

**MEMÒRIA DEL TREBALL DE FI DE GRAU DEL GRAU EN NEGOCIS
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Introduction of Chinese iced tea drinks into the Spanish market

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1. Introduction

Beverages' main purpose is to hydrate and refresh our body; it can be drunk alone or in social gatherings. In fact, we normally ask for refreshing drinks such as carbonated and sugary drinks when we meet our friends or relatives, however, products such as iced tea beverages can also refresh us while taking care of our health and Spain lacks good quality iced tea drinks.

Tea is original from China and according to (Macfarlane and Macfarlane 2004) tea it is the second most widely consumed beverage worldwide after water. Indeed, it is healthy and it has calming effects, even if it contains caffeine (sometimes called theine). In addition, it is appropriate for fighting against thirst in the Spanish summers. Therefore, my motivation for writing this paper came after feeling a lack of iced tea products in the Spanish market. This is why I believe in the introduction of the original Chinese ready to drink iced tea into our market.

We considered Wahaha as the most feasible company because it is the drink leader company in China and it is already selling the product we want to introduce. In addition to it, Wahaha is already considering the entrance in the European market; therefore we are in charge for the Spanish region. At a personal level, the project will give life to the personal goal of introducing a product into our market and it will be the first occasion to fully apply the knowledge learnt during the undergraduate program.

In this paper the idea of importing tea into the Spanish market is going to be studied. Therefore, we will first present the product and company to introduce, then we will analyze the context of the Spanish market and we will deep into the beverage industry.

Finally, we will develop the entry plan to explain the best way to introduce the tea drink into the specific Spanish market.

2. Objective

The main objective of this project is to describe what, who and how the Chinese product is going to be introduced in the Spanish market.

What it is going to be introduced is a ready to drink iced tea beverage to the Spanish consumers. Therefore, we will analyze the product and the market where we are going to sell it. We want to determine which kind of iced-tea beverage we want to sell and whether it will fit the market.

The player in the study will be a distributor buying tea from the Chinese company Wahaha, the actual leading beverage company in China that already produces a successful iced tea beverage for the Chinese market.

Finally, there is going to be a description of the product, price, promotion and place strategy in order to shape the way how to enter the Spanish market and track whether the whole strategy will be successful or not.

3. Ready-to-drink tea

We aim to introduce low sugar and sugar free original tea drinks in the Spanish market since having real tea-flavor taste tea has not been done before in the country. We want to introduce the varieties of Green tea, Jasmine tea and Oolong tea. Black tea would be excluded due to its bitterer flavor. Therefore, Wahaha, the leading beverage company in China seems the perfect partner for the introduction of Chinese tea in Spain.

Wahaha tea portfolio includes all range of low and sugar-free original tea series, iced tea drink with different fruit flavors and herbal fruit tea drink (See Exhibits 1).

Launching the original tea series will show the western drinkers the real Chinese tea concept which consists of the authentic tea flavor without any other additional flavoring component. A fruit-based tea drink would be perceived for consumers as a westernized sweetened tea which has already been launched previously. On the contrary, the Chinese, natural approach from Wahaha tea will differentiate this product from the previous introduced cases.

3.1. Previous iced tea ventures

It is not the first time RTD iced tea is launched in Spain; actually, besides the successful Nestea and Arizona tea, there have been several failures as well. Nevertheless, it is hard to track them down since businesses are reluctant to talk about their failures. Therefore, based on consumer's memory the most recent cases will be studied.

In 2006, Trina hit the market with *Trina T* a tea beverage combining 4 different fruits - apple, peach, melon and lemon - and 4 different teas – green, red, white and black - . In this case, there were PET 500ml bottles sold in supermarkets and 250ml glass bottles sold in bars and restaurants. According to consumer's opinions on (Ciao 2007), the product was refreshing, sweet and tasty, however people felt *Trina T* did not taste as tea and sometimes it was even watery.

The following case was Pascual that launched *Tealia* in 2007, a product composed of tea, less than 0.2%, and fruit. The drink was presented in 250ml exotic-looking bottles and the price for 1 liter of Tealia in the supermarket went between 1.36€ and 1.60€. According to consumer's opinions on (Ciao 2007), the product was sweet and tasty yet it was missing tea flavor.

All products launched in Spain have been a combination of tea and fruit or even honey as Arizona is doing right now. Still, the product we want to introduce is pure tea without any fruit content because our objective is to offer a refreshing, healthy, pure tea-flavored drink. In addition, Wahaha tea contains 4.3g/l of tea which represents nearly four times more quantity of tea than Nestea 1.1g/l.

4. WAHAHA

Wahaha Group Co., Ltd, founded in 1987, is the largest beverage company in China. Nowadays it has 150 subsidiaries around the country and sells in Singapore, USA, Canada, Italy and Japan. The company has 9 category products and more than 100 SKUs. Nevertheless, 3 of the categories; dairy drinks, tea drinks and convenience-food constitute the major part of the company's income.

Wahaha was founded by Mr. Zong Qinghou and two retired teachers. Initially, the business was set to produce a special beverage for children with a medicinal effect to increase their appetite. Yet, in few years, the company was such a success that it merged and acquired other companies and it ended up producing several kinds of drinks (Wahaha 2012).

4.1. Corporate strategy

Wahaha's mission is to share a healthy and happy life with the consumers all over the world; therefore the company pursues to satisfy the thirst of as many consumers as possible from all the range of ages and all possible countries.

Wahaha's values are professionalism, confidence, passion and innovation.

Their vision is to become a world-class beverage provider, having a long lasting enterprise and taking social responsibilities. The company's mid-term objective is to expand both in Europe and the USA. So Spain lies within their scope of possibilities.

Wahaha's portfolio comprises bottled tea, milk drinks, energy drinks, bottled mineral water, fruit juice, porridges, carbonated drinks and yoghurt beverages.

Wahaha's distribution model in China is based on agents. The account managers are responsible to contact first-level agents and supervise them to assure they obtain profit. The company must assure agents make profits as they strongly believe agents are the key element in the distribution channel to obtain success.

According to an interview with (Zong 2012), Wahaha's founder, the company avoids the country planned sales networks since it involves fierce competition on price, instead, Wahaha has their own agents located over all the Chinese region.

5. Analysis of the Spanish Market

5.1. Market definition

Spain is a European democracy located in a South-Europe peninsula which lies in between the Atlantic Ocean and the Mediterranean Sea. Therefore, it is an excellent sea communication's center. In addition its currency is Euro which facilitates relations between countries.

In 2012 there was a population of 46.8 million people (Instituto Nacional de Estadística 2013) which has increased by 2.65% in the last 5 years. If we want to nuance, 49.34% are men and 50.66% are women. The regions in the peninsula with the hugest population rates are Andalusia, 17.88%, Catalonia, 16.02% and Madrid, 13.75%. On the opposite, the ones with the lowest population are Rioja 0.17%, Cantabria 0.18% and Navarra 0.68% (see Exhibits 2).

In terms of population density, inside the peninsula, Madrid turns out to be the region with highest number of people per km, 809.52, followed by the Basque country, 303.32, and Catalonia, 235.92 habitants per kilometer (see Exhibits 3). This data is going to be relevant to plan the distribution strategy.

Finally, it must be pointed out that according to INE (Instituto Nacional de Estadística 2013) Spain has an aged population due to a birth-date life expectancy averaged 82.09 years in 2011 combined with an average of 1.36 children per woman.

Regarding the economy, Spain is facing a strong crisis with an outrageous unemployment of 27.16% (Instituto Nacional de Estadística 2013) by the end of 2013 first term. This fact is having an effect in all the sectors, including the beverage one.

Products sold in Spain carry a 21% VAT tax and EU custom tariffs must be checked in order to import a product from China.

Spain's relation with China is increasing, actually, from 2006 to 2010 imports from the Asian country increased by 31.64%. Hence, introducing a new Chinese product seems feasible.

In terms of culture, in the 1980's new social and beauty canons hit the Spanish society and people began to worry about their appearance and personal care. Therefore, ANFABRA (Asociación Nacional de Bebidas Refrescantes Alcohólicas 2010) claims that the soft drinks market pioneer in offering low calorie drinks maintaining good flavor to adapt to the new demands. Moreover, due to Spain's warm weather and traditions, we are used to having social gatherings in public bars and restaurants.

5.2. Beverage Industry

The Spanish soft-drinks industry offers a huge variety of choices for each different occasion and palate. It comprises a wide range of beverages: carbonated and non-carbonated drinks, juices, tonics, sport beverages and iced tea or coffee drinks all in different packaging and sizes.

Low-calorie beverages are also among the choices and, actually, it already represents 30% of the offer. And increased concern for a healthy and beauty body is considered the key for such an increase in the low-calorie products consumption.

According to ANFABRA (Asociación Nacional de Bebidas Refrescantes Alcohólicas 2010), low calories soft drinks and energy drinks consumption have both increased during last year (4.6% and 10% respectively). On the contrary, juices and tea drinks consumption has decreased during the same period of time (-35% and -4%).

ANFABRA is the Spanish association of non-alcoholic soft drinks producers and it regulates the sector and gives information about it. UNESDA is the European Association of the same industry and it gathers all EU country members to offer information and directions towards a harmonized industry. Moreover, the Spanish Food and Nutrition Security Agency is the entity in charge of guaranteeing the product security and regulate the industry.

5.2.1. Structure

Spain has around 70 soft drink producers highly differentiated (see Exhibits 4). Despite the huge number of businesses, few big companies dominate the market. In fact, 68% of businesses have 10 or fewer workers (see Exhibits 5) and the biggest company has 58.8% of sales and 71.3% of market value meaning that there is huge concentration in the market (Mercasa 2011).

There is a shortage of information regarding the beverage imports due to a low quantity of imports. Transport costs and warehouse eat out the product's benefit. Hence, foreign businesses tend to set plants in the country in order to compete with the local producers. In 2010, imports were around 100 million liters which represents 2.1% of the total consumption¹.

The beverage industry is a highly innovative area where new products are launched regularly to meet new consumer expectations. Actually in 2011, 148 new products hit the market (Campos and Gómez Bengoechea 2013), so even if not all of them succeed, the industry is highly dynamic and consumer oriented. In fact, innovation is following low calorie products, sport beverages and tea flavors as these are the products experiencing an increasing but slow growth evolution (see Exhibits 6).

5.3. Consumer and user analysis

5.3.1. Market size and growth

In 2011, the Spanish soft drinks market reached 4567.2 million of liters which is 95.8 liters per capita. Compared to 2010, the market has grown by 0.96% recovering for its downturn since the beginning of the crisis. In fact, over the last 5 years statistics show a decrease of 0.8% (Canadean 2012).

Actually, there is an overall of 36,870,000 consumers; 12,857,000 homes consuming soft drinks and 239,191 businesses from the HORECA² sector selling soft drink beverages as well as 19,454 other food businesses (Campos and Gómez Bengoechea 2013).

Beverages are sold in different packages, the most used is the plastic PET³ 56% followed by the cans 26% and glass bottles 13% (Asociación Nacional de Bebidas Refrescantes Analcoholicas 2010).

5.3.2. Market segments

According to (Asociación Nacional de Bebidas Refrescantes Analcoholicas 2010), the beverage market has been segmented into age, geography and sex.

Regarding age, ANFABRA (Asociación Nacional de Bebidas Refrescantes Analcoholicas 2010) claims that young consumers prefer sweet flavors against bitter ones and besides that; they are prone to trying new products. However, the older the consumer the more bitter he prefers

¹ Data calculated with information from Munimerca and the consumption analysis in 2011 from UNESDA.

² Spanish acronym that stands for: Hotels, Restaurants and Caterings.

³ PET is a container made of Polyethylene Terephthalate.

the drinks and in a higher intensity flavor. Despite of the huge number of annual innovations, aged people tend to stick to traditional flavors resulting in a difficult market for new flavor participants.

Concerning geography, Levante and Andalucia are the Spanish regions with the highest consumption of beverages due to higher temperatures which increase the need for hydration among consumers. Catalonia and Madrid show the highest preference among autonomous communities for the low-calorie beverages and Catalonia, Aragón and Baleares are the less traditional flavor attached people. Finally, tea it is most consumed in northern regions such as Navarra, País Vasco and Cantabria.

And last, regarding sex, men preferences are cola drinks, non-carbonated drinks and energy beverages. Whereas women prefer functional drinks⁴ or low calorie beverages due to a higher concern towards health. Hence, women are the ones who prefer iced tea drinks.

5.3.3. Consumer behavior

As it has been mentioned before, the Spanish consumer has a traditional palate, meaning that he tends to prefer the classical flavors against the new ones. To exemplify it, in 2010 cola drinks were the favorite drinks for the Spanish consumers, followed by the orange and lemon drinks. Tea drinks only counted as favorite drink in 3% of the cases meaning that our country is reluctant to changes in the flavors and drinks (see Exhibits 7).

Regarding the consumption moment, 55% of Spaniards consume soft drinks during the week and 75% consume them during the weekend (Asociación Nacional de Bebidas Refrescantes Alcohólicas 2010). The explanation lays in the fact that Spaniards tend to associate drinking soft beverages with a social gathering moment.

People have different drinking preferences, and they do not always consume the same product. Variances come because of the moment of the day, the place, food, activity, etc. So one consumer drinks a range of different beverages and is not loyal to the same drink in all the occasions.

Spain is a southern Mediterranean country and as such its population is attracted by colorful and sweet drinks. On the contrary, Northern countries in Europe prefer functional beverages (Asociación Nacional de Bebidas Refrescantes Alcohólicas 2010).

⁴ Functional drinks are beverages with higher nutritional effects that represent a benefit for health.

5.4. Distribution analysis

Beverages are distributed mainly through wholesalers to the HORECA sector and through supermarkets, hypermarkets and traditional points of sale to the home consumers.

Even if HORECA accounts for 30% of the sales (Asociación Nacional de Bebidas Refrescantes Alcohólicas 2010), there is a clear downsizing tendency due to the current crisis. Consumer's habits have been shaping due to the economic recession and social gatherings in the bar have been substituted by the same encounters at home. Therefore, consumption has maintained.

5.5. The RTD Iced tea sector

According to Canadean (Canadean 2012) the ready to drink (RTD) iced tea drinks market is defined by all the range of beverages carbonated and non-carbonated packaged tea-based drinks. It can contain black, green, oolong, barley, rooibos, white and mate tea, fruit, flower and herbal teas. The production of RTD iced tea can be both brewed tea or tea extract and the product can either be hot or cold-filled.

It is considered RTD Iced tea even when it contains additional flavorings such as fruit, flowers, herbs, fruit juice, sweeteners and others.

All products that have tea as the base flavor are also included in this category containing at least 5-30% of tea⁵. However, it is not considered into RTD iced tea drinks category the products where tea acts as a flavor ingredient instead of base ingredient.

In Spain the RTD Iced tea market accounts for 136.5 million liters which represents 3% of the total soft drink market.

5.5.1. Competitive analysis

According to Porter (Porter 2009) companies must study more players than the mere direct competitors. Therefore, the threat of new entrants, suppliers and buyers, the industry rivalry and the threat of substitutes are going to shape our final success in the iced tea beverage industry.

First of all, the threat of new entrants is low due to the initial capital investment for an efficient marketing campaign, given the fact that it is a new product; the access to the distribution channels, regulations for international companies to enter the Spanish market and finally the custom tariff for Non-EU products. To nuance on the legislation; imported food

⁵ It may vary depending on the country. For example USA admits lower levels for premium products.

must have the equivalent hygiene level as the national. Therefore Wahaha should consider its water quality according to Directive 98/83/CE 1998 and its hygienic maintenance according to the Annex II in the regulation (EC) 852/2004 from the European parliament and the council. Nevertheless, regulations apply to whole Europe, so once Wahaha has entered one market they will have fewer difficulties to enter the other EU ones.

Secondly, the threat of suppliers is low since the iced-tea production raw materials is tea and China is the biggest tea producer country in the world⁶, tea is not a product that can be widely differentiated, however, it cannot be easily substituted and should iced tea products have great profits, they could consider producing it themselves.

Thirdly, the threat of buyers is medium since even if there are several of them, supermarkets are big companies with high competence to reach the shelves. A part from that, if we nuance to the end consumer point of view, the threat is also medium since there are a huge number of consumers that make low quantity sales, however they can easily produce it at home and Spanish consumers are facing a crisis which is shaping its behavior.

Fourthly, the industry rivalry is high since the Spanish iced tea industry is small and it has few different-sized competitors.

The biggest and most important player in the arena is Coca-cola with its Nestea drinks; according to data from Nielsen gathered in Alimarket web page, (Rodero 2012)Nestea has a 63% of the market volume and 86% of its value. The rest of the market volume and value is shared among Lipton ice Tea from PepsiCo, Arizona Tea and some other minor brands. Looking at the numbers, it is clear that Nestea is the clear leading aspiration brand in the industry which reduces the possibilities for new entrants and, in addition, there is moderate market growth.

Finally, the treat of substitutes is very high since several different similarly-priced beverages can cover the same need; reduce thirst. Therefore, competence between different kinds of beverages will be high.

Overall, competition appears to be high and Wahaha might have to overcome big obstacles in case they enter the Spanish beverage market.

⁶ In 2011, China was ranked the first among the world's production, which reached 1,620,000 tons.

6. SWOT analysis

SWOT analysis should be further studied to discover Wahaha's possibilities to hit and succeed in the Spanish market.

STRENGTHS

- Wahaha is already experienced in selling into other markets
- It is a multinational big company so it already competes with economies of scale
- Wahaha is already a successful brand in China therefore it is already a solid company
- Iced tea beverages are already a successful product in China

WEAKNESSES

- Manufacturing centers are distant from the final point of sale in Spain
- Wahaha is inexperienced towards the Spanish market, which is different from the Chinese one.
- Language and culture is completely different in both markets.

OPPORTUNITIES

- Chinese origin denomination adds value to the final product
- Undisclosed market
- Capacity to grow in a new market
- Consumer increasing desire for oriental or functional products

THREATS

- Unknown brand for Spanish population
- The Spanish and European legislation on the imports of food products hinders the exchange.
- Relatively new and unknown product
- Spanish market size is small compared to the Chinese one.
- Wahaha is a Non-European company

After balancing the pros and cons, Wahaha has a place to get into the Spanish market that it is barely touched and the company is strong enough to face the entry. Nevertheless, they must

face increased uncertainty due to huge distance between both markets, not only in terms of geography but also in terms of culture.

7. Commercial plan

7.1. Entry plan

The 4 P in the marketing mix; product, price, promotion, place, will perfectly define the way in which to maximize the benefits of the entrance, reach a wider population and reduce uncertainty.

7.1.1. Product

We wanted to test whether our healthy, low-sugary oriental tea concept was going to be accepted in the Spanish society; therefore we carried on a survey among 365 women participants in the area of Barcelona to see the reasons why they drink iced-tea beverages (see Exhibits 8).

It was discovered that in 31% of the cases the first reason for drinking iced tea beverages was for its health benefits and 20% for its flavor. On top of that, it was given the opportunity to distribute 91 samples of Wahaha tea among 91 students in Barcelona to give feedback on the real product taste (see Exhibits 9). The results showed that 44 people said the product was tasteless and watery, 26 claimed it was a real tea drink, 12 of them stated the product was too bitter and still 9 people complained the product was too sweet. In light of the results above, Wahaha should consider increasing the tea flavor to avoid consumers complaining about the wateriness.

Regarding the product's packaging we recommend to use the plastic PET bottle as it is recyclable and low-cost; in addition, it is the actual packaging the company is using in China which will favor economies of scale. Besides that, the actual selling size is 500ml which fits the consumer's needs and is sufficient to turn down thirst. Yet, 16 out of the 91 people trying the samples considered the quantity excessive so Wahaha could plan smaller sizes in the future to cover all the preferences.

Concerning the brand name, the best option will be to avoid setting Wahaha as the product name as to prevent the attachment of the brand name to only the tea drink. Instead, having a long-term vision we recommend using a different name to foster further product introductions. In order to link the brand company name and the new products one, we suggest Teahaha which combines both to tea and Wahaha. This tea brand name is both easy to remember and

funny, hence we expect people to recall it fast. Moreover, we suggest that in the introduction of further products the name structure is maintained; for instance in case Wahaha wants to launch energy drinks the company should name it after Tsihaha⁷.

In terms of labeling, the surveys showed that 62% of the people felt more attracted towards a floral design than a landscape 25% or an Asiatic looking girl 13%. In addition among the floral option, the colorful background one was preferred 36% in front of the white background one 26%. Consequently, our recommendation for Wahaha is to use a colorful floral label to sell in Spain.

7.1.2. Price

Our principal objectives setting the price strategy is to avoid the Chinese low-price, low-quality stereotype. Hence, we aim to place Wahaha iced-tea beverage among the premium products due to its exoticness and quality.

After conducting the survey among 365 women, where they were asked how much they would pay for 500ml of Chinese Ice tea, 157 claimed they would not consider buying Chinese tea. However, 130 of them are already not ice tea drinkers, therefore 88.51% of the regular or sporadic drinkers in the sample would consider buying our product. The following chart studies further their willingness to pay (see Exhibits 10).

Price	number of potential buyers in the sample ⁸	% of potential buyers in the sample	Total potential buyers in Spain ⁹	Total potential bottles in one year ¹⁰	Expected penetration rate	Expected number of bottles sales	Expected revenue sales
1	201	55%	2.790.989	56.388.760	5,0%	2.819.438	2.819.438,01
1,2	166	45%	2.304.996	46.569.822	5,0%	2.328.491	2.794.189,32
1,5	156	43%	2.166.140	43.764.411	5,0%	2.188.221	3.282.330,82
2	113	31%	1.569.063	31.701.144	5,0%	1.585.057	3.170.114,38

In light of these results, with a 95% confidence level, a 5.1% sample error and assuming that the penetration rate will remain stable, our recommended retail price (RRP) for the iced-tea drinks is 1.5 EUR for a 500ml bottle.

⁷ Tsihaha comes from 气 “qi” (pronounced Tsi) meaning energy in Chinese.

⁸ Number of people who would buy Chinese cold tea at 1 EUR or above.

⁹ Number of women between 20 and 35 years old in Spain multiplied by the percentage of potential buyers in the sample.

¹⁰ Number of total potential buyers multiplied by the average number of bottles drank per woman in a year

7.1.3. Promotion

The success of the introduction of iced tea in the Spanish market has a strong dependence on its promotion strategy. Hence, it is paramount to get the right message in the right place to assure the right people discover this new drink.

Following the survey carried out in Barcelona, it was discovered that the first reason why people drink iced-tea is to get refreshed 31% and actually, just 11% of people relate it in first place with an awaking drink. Therefore, iced tea drinks, contrary to the hot tea beverage, is not a substitute of coffee but a substitute of refreshing drinks such as cola flavored or orange flavored ones. It was further discovered that 31% of the people drink iced tea beverages in the first place because they believe it to be healthy and 20% drink it in the first place for its flavor.

In view of these results, the right message to send must appeal to the refreshing effect of the drink, its functionality and the oriental origin of the product.

End consumers are mostly young women between the age of late teens and late thirties, thus, in order to reach them, Wahaha must appear in the communications channels used by them.

In first place, to arouse curiosity for the product, Youtube ads should be placed. We give preference to it over the TV since we will be able to reach our interested target, paying only for the watched videos (pay per click) and giving us the possibility to trace down statistics on who has watched it. Not to mention, it will permit to allocate the exact budget wanted to the promotion given there is no minimum. Communications through a web page and social media to permit clients get information of the product and the company through internet will also be important.

At the same time, listing fees should be placed to get into supermarkets and afterwards organize product tasting events so as to let clients try the new product for free and get to know what *Teahaha* is. A part from it, twice a year place promotions such as the second unit at half price should be placed.

Regarding the HORECA distribution, budget must be allocated on merchandise products such as napkin holders to place in public bars and restaurants.

Finally, we propose to advertise Wahaha tea in health magazines. Given the data in the following chart the best option would be placing the commercial in *Mente Sana* and *Cuerpo y Mente* as this is the way to reach a higher part of our target and at the lowest cost possible.

	People reached ¹¹	Price of the ad ¹²	Price per person
Clara	49500	14.110 €	0,29 €
Mente Sana	60000	8.450 €	0,14 €
In Style	45760	14.210 €	0,31 €
Cuerpo y mente	49940	5.540 €	0,11 €

The perfect moment for promotion launches will be in summer since the consumption of iced tea drinks is seasonal and its pick sales lay in the hottest months of the year.

7.1.4. Place

Since iced-tea drinks are both consumed at home and in the restaurant or bar, we must reach both wholesaler and retailer.

As we are focusing on a premium price strategy, 1.50€ per 500ml and we are promoting our product to reach tea lovers and people interested in health, therefore our distribution strategy must be consistent to it.

We recommend Wahaha to choose distributors in Spain in order to supply HORECA, the supermarkets, hypermarkets and specialized points of sale since it will have to contact several low quantity order clients instead of low number of high quantity order buyers.

In order to reach HORECA we must first supply the wholesalers and actually the Spanish wholesalers market is extremely spread. There are 4 major players; Makro, Miquel Alimentació Covalco and Dinosol and together they only account for 28.86% of the number of shops and 38.6% of the total surface. Therefore, it means that 71.14% of the wholesaler shops account for small players. This is beneficial for bargaining power as wholesalers will not be powerful but reaching them all will incur higher costs.

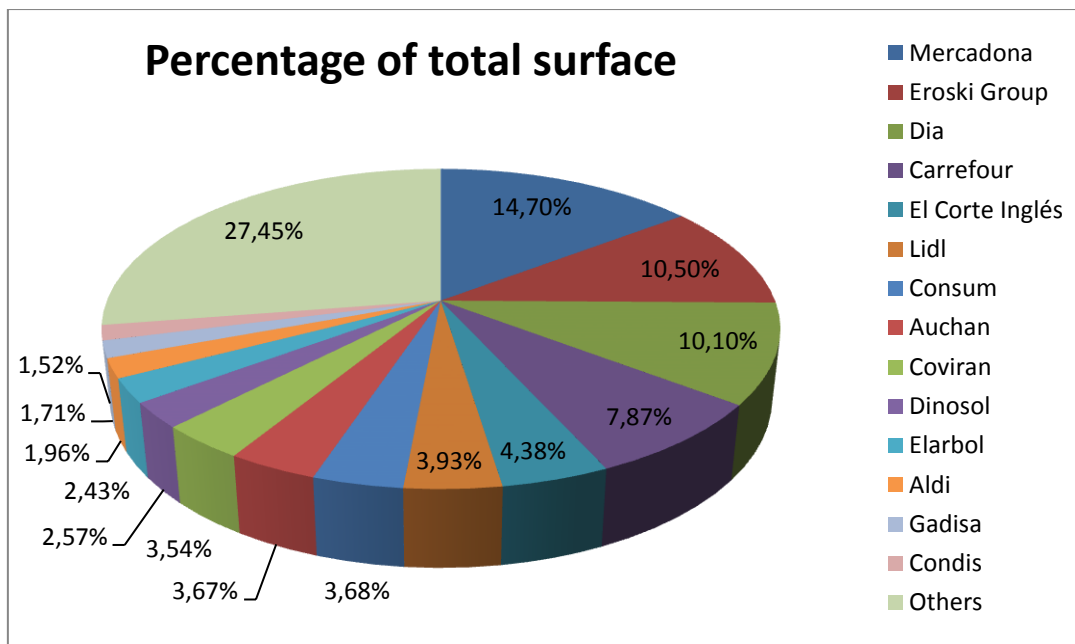
	Number of shops	surface m2	% of total shops	% of total surface
MAKRO (METRO)	34	237.917,00	5,36%	16,43%
MIQUEL ALIMENTACIÓ	54	156.711,00	8,52%	10,82%
COVALCO	59	97.635,00	9,31%	6,74%
DINOSOL	36	65.972,00	5,68%	4,56%
OTHERS	451	889.601,00	71,14%	61,44%
TOTAL	634	1.447.836,00	100%	100%

1 Dextal international

¹¹ Number of readers between the age of 25 and 34 years.

¹² General price for placing the ad in the inside if the magazine.

Regarding supermarkets there are several different companies being Mercadona, Eroski, Dia and Carrefour the biggest ones (see Exhibits 11). As we are selling premium price products, we should avoid selling into cost based supermarkets such as Dia or Lidl as we will not reach our target consumers. To sell in supermarkets we will have to take into account the listing fees required to enter, this means that selling through supermarkets will have higher costs than through wholesalers.



a Source: Dextal international

Given the fact that the product is in an introductory stage, transport must be fast and warehouses reduced. Iced tea would arrive from China in containers and should be stored at a central warehouse before being distributed to all the different centers.

Last but not least, it must strongly be considered that iced tea drinks have seasonal consumption meaning that sales will be higher during summer and lower during winter time. As a consequence of that, it is recommended to preview it in order to avoid stock outs in summer or excessive warehouse costs in winter.

8. Financial statement

Since the production price for a Wahaha tea bottle is unknown for us, we will first determine the price range at which the distributor can import the bottles based on the final price in the market.

We considered three different scenarios, having a 1%, 3% or 5% market penetration, in the first 3 years (See Exhibits 12). In the most optimistic scenario 5%, we could afford buying the product at 0.44 EUR FOB Shanghai price and in the most pessimistic scenario 1% we could only accept 0.19 EUR FOB Shanghai price. Therefore, when entering into negotiations with Wahaha the distributor's BATNA¹³ should be below 0.44 EUR FOB Shanghai price. In case Wahaha's BATNA is around these prices, there could be an agreement. CIF Barcelona prices were discarded since costume tariffs apply to the import price and it would mean paying higher tariffs. Precisely, iced tea bottled drinks have to pay 11.5% of the import price¹⁴. At a FOB price, import costs account between 6 and 8% of the total RRP which hinders competition against national produced iced tea drinks.

Taking three price possibilities and expecting a 3% or a 5% market penetration, there six different cash-flow scenarios (see Exhibits 13). In the best scenario, 5% penetration market and 0.19 EUR cost per bottle, benefit arouse in the second year, NPV, assuming a 10% discount factor, is 778,528.94 EUR and IRR 93%. On the contrary, the worst scenario; 3% penetration market and 0.44 EUR cost per bottle, earnings do not appear until third year, NPV, assuming a 10% discount factor, is -419,879.27 EUR and IRR -57%, therefore this last scenario must be avoided since it represents a too slow entry with a too high price.

The introduction activity will have a positive NPV as long as a 5% market penetration rate is achieved. In case there is a 3% market penetration rate, the acquisition cost per bottle will need to be 0.19 EUR or lower.

9. Conclusions

After analyzing our market, the expected product to introduce and the introduction procedure we must pinpoint Wahaha rejected the entry plan in Spain.

Reasons for rejecting the entrance are, in first place, for the market size; just in terms of population, Spain accounts for 4% of the Chinese total population. And nuancing, Spanish ice tea consumption is relatively low; it accounts for just 3% of the total beverage sales.

In second place, for consumption habits; Spaniards are used to classical flavors and are reluctant to try new products. In addition, given that Spain is a Mediterranean country,

¹³ BATNA: Best alternative to a Negotiation agreement

¹⁴ TARIC code: 2101 12 92 20 (Taxation and custom Union 2013)

Spaniards are prone to sweet products against functional drinks. In addition to this, the results of the sample trial showed that 44 out of the 91 surveyed people complained that the product was too watery. Therefore, introducing tea in Spain would probably require an adaptation.

In third place, for legislation issues; Wahaha standards in China differ from the ones in Spain and the European Union, therefore to reach a small market, the company would probably be forced to adapt its factories.

In fourth place, distance; due to the distance between China and Spain, import costs are between a 6-8% of the RRP. The fact is that, transport costs do not add any extra value to the end consumer and yet eat out profits from the company.

We suggest then two options for Wahaha in order to be able to enter the Spanish market. First option is to enter bigger and heavier consumer countries in Europe before moving into Spain, in this case, entering the Spanish market will just represent a marginal cost as the product will be already in Europe.

Second option is to open an industrial franchise in Spain in order to obtain only revenues from our market and avoid the non-adding value transport costs.

To sum up, Spain is a challenging market in the moment for Wahaha since we are not heavy tea drinkers, however we believe it not an impossible market so we encourage Wahaha to rethink their entry Strategy plan in the future for the entrance into Spain 慢慢来¹⁵.

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¹⁵ 慢慢来 (màn màn lái) meaning that it will slowly progress.

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Exhibits

Exhibits 1: Tea products

SUGAR-FREE ORIGINAL TEA DRINK



b Source: Wahaha

LOW SUGAR ORIGINAL TEA DRINK



c Source: Wahaha

HERBAL FRUIT TEA DRINK



d Source: Wahaha

ICE TEA DRINK I



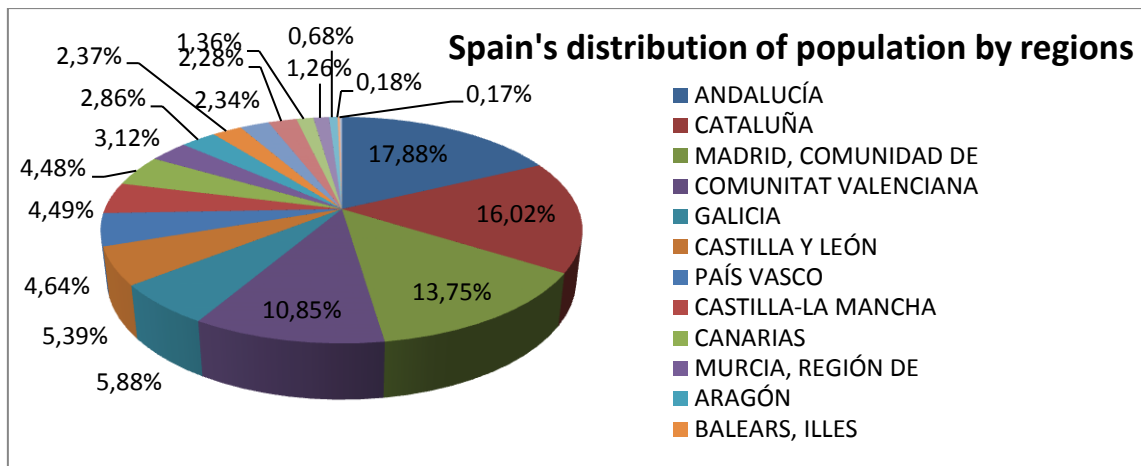
e Source: Wahaha

ICE TEA DRINK II



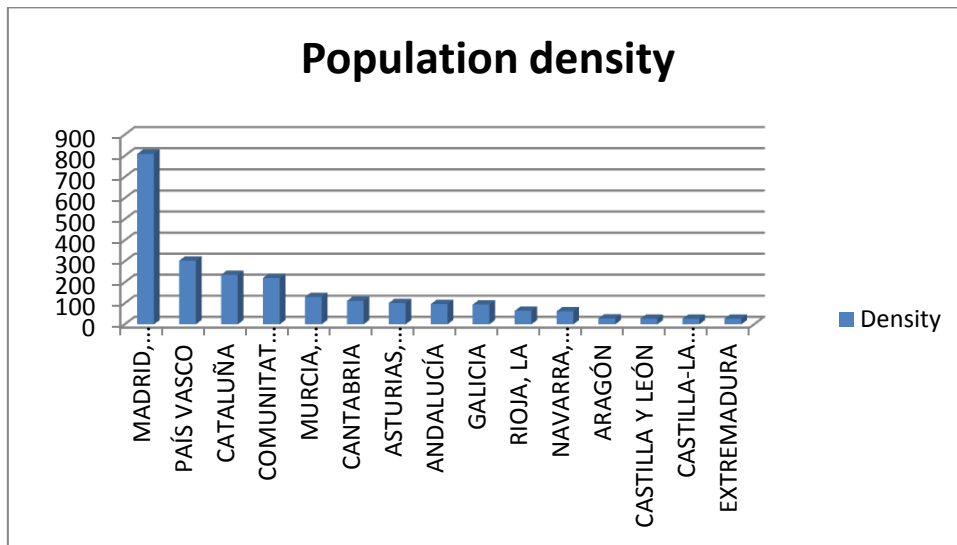
f Source: Wahaha

Exhibit 2: Spain's distribution population by region



g Source: Instituto Nacional Estadística 2013

Exhibit 3: Population density



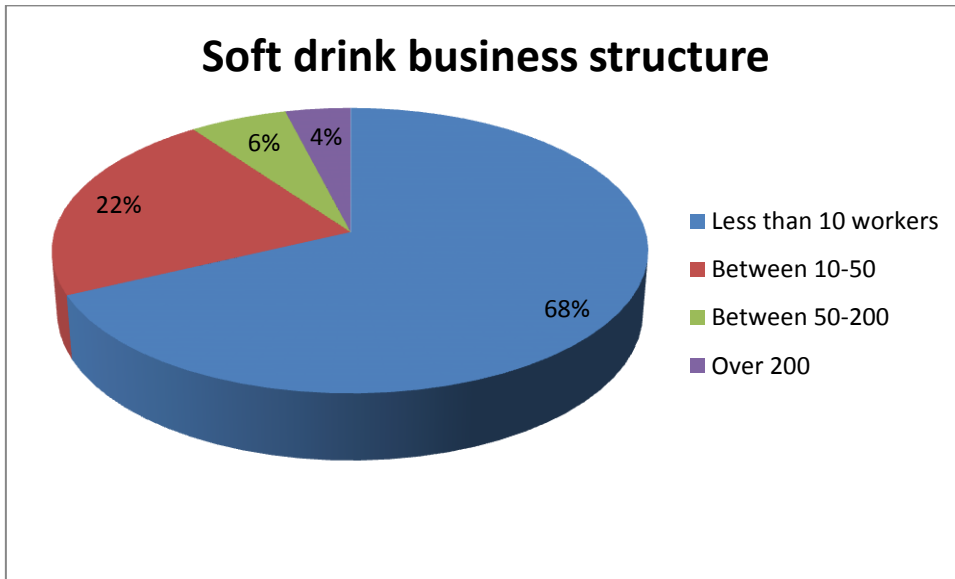
^h Source: INE 2013

Exhibit 4: Spain's main soft drink producers

Spain's main soft drink producers	Million of sales
Coca-Cola Spain	3.000
J. Garcia Carrión, SA	650
Pepsico bebidas Iberia	400
Schweppes, SA	345
Font Salem, SL	250
Refresco Iberia, SL	234
Grupo Leche Pascual, SA (beverage division)	170
Red Bull España, SL	88
Sunny Delight España, SL	85,8
Embotelladora de Canarias, SA	69,42

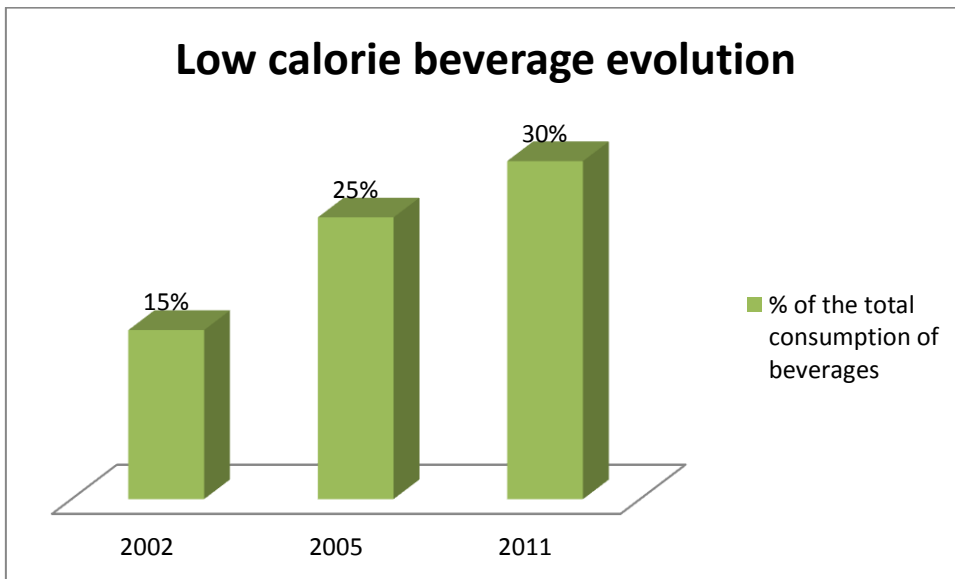
ⁱ Source: Alimarket. Data from 2010. It may contain business data from other sectors.

Exhibits 5: Spain soft drinks business structure



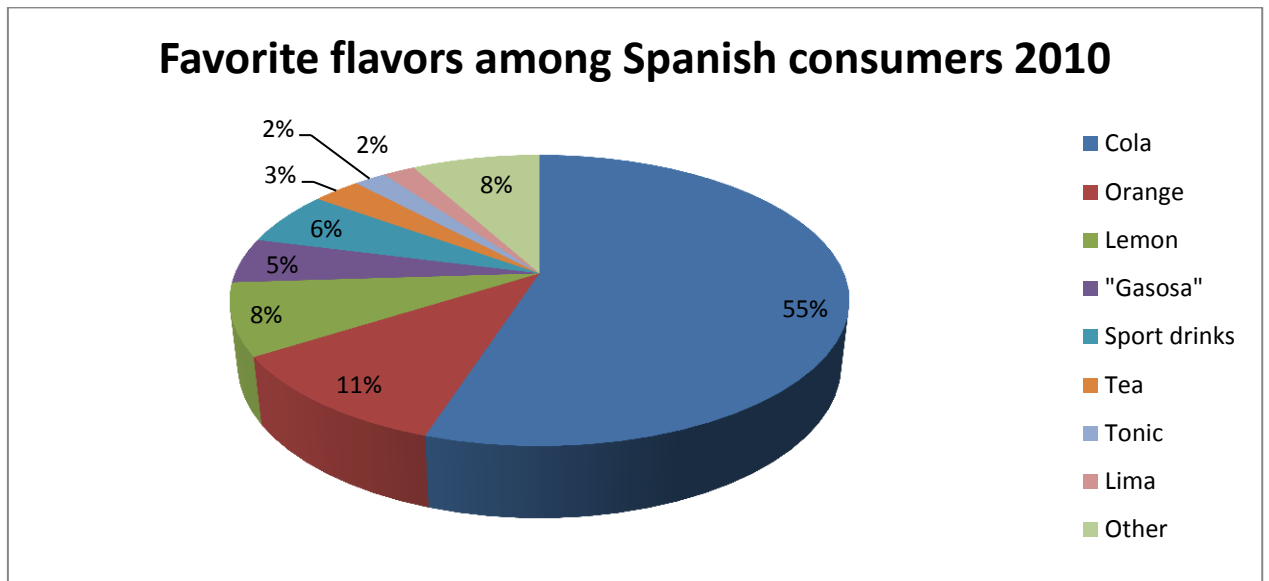
j Source: ANFABRA

Exhibit 6: Low calorie beverage consumption



k Source: ANFABRA

Exhibits 7: Favorite flavors among Spanish consumers in 2010



Source: ANFABRA

Exhibits 8: Survey results

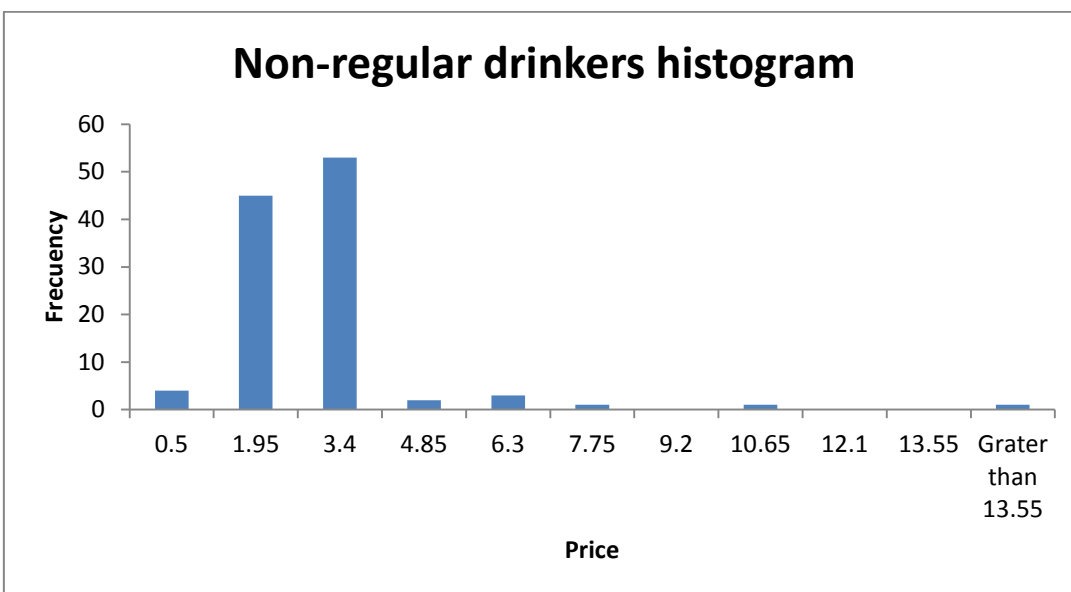
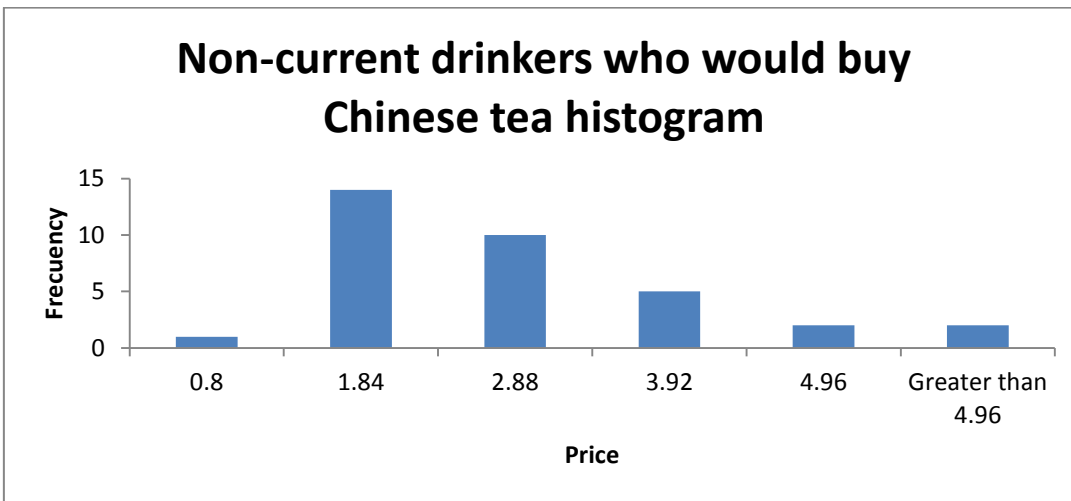
Sample information	
Number of surveyed people	365
Age	20 - 35
Gender	Female
Area	Barcelona

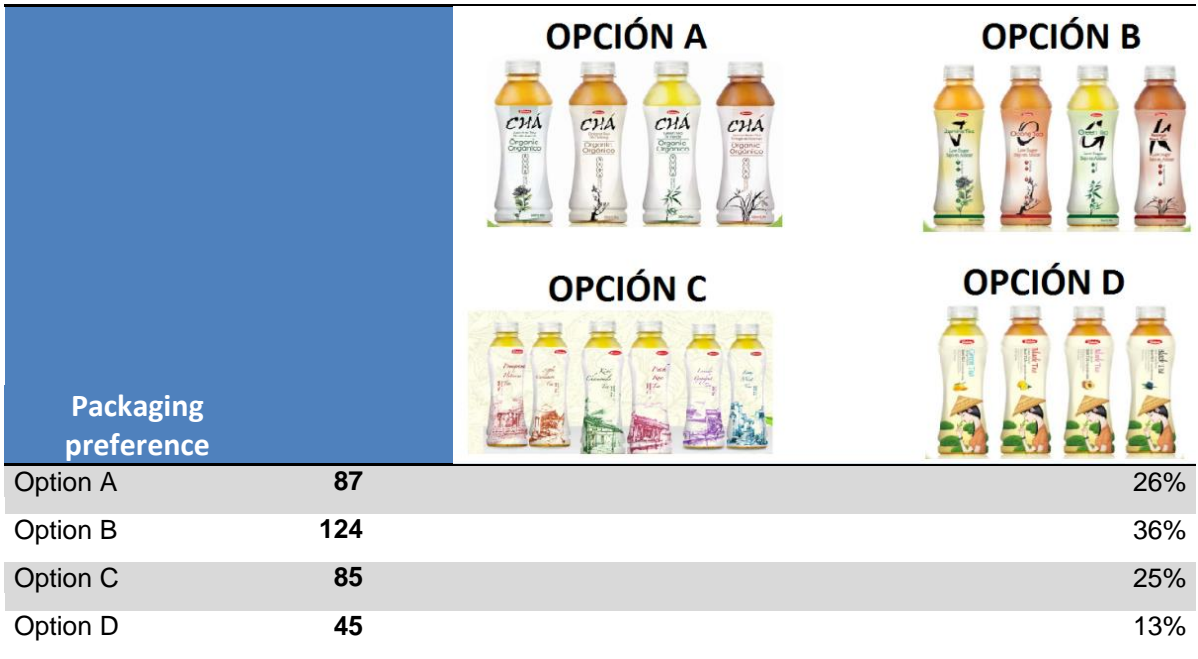
Do you normally drink iced tea?		
Never	130	35,6%
Sometimes	154	42,2%
Frequently	81	22,2%

Which is the first reason why you drink iced tea?		
It is refreshing	123	38%
It is healthy	103	31%
It gives me energy	35	11%
It is tasty	66	20%

Why don't you drink ice tea?		
I don't like iced tea	83	63,8%
I don't like the iced tea in the market/it's too sweet	33	25,4%
It is too expensive	2	1,5%
It contains theine	2	1,5%
I have never tried it	10	7,7%

Would you buy Chinese original tea-taste drink?		
Yes	208	57,0%
No	157	43,0%





Exhibits 9: Survey results

Sample information	
Number of surveyed people	91
Gender	Women
Age	20 - 25
Area	Barcelona

What do you think about the taste?

Too sweet	9
Too bitter	12
Real tea drink	26
Tasteless drink - too much water	44

Exhibits 10: Price estimation

Sample error for a proportion (to buy or not to buy at 0.5 probabilities each)

Sample error	
N	5.068.213
n	365
Confidence level	95%
Sample error	5,13%

$$e = \alpha_c * \sqrt{\frac{0,5^2}{n} * \frac{N - n}{N - 1}}$$

Market data	
Spanish women (20 - 40 y old) ¹⁶	5.068.213
total soft drinks bottles sold (2011) ¹⁷	4.551.000.000
Total iced-tea bottles sold (2011) ¹⁸	136.530.000
Average bottles drink per woman per year ¹⁹	20,20

¹⁶ According to (Instituto Nacional de Estadística 2013)

¹⁷ According to (Asociación Nacional de Bebidas Refrescantes Analcoholicas 2010)

¹⁸ According to (Asociación Nacional de Bebidas Refrescantes Analcoholicas 2010)

¹⁹ Calculated through the obtained data

Exhibit 11: Supermarkets in Spain

	Number of shops	Surface m2	% of total shops	% of total surface
Mercadona	1356	1768600	6,89%	14,70%
Eroski Group	1583	1262408	8,05%	10,50%
Dia	2826	1214796	14,37%	10,10%
Carrefour	343	946000	1,74%	7,87%
El Corte Inglés	344	527223	1,75%	4,38%
Lidl	527	472339	2,68%	3,93%
Consum	596	442093	3,03%	3,68%
Auchan	296	441026	1,51%	3,67%
Coviran	2116	426237	10,76%	3,54%
Dinosol	405	308998	2,06%	2,57%
Elarbol	430	292297	2,19%	2,43%
Aldi	247	235904	1,26%	1,96%
Gadisa	373	205438	1,90%	1,71%
Condis	415	183017	2,11%	1,52%
Alimerka	173	166114	0,88%	1,38%
Ahorramas	224	164828	1,14%	1,37%
Froiz	233	146395	1,18%	1,22%
Uvesco	263	143125	1,34%	1,19%
Bon Preu	153	142992	0,78%	1,19%
Unide	752	136448	3,82%	1,13%
Miquel alimentació	612	130981	3,11%	1,09%
Others	5400	2270600	27,46%	18,88%
Total	19667	12027859		

m Source: Dextal international

Exhibits 12: BATNA calculations

Reference information	
Packaging size (ml)	500
Packaging method	Cartons
Bottles per carton	15
Gross weight per carton (Kg)	8,5
Cubic meters per carton	0,016
Cartons in 20" FCL	2.000
Cartons in 40" FLC	2.940
Price 20" FCL	2.500
Price 40" FLC	3.000

n Source: Dextal international

	5% market penetration rate	Total transport costs	1% market penetration rate	Total transport costs	3% market penetration rate	Total transport costs
# of bottles sold	2.188.221		437.644		1.312.932	
monthly sales bottles	182.352		36.470		109.411	
Carton x year	145.881		29.176		87.529	
# of 20" container/ year	73	182.351,75	15	36.470,33	44	109.411,00
# of 40" container/year	50	148.858,57	10	29.771,70	30	89.315,10

We will always use 40" FCL containers as it is more economical.

OPTIMISTIC SCENARIO (5% market penetration)	Unitary Price	Total Price	Column1	Unitary	Total
Recommended retail price	1,50	3.282.331,50			
Retail Sale Price	1,36	2.983.937,73	VAT deduction (10%)	0,14	446.397,08
Retail Buying price	0,88	1.925.121,11	Retailer margin (55%)	0,48	1.588.648,45
			Distributor margin (30%)	0,20	669.595,63
			Advertisement costs	0,09	196.490,00
			Distribution costs (7,5%)	0,03	58.724,46
Distributor buying CIF price	0,51	1.113.080,13	Custom tariff costs (11,5%)	0,05	110.942,80
Distributor buying FOB price	0,44	964.221,56	Transport costs	0,07	148.858,57

PESSIMISTIC SCENARIO (1% market penetration)	Unitary price	Total price	Column1	Unitary	Total
Recommended retail price	1,50	656.466,00			
Retail Sale Price	1,36	596.787,27	VAT (10%)	0,14	89.279,38
Retail Buying price	0,88	385.024,05	Retailer margin (55%)	0,48	317.729,54
			Distributor margin (15%)	0,10	66.959,53
			Advertisement costs	0,45	196.490,00
			Distribution costs (7,5%)	0,05	23.534,29
Distributor buying CIF price	0,25	111.053,40	Custom tariff costs (11,5%)	0,02	9.409,35
Distributor buying FOB price	0,19	81.281,70	Transport costs	0,07	29.771,70

OPTIMAL SCENARIO (3% market penetration)					
	Unitary	Total	Columna1	Unitary	Total2
Recomended retail price	1,50	1.969.398,00			
Retail Sale Price	1,36	1.790.361,82	VAT deduction (10%)	0,14	267.838,13
Retail Buying price	0,88	1.155.072,14	Retailer margin (55%)	0,48	953.188,63
			Distributor margin (30%)	0,20	401.757,19
			Advertisement costs	0,15	196.490,00
			Distribution costs (7,5%)	0,03	41.129,36
Distributor buying CIF price	0,50	649.922,67	Custom tariff costs (100%)	0,04	57.847,78
Distributor buying FOB price	0,38	502.759,78	Transport costs	0,07	89.315,10

Exhibits 13: Cash-flow scenarios

Market penetration rate	1%	2%	2,50%	3%	5%
Expected number of bottles sold ²⁰	437644	875288	1094110	1312932	2188221

SET UP COSTS	
Web-page creation	4.000
Packaging adaptation	24.000
Logo and brand register ²¹	141,73
Product registration in the Health minister (non EU product) ²²	890,82
TOTAL SET UP COSTS	29.032,55

²⁰ Calculation based on the survey results.

²¹ Based on Spanish patents office.

²² According to (Agencia Española de Seguridad Alimentaria y Nutrición 2013)

YEARLY COSTS	
MARKETING COSTS	
POS tasting events	40.000
Discounts	60.000
Ad creation	4.000
Youtube ads	18.000
Webpage maintenance	500
Magazines	13.990
Listing fee	60.000
OTHER COSTS	
Personnel costs	36.000
TOTAL COSTS	232.490

SCENARIO 1C: 5% market penetration 19c				
FOB price	Year 0	Year 1 (1%)	Year 2 (2,5%)	Year 3 (5%)
Revenues	0,00	385.126,72	1.444.225,56	1.925.121,11
COGS	0,00	83.152,36	207.880,90	415.761,99
Marketing costs	196.490,00	196.490,00	196.490,00	196.490,00
Distribution costs	0,00	27.611,97	42.874,81	68.312,89
Personnel costs	36.000,00	36.000,00	36.000,00	36.000,00
Import costs	0,00	52.517,28	131.293,20	262.586,52
Set up costs	29.032,55			
EBITDA	-261.522,55	-10.644,89	829.686,65	945.969,71
Taxes	0,00	-2.661,22	207.421,66	236.492,43
Net earnings	-261.522,55	-7.983,67	622.264,99	709.477,28
Cash flows (10%)	-261.522,55	-7.257,88	514.268,59	533.040,78
NPV	778.528,94			
IRR	93%			

SCENARIO 1A: 5% market penetration in 3 years 38c FOB price				
	Year 0	Year 1 (1%)	Year 2 (2,5%)	Year 3 (5%)
Revenues	0,00	385.126,72	1.444.225,56	1.925.121,11
COGS	0,00	166.304,72	415.761,80	831.523,98
Marketing costs	196.490,00	196.490,00	196.490,00	196.490,00
Distribution costs	0,00	33.520,17	62.158,50	97.853,87
Personnel costs	36.000,00	36.000,00	36.000,00	36.000,00
Import costs	0,00	48.140,84	180.528,15	240.704,31
Set up costs	29.032,55			
EBITDA	-261.522,55	-95.329,01	553.287,11	522.548,95
Taxes	0,00	0,00	138.321,78	130.637,24
Net earnings	-261.522,55	-95.329,01	414.965,34	391.911,71
Cashflows	-261.522,55	-86.662,73	342.946,56	294.449,07
NPV	289.210,34			
IRR	45%			

SCENARIO 1B: 5% market penetration 44c FOB price				
	Year 0	Year 1 (1%)	Year 2 (2,5%)	Year 3 (5%)
Revenues	0,00	385.126,72	1.444.225,56	1.925.121,11
COGS	0,00	192.563,36	481.408,40	962.817,24
Marketing costs	196.490,00	196.490,00	196.490,00	196.490,00
Distribution costs	0,00	35.817,80	63.389,37	109.342,03
Personnel costs	36.000,00	36.000,00	36.000,00	36.000,00
Import costs	0,00	52.517,28	131.293,20	262.586,52
Set up costs	29.032,55			
EBITDA	-167.457,45	-128.261,72	535.644,59	357.885,32
Taxes	0,00	0,00	133.911,15	89.471,33
Net earnings	-167.457,45	-128.261,72	401.733,44	268.413,99
Cash flows (10%)	-167.457,45	-116.601,56	332.011,11	201.663,40
NPV	249.615,50			
IRR	52%			

SCENARIO 2B: 3% market penetration 19c				
FOB price	Year 0	Year 1 (1%)	Year 2 (2%)	Year 3 (3%)
Revenues	0,00	385.126,72	770.253,44	1.155.380,16
COGS	0,00	83.152,36	166.304,72	249.457,08
Marketing costs	232.490,00	232.490,00	232.490,00	232.490,00
Distribution costs	0,00	33.520,17	49.603,58	65.687,00
Personnel costs	36.000,00	36.000,00	36.000,00	36.000,00
Import costs	0,00	52.517,28	105.034,56	157.551,84
Set up costs	29.032,55	0,00	0,00	0,00
EBITDA	-297.522,55	-52.553,09	180.820,58	414.194,24
Taxes	0,00	-13.138,27	45.205,14	103.548,56
Net earnings	-297.522,55	-39.414,82	135.615,43	310.645,68
Discount factor (10%)	-297.522,55	-35.831,65	112.078,87	233.392,70
NPV	12.117,37			
IRR	12%			

SCENARIO 2A: 3% market penetration 38c				
FOB price	Year 0	Year 1 (1%)	Year 2 (2%)	Year 3 (3%)
Revenues	0,00	385.126,72	770.253,44	1.155.380,16
COGS	0,00	166.304,72	332.609,44	498.914,16
Marketing costs	232.490,00	232.490,00	232.490,00	232.490,00
Distribution costs	0,00	33.520,17	49.603,58	65.687,00
Personnel costs	36.000,00	36.000,00	36.000,00	36.000,00
Import costs	0,00	48.140,84	96.281,68	144.422,52
Set up costs	29.032,55	0,00	0,00	0,00
EBITDA	-297.522,55	-131.329,01	23.268,74	177.866,48
Taxes	0,00	0,00	5.817,18	44.466,62
Net earnings	-297.522,55	-131.329,01	17.451,55	133.399,86
Discount factor	-297.522,55	-119.390,01	14.422,77	100.225,29
NPV	-302.264,50			
IRR	-34%			

SCENARIO 2B: 3% market penetration				
44c FOB price	Year 0	Year 1 (1%)	Year 2 (2%)	Year 3 (3%)
Revenues	0,00	385.126,72	770.253,44	1.155.380,16
COGS	0,00	192.563,36	385.126,72	577.690,08
Marketing costs	232.490,00	232.490,00	232.490,00	232.490,00
Distribution costs	0,00	33.520,17	49.603,58	65.687,00
Personnel costs	36.000,00	36.000,00	36.000,00	36.000,00
Import costs	0,00	52.517,28	105.034,56	157.551,84
Set up costs	29.032,55	0,00	0,00	0,00
EBITDA	-297.522,55	-161.964,09	-38.001,42	85.961,24
Taxes	0,00	0,00	-9.500,36	21.490,31
Net earnings	-297.522,55	-161.964,09	-28.501,07	64.470,93
Discount factor (10%)	-297.522,55	-147.240,08	-23.554,60	48.437,96
NPV	-419.879,27			
IRR	-57%			