CASE D–11
Ice Cream Maker Youcan Melts on Rising Costs, Takes Steps to Regain Footing

These teaching notes were prepared by Marcellian Arlany & Lau Geok Theng.

Case Objectives

- To understand the concepts of product, pricing and profitability.
- To explore marketing strategies to expand business operations.

Case Synopsis

- Set up by Dai Tianrong in 1991[1], the ice cream and frozen food manufacturer Youcan Foods International has now become one of the many Singapore-based China companies that were hit by China high inflation rate in 2008. The company's profit margin was squeezed uncomfortably by the escalating raw material prices and thus resulting revenue to drop by three percentage points that year and company shares down by 21% to 30 cents.
- To overcome these challenges, Youcan has realigned its marketing strategies by extending its MasterBean product range and entering the second-tier provinces in China as to expand its current distributions channels. The company also has plans to work on its product branding and quality to prepare itself for the highly competitive China market.
- As of year ending 2007, Youcan reported an increase in revenue by 6.7% to 234 million renminbi. However, company's earnings declined by 24.8% and later dropped drastically by 80% to 3 million renminbi as it has to cover loss due to negative goodwill of its subsidiary, Zhejiang-based packaging supplier.

Case Questions and Answers

Question 1
What factors should be taken into account by Youcan when they decide on an ice cream product? What factors will be more important for the Singapore market and for the China market? What can Youcan do to command higher prices for its products?

Factors to consider when deciding on an ice cream

[1] Source: http://youcanfoods.com.sg/. Retrieved 27 May 2009.

- Critical factors need to be considered by Youcan when they decide on an ice cream product include the ice cream flavor, pricing, market competition, consumer's motivation to buy, timing, company's capacity, distribution channels and last but not least promotional tools used to advertise the new product.

- To be successful, it is important that Youcan conducts a market research to determine the market size or demand, and competition for its new product. In addition, market research and product sampling is essential in determining which ice cream flavor is more favorable for its target market and how much are they willing to spend for each ice cream. Getting the right price and flavor will not only satisfy consumers' needs and wants but also motivate them to make purchases.

- Timing can be classified into two categories; the first one refers to the right timing to launch product in the market, and second refers to schedules for product launch and productions.

- Youcan has to ensure that its ice cream product is launched at favorable timing for its target market. For instance, if the company is introducing a sugar-free ice cream, it is best that product is launched when healthier choice of deserts or ice cream is preferred by its target market. In short, the company should launch this new ice cream when consumers are getting more health conscious.

- The second timing refers to matching schedules between product launch and production. To avoid loss of credibility and sales, Youcan has to ensure enough ice creams are being produced while product launch or other promotional activities being carried out.

- Similarly, Youcan has to take into account its capability and capacity to produce its new ice cream product. Capability refers to its machine or process capability to ensure that new product quality matches with its current product quality or what has been promised to consumers during product sampling. Capacity refers to its manpower and machine capacity to handle the additional demand for its ice cream products.

- Next is distribution channel. Distribution channel refers to the path or pipeline which goods or services flow from the manufacturer to the end consumers. In this case, Youcan shall consider the type of distribution channel the company wishes to use for its new product. It can tap on its current distribution channel or develop a new one for the new product. For example, it can set up its own ice cream stall rather than selling them to the supermarket (intermediary) and then to end consumers.

- Lastly, Youcan shall take into consideration its promotional program. For food products, companies usually use advertising, product launch or trade shows and product sampling to develop demand among its buyers.

Important factors in Singapore and China markets

- Factors that are important for Singapore market are pricing, timing and selection of flavors of ice cream.

- Factors that are important for China market include product pricing, distribution channels and capacity.

Ways to command higher prices for Youcan products:

- Price determines how much a company receives in exchange for its products. Factors influencing product pricing are manufacturing cost, market competition, market condition, consumer's perceived value, distribution channel and quality of products.

- With the aim to command higher prices for its products, Youcan may adopt the following strategies; introduce new or improved products, redesign product packaging, increase branding effort or reposition products.

- Constant product innovation or improvement is essential for business sustainability particularly in a highly competitive market. With Youcan's unique selling point (USP) of product innovation, the company has successfully added 23 new ice cream products to its current best-selling "MasterBean" range[2]. The introduction of new products is seen as an improvement to its current product range and quality thus giving Youcan a good opportunity to increase its product prices. This is due to general consumers' perceptions that new product means better quality and therefore they are willing to pay more for the extra value received.

- Alternatively, Youcan can redesign all of its product packaging to command higher prices. This method can be accompanied by the launched of its 23 new ice cream products and thus giving consumers' a higher perceived value. This practice is widely used in the market. For instance, household brands such as Dove and Sunsilk often accompanied its improved formula with a new packaging and then increased product prices.

- Another method is to increase branding effort or reposition products. In the case of Youcan ice cream, the company has recently shifted its target market to the

[2] Source: http://www.finanznachrichten.de/pdf/20090115_174722_Y06_7197B62E1019E4054825753F003108E7.1.pdf. Retrieved 27 May 2009.

children segment. Two new products introduced especially for this market are Gonfu Dou and Weiyi. The company's own brand Xi Yang Yang, which is a tie-up with a popular cartoon series in China, is a new marketing initiative to cater to needs of this new segment.

- In summary, Youcan Foods International will be able to command higher prices if the company can successfully obtained a higher perceived value in consumers' minds. Nevertheless, the company may wish to set prices within the range of its price floor and ceiling. Price floor refers to the cost of producing and delivering a product or service to consumers, while price ceiling refers to the maximum price that target consumers are willing to pay in exchange of the product or service. This price may also be imposed by government to protect consumers. In this case, the average price China's market willing to pay ranges from 1 renminbi to 2 renminbi.

Question 2
What factors affect the profitability of Youcan products in China? What factors are more controllable and what factors are less controllable? What can Youcan do to improve profitability?

Factors affecting profitability

- Profitability refers to the ability to earn profit. Factors affecting Youcan profitability include production cost, product life cycle, consumers' demand and willingness to pay, competitiveness of products and investors' investments.

- Production costs include costs of raw materials, infrastructure and product manufacturing costs. With the escalating raw material prices, profits earned by Youcan ice cream has reduced by 3 percentage point as reported in 2008. Hence, production costs are considered one significant factor that influences the company's profitability.

- Product life cycle may also influence its profitability. At the growth stage of product life cycle, Youcan ice cream has extended its product range, and expanded its distribution to neighboring provinces such as Jiangsu and Fujian, also Singapore. This is to enforce wider product penetration and sales which eventually translate to higher profitability and market shares for the company.

- Consumers' demand and willingness to pay for Youcan products are determined by their purchasing power, product's perceived value and competition in the market. Higher perceived value, purchasing power and fewer substitutes in the market may lead to less price sensitive consumers and higher demand for its products. In such cases, it will be easier for the company to introduce new products and command higher prices that will contribute to higher profitability.

- Last but not least, investments from investors often play a part in a company's profitability as they may be one of the main sources of funds for its research and development (R&D) or business expansion plan. As mentioned in the case study, no shares have been traded since the decline of Youcan shares in February 2008 thus making Youcan an unnoticed stock. In such situation, there will be less or even no investments made by investors thus hindering its future product improvements and profitability.

- Of the above factors mentioned, production costs and marketing strategies used in different product life cycle are two factors that can be controlled by the company. On the other hand, factors such as product competition and consumers' purchasing powers and investors' investments are less controllable. Consumers' demand may seem to be less controllable for Youcan, nevertheless right promotional and positioning strategies can help to shift demand to be more favorable for the company.

Ways to improve profitability

- Youcan profitability can be improved by increasing its current prices, number of consumers, product usage rates, and lastly decreasing costs.

- Increased product prices will translate into higher profit margin. However, total sales may be affected as consumers' purchases are influenced by this price increase. Hence, it is important for Youcan to strategically increase its product prices, for instance increasing price by unnoticeable difference or accompanying price change with new packaging or improved products to offer better value to consumers.

- Increasing number of consumers and product usage rates refer to the increase sales volumes. The second-tier expansion to neighboring provinces in China and its target market shift to children segment are two plans that Youcan has adopted to increase its sales volumes. A wider distribution channel represents larger consumer groups.

- Finally is the reduction of internal or production costs. Youcan strategic move to acquire its Zhejiang-based packaging supplier at a discounted value will ensure a constant supply of packaging materials at controlled and preferred cost and quality. Leasing warehouses will also help to reduce its logistic costs in China. These will help to reduce the overall production costs of Youcan ice cream.

Question 3
How would you evaluate Youcan's expansion plans in China so far? How can the expansion plan be improved?

Evaluation of Youcan expansion plans in China

- Youcan's expansion plans in China market include the introduction of new products, expansion of its distribution to the second-tier provinces, also the acquisition of its packaging supplier.

- The introduction of new products and wider distribution channels may translate into higher sales volumes and thus it is important that Youcan take notice of its production capability to maintain product quality and capacity to meet the higher demand.

- Forecasted higher demand has driven Youcan to set up new bases in China. The company also plans to lease warehouses to reduce logistic costs for its new start-up thus contributing to less production costs.

- The company also acquired 51% of its Zhejiang-based packaging supplier. This backward integration plan may be the most strategic move in its China expansion plans as it gives the company an opportunity to have greater control of its supplier. Constant supply and preferable cost and quality can also be maintained at all times.

Suggestions for improvement

- Bearing in mind the highly competitive market in China, Youcan ice cream will have to focus on its product branding and quality in near future. As the company is competing tightly with the country's largest ice cream producers such as Inner Mongolia Yili Industrial and China Mengniu Diary, it is crucial that it strengthens its branding and positioning in consumers' minds as to sustain its market shares.

- Another alternative that Youcan ice cream can consider for future plan is to diversify its product range. One of its China competitors offers five different dairy products while Youcan only focuses on ice cream products. Nevertheless, diversifying products will only be advisable when Youcan has established strong brand equity and positioning in the market.