See's Candies: Japanese Market Entry (B)

What Happened . . .

On July 29, 1991 See's Candies signed a 5 year contract with M.A.T. Company for the exclusive marketing and distribution of See's confections in Japan. To demonstrate their companies' mutual commitment to the venture, Chuck Huggins and Sachie Nomura personally conducted the partnership discussions, and they were able to conclude their negotiations in five months.

Though the smallest and least prominent of the potential trading partners, M.A.T. quickly became See's clear preference during the deliberation process. Nomura was a compelling partner on two levels. First, M.A.T. had unique expertise in distributing perishable goods. M.A.T.'s customs procedures and storage facilities were perhaps the best available at Tokyo's Narita Airport, so melting and spoilage concerns were minimized. In addition, M.A.T.'s established distribution network ensured prompt delivery and eliminated handling by intermediaries. But more importantly, Nomura radiated a personal commitment and energetic devotion which was unmatched. Her personality combined a reverence for tradition -- it was clear that she had studied See's products and long quality heritage intensively -- with an unorthodox and infectiously enthusiastic style. For example, Nomura steadfastly refused to forecast See's sales in Japan. See's management found this attitude reassuring when they understood that she did not want short term expectations to cloud long-term objectives. It was clear that she would not jeopardize See's image by

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rushing to market. Instead, she preferred to develop the market gradually, even at the expense of early sales. As her success with Hawaiian Host demonstrated, Sachie Nomura was a brand builder rather than a product trader.

M.A.T. Company's first move was to establish a separate division, the Winning Company, which would devote its operations to See's Candies. Nomura wanted to ensure that See's Candies received proper corporate attention and that customers did not associate See's with Hawaiian Host. M.A.T./Winning then sent five employees to See's South San Francisco headquarters. They sampled all 150 of See's flavors to determine which of them to import into Japan. Many flavors were considered too sweet for the tastes of the average Japanese consumer as M.A.T./Winning sought unique flavors which would differentiate the See's Candies line. Ultimately four assortments were selected: Assorted Truffles, Bridge Mix, Assorted Chocolates, and Mixed Almonds. These selections were initially packaged in the same type of box, with some minor modifications, as their U.S. counterparts. Assortments were arranged 5 by 3 and divided by cardboard separators (rather than the usual 4 by 7 jumble arrangement). Fewer pieces allowed for a more orderly presentation, and more insulation between pieces reduced breakage. The "See's Candies" name on the box was changed to "See's Chocolates" so the product would not be confused with hard candies.

Sales in Japan began modestly as the sales network was established in major department stores, central shopping areas, airports, and Tokyo Disneyland. M.A.T./Winning retail delivery vans advertised both See's Candies and Hawaiian Host products, one brand on each side. Sales continued to be somewhat weak throughout the summer months of 1992 (as expected) due to the hot and humid weather. M.A.T./Winning discovered that Tokyo Disneyland was not a favorable retail site due to consumers' preference for Disney memorabilia, and distribution there may be discontinued. Instead, Winning is exploring a new sales channel: putting See's Candies in the gift catalogues issued by major Japanese travel agencies. It is expected that overseas tourists will oblige friends, relatives, neighbors and office colleagues with a small gift from their travels. Tourists order gifts through these catalogues before they leave Japan, and then the gifts are delivered to the tourists' home by the time they come back from the U.S.! This way the tourists do not have to carry a dozen of boxes of chocolate with them on the plane.

Autumn 1992 has resulted in "noticeably larger orders" of See's Chocolates than year-ago volumes, although shipments to Japan are still just half of the volume that a single, large U.S. store can generate. President Huggins and President Nomura recently exchanged letters of appreciation affirming their mutual admiration and hopes for continued sales growth. Meanwhile, See's has taken additional steps to adapt its product to the Japanese market. In 1992 See's installed new chocolate coating equipment following a suggestion by President Nomura that a smoother truffle coating would have greater appeal in Japan. New packaging is being contemplated with a photograph displaying the chocolate as it appears in the box, and heart-shaped boxes are being considered for St. Valentine's Day.

Mr. Tom Ohtsuki, President of Winning, commented on his company's current strategy and future outlook: "As we started selling See's Candies, we were surprised that the brand recognition of See's was still very low.

"If we are to build our own shops now, the opportunities will be limited to big cities like Tokyo and Osaka. However, people from all over Japan are visiting the United States now. If one buys five boxes of See's Candies as gifts, it will be known to at least five people. I am sure that these people will like See's Candies, and when these people go to the United States, they will also buy five or so boxes of See's Candies, remembering how good it was. So this becomes a sort of multiplying process. We know that this "word of mouth" process will take a long time before the See's will get the desirable level of brand awareness, but we are ready to do something more, such as establishing own stores, as soon as the time comes.

"I know that it will be possible to increase sales dramatically through promotions and advertisements, but this will only be a very temporary phenomenon. I believe this is not the strategy appropriate for the Japanese market. We know that from our successful Hawaiian Host operation. We are thinking in a 10 - 15 year range. Frankly, our See's operation is still in the red, and we have been investing the profit from Hawaiian Host into See's Candies. However, we believe this is a investment that will be fruitful in the future. Only Winning can take this strategy. Other companies cannot do this. Trading companies, for example, will discontinue imports after only a few years if they are not selling well, because they have a divisional structure or item-by-item profit and loss statement. M&M, which was successful until a few years ago due to heavy advertising, is now suffering with around 40% of the sales of its (previous) peak because they had expanded too much too soon. They started to use a regular wholesaler, where the shops can return the merchandise if it is not selling well. Now, they are suffering these returns.

"We are very confident of our strategy since we have been the only successful U.S. chocolate importer in Japan through our Hawaiian Host operation. We would like to ask See's Candies not to be impatient and to ask for full cooperation throughout this somewhat lengthy process. We are convinced that this will be a successful and beneficial operation for both See's Candies and for Winning in the future."