

Competitive Resilience and Innovation: Fonterra's Strategic Approach to Thriving in the Dynamic Chinese Dairy Market

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Abstract: In the Chinese market, Fonterra faces fierce competition with competitors such as Mengniu, especially with the increasing demand for functional, personalized, and healthy products. In response to the challenge of product line similarity, Fonterra should adopt a diversified product portfolio strategy and continue to launch new products, including special functional ingredients, personalized flavors, and innovative products that meet health needs. By reducing reliance on a single product, the company can reduce the impact of market volatility and increase its differentiation against competitors. This strategy will appeal to a wider consumer base, enhance customer loyalty, and effectively mitigate the threat of substitutes. By constantly monitoring market dynamics and competitors' actions, as well as making regular adjustments to its product portfolio, Fonterra will be more flexible in adapting to changes in the marketplace, enhancing its competitiveness and meeting evolving consumer needs, laying a solid foundation for the Company's sustainable growth.

Keywords: Fonterra, Chinese dairy market, competitor analysis, diversified product portfolio, sustainable growth

1. Introduction

Founded in 2001, Fonterra is a global dairy company headquartered in New Zealand, specializing in the production, processing, and marketing of a wide range of dairy products, including milk powder, cheese, and butter. The company has more than 90 factories worldwide and annual sales of NZ\$8 billion [1]. In the Chinese market, Fonterra has a history of more than 30 years and offers a diverse range of dairy products including adult high-calcium milk powder and maternity milk powder. Fonterra focuses on sustainability and environmental responsibility and is committed to continuously improving product quality and driving innovation. This report will delve into competitor analysis and develop strategies to address the challenges, to provide an effective strategic analysis for Fonterra's further development in the Chinese market.

2. Competitor Analysis

This analysis uses Competitor Identification to identify Fonterra's competitors and the AMC framework (Awareness, Motivation, Capability) to analyse the competitive relationship between Fonterra and its competitors.

2.1. Competitor Identification

Fonterra and Mengniu have a high degree of overlap in their markets, particularly in China, the world's largest dairy market. As both Fonterra and Mengniu offer similar products in the Chinese market, they become direct competitors for market share among Chinese consumers [2]. Fonterra's product line covers a wide range of liquid milk, milk powder, cheese, butter, and whey products [3]. As Mengniu is also involved in similar dairy products, there is some overlap in their product ranges. To meet changing consumer needs, Fonterra is constantly innovating its products, including introducing new varieties, innovative packaging, and offering a wide choice of dairy products (Figure 1). Mengniu is also committed to product innovation and has invested significant resources in whey and high-value-added products in particular [4]. Overall, Fonterra and Mengniu have a competitive relationship in terms of product similarity and market coverage, particularly in the Chinese dairy market, which has led to their competitive strategies to compete for market share to meet the needs of Chinese consumers (Appendix 1, 2).

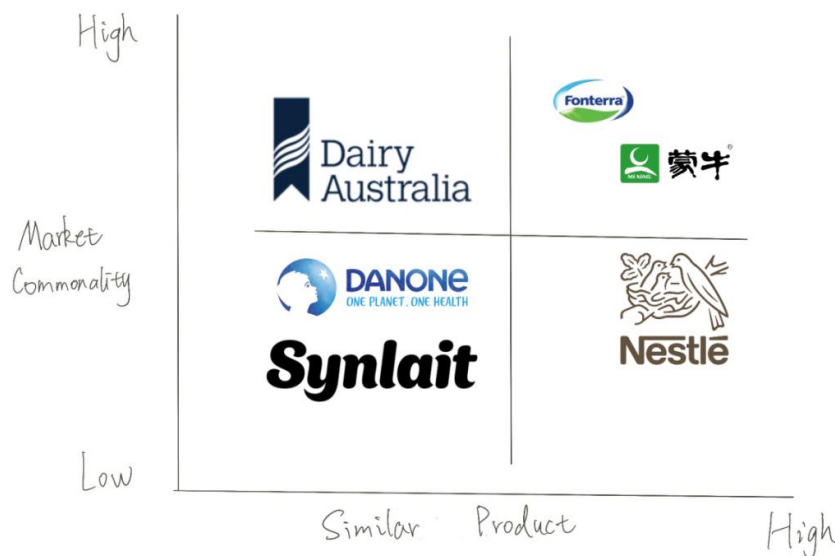


Figure 1: Competitor Identification

2.2. AMC Framework

This report provides a comprehensive analysis of the competitive relationship between Fonterra and Mengniu in the Chinese dairy market using the AMC framework. The analysis shows that the two companies are active in international markets, with particular market overlap in China, where they have clear incentives to compete and the corresponding ability to do so.

Market research, competitive intelligence, industry analyses, and media reports have helped Fonterra and Mengniu to understand each other's products, market shares, and strategies and to prepare for competition [5]. To better respond to competition in the market, they invested in understanding their competitors' marketing strategies, product innovations, and advertising campaigns by hiring professionals and teams [6].

Both companies pursued to expand their market share in the Chinese market, which is one of the largest dairy markets in the world with huge growth potential. To achieve this goal, they have taken various measures including production optimisation, cost reduction, efficiency improvement, price

competition, and brand building. Brand building is crucial to attract consumers and increase loyalty in the face of fierce competition [7].

As Fonterra and Mengniu are dairy giants, they have extensive resources and market influence and invest heavily in marketing, product innovation, and technology. In May 2023, both companies have innovated their respective technologies and both have directed their innovative products towards liquid protein technology and probiotics [8]. Both companies have an edge in product development and technology-driven competition. This ability to innovate helps both companies to stand out in the market with new products that meet the needs of Chinese consumers (Appendix 3, 4, 5).

3. Challenge

According to the research strip search, it is found that Fonterra's product lines are mostly dairy products such as milk, yogurt, and cheese. However, as its competitor, Mengniu's product line is a bit more diversified, such as fermented dairy products, including products with probiotics, to meet consumers' demand for health and nutrition. Featured functional dairy products, Mengniu has introduced some special functional dairy products, such as products containing specific nutrients, protein fortification, or other functional ingredients. Nutritional products for children. Mengniu has a range of dairy products specifically designed for children, including children's milk powder and children's nutritional milk [9].

As a result, Fonterra is currently facing challenges mainly in terms of similarities and differences in product lines. Compared with Mengniu, Fonterra may be relatively traditional in some product areas, lacking some specialty functional products and innovations for specific consumer groups [10]. This makes it likely that Fonterra will face the challenge of attracting new types of consumers, increasing brand differentiation, and responding to demand for healthy and functional products in a highly competitive market.

4. Strategy

In the Chinese market, Fonterra is facing fierce competition from companies such as Mengniu, especially as the market demand for functional, personalized, and healthy products is increasing [11]. To cope with this competitive environment, Fonterra should adopt a diversified product portfolio strategy to enhance the company's competitive advantage through a diversified product portfolio. This strategy is not only expected to attract a wider consumer base and increase customer loyalty but also effectively reduce the threat of substitute products. By introducing various types of products, Fonterra will reduce its dependence on a single product, thereby reducing the impact of market volatility on the company, while effectively reducing the risk of losing market share. This diversified product portfolio strategy provides the Company with a more flexible means of responding to changes in the marketplace, making it more resilient and capable of adapting to evolving consumer needs [12].

Fonterra can differentiate itself in the marketplace by continually launching new dairy products across a range of flavors, benefits, and consumer segments. For example, developing new products with special functional ingredients to meet growing consumer concerns about health, nutrition, and special dietary needs [13]. Companies can also offer customized dairy products based on consumers' individual needs, including personalized flavors, recipes, and even dairy products formulated according to individual health conditions and preferences [9]. Considering the current trend of health and wellness awareness, Fonterra can focus on developing more dairy products with nutritional, health, and functional properties, such as the addition of vitamins, antioxidants, proteins, and other ingredients, to meet consumers' constant quest for physical well-being. In addition, in

response to the culture and taste habits of different markets and regions, the company can also introduce dairy products with local characteristics to better cater to the needs of the local market and enhance the popularity of its products in local markets [14].

To better implement this strategy, Fonterra should first conduct detailed market research to understand the needs and trends of different consumer groups and determine the direction of new product development. At the same time, Fonterra should set up a dedicated R&D team and invest resources in the development of new products, including but not limited to products with special flavoring and functional ingredients, to meet the diversified needs of the market [11]. After the development and launch of new products, we will emphasize the differentiation of our products through targeted marketing activities to increase brand awareness and create a positive brand image. The company also closely monitors market dynamics and competitors' initiatives and continuously adjusts its product portfolio to ensure that it remains at the forefront of the market. Through this diversified product portfolio strategy, Fonterra is expected to adapt to market changes, enhance its competitiveness, and meet evolving consumer needs, while laying a solid foundation for the Company's sustainable growth.

5. Conclusion

Overall, Fonterra faces the challenge of product diversification in the highly competitive dairy market in China, particularly from Mengniu, and Fonterra has to adopt strategies to meet the growing consumer demand for functional, personalized, and healthy dairy products. The analysis highlights the importance of adopting a diversified product portfolio strategy to enhance competitiveness, appeal to a wider consumer base, and reduce the risk of losing market share. By continually launching innovative dairy products and customizing products to meet consumer needs, Fonterra can differentiate itself, respond to changing market trends, and foster brand loyalty. A strategic focus on nutritional and functional properties and localization to cater to regional preferences will be key to securing a strong market position and sustainable growth in the dynamic Chinese market.

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Appendices

Appendix 1

Fonterra's market focus is mainly in the Asia Pacific region, especially in Asian markets such as China, Japan, and South East Asian countries [2]. These markets are important for Fonterra's export business. Mengniu's market focus is mainly in China and is a major player in the Chinese dairy market. Although Mengniu is also expanding its business in some other countries and regions, the Chinese market remains the most important.

There is a high degree of market overlap between the two companies, especially in the Chinese market. China is one of the largest dairy markets in the world, so Fonterra and Mengniu have market overlap in the Chinese market. This market overlap makes them direct competitors for the market share of Chinese consumers [15].

In summary, Fonterra and Mengniu have a competitive relationship in terms of product similarity and market overlap, especially in the Chinese dairy market. Their product similarity and market overlap motivate them to adopt competitive strategies to compete for market share and satisfy the needs of Chinese consumers. Competition between competitors will continue to intensify in terms of product innovation, marketing, and branding.

Appendix 2

Fonterra's product range includes liquid milk, milk powder, cheese, butter, and whey products. There is some overlap with Mengniu's product range, as Mengniu also produces similar dairy products [10].

Fonterra adheres to strict quality standards and food safety standards to ensure the high quality and food safety of its products [3]. This is an important aspect that makes its products similar to Mengniu's products as Mengniu also emphasises quality and food safety.

Fonterra is constantly innovating its products to meet the changing needs of consumers. This includes the development of new varieties, packaging innovations, and offering a wide range of different dairy products [3]. Mengniu also invests significant resources in product innovation, especially in whey products and high-value-added products [4]. This makes its products similar to Fonterra in terms of innovation.

Appendix 3

Fonterra and Mengniu are important companies in the global dairy sector and they should be very aware of each other's presence. This is because they are active in the international market and have market overlap in the Chinese market. This market overlaps and competition between rivals usually leads companies to keep a closer eye on each other's developments.

Sources such as market research, competitive intelligence, industry analyses, and media reports often help companies to understand competitors' products, market shares, and market strategies [5]. This information equips Fonterra and Mengniu with sufficient knowledge to assess each other's performance and movements. They invest in understanding the market strategies, product innovations, and advertising campaigns of their rivals by hiring professionals and teams to better respond to the competition in the market [7].

Appendix 4

Both Fonterra and Mengniu are keen to gain a larger market share in the Chinese market. This is because China is one of the largest dairy markets in the world with huge growth potential. Increasing market share means higher sales and more consumers. The motivation for competition between them is to compete for more Chinese consumers, increase market share, and increase sales and profitability. Increasing market share can help the company to increase sales and profit. Both companies are committed to maximising profits in the Chinese market [4]. In order to achieve this goal, they have taken various measures, including production optimisation, cost reduction, efficiency improvement, and price competition. In a competitive market, brand building is essential to attract consumers and increase brand loyalty [8].

Both Fonterra and Mengniu want to build strong brands in the Chinese market to differentiate themselves and gain consumer loyalty. Brand building helps to maintain market share as loyal consumers are more likely to continue buying the brand's products.

Since both Fonterra and Mengniu are important players in the competitive marketplace, their actions usually draw attention and reaction from competitors. The competitive relationship between competitors gives them a reason to react to each other's actions [7]. As the Chinese market is important in the dairy industry, the competition for market share between Fonterra and Mengniu will cause rivals to be wary. Other competitors may take steps to protect their market share or seek to increase it [5]. The introduction of new products and innovative technologies by the two companies in the China market may inspire other competitors to take corresponding measures to remain competitive. Competitors may intensify product development to meet changing market demands. If Fonterra and Mengniu compete on price, other competitors may be forced to react. Price competition may lead to dynamic changes in market share, so competitors may adjust their pricing strategies [7].

Appendix 5

Fonterra and Mengniu are giants in the dairy industry with extensive resources and market influence. They are well-positioned to make moves of all sizes in the Chinese market. They can invest heavily in marketing, product innovation, and channel expansion. This enables them to have a voice in the market and increase brand awareness through brand building and advertising campaigns [5].

Both Fonterra and Mengniu emphasise independent research and development and technological innovation. Both companies have made some breakthroughs in liquid protein technology and probiotics, which gives them an edge in product development and technology-driven competition. This ability to innovate helps both companies to stand out in the market and launch new products that meet the needs of Chinese consumers [11].