

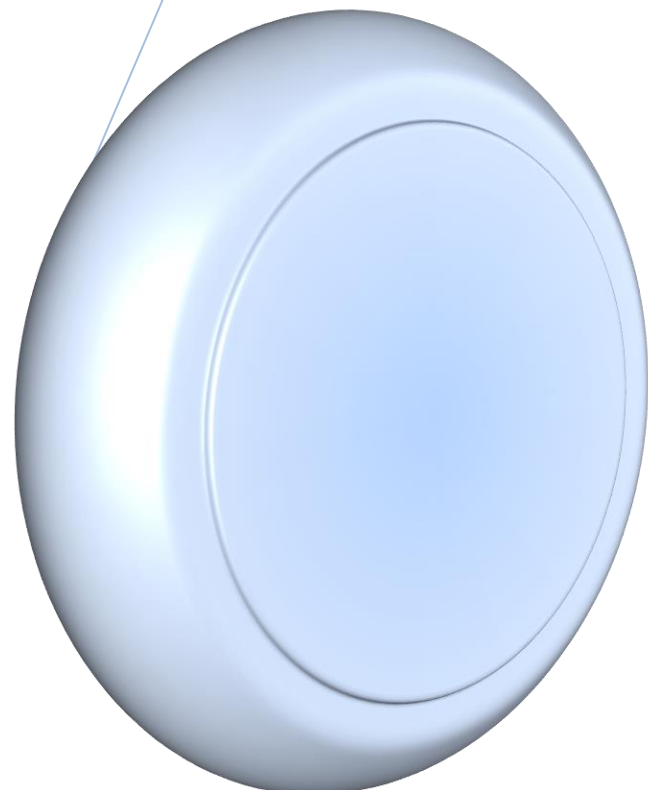


Tapatío Hot Sauce Japanese Entry Strategy

Business Environment of Asia

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Product Selection

The food product that I have chosen to introduce into the East Asian consumer foods market is a Mexican flavored hot sauce manufactured by a United States company: Tapatio. Currently, the Japanese market is attractive for the hot sauce market and Tapatio specifically for several important reasons, which will be discussed further in detail in this paper. Although there are already established incumbents in the spicy condiment space in Japan, Tapatio would be a unique and new product to the Japanese consumer that could potentially co-exist with existing competitors. Currently there exists Mexican restaurants in major metropolitan areas in Japan, but Mexican food and flavors are not very prevalent in Japanese food culture at this time. In this vein, Tapatio has the opportunity to gain a first mover advantage by being the first Mexican hot sauce to become widely available to Japanese consumers, both in grocery stores as well as restaurants and fast-food establishments. There also is the potential for partnering with Japanese snack food producers to manufacture and distribute Tapatio flavored snacks that fit the Japanese consumer. In the product selection portion of this paper, we will discuss some brief background on the Tapatio company, their current business model and strategies, and how their product potentially could succeed in the Japanese market.

Tapatio hot sauce is an American company based out of Los Angeles, California. The company is a family business started in 1971 by Mexican immigrant Jose-Luis Saavedra and the company still remains private to this day (Tapatio Company History). The Tapatio Company produces only one product, the signature famous Tapatio hot sauce that is served in grocery stores, restaurants and many other establishments all across the United States. Over the years, Tapatio has varied its packaging and logo, expanded production facilities and diversified the size and shape of product packaging to suit different kinds of consumers. To the left pictured are the

most basic and prevalent Tapatio products, the 10 oz. and 5 oz. bottles, while to the right pictured are individual sauce packets meant for single meal serving consumption:



This illustrates the diversity of Tapatio’s distribution strategy. While bottles can be purchased for home consumption or for use at restaurants, packets can be sold to fast food restaurants and given to customers similar to ketchup or mustard packets. Moreover, Tapatio also sells bulk gallon containers to be used for large scale venues and events such as baseball and soccer matches. In this way Tapatio over the years has proven that it can innovate both product and distribution methods in order to help penetrate new markets and consumers. Currently, Tapatio is pursuing a multi-faceted expansion strategy that involves partnerships with fast-food restaurants to distribute product via packets as mentioned above. For example, in the United States, Tapatio has partnered with Burger King to offer it’s hot sauce packets exclusively in Burger King restaurants (Burger King, 2012). Another aspect of their current strategy is marketing bulk sauce containers to sporting teams, concert venues and amusement parks. From an international expansion standpoint, Tapatio is now available in Europe, and the company has also formed a strategic partnership with Kraft Foods to help further international sales and distribution (Tomicki, 2011). Tapatio has also expanded into the snack foods market by forming a strategic partnership with the Frito-Lay division of PepsiCo in order to produce Tapatio flavored Fritos, Ruffles and Doritos:



Market Environment

With this being said, Tapatio is in a position to succeed in the Japanese market, but must take note of the specific environmental factors in Japan that could affect Tapatio's ability to adequately capture and maintain a sizable market share. There are several trends to note that could impact Tapatio's ability to penetrate the Japanese market. First and foremost is the aftermath of the devastating earthquake and tsunami of 2011. The country is still rebuilding the damage resulting from this enormous natural disaster, and the post-tsunami era in Japan has left the foodservice industry changed in several different ways. Primarily, many bars and pubs that were destroyed during the disaster have yet to be rebuilt. The ones that remain have seen a marked decline in sales due to several reasons. The Japanese consumer is less likely to eat out to dinner, as many people are still trying to recover financially from the disaster. This has also led to the increased popularity of lower-cost in home meal replacements, both among families and individual households (Japanese Food Service, 2012). Chain establishments have also been gaining an increased market share as of late, with the two main dominant players being 7-11 and Yoshinoya Beef Bowl. These types of chain establishments, amongst others, are potential future strategic distribution partners with Tapatio. Another important foodservice trend to take note of in Japan is that establishments, particularly fast food, are diversifying their offerings to attract

more consumers in the post-tsunami recessionary climate. For example, McDonalds has now expanded its traditionally beef-only menu in Japan to include items like chicken and specialty coffee (Japanese Fast Food, 2012). This is a positive trend for Tapatio's potential entry into Japan; as firms seek to diversify their offerings and differentiate their brand they should be more willing to partner with Tapatio to help set them apart from the competition by offering a unique Mexican hot sauce. Relating to fast food, one unique trend to note in Japan is an increase in fast food sales post-tsunami. Mainly this is due to growth in convenience store take-out, which is widely available and extremely popular in Japan. This is partly due to consumers' desire to save energy at their homes and refrain from cooking. Asian noodle bowl fast food establishments also accounted for significant growth in the fast food industry. In 2011 there was a 3% increase in noodle bowl fast food business, which is currently dominated by the "Big 3 Guydon Players" which are Sukiya, Yoshinoya and Matsuya (Japanese Fast Food, 2012). They are engaged in a fierce competition which has come to be known as the "Beef Bowl Wars." Beef and other noodle bowls are often accompanied by some form of spicy condiment, and should Tapatio begin to gain popularity, it is possible that partnerships may be formed with one or all of these beef bowl establishments in order to encourage Japanese consumers to use Tapatio on their traditionally Japanese fast-food meals. Competition amongst beef bowl establishments is fierce, and serving dishes accompanied by Tapatio could potentially be a key differentiating factor in the success of any of those three firms.

From a competition standpoint, Tapatio would face stiff competition from both local Japanese firms as well as American firms. Japan has many local hot sauces and condiments, with wasabi being the most popular, especially in order to accompany sushi. The main potential threats to Tapatio from United States firms that have already entered the Japanese market are

Sriracha and Tabasco. Currently, Tabasco generates the majority of its international sales from Japan, and enjoys being an established name since American soldiers brought it to Japan during World War II (Tabasco, 2012). Sriracha is a US manufactured condiment but enjoys worldwide popularity, not just in the Asian community. Although Japanese consumers are less likely to consume this condiment with their food than ones in Thailand, for example, its popularity should not be underestimated.

Local Marketing Plan

Tapatio will need to leverage its core competencies and develop a marketing plan that conforms to the tastes of local consumers. This includes configuring the current Tapatio expansion strategies in such a way that it is effective and successful in the Japanese market. This includes developing strategic partnerships with local restaurants and fast food chains, advertising and educating the public about ways to use the product, and potentially expanding into the Japanese snack foods market as it has done in the U.S. with PepsiCo. While execution of these strategies will probably not guarantee a major market share for Tapatio in relation to already established competitors, it will enable Tapatio to develop a unique brand identity and image in Japan as the first mover and premier Mexican flavored hot sauce brand.

First and foremost, Tapatio should leverage the current Beef Bowl Wars by developing a strategic partnership with one of the Big Three beef bowl chains to help Yoshinoya, for example, differentiate their chain from their competitors. Yoshinoya is the preferable partner to the other two beef bowl chains due to its large presence in the United States market. At this time, Yoshinoya operates franchises in California and Nevada, in close proximity to the Los Angeles headquarters of Tapatio. Therefore, a strategic partnership could be developed that includes both

U.S. and Japanese markets. Entering the Japanese market with an already established brand such as Yoshinoya would lend immediate credibility to the Tapatio brand. Another strategic partnership with would be of great help could be with 7-11. Since the trend of Japanese consumers utilizing 7-11 frequently for take-out is on the rise, having hot sauce available both in packets for consumers to take to go, as well as in bottles for sale, would help brand awareness and train consumers to use Tapatio with Japanese fast food dishes. Another helpful partnership would be placing Tapatio products at sporting events across Japan, with baseball being the primary market. Currently, large bulk containers such as this one are already in place and highly visible in various stadiums and venues across the United States:



The next marketing strategy that Tapatio should put into place is partnering with a snack foods manufacturer and/or distributor in order to market snack foods that the Japanese consumer is already accustomed to, but with the Tapatio brand logo and flavoring. Wasabi peas are currently a snack that is popular in Japan, for example, and having a Tapatio variety of these snacks would potentially provide consumers with a differentiated product and a powerful way of advertising the brand.

Potential Alternatives

There are several potential alternatives to the marketing plan as proposed above for Tapatio to enter the Japanese market. One could be a model of online direct sales and delivery to consumers. Japanese are more likely than American consumers to have foodstuffs directly delivered to their households (such as the popular Yakult yogurt drink), and Tapatio could pursue this strategy along with an aggressive advertising campaign to educate consumers on the many uses of Tapatio and how it can add a unique flavor to many traditional Japanese dishes such as beef bowls, soups and even sushi. In order to do this however, it would require a full distribution and warehousing operation in Japan, an endeavor that might prove too costly for the company to undertake. However, there is some precedent for this type of business model for the company, as product is available for direct delivery to consumers in the United States via the company's website.

Another alternative to the proposed marketing plan could be for Tapatio to focus solely on retail distribution, particularly Japanese supermarkets. The Japanese consumer is extremely cost-conscious in the post-tsunami era, and focusing resources on getting shelf space and pricing just below competitors might give Tapatio a foothold that it needs, and once consumers are accustomed to the brand, prices could gradually be raised as the sauce becomes more of a staple in the Japanese pantry.

One final alternative would be for Tapatio to seek out any and all existing Mexican food restaurants in the major metropolitan areas of Japan and seek to have those establishments carry and promote the Tapatio brand as a part of authentic Mexican cuisine in the Japan. Taking things a step further, it may even be possible to Tapatio to enter the restaurant space by establishing small taco shop style eateries with the Tapatio name, with dishes specifically meant to be consumed with hot sauce. There are many varieties of fresh seafood available in Japan, and

Tapatio could utilize these resources along with local chefs to come up with Mexican style dishes using Japanese ingredients in order to expand the brand. This is a risky strategy but one which its competitors such as Tabasco have not and are unlikely to pursue. As a part of this strategy, Tapatio could work to distribute their products to many of the street vendors that exist in most of the Japanese cities. By marketing the hot sauce as a product that can be consumed with just about any everyday dish on the street, it will help drive adaptation of the product.

Implementation Plan

Of the original plan and the various alternatives presented, an effective implementation plan to market Tapatio to Japanese consumers should include some elements of each strategy, while keeping at the core of the main plan. The very first step in the implementation process should be to seek out food companies that have operations in both the United States and Japan, and to strategically partner with these firms. They should work with companies such as 7-11, McDonalds and Yoshinoya in order to establish working agreements that can help both companies in both markets. Second, once these relationships are firmly established, a joint marketing and distribution plan for the Japanese market should be developed by both firms. Yoshinoya, for example, would advise Tapatio on their consumers' habits and help design packaging style and size that suits the Japanese consumer. Next, once the Tapatio brand has been established with familiar food retailers such as Yoshinoya and 7-11, the company can then turn its attention towards sales and distribution of the product to restaurants across Japan as a useful condiment that consumers will enjoy, regardless of the type of cuisine is served. Concurrently with this initiate, a strong educational advertising and promotional campaign would have to take place in order to let consumers know that their hot sauce is not just one to be consumed with any specific kind of food, but a versatile condiment staple that an individual or family can keep in

their pantry for use in many different ways. This could even include live events and product demonstrations with street vendors or with Japanese chefs at markets or on television cooking shows. Tapatio should be a product in which consumers are encouraged to exercise creativity and try it on traditional Japanese dishes. Once this has been accomplished, and the brand established, Tapatio should then focus on larger venues as mentioned above. Baseball is perhaps the most popular sport in Japan, and has been for some time. By going to stadiums and teams and suggesting that Tapatio be widely available during events as they are in many American stadiums, they take a step into becoming a ubiquitous product and brand. Tapatio may even be able to secure the endorsement of one of the many famous Japanese baseball players that play in the United States in order to gain further widespread acceptance in the Japanese community. Once the brand has reached this stage, it should be fairly easy to gain access to Mexican establishments in Japan, as well as street vendors in various cities. The hot sauce and condiment industry in Japan is very competitive and any new firm in the space not only has to compete with strong local brands that are already established, but also with U.S. firms that have been in the Japanese market for quite some time. However, with smart strategic partnerships and implementation of the plan above, Tapatio could expand its already growing global presence into the East Asian market. Once a significant brand presence is established in Japan, the company can then look towards other potential markets in the region such as Korea, China and the ASEAN countries.

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