

Wahaha Corporation

MarketBuster

Summary

Beginning as a school-run enterprise in 1987, Wahaha Group Corporation has grown to be China's leading beverage manufacturer producing fruit and vegetable juices, milk products, bottled water, tea, nutritional and carbonated drinks. With 70 subsidiaries and 40 manufacturing bases distributed all across China, the company has assets totaling about ¥ 4.4 billion.¹ The initially state-owned enterprise has been bought back from the government and runs as a private corporation under founder, chair, and general manager, Zong Qinghou. The company is the leader in bottled water in China and competes with foreign giants, Coca Cola and Pepsi Co. for carbonated drinks. With about ¥ 10 billion in sales for 2003, Wahaha is expanding into Europe, US and Southeast Asian markets and also into different product lines. Despite rising costs, power outages, stiff local and foreign competition, Wahaha now employs almost 10,000 staff with extensive sales networks through the mainland.

The Story

Founder, Zong and two retired school teachers initially sold milk products and popsicles through a school-run store with their operations funded by a government loan. Zong first struck gold with an idea to develop healthy drinks for children, which laid a solid base for building the Wahaha brand. After the brand name and reputation had been established, Zong extended Wahaha's marketing network from cities to rural areas. The company first expanded by acquiring a large, 30-year-old state owned enterprise in 1991 and renamed it the Hangzhou Wahaha Group Corporation. In 1994, Wahaha merged with three companies in Fuling, Sichuan and setup its first factory in Chongqing. This new factory provided Wahaha with a production facility in western China which reduced their distribution costs. In addition, the merger occurred when the Chinese government was providing coastal companies incentives to invest in the west.

In 1996, Wahaha approached international beverage provider, Danone and formed five joint subsidiaries. Although Danone owned 51% of the stake, the subsidiaries were run under the 'Wahaha' brand and all operations were controlled by Wahaha. Zong attributes the company's success to the Wahaha brand name and effective marketing network coupled with advanced technology acquired by importing automated production lines from the United States, Germany, Italy and Japan. It has also established a quality-control system and a related responsibility system, which aims to intensify its testing capability and to strictly monitor and control the standards of the whole process of manufacturing, ranging from design, raw material selection and production to storage and post-sale service.²

Wahaha also started producing its own version of Cola called Feichang Kele, commonly known as Future Cola in 1998. Realizing the dominance of Coca Cola and Pepsi in the urban areas around the cities, Zong decided to begin distribution of Future Cola in rural areas. The costs of distributing Future Cola in rural stores was significantly lower and by selling Future Cola cheaper than Coca Cola, Zong managed to capture an enormous market. Wahaha Group believes that when the farmers become better off in the rural areas, they would see an exponential increase in sales by capturing the rural segment, forming a booming market of 900million. The scope of Future Cola is not limited to the Chinese mainland; Wahaha plans to open up production facilities in Thailand, Indonesia and Uzbekistan.³

¹ 'Wahaha', CBR

² 'Wahaha claims top spot'

³ Xinhua, China

MarketBusting Moves

In the highly competitive beverage market, Wahaha has managed impressive growth and sales by using the following MarketBusting moves:

- #10: Add compelling parallel offerings
- #14: Radically improve your productivity
- #34/38: Create a market via cautious Evangelism / Create a Niche to Win
- #40: Bet on Blue sky ventures

#10: Add compelling parallel offerings

With the initial success of nutritional drinks for children, Wahaha diversified its product line gradually to encompass bottled water, fruit and vegetable juices, carbonated soda with its own 'Future Cola' and milk products. Acknowledging the increase in demand for tea, Wahaha announced the launch of its new Longjing bottled tea at the China Tea Expo in 2005. Wahaha imported world-class lines to produce a perfect combination of traditional tea-making techniques and modern technology to produce a healthy and tasty tea drink. The product received several favorable comments at the Expo for its taste and new convenient packaging. At present, their Green Tea Drinks section is growing at a speed of 40% to 50% per year.⁴ Wahaha plans to continue to invest more in this section and enhance the Wahaha brand name for teas internationally and make it the tea drink of the world. By continuously introducing new products, Wahaha manages to leverage its strong distribution network and brand name to put new products on the shelf and stay competitive in the market.

#14: Radically improve your productivity

In 1996, Wahaha set up five subsidiaries with the French giant Danone Group, a joint venture that attracted \$45 million in foreign investment, but allowed Wahaha to retain all managerial and operational rights as well as the brand name, Wahaha.⁵ This agreement gave Wahaha access to an advanced production line and allowed them to expand in scale, improve their standards and quality control. The high returns made Danone want to invest even further leading to the formation of over 30 subsidiaries, all of which are managed and operated by Wahaha in China. Wahaha imports the latest technology and research instruments from the US, Germany, Japan and Italy and maintains a strict-quality control program to efficiently produce high quality products at lower prices. During the launch of 'Future Cola', Wahaha's backward integration allowed it to reduce costs and sell at a cheaper price as it produced its own bottles and caps for packaging the beverage.⁶

#34/38: Create a market via cautious Evangelism / Create a Niche to Win:

The introduction of its beverages into the domestic market was quite successful and the company decided to take on world-wide giants, Coca Cola and Pepsi in 1998 by introducing Wahaha's own Cola called 'Future Cola'. Realizing the underserved rural segment and their weakness compared to the giants in the urban areas, Wahaha decided to launch its Cola to the farmers. Using their extensive distribution network and aggressive marketing strategies, Wahaha sold Future Cola to the farmers at a lower price, expecting their sales to rise exponentially in the future when the farmer's economical situations improve. They penetrated the market using three main techniques. First, they promoted Future Cola as a patriotic brand, encouraging customers to support their nation by selecting Wahaha brands over the foreign competitors. Second, they catered specific products into targeted segments by knowing that their bottled water did well in the city and their cola did better in the countryside. Third, the company often uses celebrities to

⁴ 'Tea Expo in Hangzhou'

⁵ 'Watch out, Coke and Pepsi – Here comes Wahaha'

⁶ 'Wahaha', CBR

launch new products. Hong Kong actor and comedian Stephen Chow promoted a series of Wahaha tea drinks, Chinese-American pop singer Wang Lihong promoted bottled water, and Taiwan's Yu Chengqing (Harlem Yu) helped launch Future Cola. In addition, Wahaha also runs frequent TV commercials on national channels during the peak news hours.⁷

#40: Bet on blue sky ventures

Some of Wahaha's bold decisions have led to its initial success in the past. The nutritional drinks for children and the \$45million agreement with French giant Danone were key turning points in the company's timeline. Their strategy of targeting the rural farmer population for Future Cola of about 800 million people has opened up an enormous potential market in the future. Wahaha balances its operations by undertaking a few risky ventures unrelated from its primary line of business such as the launch of children's garments in 2002.⁸ The group seeks new profit growth points in the highly saturated beverage industry and plans to diversify its operations through projects involving toys and other products for children, also a large market in China.

Key Lessons

In less than 20 years, Wahaha Group has evolved from a small school-run distribution center to one of China's largest beverage providers with almost \$1billion in sales. The group's success can be attributed to the visionary founder, chairman and general manger, Zong Qinghou who has combined advanced technology, traditional tastes and aggressive marketing techniques to strengthen Wahaha's brand name in China, and abroad. Banking on the success of a few products, the company used its earnings to invest into further expansions by location and product lines providing over 30 beverages along with childcare, garments and toys. Trusting their expertise within their country, they have maintained full managerial and operational control in projects through joint ventures and other acquisitions, while acquiring substantial foreign capital and equipment. Wahaha's competitive nature and home-grown advantage have allowed it to take on foreign giants in the carbonated drinks segment. Wahaha's effective marketing strategies and timely implementation along with a strong leadership in management and quality has made it a successful MarketBuster in several segments across China and some parts of the world.

⁷ 'Wahaha', CBR

⁸ 'Watch out, Coke and Pepsi – Here comes Wahaha'

DRAT Table, Wahaha Corporation

SOURCE

External

Powerful Incumbents	Stiff competition from domestic and international companies and adapting to changing needs of different market segments. High charges from urban grocery stores preventing the entry of Future Cola into cities.
Opposition from advocacy groups	Bought back government's share to run as private entity.
Risk to key external stakeholders	Dominant control in joint ventures over operations (Danone)
Inertia	Continuing to find ways to innovate its product offering and differentiate itself from its large competitors. Add value to its products to serve niche markets better than the competition.
Disruption of customer's and system or process	Maintain current customers and attract new rural and international markets through their high quality products.
Changes in standards or regulations required	N/A

Internal

Internal political maneuvering	Government share bought back by Wahaha, runs as a private entity under a dynamic Founder, Chairman and General Manager.
Reluctance or resistance by those needed for active implementation	N/A
Resource Constraints	Initially funded through loans, currently over \$1billion sales.

Platform changes required

Human resource and skills platforms	N/A
Logistics platforms	Keep looking for cheaper and faster ways to deliver products to the consumer; increase the speed of the supply chain.
Distributor platforms	Further strengthen distribution network and brand name.
IT and database platforms	N/A
Technology platforms	Currently imports advanced production technologies.
Assets, operations, and systems platforms	N/A

Marketbusting Kite

Element	Needed to Support the Marketbusting System
Agenda The key things that the critical people spend time on	<ol style="list-style-type: none"> 1. Commitment to quality manufacturing standards 2. Developing new products 3. Strategic product distribution 4. Promoting Brand name and finding new markets
Norms What principles and behaviors are valued?	<ol style="list-style-type: none"> 1. High quality manufacturing 2. Advanced technologies and research instruments 3. Aggressive marketing, brand image 4. Increasing sales revenues and market share
News What information and measures are paramount?	<ol style="list-style-type: none"> 1. Market share in the US, segments 2. Lead the industry and introduce products superior to competitors in a timely manner.
Allocations What gets resourced and how are people rewarded?	Resources go to <ol style="list-style-type: none"> 1. Research of products, customers 2. Aggressive marketing through celebrities, TV etc. 3. Strategic joint ventures, new technology
Structure Power, authority, responsibility structure	<ol style="list-style-type: none"> 1. Power concentrated in few hands, mainly with founder Zong who decides direction of company and projects. 2. Have several production facilities, subsidiaries and offices all across China and expanding internationally.
History Key routines that have developed and drive activities	<ol style="list-style-type: none"> 1. Focusing on efficient production processes 2. Developing new products at higher quality and lower costs that appeal to native population 3. Importance to new advanced technologies and strict quality control procedures. 4. Well known brand, extensive distribution network, marketing superiority compared to foreign competitors

Sources

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