corporation

San Miguel enjoys a virtual monopoly in the Philippines, with 90% of the market share in both the beer and soft drink industry in 2005. By operating five brewing plants there and strengthening its delivery capacity through a dealership distribution system that covers the literally fragmented island market, and thanks in part to strong ties with the government, San Miguel is able to retain its overwhelming competitive position in the domestic Philippine market through scale economies.

From a global standpoint, San Miguel is said to be a highly diversified, multinational company operates one plant each in Vietnam, Indonesia, Thailand, and Australia, and four plants in China. It also runs food and packaging businesses in Vietnam, Indonesia, and China.

In addition to these physical resources in the domestic market, Asia, and Oceania, its experience with both success and failure in running its multinational company is a considerable intangible resource that could be bridged across to Kirin Group. Although its insights into the particular process needed to run the business in the diverse regions of Asia, and the human resources management needed for such a diverse group of companies, might exist tacitly without formal documentation, the organizational capabilities embedded in the company's routines, processes, and culture represent valuable resources.

5.3 Resource Assessment

To avoid intuitive assumptions when discussing the competitiveness of the value chain resources mentioned in the previous sections, I have disaggregated the source of those resources so I can assess their competitiveness objectively. Because the value of these resources is determined in the interplay with external market factors, I have looked at their inimitability, unsubstitutability, durability, appropriability, and competitive superiority (see Figure 5-1).

Fig. 5-1 Summary of Value Chain Resources (1 of 3)

Disaggregated Resources	Elements of Competitive Advantage	Inimitability and Unsubstitutability	Durability	Appropriability	Competitive Superiority
Kirin Brewery	R&D capability in redefining the relationship of product's component.	**High** due to path dependency.	**Low** because short product life cycle and rapid technology change obsolete the resources.	**High** due to low mobility of human resource in the area.	Successful new product that highlight function of ingredients.
	Market survey and marketing skill for successful product-line expansion.	**High** due to path dependency.	**High** because accumulated market insight skills are key resource that doesn't obsolesce.	**High** due to inextricable bond between marketing dept. and whole company.	Top three in worldwide consumer product industry but no explicit superiority in marketing concept.
	Retail support know-how of planogram, in-store sales promotion to maximize in beer category	**Low** because retailer's benefit could be substituted by individual rebates from manufacturer.	**High** due to deregulation of liquor license continue to yield inexperienced retailers who need alcohol retail know-how support.	**Low** as benefit brought by retail support could divert to retailer due to being locked in to retailers' system. (holdup)	Highly ranked by retailer in ECR scorecard.
	Leadership in reforming business arena that can realize real consumer benefit	**High** due to causal ambiguity.	**High** due to top management's consistent vision.	**Low** because innovation spirit would dissipate at middle mgmt level engaged in routine business.	First introduced open price system in beer industry.

Fig. 5-1 Summary of Value Chain Resources (continued – 2 of 3)

Disaggregated Resources \ Elements of Competitive Advantage		Inimitability and Unsubstitutability	Durability	Appropriability	Competitive Superiority
Anheuser -Busch (A-B)	Budweiser brand	**High** due to path dependency tracing back to policy of nonparticipation in price competition.	**Low** due to decreasing brand consciousness resulting from diversifying consumer preferences.	**High** because benefits from brand power enjoyed only within A-B's exclusive agents (65% of total), which nurtures their commitment to A-B.	World's best selling brand for 50 yrs. Outsells all other domestic premium beer combined.
	Consultative selling expertise maximizes total profit of beer category	**High** -it cannot be substituted by individual rebate which is restricted under Robinson Patman Act.	**High** due to A-B's training program for wholesalers and exclusive access to category POS data of partner retailer.	**Low** as benefits brought by retail support could divert to retailer due to being locked in to retailers' system. (holdup)	Awarded the status of category advisor from world's No1 retailer.
	Marketing skill in leveraging fresh, sports and global brand image.	**High** due to path dependency reinforced by quality control & marketing blitz across ads. local promotion and in-store merchandizing.	**High** because A-B's well-stocked marketing program is elaborated with age.	**High** as the benefit from marketing program in a territory fully attributes to A-B's territory agent, which nurtures their commitment to A-B.	Maximizing control of its marketing program through internationally located Busch media group, Inc.
	Brewing agreement network covers 5 of top 10 beer selling countries.	**High** due to physical uniqueness.	**High** because term duration is protected by contract.	**Low** as the value would dissipate to partner brewer due to relatively weak form of partnership (licensing).	The agreements cover 5 promised countries; competitor's (SABMiller) is 2.
	Container mftg and recycling capability in aluminum beverage cans	**High** due to economic deterrence.	**Low** due to rapid improvement of plastic bottle technology.	**High** because the value would not disperse as the resource is proprietary to brewing biz.	US largest manufacturer and recycler of aluminum beverage containers.
	Theme park operations expertise	**High** due to economic deterrence.	**Low** due to limited market.	**Low** as the value could divert to theme park biz (holdup) due to weak tie with brewing biz.	One of the US largest adventure park operators.

Fig. 5-1 Summary of Value Chain Resources (continued – 3 of 3)

Disaggregated Resources	Elements of Competitive Advantage	Inimitability and Unsubstitutability	Durability	Appropriability	Competitive Superiority
Lion Nathan	Malt supply capability	**High** due to the physical uniqueness.	**High** due to stability of agricultural industry and versatility (everyday food products and home craft brewing.)	**Low** because economic rent could divert to outside merchant market instead of internal captive market due to intense competition.	Competitor (Foster's) doesn't own the resources.
	Retail know-how and consumer learning capability.	**Low** due to ease of imitation.	**High** because it invigorates positive feedback by realizing iterative test marketing, which shortens product lifecycle, and diversifies consumer preferences.	**Low** because knowledge would be diluted as it ascends the value chain from retailing to manufacturing phase.	Competitor (Foster's) doesn't own the resources.
San Miguel	Plant & distribution network in Philippines and the rest of Asia.	**High** due to physical uniqueness.	**High** due to strong tie with Philippines government which is largest shareholder of SMC.	**High** because value would not disperse as the resource is proprietary to brewing biz.	Has monopolistic position in home market but no superiority in China.
	Management know-how of diversified MNC	**High** due to path dependency and causal ambiguity.	**High** because continuous international orientation will offer opportunity to upgrade resources.	**Low** because value is likely to dissipate due to mobility of human resources and absence of explicit document.	Far ahead of competitor (Asia Brewery Co.) in sales volume, number and extent of international plant operations.

Having scrutinized the resources of each business unit, I must conclude that **none of Kirin Group's resources has any decisive competencies**—a common occurrence in many companies. No resource could pass every determinant of competitiveness. However, because each resource has different weak points among all the determinants, the other SBU's resources with strong determinants could complement the weakness. Even resources with the same weak determinants could upgrade the set of resources and enhance its competitiveness. Therefore, in the next section I will combine the resources in an effort to upgrade their competencies.

5.4 Resource Bridging

Now I am in a position to consider the tangible and intangible interrelationships of the resources that can be shared or transferred across the business units based on my belief that the relatedness of the resources—not the products themselves—is the key to success in attaining group synergy.

First I look for possible horizontal interrelationships among Kirin Group's resources. Then I move to vertical linkages. Although the company will need to find ways to overcome some hurdles in terms of contractual coverage of alliances with each SBU in order to make it happen, these ideas could help Kirin achieve competitive advantage.

5.4.1 Horizontal Interrelationships

Some possible areas of horizontal interrelationship are identified in the Resource Sharing Matrix shown in Figure 5-2. The left row represents the SBU which will share the resources; the top line represents the object of the shared resources. Each letter in the diagram indicates "sharing" and corresponds to one hanging on each paragraph which will come after the diagram.

Fig. 5-2 Resource Sharing Matrix

Subject to share resources \ Object to be shared resources		KB				KBA	AB					KEU	LN			SMC		KCI	TKC	FRD	RVC	KBC	CCNN
		R/D	Mkt survey & mktg	Retail support	Leadership		Budweiser brand	Consultative selling	Global & freshness mktg	Brewing agreement	Packaging		Strong position	Raw material spully	Retail know-how & consumer learning	Plant and dist. network	Management know-how of MNC						
KBD	R/D capabilities															A		B				C	
	Mkt survey & mktg skill								F							A		B					
	Retail support know-how							F															
	Leadership in innovation																						
KBA																							
AB	Budweiser brand																						
	Consultative selling expertise			E																			
	Global & freshness mktg skill		D																	D			
	Brewing agreement network																						
	Packaging capability	G														G						G	
KEU																							
LN	Strong position in particular area																			H			
	Raw material supply capability																						
	Retail know-how & consumer learning			J																			
SMC	Plant and dist. network	B	B															B					
	Management know-how of MNC																						
KCI																							
TKC																							
FRD													I										
RVC																							
KBC		C																					
CCNNE																							

Key:
KBD: Kirin Brewery Co., Ltd Domestic Alcohol Biz
KBA: Kirin Brewery of America LLC
A-B: Anheuser-Busch Companies
KEU: Kirin Europe Gmbh
LN: Lion Nathan Ltd.
SMC: San Miguel Corporation
KCI: Kirin (China) Investment Co., Ltd.
TKC: Taiwan Kirin Company, Ltd.
FRD: Four Roses Distillery
RVC: Raymond Vineyard and Cellar, Inc.
KBC: Kirin Beverage Co.
CCNNE: Coca-Cola Bottling Company of Northern New England, Inc.

R&D Capability

Kirin Brewery Domestic Alcohol Biz (KBD)'s R&D capability and its market survey skills[1] could be transferred to San Miguel Co. (SMC) which has deployed four main beer brands including San Miguel Pale Pilsen and San Mig light in the Philippines. Matching SMC's strategy of repositioning existing brands and expanding occasions for drinking in response to the variety-seeking buying behavior of consumers, these resources would enable SMC to expand its product line in the Philippine market (see Fig. 5-2-A).

In contrast, utilizing SMC's plants in China and test marketing through its distribution channel would not only spread the Kirin brand into the market physically but would also upgrade its capabilities for product development and market analysis. Further, the ability of iterative prototyping could be the key to countering rapid changes in consumer preferences which result from the flood of Foreign Direct Investment and international information and products. In some combination of these resources, Kirin China Investment Co. could deploy different products according to the various regional culture and market trends (Fig. 5-2-B).

Nowadays, efforts to create *architectural innovation* continue in joint R&D across KBD, Kirin Beverage Co. and Koiwai. If a reasonable method of joint product development with leading retailers that have an accumulative database of the preferences of alcohol and non-alcohol drinkers could be built, then be effectively combined with Kirin Group's R&D resources and market survey capabilities, iterative prototyping for *architectural innovations* could be further encouraged. For example, early adopters' voices beyond the alcohol category could change the traditional concept of "beer relaxes people" toward a newer

[1] These skills have underpinned *architectural innovation* since 2000 by focusing on changing the connection between components (malt, hop, sugar, purine body, yeast, natural juice, etc.) and concepts (taste, price, freshness, fun, healthy, etc.) of products.

concept of "beer energizes people." Then, joint R&D across the beer, beverage, and daily product industries could multiply potential relationships between ingredients (like A-B, which incorporated caffeine and guarana into beer), which could lead to launching the product in partner retailers' channels. In this way, Kirin Group could bring a reinforcing loop into action: joint product development with a partner retailer would expand the scope of consumer needs beyond the alcohol category and reinforce the existing concept of the product. As the scope gets wider, joint R&D across the SBUs could increase the seeds of *architectural innovation*, the ideas for possible connections between the concepts and components of products. Then new products could be tested iteratively through partner retailers' distribution channels, which would gradually shorten the product lifecycle, diversify consumer preferences, and expand the scope of consumer desires for the next new products. This reinforcing loop could double the opportunities for Kirin Group to exercise its competitive ability (see Fig. 5-2-C).

Market Survey and Marketing

KBD's special skill with market surveys and marketing, which have driven successful product-line expansion, could be reinforced by benchmarking Anheuser-Busch's innovative marketing for building Budweiser's global brand image and leveraging its "freshness advantages." Since Kirin Group's international product-line expansion may encounter difficulty in maintaining the consistency of its marketing concept to connect with a wide range of products, it could be helpful for the diversifying corporation to learn how it can enhance its international brand image while avoiding dilution of the concept. The company can learn from A-B's consistent "sports marketing" methodology, which has centralized Budweiser as the "lubricant of social interaction" in global social events such as the Olympic Games or premier international sports.

Another marketing concept that A-B leverages today is freshness. SABMiller began to challenge A-B by focusing on its brew's taste and qualities rather than humor and image through a blind taste-test campaign begun in 2003. This eventually became a threat to A-B, forcing it to focus on its freshness campaign via techniques such as one-day fresh Budweiser samplings in on-premise markets in 200 U.S. cities.

The competitive situation A-B faces today is similar to what KBD experienced in the last decade. Quality, which used to be KBD's hallmark, was insidiously invaded by Asahi's articulate appeal to the freshness concept of a single brand (Asahi Super Dry). Meanwhile, Kirin emphasized the value of multiple main brands and category management, just as A-B did. Benchmarking from A-B's case to learn how to narrow Kirin Group's broad definition of "quality" (covering quality of ingredients, brewing technology, and freshness) down to a single definition could yield considerable group synergy effects.

Benchmarking these resources would also help Four Roses Distillery enhance its international and premium bourbon image, if A-B's relationship with Bacardi USA does not prevent the knowledge interaction (see Fig. 5-2-D).

Retail Support and Sales Know-how

Combining KBD's retail support skills and A-B's consultative sales know-how, which was hallmarked by Wal*Mart, could create business opportunities for both SBUs. Sharing know-how even informally, KBD could gain first-hand knowledge of leading-edge category management that would help it maximize retailers' profit and "aisle management" of products that sit nearby, currently encouraged by Supervalu, which expands the level of consumer solutions to the entire store aisle, well beyond the category. Consultative sales know-how has become more important than ever in the Japanese alcohol market. Retailers have little experience with selling alcohol products even as stores proliferate as a result of the deregulation of liquor license control and the industry focuses less on price competition. Thus, such knowledge of customer solutions is another worthwhile resource to leverage. Also, A-B's excellent relationship with Wal*Mart, based on consultative selling know-how, could help Kirin build a more advantageous position than its competitors (see Fig.5-2-E).

On the other hand, A-B, the global brewery, could act locally in the Japanese beer market, which consists of fragmented retailers, if it could obtain hints from KBD's retail support know-how along with its market survey resource. The absence of oligopolistic retailers and the current proliferation of retailers due to deregulation requires manufacturers to take a different approach to individual retailers based on careful customer segmentation according to the types of retail channel and the unpredictable potential of each channel's growth. Furthermore, with the increasing consumption of Flavored Alcohol Beverages among young drinkers, KBD's insight into this growing market, where it already deploys a bestselling product, could help A-B launch its own innovative products, such as Bacardi Low-Carb Green Apple (see Fig. 5-2-F).

Container Manufacturing and Recycling Capability

Packaging innovations could be boosted if further exchanges of technologies across the group companies occurred. Anheuser-Busch launched its Bud Light plastic label bottle in 2004 without sacrificing product quality. Meanwhile, KBD and Mitsubishi Heavy Industries delivered the equipment that makes airtight plastic bottles to San Miguel Co. in 2004, and SMC will now launch beer in plastic bottles once the challenge of maintaining its product quality have been resolved. Further, SMC will open a new plastic bottle manufacturing and recycling facility in 2005, encouraged by the government's 2004 Investment Priority Plan which gave SMC a six-year tax holiday.

Kirin Beverage Co. (KBC) is also looking to develop in-house PET-bottle technology. The technological resources of A-B and KBD could enhance both companies' packaging capabilities, and SMC and KBC can tap the enhanced resources in a reasonable agreement for technology exchange. Further, if Kirin Group opened the interface of certain technology to complementors, as platform leader it could get closer to *architectural innovations* like the self-chilling beer can, which was invented by Tempra Technology and Crown Cork & Seal and will be commercially produced for Bass, Heineken, Coke, Pepsi, and Budweiser under a deal signed in 2004 (see Fig. 5-2-G).

<u>*Market Position and Distribution Channels*</u>

Lion Nathan (LN)'s high market share in South Australia and its dominant position in Queensland is a resource that other SBUs that have not launched their products in Australia could tap (e.g., Four Roses Distillery). Also, in New Zealand LN's wholly owned retail channel could be a key interface with consumers from which FRD could send its message about consistent product quality with premium ingredients, and a distinctive distilling and aging process (see Fig. 5-2-H).

On the other hand, LN could strengthen its product portfolio by adding the global Four Roses brand, which has been a top-seller in Europe and Japan for more than four decades and number seven in the world in 2002. This move would compete against Foster's Group, which has bourbon and spirits in addition to beer and California wine (see Fig. 5-2-I).

5.4.2 Vertical Linkages

Thus far, I have discussed horizontal interrelationships, which refer to the interdependence of the value chain across the SBUs. Now I will shift to vertical linkages, which refers to the length of each SBU's value chain, by considering resources that exist both within and beyond the SBUs. Just like the horizontal interrelationships, vertical linkages could also be an engine for enhancing *economies of scope* through transaction cost savings or information access.

Distribution Center Operations

The incentive for KBD and KBC to strengthen their vertical linkages in the outbound logistics function is to pool their negotiating power in order to counter the threat of giant national retailers and global retailers, each of which has distribution systems of their own and would force manufacturers to lock in to their systems. The distribution centers of Japanese mass merchandisers often play the role of profit center, bringing in profit not only from operating efficiency efforts but also by charging suppliers a "distribution center operation fee" which includes a retailer's "mysterious" margin. Once a manufacturer or wholesaler pays the asking price under the pressure of buyers' swelling negotiation power, they cannot easily get out of the system until their transaction volume reaches an amount to pay off the fee they paid. To make matters worse, if the supplier invested in arrange its logistics system to meet certain national incumbents' or global entrants' specifications, then the "holdup" problem emerges. That is, the dedicated assets put the supplier in an adverse bargaining position vis-à-vis the retailer.

In order for KBD to avoid this holdup problem and keep from being locked into a giant retailers' system, it is crucial to expand its business reach to the retailer's distribution center operation. By co-working with a partner mass merchandiser, KBD can learn and easily access a rational activity-based cost for a retail logistics operation in order to gain defensive market power for negotiation with retailers which attempt to charge a distribution center operation fee. Also, it would give KBD opportunities to gain offensive market power by prototyping an innovative distribution system that could improve the profits of all players along the value chain, which could be one of the factors of customer bonding brought about by Total Custómer Solution and System Lock In.

Retailing

KBD's partial integration with the retail stage in the value chain would make it easier to access information about consumer preferences and purchasing behavior. Through a retail unit of its own, KBD could test various kinds of CRM challenges from the retailer's point of view. Thus far, KBD has been unable to design a reasonable Frequent Shoppers Program (FSP) as one of its retail supports because consumers' purchasing data and their individual information legally belongs to retailers and is out of Kirin's reach. However, once it had access to such data, Kirin Group could develop an innovative method of linking an FSP to category/aisle management. A chain of retail support knowledge—i.e., (1) picking the loyal frequent shoppers from the top two decile, who often account for 70-80% of total retail sales; (2) learning the category which they buy, along with each alcohol category or SKU; (3) then offering cross merchandising promotions individually through new interfaces such as a website, while at the traditional interface, redesigning aisle layout based on their buying behavior—could be the essence of a new value proposition to the retailer. Lion Nathan's consumer learning capabilities could support the inexperienced retail operations of KBD. (see Fig. 5-2-J).

5.5 Strength and Weaknesses: the "3C's"

5.5.1 Complementary Assets

Overall, Kirin Group does not have distinctively unique resources like other competitors do; however, it has many complementary assets in many parts of the value chain, which can support the *architectural innovation* of products, geographic expansion, and retail support. These could be said to be its strengths.

5.5.2 Concept of Marketing and Customer Solution

Some might say that Kirin Group's relatively inconsistent marketing concept (stemming from the width of its product line) and its less-innovative company image (stemming from its tradition and craftsmanship) could be seen as a weakness. The concept of "quality" has been Kirin Group's credo but has not necessarily been well exemplified in the marketplace compared to its competitors or any benchmarking firms.

Second, since tradition and craftsmanship tend to keep Kirin Group unconsciously in a manufacturer's mindset, it tends to design its business processes and tasks based on a product differentiation strategy rather than the Total Customer Solution mentality. To effectively utilize dispersed complementary assets with a view to achieving customer bonding and a clear-cut marketing concept, Kirin needs to encourage intangible resource sharing (knowledge and information) horizontally across its group companies and vertically outside the firm by partial forward integration. What needs to be centralized is ***knowledge sharing*** as the main engine of sustainable growth.

CHAPTER 6

Strategic Posture

In this chapter, I will articulate Kirin's corporate strategy for its alcohol beverage business based on the findings derived from the environmental scan and internal scrutiny.

Thus far, I have recommended Kirin Group's strategic shift to Total Customer Solution (TCS) in addition to product differentiation. To achieve this, I identified various forms of synergy and referred to some ideas for resource sharing in order to upgrade each resource and put together a set of them.

Categorizing these ideas, I shed light on Breadth of Product, Speed of Product Pitch, and Depth of Retail Service as strategic thrusts that could affect the attractiveness of the products. In other word, these driving forces could be leveraged by the ideas I have suggested for creating synergies.

Second, I discuss business dynamics for executing the strategy. Here I address synergies across multiple reinforcing loops that include these strategic thrusts.

Finally, I further break down these thrusts to the roles of the company's business process based on each general task. According to Hax and Wilde (2001), every company has three business processes: Operational Effectiveness, Customer Targeting, and Innovation. Each of these is responsible, respectively, for delivering product to customers, managing customer relationships, and developing new products. The key is aligning the execution of the resource bridging project in each business unit with the strategy.

6.1 Strategic Thrust

To respond to the demand for diversifying consumers' expected value and to challenge the shift by consumers away from the beer category to Flavored Alcohol Beverages, it is inevitable that beer manufacturers must widen their product line more quickly and more broadly than ever before in order to achieve sustainable growth. Considering Kirin Group's potential for sharing accumulated resources for product development and to overcome its image as a relatively less innovative company, widening the Breadth of Product with unique features and accelerating the Speed of Product Pitch seems be reasonable. However, care must be taken not to follow the specific pattern of product expansion but instead identify a clear goal because the beer industry's history is rife with examples of the harsh reality that product expansion does not necessarily succeed.

For example, at the end of the 1990s, Miller was forced to refocus its flagship brand after product line proliferation caused the decline of Miller Genuine Draft for a decade. In addition, its retooling efforts in the factories to efficiently produce multiple products rather than to specialize the plant to one main brand caused a profitability problem.

In Asia, for instance, brand proliferation among the four Japanese breweries caused flagging sales of each company's core brand, not just because of product "cannibalization" but also because of the dilution of sales power and confusion among consumers who had difficulty finding their preferences from among the wide range of products on the shelves.

In short, the characteristics of these brand proliferation in the 1990s were:

1. The innovation was largely driven by existing consumer demand in a fad of customization, not by cultivating a latent new demand.
2. For these reasons, most of the effort ended up with *incremental innovation* resulting in filling a vacant position in the *status quo* product portfolio.
3. Consequently, it diluted consumer preferences in the *status quo* rather than diversifying beyond the category.

Learning from these experiences and considering today's external environment, Kirin Group's product expansion for the next generation should be based on manufacturer-driven innovation that intends to change the architecture of the relationship between the concepts (such as taste, price, freshness, fun, healthy, etc.) and the components (ingredients) in an effort to create new categories. This effort can be supported by the complementary asset, Retail Support Know-how, which appeals to the fun of varieties at the storefront level.

Through the process of achieving this, Kirin should incorporate customers into its support system of Category Management, Value Chain Management, and Product Development, so it can neutralize the threat of System Lock In by giant retailers or partial backward integration.

A possible corporate strategy for tomorrow's Kirin Group is outlined briefly below (see Figure 6-1).

Fig. 6-1 Possible Corporate Strategy for Kirin Group

- **Pursue customer bonding through Total Customer Solution, and unit cost reduction through economies of scope in Asia and Oceania markets, by synergizing the reinforcing loops of scope operation, product and service differentiation, and complementary effect.**

  - To bring the loops into actions, widen the **Breadth of Product** and accelerate the **Speed of Product Pitch**, and cultivate the **Depth of Retail Support** capability at both of in-store level and retailer's supply chain level.

    - To pursue Breadth of Product and/or Speed of Product Pitch,

      - share the R&D and market survey capabilities, production and distribution bases across Kirin Brewery Domestic Alcohol Biz, San Miguel Co. and Kirin China Investment Co.
      - share the brand and distribution bases between Four Roses Distillery and Lion Nathan Ltd.
      - share the packaging capability between Kirin Brewery Domestic Alcohol Biz, Anheuser-Busch and Kirin Beverage Co.

    - To cultivate the Depth of Retail Services,

      - share Category Management know-how and market survey capabilities between Kirin Brewery Domestic Alcohol Biz and Anheuser-Busch.
      - prototype retailers' Value Chain Management support method through partial forward integration with retailers' distribution center operating unit.
      - prototype retailers' Customer Relationship Management support method based on consumers' individual data through partial forward integration with retail unit.

6.2 Strategic Dynamics

Although the principle of not relying on any single positive loop but activating multiple loops to drive a company's growth by creating synergy is not new to Kirin Group, to reconsider how to stipulate the dynamics of reinforcing and balancing feedback would help each business unit reach a consensus about how their tasks will affect corporate growth as part of the larger system, why each SBU does its tasks, and then share the vision across the company. .

The strategy I propose emphasizes—in addition to quality—Breadth of Product, Speed of Product Pitch, and Depth of Retail Service as the keys to stimulating business dynamics and enhancing the attractiveness of products. To further invigorate these supporting loops as well as the quality loop is important because quality by itself is not a sufficiently unique and clear-cut concept to differentiate Kirin Group from other firms, for the following reasons:

1. Quality orientation is every manufacture's prevailing argument. One would be hardpressed to find a beer manufacturer that does not showcase quality as one of its major determinants of product attractiveness.
2. Quality is a subjective measurement and is made only by the manufacturers. It is difficult for customers and consumers to recognize differences in the quality of unseen raw materials or a production process for commodity goods.

One classic example in the Japanese beer industry shows the way "freshness" as an articulated concept of quality was put forth in a perceptible way by activating economies of scale and a network effect loop. The path dependence of positive feedback started from the brewer's effort to lower unit development costs based on expectations of high output volume and reduced unit production cost by specializing in order to pursue scale operations. Then its sales force concentrated on expanding shelf space at retailers for the single brand supported by an iterative price promotion that could be realized given the low unit cost. Once a certain number of stores deployed a massive display of the product as the "price card" of each store (which implies a low price for the entire shelf), retailers began to give the product more space and continually implemented price promotions at their own expense in an effort to surpass their neighboring competitors. This network effect dramatically increased consumers' accessibility and demand for the product, which consequently allowed the brewer to ship relatively fresh beer due to the high inventory turnover ratio.

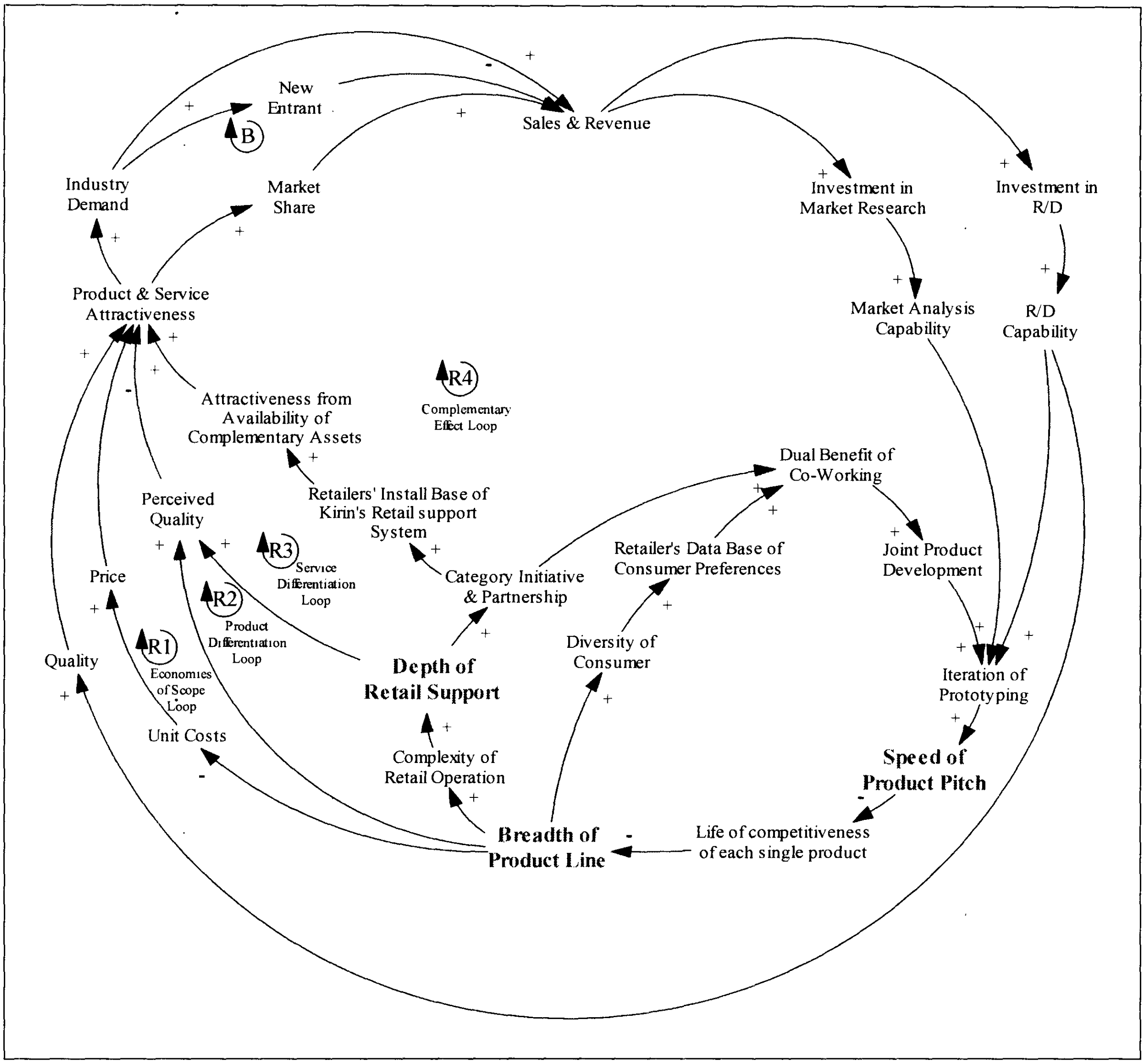
For Kirin Group, expanding the Breadth of Product could be the initial jolt need to turn on the business dynamics of its strategy. Figure 6-2 shows a set of business dynamics feedback loops. A proliferating product line inevitably increases the complexity of retail store operations for both the incumbent and the new retail channel selling alcohol products, which increases retailer needs and Kirin Group's requirements for total retail support. It also cultivates the depth of Kirin Group's retail support capabilities from relatively straightforward In-Store Merchandising to rather complex Category Management or Aisle Management or Value Chain Management, which enables it to take the initiative in the entire alcohol category and strengthen its partnership with retailers. Taking the initiative in multiple categories and utilizing retailers' accumulated databases containing consumers preferences will yield the dual benefit of co-working. Then, by opening part of the platform of product design, joint product development with partner retailers will enable Kirin Group to implement iterative test marketing within a limited channel, which accelerates Speed of Product Pitch and shortens product development cycle. The shorter cycle enables each product to maintain a short lifespan of competitiveness, which forces all players in the market to expand their product lines more aggressively, thus doubling the opportunities for Kirin Group to taking advantage of its R&D and market research resources.

As each loop is brought into action, the resources are applied to multiple product lines which helps Kirin Group achieve a unit cost reduction through economies of scope and a consumer friendly price, which enhances the product attractiveness (see Fig. 6-2-R1). In the meantime, the constant launch of a variety of products not only offers consumers a wide selection but also appeals to Kirin Group's product development capabilities, which improves consumers' perception of product quality and raises product attractiveness (see Fig. 6-2-R2).

Finally, Depth of Retail Service raises product attractiveness not only by enhancing customers' perceived quality of service (see Fig. 6-2-R3) but also by raising the attractiveness of availability of complementary assets, such as retailers' computer systems that are made compatible with Kirin Group's, or their skills in using specific software for planograms, sales promotions, and inventory control (see Fig. 6-2-R4). Each retailer's switching cost for retraining the installed skills of employee in the other brewer's system will not be paid off, which promotes a lock-in effect.

By activating these four loops with an initial perturbation, customer bonding via Total Customer Solution (R2 and R3) with moderate Lock-in (R4) and unit cost reduction by economies of scope (R1) can be strengthened.

Fig. 6-2 Strategic Dynamics



6.3 The Role of the Company's Business Process

<table>
<tr><th colspan="2" rowspan="2"></th><th>Strategic Positioning</th></tr>
<tr><th>Total Customer Solution</th></tr>
<tr><td rowspan="3">Business Process</td><td>Customer Targeting</td><td><General Task>
Strengthen customer relationships, offer key customers customized bundled solutions of products and in-store merchandising service.

<Role in Supporting the Strategy>
Expand the coverage of categories and retailers of In-store Category Management support which can maximize retailers' net profit in the alcohol category at large.
(1) Target attractive retailers based on each retailer's capabilities for Efficient Customer Responses (ECR), growth potential, and profitability brought to Kirin.
(2) Apply optimal retail support such as aisle layout design, category planogram, sales promotion (closed campaign, cross merchandizing, frequent shopper's program) in response to their retail capabilities and needs.</td></tr>
<tr><td>Operational Effectiveness</td><td><General Task>
Effectively deliver product to customers, optimize the stream from manufacturer's value chain to customers.

<Role in Supporting the Strategy>
Prototype Value Chain Management method which can reduce total inventory and distribution cost through integration of Kirin Group's value chain, wholesalers, and customers.
(1) Target partner retailers based on the operating level of in-house distribution system (developed system is not appropriate) and their IT capability.
(2) Through Kirin's direct operation of the partner retailer's distribution center, accumulate the data of activity-based cost of each logistics operation to pool negotiating power with giant retailers and build the most efficient and reasonable integrated distribution prototypes.</td></tr>
<tr><td>Innovation</td><td><General Task>
Ensure a continuous stream of new product development, partly open the interface of product design to customer.

<Role in Supporting the Strategy>
Test Joint Product Development with customers which can widen the scope of product seeds and shorten the development cycle through the process innovation of product design.
(1) Target partner retailers based on the size of consumer interface and their database of consumer preferences.
(2) Through joint product development with the customer, collect data about consumers' buying behavior and implement iterative test marketing within the retailers' limited channels.
(To avoid being utilized as the retailers' commission manufacturer of private labels, the entire intellectual property should attribute to Kirin Group, and the liability of Kirin Group's supply and retailer's purchase, and the cost burden of sales promotion during the test marketing should be articulated.</td></tr>
</table>

CHAPTER 7
Organizational Reinforcement

To seek group synergies, I now consider how to manage the organizational shift to a flat, flexible, networked, diversified, and global organization. To manage this change, I will explore ways to manage three aspects: the function of individuals in team, the network across teams which to drive the organizational process, and the culture that sometimes inhibits organizational change.

In this chapter, I first discuss how to enhance team dynamics from the viewpoints of *Conversation Dynamics*, *Creative Tension*, and *Career Anchor*. Then I consider how to improve the organizational business process by taking advantage of *Informal Network*, and how to drive the sequence of organizational change by rebuilding *Cultural Norms* with which Kirin has so long been allied.

7.1 Backlash

The process of sharing know-how requires that Kirin have flat organizational structures, flexible ways of thinking, and vigorous networks. Inherently, an organization is not designed to encourage resource sharing with others. Physically, an organization is an aggregation of several business functions. Sales representatives are usually the only point of contact with the external world, and other functional divisions are experts of their respective business functions but not necessarily good at communicating with the variety of external contacts.

Mentally, each business unit tends to limit itself to current well-functioning business and does not recognize the need for change. Especially when each business process in the organization is customized to maximize operational effectiveness through cumulative efforts of process improvement, process innovations that would disrupt the conventional knowledge base, routines and business models, could encounter resistance. The problem is that the forces opposing reform often overlook the fact that even their profitable business units are going to need to be shared with other group company resources someday.

Another possible source of the resistance to change is jealousy among those who reluctantly engage in everyday tasks that bring short-term profits toward those who engage in challenging innovative projects whose fantastic benefits may not be tapped until several years later. Newly emerged process innovation can sometimes be undermined by those who are cruising just below the water.

7.2 Function of Individuals in Teams

7.2.1 Conversation Dynamics *(from the Framework of Conversation and the Learning Style)*

To overcome the physical barriers mentioned earlier, Kirin Group needs to activate effective communication among the diverse members of cross-functional, cross-industrial and borderless team designed for resource sharing. The basic reasons why there are problems in communication is discontinuity of the conversation loop due to an imbalance in the conversational roles of Mover, Follower, Opposer, and Bystander acted out by each member. There is no problem with ignoring an imbalance as long as it takes place within the hierarchical organization where top-down decisions dominate the business or among likeminded people with some tacit understanding. However, once a company decides to make the leap over the borders of function, industry, and country, leaders need to invigorate the conversation loop in order to encourage flat conversation dynamics. Furthermore, it is important to understand each member's learning style—Diverger, Assimilator, Converger, Accommodator— and then assign roles for contributing to the team, and rotate roles to draw out innovative idea in order to realize flexible ways of thinking.

7.2.2 Creative Tension *(from the Discipline of Personal Mastery and Shared Vision)*

To overcome the mental barriers standing in the way of a diversified organization, Kirin Group needs to generate *creative tension* which would exist between an articulate picture of the current reality and future vision. Because people are innately good at problem solving, if problems existed, the energy to get away from the undesirable reality is born naturally even if there is no clear vision; if there is no problem, the energy does not exist. However, even if the problem is absent, the organization needs to create a source of energy for growth. What creates the energy is *creative tension*, and it is generated by *shared vision*. Therefore, the challenge is to build a sense of commitment in the organization by developing shared images and guiding practices for group synergy and strategy synergy.

Usually, the organization's vision is shaped by the firm at large through a holistic approach followed since its founding. However, for Kirin Group to build real commitment, the *shared vision* should emerge from each employee's *personal vision*. Therefore, the fundamental role of leaders is to let each employee develop a sense of *Personal Mastery* in an effort to expand his/her personal capacity and link the personal vision to the organizational vision.

7.2.3 Career Anchor

Change does not come without reformation of evaluation measures. An interesting finding, reported during an MIT class with Professor John Van Maanen, was that the anchors of U.S. employees' business life tend to be functions such as marketing, sales, finance, manufacturing, and engineering, and employees move up within the same career by switching firms in order to experience different business settings. For them, the business function comes first and the firm second.

On the other hand, the anchor for Japanese employees is the firm, and employees move up by changing business functions within one firm. Because Japanese employees rarely switch firms due to the traditional lifetime employment system and low demand for mid-career employees, the anchor has always been the firm, and firms have not been required to take each individual's *career anchor* into consideration when evaluating their success. In other words, there is one evaluation measure because every employee's anchor is the same.

However, if Kirin Group expands its business reach and its employees come to have opportunities to experience jobs in diverse companies, the evaluation measure should also be varied and arranged according to the *career anchor* of each member and group company in order to motivate them and maximize their function.

On the way to identifying synergies by sharing resources across borders, as we necessarily encounter diverse ways of doing business among a wide variety of individuals and business units that have different standards by which to measure their success, it will be more important to understand them based on their own *career anchor*.

7.3 Network Across the Team in Organizations

7.3.1 Informal Networks

Kirin Group will need to build informal networks rather than stick to a formal organizational chart if it hopes to literally network the organization for successful resource sharing. An *informal network* reveals two types of power: getting things done in routines with an **Advice network**, and getting things done during crises or major changes with an **Affect network**. The typical failure to utilize networks is not to choose one of these two types of powers to suit each setting.

The Advice network is useful for gathering and sharing information about work-related matters. On the other hand, an Affect network help to collect information about political matters and to penetrate policies. To counter reluctance or resistance to disruptive change brought by process innovation or resource sharing, Kirin Group needs to show employee "why" something should be done by using the Affect network, and "how" it can done by using the Advice network.

Last but not least, it must be said that the *informal network* is not an implicit network. Failure often stems from this misconception. The more Kirin Group diversifies, the more complicated the network will be, and the more explicit it should be. By increasing the number of those who understand the network, the ability to mobilize Kirin Group companies' resources will be greatly enhanced.

7.3.2 Inquiry and Advocacy *(from the Discipline of Mental Models)*

To invigorate the network for resource sharing across a cross-border business unit, Kirin Group should balance the protocols of *inquiry* and *advocacy*. Westerners I have met have been taught during a lifetime that they should be forceful and advocate their opinions explicitly. In contrast, Japanese people have been trained to be modest and listen to others and to keep their opinions to themselves. Although these differences have been dismissed heretofore as inevitable differences that can be attributed to the disparate cultures of West and East, the importance of balancing *inquiry* and *advocacy* becomes greater, especially when a firm decides to expand its network globally.

On another front, choosing the right protocol for improved *inquiry* and *advocacy* could help Kirin Group avoid domestic problems, such as colleagues' concealed interference arising from their cold or biased views to dazzling or innovative tasks. On the way to change, or to renewing the business process of achieving resource sharing, Kirin Group will have to confront many challenges as it seeks to lead the business unit without causing negative perceptions toward the innovative task. The leaders' abilities to balance *inquiry* and *advocacy* is an absolute requirement, based on my own experiences. Therefore, I can say that protocol plays an important role in either case, whether dealing with cultural differences in a cross-border business unit, or jealousy within a traditional business unit.

7.4 Cultural Norms

7.4.1 Habits of Thought

Organizational culture is an aggregation of the assumptions and beliefs of individuals about how the organization ought to function, and how to do jobs that have been developed through lengthy experience. The assumptions and beliefs are shaped by *habits of thought* which play a decisive role in people's sense-making process and the actions they will take.

Among hundreds of cultural norms in Kirin Group, what is highlighted here as related to organizational change is its culture of decentralization for customization. Aiming to depart from the mass marketing that has been common in the beer industry for so long, and riding the wave of customer orientation with its back pushed by a surge of diversification, the assumption has been forged that decentralization is the best way to get close to customers and to customize services. Kirin Group's approach to interactive resource sharing might run counter to this culture of decentralization, which often embraces autonomous ways of thinking. Searching for a pragmatic way to achieve the miracle of cultural change, I have brought up *habits of thought* which surface in the manifestation of cultural norms and *ladder of inference* within which the habits of thought are shaped.

The most likely *habit of thought* standing in the way of resource sharing across different business unit might be: "Don't interfere, you don't understand my business." This frequently results from highly customized business processes in logistical operations, regional promotions, product development, etc. To understand how it arises, we need to trace the mental pathway of the *ladder of inference*.

The initial step begins of resistance is *Observation* of fact: "the same resource is applied to produce multiple lines of products or services." Then it turns to *Interpretation*: "resource sharing would lead to a common architecture." The third step is *Attribution*: "the common architecture will disrupt the uniqueness of the product we build and the service we offer, and we will lose local customers." Finally it comes to *Generalization*, another one of the *habits of thought*: "Don't interfere, you don't understand my business." In this case, the germ of misguided belief and assumption needed to be corrected to attain consequent cultural change emerges in the phase of *Interpretation.* So, leaders can make members understand their true intent— what we are aiming for through resource sharing is not a common architecture but *architectural innovation* attained by changing the interrelationships of existing content.

By spotlighting an individual's *habits of thought* as a manifestation of the firm's cultural norm and carefully climbing up the ladder of inference with a view to understanding how the thought was generated, leaders can begin to reorient Kirin Group's culture to one of emerging organizational change.

7.5 Summary

In this chapter, I described three important factors for managing change in a leading organization. The first key is to enhance an individual's function in a group. A flat and flexible organization can be realized by leaders' efforts to control *conversation dynamics* by balancing each individual's conversational role and *learning style*. Then, diversified corporations can implement interactive resource sharing by a *shared vision* which is shaped by a *personal vision*. Also, a leader should enhance the motivation of diverse individuals in various business units by understanding their *career anchor*.

The second key is to effectively utilize the group's *informal network* in organizational processes. A networked organization properly acts as a system by choosing to use an Advice network and an Affect network, each of which has different types of power according to the business setting.

Lastly is the need to upgrade what underlies organizational process—*cultural norms*. Changing a firm's culture does not come spontaneously but could be encouraged by cutting deeply into the area of individual *habits of thought* and the *ladder of inference*.

CHAPTER 8

Conclusion

Corporations that choose a path to international orientation and product diversification will undoubtedly confront difficulties in pursuing sustainable growth after experiencing exponential sales jump brought about by sharing tangible resources such as product line, plant network, or distribution channel. This is because the *S-curve* of growth reaches its physical limitations faster than expected due to a short market lifecycle coming from the flood of international information and foreign investment. In the mature stage of the *S-curve* of product and market lifecycle, *incremental innovation* does not always succeed, and competition based on product alone often misses profitability of each player who is in the market.

Therefore, what Kirin Group requires is a mental shift from a product-centric mindset to a product and service orientation. The retail service encouraged by today's network economy, which enables system linking and/or knowledge sharing, could open the door for customer bonding. Customer bonding is achieved by Total Customer Solution (TCS) through providing retailers with a more complete set of products and services based on their needs. The capability to provide such a set of products and services can be enhanced through group synergies, and the synergy is created by resource sharing across the group companies.

To achieve Kirin Group's new strategic positioning of Total Customer Solution, I expanded the product and service scope that was outlined in Chapter 2. The keys to realizing the new service scope are: **Co-Working** to prototype and elaborate retail services; **Concentrating** on specific markets and areas in order to maximize distribution efficiency; and **Customization** to fit products and services to partner retailers and regional preferences. These keys can be encouraged by a resource bridging system across the group companies and a human resource management that shifts to a flat and flexible, networked and diverse global organization. The resource bridging system and management skills will be Kirin Group's future competencies.

To explore the group synergy effects that are appropriate for Kirin Group's strategy, I revealed four types of synergies in Chapter 3:

- Know-how sharing,
- Profit mixing,
- Negotiation power pooling, and
- Value chain optimization.

Among these, Profit mixing, Negotiation power pooling, and Value chain optimization are pursued by Coca-Cola or Pepsi, Kirin or Asahi through tangible resource sharing at the early stage of diversification.

For Kirin Group to step up to the next stage, it will need to strive for economies of scope that can reduce product unit cost, or expand the range of value proposition by applying the same resources to multiple lines of product and services, which can be encouraged vigorously by know-how sharing.

Through the scan of economic and industrial factors in China, Australasia, and Japan where Kirin Group focuses its business today, some threats and opportunities were highlighted: accelerating **Velocity** of product lifecycle, spreading **Variety** of consumer preferences, growing **Vitality** of suppliers and buyers, increasing potential for **Vying** on price.

In the meantime, the internal scrutiny of Kirin Group revealed its strength in extensive **Complementary assets** and its weakness in less explicit **Concepts of marketing** and a weak mindset for **Customer solution**.

To counter the threats and seize the opportunities by upgrading the strength and overcoming the weakness, I proposed three strategic thrusts:

- Breadth of Product,
- Speed of Product Pitch and
- Depth of Retail Services.

These three strategic driving forces can be upgraded by group synergies coming from horizontal and vertical resource sharing across the business units. At the same time, they create strategic synergy in multiple reinforcing loops and by enhancing the attractiveness of products and services, which realizes customer bonding through Total Customer Solution and unit cost reduction by economies of scope.

Although there may be some obstacles in the way of Kirin Group's shift to a flat, flexible, and networked organization that can encourage global resource sharing, the management of diverse human resource that enhances individual functions in the team, invigorates network effect, and upgrades cultural norms can stimulate organizational change.

In closing, I would like to recap three important dimensions Kirin Group should pursue for its future growth: **resources, business dynamics**, and **organization**. The resources for the corporation's sustainable growth are fortified by intangible resource sharing, and they will strongly support the strategic thrusts. The aligned strategic thrusts synergize the business dynamics in concert, which can be encouraged by an efficient administrative organization. By giving comprehensive attention to these three elements, the leaders of Kirin Group will be successful in their efforts to enhance organizational capabilities and attain sustainable growth.

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