

Case 3-6: Ben & Jerry's—Japan*

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On an autumn evening in Tokyo in 1997, Perry Odak, Angelo Pezzani, Bruce Bowman and Riv Hight gratefully accepted the hot steaming oshibori towels that their kimono-bedecked waitress quietly offered. After a full day of meetings with Masahiko Iida and his lieutenants at the Seven-Eleven Japan headquarters, the men from Ben & Jerry's welcomed the chance to refresh their hands and faces before turning to the business at hand. It had been just over nine months since Odak had committed to resolving the conundrum of whether to introduce Ben & Jerry's ice cream to the Japan market and, if so, how. The next morning would be their last chance to hammer out the details for a market entry through Seven-Eleven's 7,000 stores in Japan or to give the go-ahead to Ken Yamada, a prospective licensee who would manage the Japan market for Ben & Jerry's. Any delay in reaching a decision would mean missing the summer 1998 ice cream season, but with Japan's economy continuing to contract, perhaps passing on the Japan market would not be a bad idea.

Perry Odak was just entering his eleventh month as CEO of the famous ice cream company named for its off-beat founders. He knew that the Seven-Eleven deal could represent a sudden boost in the company's flagging sales of

the past several years. He also knew that a company with the tremendous brand recognition Ben & Jerry's enjoyed needed to approach new market opportunities from a strategic, not an opportunistic, perspective. Since meeting Masahiko Iida, the president of Seven-Eleven Japan, just 10 months earlier, Odak was anxious to resolve the question of whether entering the huge Japan market via Seven-Eleven was the right move or not.

Ben & Jerry's Background: 1978 to 1997

1978 to 1994: Growth from Renovated Gas Station to \$160 Million in Sales¹

Brooklyn schoolmates Ben Cohen and Jerry Greenfield started their ice cream company in a defunct gas station in Burlington, Vermont in 1978, when both were in their mid 20s. The combination of their anti-corporate style, the high fat content of their ice cream, the addition of chunky ingredients and catchy flavor names like "Cherry Garcia" found a following. In addition to selling by the scoop, they began selling pints over the counter and the business grew. With the help of less visible team members, Jeff Furman and Fred (Chico) Lager, the founders took the company public to Vermont stockholders in 1984, later registering with the Securities and Exchange Commission (SEC) for nationwide sale of stock. The company name was Ben & Jerry's Homemade, Inc. and it began trading over the counter with the symbol, BJJICA.

Stockholder meetings were outdoor festivals where standard attire included cut-offs and tie-dyed T-shirts and where Cohen was liable to call the meeting to order in song. In addition to being a fun company, Cohen and Greenfield determined that it would be a socially responsible company, known for its caring capitalism. Highlighting its community roots, Ben & Jerry's would only buy its cream from Vermont dairies. In the case of one of its early nut flavors, "Rain Forest Crunch," the nuts would be sourced from tribal co-operatives in South American rain forests where nut harvesting would offer a renewable alternative to strip cutting the land for wood products, and where the co-op members would hopefully get an uncommonly large share of the proceeds. As another part of its objective of "caring capitalism," Ben & Jerry's gave 7.5 percent

*James M. Hagen prepared this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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of pretax profits to social causes like Healing Our Mother Earth, which protected community members from local health risks, and Center for Better Living, which assisted the homeless.

The product Cohen and Greenfield were selling was exceptionally rich (at least 12 percent butterfat, compared with about 6 to 10 percent for most ice creams). It was also very dense, which was achieved by a low overrun (low ratio of air to ice cream in the finished product). This richness and density qualified it as a superpremium ice cream. Häagen-Dazs (founded in New Jersey in 1961) was the only major competitor in the superpremium market. While Häagen-Dazs promoted a sophisticated image, Ben & Jerry's promoted a funky, caring image.

As Ben & Jerry's began to expand distribution throughout the Northeast, it found increasing difficulty obtaining shelf space in supermarkets. Charging Häagen-Dazs with unfairly pressuring distributors to keep Ben & Jerry's off their trucks, Greenfield drove to Minneapolis and gained national press coverage by picketing in front of the headquarters building of food giant Pillsbury, which had earlier acquired Häagen-Dazs. His homemade sign read "What is the Doughboy afraid of?," a reference to Pillsbury's mascot and to the company's apparent efforts against the underdog ice cream makers from Vermont. This David versus Goliath campaign earned Ben & Jerry's national publicity and, when combined with some high powered legal action, it gave them freer access to grocery store freezer compartments.

A policy was in place that the highest paid employee would not be paid more than seven times what the lowest

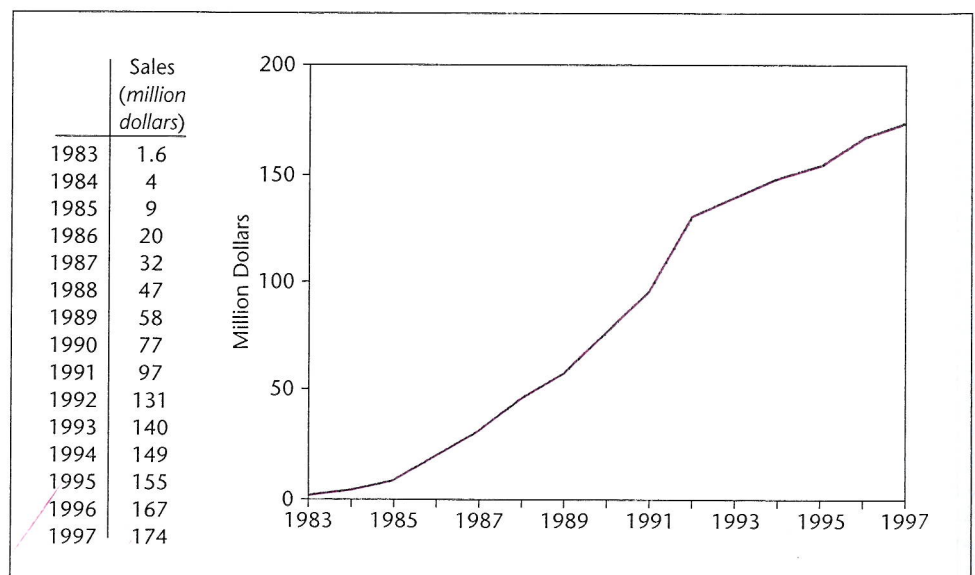
paid worker earned. Part of the anti-corporate culture of the company was a policy that allowed each employee to make up his or her own title. The person who might otherwise have been called the public relations manager took the title "the Info Queen." Cohen and Greenfield took turns running the company. Whether despite, or because of, these and other unusual policies, the company continued to grow (see Exhibit 1). In 1985, the company bought a second production plant, this one in nearby Springfield, Vermont. A third plant was later built in St. Albans, Vermont. By the late 1980s, Ben & Jerry's ice cream had become available in every state of the union.

1994 to 1997: Responding to Fallen Profits

By 1994, sales exceeded \$150 million, distribution had extended beyond the U.S. borders and the company had over 600 employees. The future was not encouraging, though, with 1994 actually bringing in a loss. While Ben & Jerry's unquestionably held the second largest market share (at 34 percent compared to Häagen-Dazs' 44 percent) of the American superpremium market, the company had started to lose market share. Net income had also suffered badly since reaching a high of \$7.2 million in 1993 (Exhibit 2). While Cohen was most often the company's CEO, much of the company's growth occurred while Chico Lager was either general manager or CEO between 1982 and 1990. Ben was particularly engaged in efforts to further the cause of social justice by such

Exhibit 1 Ben & Jerry's Annual Sales

Source: Ben & Jerry's Annual Reports.



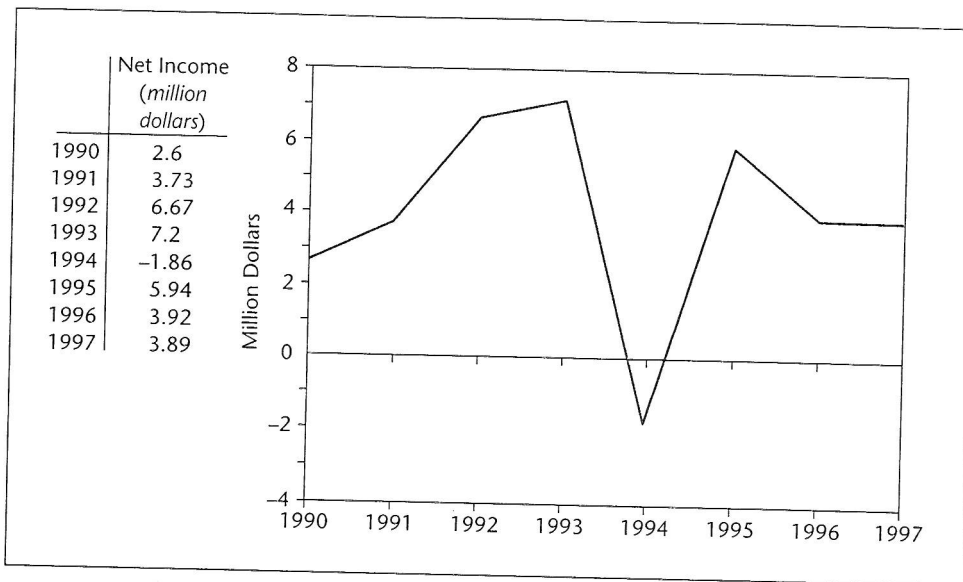


Exhibit 2 Ben & Jerry's Net Income

Source: Ben & Jerry's Annual Reports.

activities as attending meetings of similarly-minded CEOs from around the world. Board member Chuck Lacy had taken a turn at the helm, but he lacked aspirations for a career as a CEO, just as the company's namesakes did. The slowdown in growth and retreat in market share comprised a threat to the company's survival and to the continuation of its actions and contributions for social responsibility.

The company had never had a professional CEO and it had avoided commercial advertising, relying for publicity on press coverage of its founders' antics and social interest causes. This approach was apparently losing its effectiveness and the company could no longer feature an underdog image in its appeals for customer support. Relaxing the rule on executive compensation, the company launched a highly publicized search for a CEO, inviting would-be CEOs to submit a 100-word essay explaining why they would like the job. In 1996, Bob Holland, a former consultant with McKinsey & Co., took the presidency, bringing a small cadre of fellow consultants with him. All of Holland's highly schooled management sensibilities were put to the test as he took over a company that had lacked effective management in recent years, commencing employment for a board of directors that was suspicious of traditional corporate culture. By this time, Cohen, Greenfield and Furman still had considerable influence over the company, controlling about 45 percent of the shares. This permitted them, as a practical matter, to elect all members of the board of directors and thereby effectively control the policies and management of the firm. Holland's relationship with the board didn't work and

eighteen months later he was out, the company's decline had not been reversed and morale among the employees was at a low.

While the board was willing to pay a corporate scale salary to its CEO, it was unwilling to let go of the company's tradition of donating 7.5 percent of before tax profits to not-for-profit social causes. A spirit of socially responsible business management would need to continue, as that was still the company's stock in trade as much as the ice cream was. With this, as well as the need to survive, in mind, the board hired Perry Odak at the recommendation of one of its members at a base salary of \$300,000, with a start date in January 1997.

While Odak had grown up on a dairy farm in upstate New York, it was not this dairy background that landed him the job as CEO of Ben & Jerry's. His experience at turning around troubled companies was far more important. Odak was recruited away from a consultancy assignment at U.S. Repeating Arms Company, which he had been instrumental in turning around from its decline into red ink. This followed diverse experiences ranging from senior vice president of worldwide operations of Armour-Dial, Inc. to president of Atari Consumer Products, along with numerous consultancies and entrepreneurial activities that included the start-up team and management of Jovan, a fragrance and cosmetic company. A professional manager who thrived on challenges and abhorred mere maintenance of a company, Odak had entered the business world with a degree in agricultural economics from Cornell University topped with graduate coursework in business.

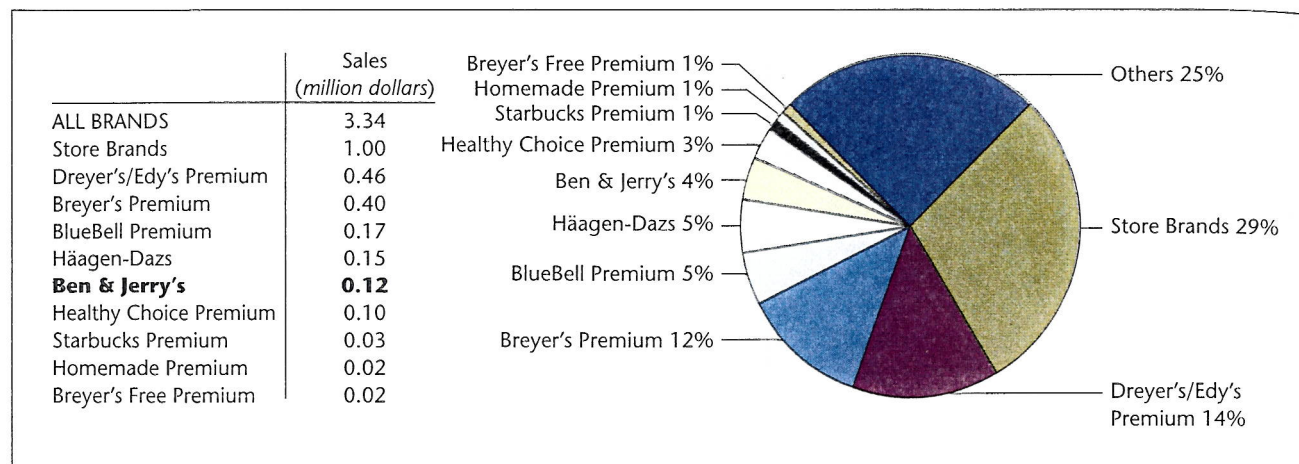


Exhibit 3 Top U.S. Ice Cream Brands, 1996 to 1997

Source: Ben & Jerry's.

The Market for Superpremium Ice Cream

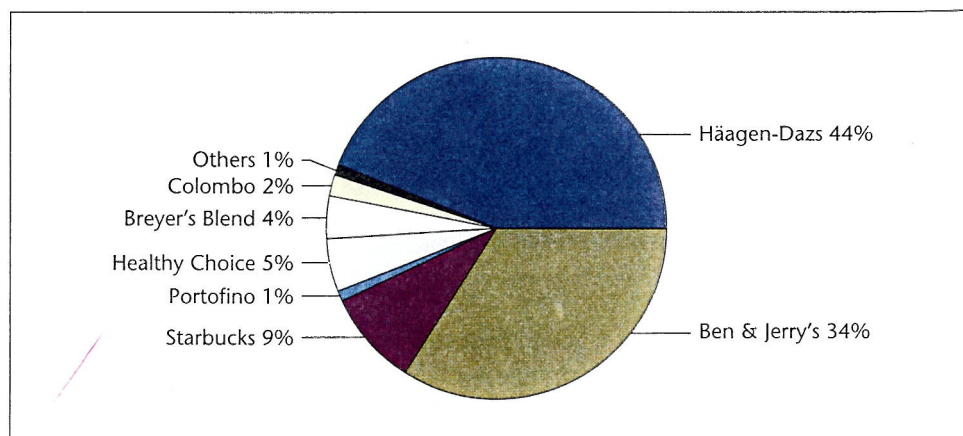
Ice cream is noted as far back as the days of Alexander the Great, though it was first commercially manufactured in the United States in 1851. By 1997, almost 10 percent of U.S. milk production went into ice cream, a \$3.34 billion market. The ice cream brands that dominated American supermarket freezer cases are given in Exhibit 3 and Exhibit 4. National (as opposed to regional) branding of dairy products, including ice cream, was a recent phenomenon. Dreyer's (owned in part by the Swiss food giant, Nestlé, and branded Edy's on the East Coast) was the biggest brand at 13.9 percent of the U.S. market, in terms of value. The next biggest was Breyer's, a unit of the Dutch-English firm, Unilever, at 12 percent. Blue Bell (from Texas) was fourth biggest at 5.2 percent, and Häagen-Dazs (owned by

the U.K. beverage and food company then known as Grand Metropolitan) was at 4.6 percent. Ben & Jerry's came in at about 3.6 percent of the market. Healthy Choice Premium ice cream (owned by the agribusiness and consumer food firm ConAgra) was close behind with 3.2 percent. Starbucks (one of Dreyer's brands) had 1.0 percent. The biggest share of the market (some 30.2 percent) came from the retailers' private label products and a number of economy brands (with which Ben & Jerry's did not regard itself to be competing) made up the balance.

There are considerable economies of scale in ice cream production, so despite the advantages of having dispersed production in order to reduce costs of transporting the frozen finished product or the highly perishable cream, milk and egg yolks that are principle raw ingredients, each major manufacturer generally had only a few plants to serve vast markets. Market leader, Häagen-Dazs, had just

Exhibit 4 Share of Superpremium Ice Cream Brands, U.S. Market

Source: Ben & Jerry's.



two plants in the United States, while Ben & Jerry's had three. Even with relatively few plants, Ben & Jerry's was operating at only about half of plant capacity in 1997.

While the Ben & Jerry's brand had the country's fifth highest share of the ice cream market (in terms of value), it still accounted for only a small 3.6 percent of the market. Ben & Jerry's, though, measured its competitive strength not in general ice cream sales (including many store brands and economy ice creams), but rather in sales of super-premium (high fat content) ice cream. The market for this product was much less fragmented, with Häagen-Dazs getting 44 percent and Ben & Jerry's getting 34 percent of the \$361 million of supermarket (excluding convenience store and food service) sales measured and monitored by scanner data. If the two companies' frozen yogurts and sorbets were included, their market shares would be 36 percent for Ben & Jerry's and 42 percent for Häagen-Dazs. Both companies specialized in super-premium products, with additional sales being derived from sorbets, frozen yogurts and novelties. Häagen-Dazs had really pioneered the category back in 1961 when Reuben Mattus in New Jersey founded the company. The company was later acquired by the giant food company Pillsbury, which in turn was bought in 1989 by the U.K. liquor and food giant Grand Metropolitan.

Both Ben & Jerry's and Häagen-Dazs had achieved national distribution, primarily selling their product in supermarkets and convenience stores. Ben & Jerry's had 163 scoop shops, compared to 230 Häagen-Dazs shops. Dairy Queen (with 5,790 shops worldwide) and Baskin Robbins dominated the scoop shop business, though their products were not superpremium. Prices for Ben & Jerry's and Häagen-Dazs would range from \$2.89 to \$3.15 per pint, often more than twice as expensive as conventional (high overrun/lower butterfat) ice cream and premium brands. Starbucks and Portofino ice creams were other much smaller contenders in the United States with their "premium plus" products, characterized by a butterfat content slightly under that of the superpremium category.

Statistical evidence indicated that ice cream consumption increased with income and education. Starting in the mid 1990s, though, sales growth started to fall off and Ben & Jerry's experienced a decline in profits, even suffering a loss in 1994. Häagen-Dazs and Ben & Jerry's product sales were very widely available across the entire U.S. market and it was clear that future growth would have to come from new products or from new (non-U.S.) markets. More troubling was that Ben & Jerry's was beginning to lose market share in both the total ice cream market and, more importantly, the super-premium market.

Ben & Jerry's International Sales

Ben & Jerry's was intentionally slow to embrace foreign markets. Cohen was opposed to growth for growth's sake, so the company's few adventures overseas were limited to opportunistic arrangements that came along, primarily with friends of the founders. Meanwhile Häagen-Dazs had no such hesitation. By 1997, it was in 28 countries with 850 dipping shops around the world. Its non-U.S. sales were about \$700 million, compared to about \$400 million of domestic sales. Ben & Jerry's, on the other hand, had foreign sales of just \$6 million, with total sales of \$174 million. In terms of non-U.S. superpremium ice cream sales, Häagen-Dazs and Ben & Jerry's were still the leading brands, but Häagen-Dazs was trouncing Ben & Jerry's.

Canada

Ben & Jerry's first foreign entry was in Canada in 1986, when the company gave a Canadian firm all Canadian rights for the manufacture and sale of ice cream through a licensing agreement. While about one-third of the product was exported from the United States, high Canadian tariffs (15.5 percent) and particularly quotas (only 347 tons annually) made export impractical. In 1992, Ben & Jerry's repurchased the Canadian license and as of 1997, there were just four scoop shops in Quebec. The Canadian dairy industry remained highly protective even after enactment of the North American Free Trade Agreement.

Israel

Avi Zinger, a friend of Cohen's, was given a license, including manufacturing rights, for the Israel market in 1988. His 1997 sales totaled about \$5 million, but the only revenue accruing to Ben & Jerry's Homemade, Inc. would be licensing income and this amount was negligible. To assure quality coming from the plant in Yavne, Israel, Zinger and his staff received training at the Waterbury factory. As of fall 1997, there were 14 Ben & Jerry's scoop shops in Israel, with the shops selling such items as gifts, baked goods and beverages, in addition to the ice cream. Zinger also sold Ben & Jerry's products through supermarkets, hotels, delis and restaurants.

Russia

The company entered into its first foreign joint venture in 1990 by establishing the firm Iceverk in the Russian republic of Karelia, which is Vermont's sister state. This grew out of Cohen's travel to Karelia as part of a sister state delegation

in 1988. A goal of the joint venture effort was to promote understanding and communication between the peoples of these two countries. The joint venture agreement specified the following division of ownership shares: Ben & Jerry's—50 percent; the Intercentre cooperative—27 percent; Petro Bank—20 percent; and Pioneer Palace (a facility similar to a YMCA, that provided the location)—three percent. Half of any profits would stay with the Iceverk and the balance would be divided among the partners. Ben & Jerry's contributed equipment and know-how to the venture, while the local partners provided the facilities for the factory and for two scoop shops. After considerable, mostly bureaucratic, delays, the shops opened in July 1992. By 1993, there were three scoop shops and about 100 employees. Iceverk opened several more scoop shops and the venture began to sell pints in supermarkets locally, as well as in Moscow. Ben & Jerry's hired James Flynn to put his University of New Hampshire marketing degree to good use by serving as marketing rep in Moscow. Sales improved as food service customers increasingly bought the product. In 1996, Ben & Jerry's terminated the joint venture, giving its equity and equipment at no cost to its joint venture partners. A retrospective view of that decision is that the company felt that the management time needed to keep the partnership going was too demanding, given the perceived potential. Iceverk no longer uses the Ben & Jerry's name, though it does continue to make ice cream in Petrozavodsk, Karelia's capital.

United Kingdom

In 1994, there was much discussion at Ben & Jerry's headquarters in Burlington about whether the company was ready to strategically (rather than just opportunistically) move into international markets. Susan Renaud recalled the consensus being that no, they were not, but just three months later the company shipped a container of product to Sainsbury, an upscale supermarket chain in the United Kingdom. Cohen had met a Sainsbury executive at a meeting of the Social Venture Network and the executive had encouraged him to ship over some product. This launch was made with no idea of what the pricing would be, nor any knowledge of what kind of packaging and ingredients were acceptable in that market. The company was shipping a 473 mL package, while the standard was 500 mL. With its foot in the door, the company thought it best to try other outlets in England as well. It tried out one distributor, which had agreed to donate one percent of its Ben & Jerry's turnover to charity. Sales did not materialize and another distributor was tried, this time without the charity constraint. The product had a distinctive market position, with

one radio commentator alleged to have said, "If Häagen-Dazs is the ice cream you have after sex, Ben & Jerry's is the ice cream you have instead of sex." By 1997, U.K. sales totalled \$4 million.

France

In 1995, the company entered France with great ambivalence. CEO Holland was all for entering the French market and the company sent off a container of product to Auchan, a major retailer Cohen was introduced to through Social Venture Network ties. As global protests grew over French nuclear testing, though, there were discussions in the company about withdrawing from the French market or vocally protesting against the French government. With this internal disagreement concerning the French market, there was no marketing plan, no promotional support and no attempt to address French labelling laws. The company hired a French public relations firm, noted for its alternative media and social mission work, and separately contracted with a sales and distribution company. But there was no plan and nobody from Ben & Jerry's to coordinate the French effort. In 1997, sales in France were just over \$1 million.

Benelux

Ben & Jerry's entry into the Benelux market was also without strategic planning. In this case, a wealthy individual who had admired the company's social mission asked to open scoop shops, with partial ownership by the Human Rights Watch. By 1997, there were three scoop shops in Holland. Sales totalled a mere \$287,000, but there was the prospect of using the product reputation from the scoop shops to launch supermarket and convenience store sales.

In short, Ben & Jerry's fell into several foreign markets opportunistically, but without the consensus of the board and without the necessary headquarters staff to put together any kind of comprehensive plan. As the company had never developed a conventional marketing plan in the United States, it lacked the managerial skill to put together a marketing campaign for entering the foreign markets.

As a result, by 1997, Ben & Jerry's international sales totaled just three percent of total sales. While the company had nearly caught up with Häagen-Dazs in U.S. market share, Häagen-Dazs was light years ahead in the non-U.S. markets. With declining profits and domestic market share at Ben & Jerry's, it was beginning to seem time to give serious attention to international market opportunities.

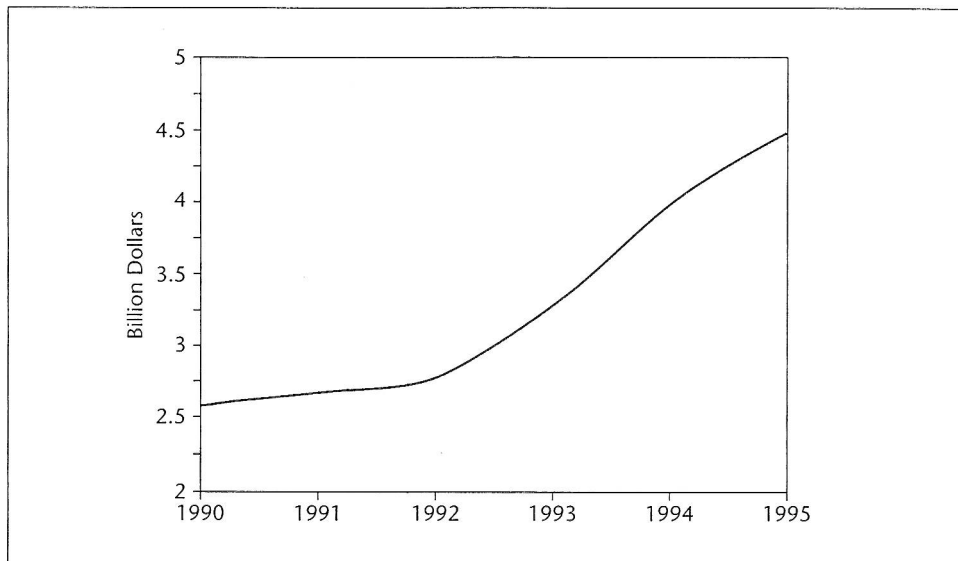


Exhibit 5 Japan Ice Cream Market Size

Source: Ben & Jerry's.

Focus on Market Opportunities in Japan

Background on the Market for Superpremium Ice Cream in Japan

In the 1994 to 1996 period when Ben & Jerry's was having its first taste of a hired professional CEO (Bob Holland), it struggled with the prospects of strategically targeting a foreign market and developing a marketing plan for its fledgling overseas operations. In particular, the company made inquiries about opportunities in Japan, the second largest ice cream market in the world, with annual sales of approximately \$4.5 billion (Exhibit 5). While the market was big, it was also daunting. Japan was known to have a highly complex distribution system driven by manufacturers, its barriers to foreign products were high and the distance for shipping a frozen product was immense. Ben & Jerry's would be a late entrant, more than 10 years behind Häagen-Dazs in gaining a foothold in the market. In addition, there were at least six Japanese ice cream manufacturers selling a superpremium product. A major Japanese frozen desserts company, Morinaga Seika, had made proposals to Ben & Jerry's on two different occasions in 1995. In both cases, the proposals were rejected. In January 1996, Morinaga actually conducted focus groups to evaluate Ben & Jerry's products. It was beginning to seem appropriate to take a closer look at the Morinaga proposals and other options.

Despite the challenges of entering Japan, that market had several compelling features. It was arguably the most affluent country in the world, Japanese consumers were

known for demanding high quality products with great varieties of styles and flavors (which practically defined Ben & Jerry's) and it seemed that the dietary shift toward more animal products was still underway. By 1994, Japan's 42 kilogram annual per capita consumption of milk was less than half that (103 kg) of the United States, and cheese consumption was about one-tenth that of the United States. Commercial dairy sales had really only taken off after World War II, when school lunch programs were initiated with milk as a regular component. Incomes in Japan increased dramatically from the 1950s to the 1980s so that animal-based food products and home refrigerators were affordable to a large number of people.

Though Häagen-Dazs' financial figures were not published by its parent, Grand Metropolitan, market intelligence suggested that the ice cream maker had Japanese sales of about \$300 million, with Japan providing the highest margins of any of its markets. Häagen-Dazs had managed to capture nearly half the superpremium market in Japan. It entered the market as an imported product and later began production in Japan at a plant owned jointly by Häagen-Dazs, Sentry and Takashi Milk Products. About 25 percent of Häagen-Dazs' sales there appeared to be from scoop shops. In addition to gaining visibility through scoop shops, Häagen-Dazs operated a fleet of ice cream parlor buses, with upper deck cafe tables, at exhibitions and other public gatherings. On the one hand, Häagen-Dazs would be a formidable competitor that would likely guard its market share. On the other hand, there would be no apparent need for Ben & Jerry's to teach the local market about superpremium ice cream. The market seemed to

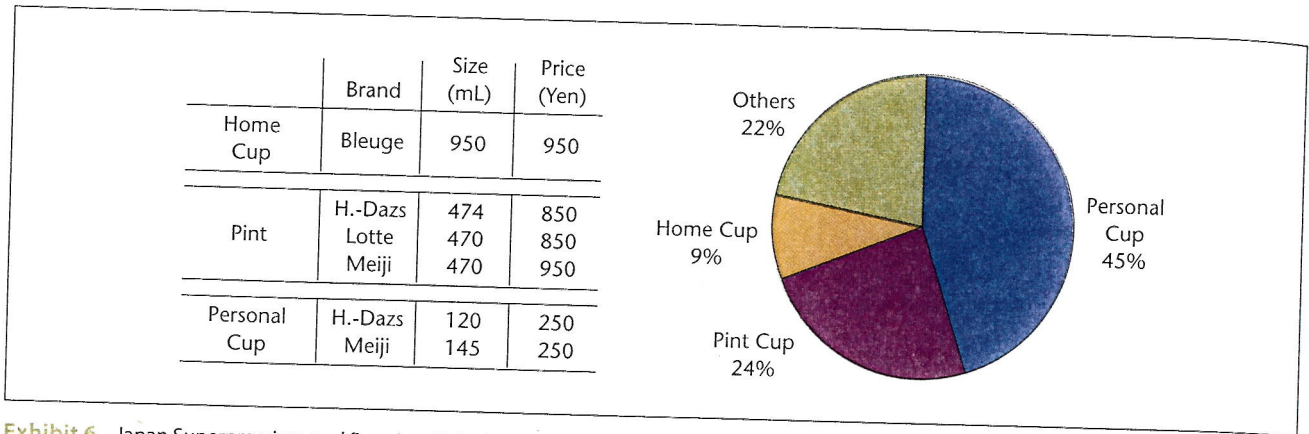


Exhibit 6 Japan Superpremium and Premium Sales by Package

Source: Fuji Keizai Co.

welcome imported ice cream and expectations of falling tariffs on dairy products suggested new opportunities for ice cream imports from abroad. Häagen-Dazs' flavors were generally the same as U.S. flavors, with some modifications, such as reduced sweetness. While prices were attractive in Japan, about \$6 per pint, it was unclear how much of that would go into the pockets of the manufacturer versus various distributors.

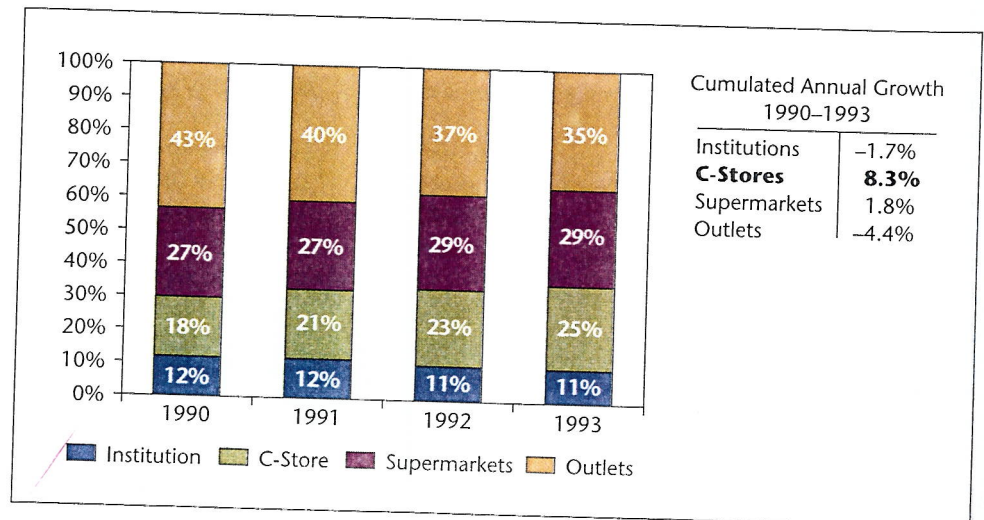
In contemplating an entry in the Japan market, it was hard to avoid thinking about the case of Borden Japan. Borden introduced a premium ice cream to the market in 1971 through a joint venture with Meiji Milk. The product was highly successful and Borden was leader of the category. In 1991, the Borden-Meiji alliance came to an end and Borden had extreme difficulty gaining effective distribution. Borden did not follow industry trends toward single

serving cups of ice cream and it suffered greatly when distributors started lowering the price of the product, sending the signal to consumers that Borden was an inferior product. After sales had fallen by more than two-thirds in just two years, Borden withdrew from the Japan market. Desserts were uncommon in Japan, leaving ice cream primarily for the snack market. Thus, single serving (about 120 mL) cups became popular, accounting for about 45 percent of sales (Exhibit 6), and ice cream came to be sold increasingly in convenience stores. By 1993, about a quarter of all ice cream sales were in convenience stores, compared to 29 percent in supermarkets (Exhibit 7).

One concern at Ben & Jerry's was its size. With total worldwide sales of just over \$150 million, it was very small in comparison to Häagen-Dazs, which had estimated sales of \$300 million in Japan alone. At least five Japanese

Exhibit 7 Japan Ice Cream Market by Channel

Source: Ice Cream Data Book (Morinaga).



companies already in the superpremium market were larger than Ben & Jerry's, with leaders Glico, Morinaga, Meiji and Snow Brand all having total ice cream sales three to four times that of Ben & Jerry's and, in each case, ice cream was just part of their product line.

Cohen was not very enthusiastic about the sort of financial or managerial commitment that was apparently required to enter the Japan market and he couldn't see how entering that market fit in with the company's social mission. Others on the board shared his attitude. Two immediate problems were that entering Japan would not be the result of any social mission (the concepts of social mission and corporate charity being very foreign in Japan) and the company's lack of international success suggested that it may already have been spread too thin in too many countries. Jerry Greenfield, however, was interested enough to visit Japan on a market research tour in early 1996. The purpose was to see just how Ben & Jerry's might gain distribution if the company were to enter the Japanese market. Valerie Brown of Ben & Jerry's fledgling marketing department accompanied Greenfield. Contacts for the visit came primarily from Valerie's classmates at Harvard Business School, from a consulting company and from the Japan External Trade Organization.

Alternative Strategies for a Ben & Jerry's Entry into Japan

In his visit to Japan, Greenfield was willing to consider entry into Japan through such diverse distribution channels as Amway Japan, Domino's Pizza and department stores. One of his meetings was with the Japanese distributor of Dreyer's, the American company with partial ownership by the Swiss food giant Nestlé. Dreyer's, not being perceived as a direct competitor, was Ben & Jerry's largest distributor in the United States. Dreyer's had licensed its trademark with a joint venture operation in Japan in 1990. Sales had since fallen and the joint venture seemed to have had difficulty with its biggest customer, Seven-Eleven Japan. The retailer's demands for just-in-time delivery required Dreyer's to maintain large inventories and the retailer demanded the right to rapidly drop flavors which did not meet sales expectations.

Another meeting was with a high level team of Seven-Eleven executives, including Masahiko Iida, the senior managing director, and Yasayuki Nakanishi, the merchandiser of the Foods Division. Iida expressed interest in selling Ben & Jerry's ice cream, suggesting that Ben & Jerry's could sell directly to Seven-Eleven, avoiding some of the distribution costs that are typical of the usual multi-layer distribution system in Japan. On the other

hand, a major American beverage distributor in Japan warned that it would be the kiss of death to enter the market through some kind of exclusive arrangement with a huge convenience store chain like Seven-Eleven. The balance of power would be overwhelmingly in the retailer's favor.

Meiji Milk Products (with \$447 million of ice cream sales), in combination with its importer, the giant Mitsubishi Trading Company, expressed interest in distributing Ben & Jerry's products. This team clearly had very strong distribution resources, including an exclusive supply contract for Tokyo Disneyland. One concern was that Meiji already had a superpremium brand called Aya. Despite Meiji's strong interest, though, this option had probably become a long shot on account of earlier protests by Ben & Jerry's leadership of deforestation practices by another division of Mitsubishi.

Other marketing possibilities that had surfaced in 1996 included an arrangement with the advertising agency that had charge of Japan Airlines' in-flight entertainment, as well as a chance to open a scoop shop at a highly visible new retail development about to be built at Tokyo Disneyland. If anything, the many options, focus groups and proposals made the decision about what to do with Japan even more difficult. The fact that the Ben & Jerry's board was divided on whether the company even had any business in a Japan launch discouraged further action. By late 1996, Holland was following up discussions with a well-recommended Japanese-American who was available to oversee marketing and distribution of Ben & Jerry's products in Japan. Ken Yamada, a third generation Japanese American from Hawaii, had obtained the Domino's Pizza franchise for Japan. His compensation would be a margin on all sales in Japan. When Bob Holland's employment with Ben & Jerry's ended later in the year, he was still in discussion with Yamada, but he was still lacking the enthusiastic support of the board of directors for a possible entry into Japan.

A Fresh Look at the Japan Options

Perry Odak assumed leadership of Ben & Jerry's in January 1997, inheriting the file of reports on possible strategies for entering the Japan market. Neither the file nor institutional memory indicated much momentum leading toward any one of the Japan strategies. In being hired, however, Odak had the board's agreement that the company's sales (and especially profits) must grow and that non-U.S. markets were the most likely key to that growth.

In February 1997, Odak added a business-related detour to a scheduled trip to Thailand with his wife. He

stopped by Tokyo for a courtesy call to Mr. Iida, the President of Seven-Eleven Japan, a controlling parent company of 7-Eleven U.S.² This was to more or less make up for Ben & Jerry's inability to send a CEO to a January "summit" meeting in Dallas at which Mr. Iida and the head of the U.S. 7-Eleven operations had wished to meet face to face with the leaders of its major suppliers. 7-Eleven U.S. was, in fact, Ben & Jerry's biggest retail outlet and Ben & Jerry's was a major supplier to Seven-Eleven.

After about 10 minutes of pleasantries at this introductory meeting at the Seven-Eleven headquarters in Tokyo, Iida asked Odak point blank: "Is there anyone at Ben & Jerry's who can make a marketing decision? We'd like to sell your product, but don't know how to proceed or with whom." Rather taken aback at this surprisingly direct inquiry, Odak replied that he could indeed make a decision and he resolved to sort through the Japan options and get back to Iida in short order.

Back in Burlington, Odak installed Angelo Pezzani as the new international director for Ben & Jerry's Homemade. Odak had known Pezzani since 1982 when they both started work at Atari on the same day. Pezzani's position was then general consul of Atari Consumer Products Worldwide. Going over the options with Pezzani, it appeared that partnering with Yamada was still the strongest option for entering Japan, but the Seven-Eleven option had not yet been well developed for consideration. Yamada represented considerable strength with his Domino's success and with the fact that Domino's already offered ice cream cups as part of its delivery service in Japan. Possible drawbacks were his insistence on having exclusive rights to the entire Japan market, with full control of all branding and marketing efforts there.

Pezzani and Odak decided to continue negotiations with Yamada, keeping that option alive, and to simultaneously let Iida know that they wanted to explore options with Seven-Eleven. They requested an April meeting with Iida in Japan to move things along. The April meeting would include Mr. Nakanishi, the head of frozen ice desserts for Seven-Eleven Japan, and Bruce Bowman, Ben & Jerry's head of operations. To work out ground arrangements for the meeting, Odak and Pezzani needed someone on the ground in Japan and they called on Rivington Hight, an American who had learned Japanese in the U.S. intelligence service, married a Japanese woman and had been living in Japan for much of the past 30 years. No stranger to Odak or Pezzani, Hight had also worked for Atari in 1982 as president of Atari Japan. Like Odak and Pezzani, he had held a variety of management positions and consultancies in the years since.

The April meeting in Japan was basically intended to lay the framework to begin hashing out the many details

that would be involved if Ben & Jerry's were to enter the Japan market through Seven-Eleven. It was a chance for the critical players in each company to get together. Perry brought Pezzani, Bowman and Hight. Arriving at the Ito-Yokado/Seven-Eleven headquarters building at the foot of Tokyo Tower, the Ben & Jerry's team walked into a lobby full of sample-laden salespeople and manufacturers nervously awaiting their chance to put their products on the shelves of some 7,000 stores. The receptionist quickly identified Odak and company and immediately put VIP pins on their dark lapels, directing them to the VIP elevator that went straight to the executive suite on the 12th floor. A hostess there immediately guided the group across the plush white carpeting to a spacious meeting room, where they were served tea while awaiting Iida and Nakanishi. Odak arrived with more questions than answers, but he was determined that any product Ben & Jerry's might sell in Japan would be manufactured in Vermont, where the company had considerable excess capacity. Also, the costs of labor and raw dairy products were higher in Japan than the United States, so the 23.3 percent tariff and cost of shipping seemed not to be prohibitive. As a result of the Uruguay Round of GATT, the tariff would be reduced to 21 percent in the year 2000. The introductory meeting went well, but they had not yet addressed any of the difficult issues except to establish that it would be possible to export the product from Vermont to Japan.

Wrestling with the Details of the Seven-Eleven Option

Odak, Pezzani and Bowman had a full plate of issues to resolve. The first question was market. Iida had said he was interested in Ben & Jerry's product because it was something new to Japan and particularly unique with its chunks. Seven-Eleven had even tried to get a Japanese company to co-pack a chunky superpremium ice cream, but the Japanese packer was unsuccessful with its production processes. Research supporting a clear market for this novel product in Japan was scant, though it seemed unlikely that Seven-Eleven would commit shelf space to a product it had any doubt about and both Iida and Nakanishi certainly knew their market. A skeptical view of Seven-Eleven's interest in bringing Ben & Jerry's to Japan was that Seven-Eleven's combined U.S. and Japan operations would become so important to Ben & Jerry's (potentially accounting for a substantial portion of its sales) that Seven-Eleven could, in some fashion, control the ice cream maker. Even if that were not part of Seven-Eleven's motivation, it could be a concern.

While Ben & Jerry's management was leaning toward an entry into Japan, it was not a foregone conclusion. The entry would require a commitment of capital and managerial attention. As the product would be exported from the United States, there would be the risk of negative exchange rate movements that could make exports to Japan no longer feasible, thus making Ben & Jerry's financial picture less predictable. Commodity risk was also a serious concern in that the price of milk could rise in the United States, hurting Ben & Jerry's relative to competitors producing ice cream in Japan.

Assuming that an entry into the Japanese market was desirable, there were a number of apparent options for gaining distribution there, making it necessary to seriously consider the pros and cons of entering by way of Seven-Eleven. The most obvious pro was immediate placement in the freezer compartments of over 7,000 convenience stores in that country. In the early 1990s, the convenience store share of the ice cream market had increased and it appeared that these stores were now accounting for at least 40 percent of superpremium ice cream sales in Japan. Equally positive was the fact that Seven-Eleven had taken advantage of its size and its state-of-the-art logistics systems by buying product directly from suppliers, avoiding the several layers of middlemen that stood between most suppliers and Japanese retailers. These cost savings could make the product more affordable and/or allow a wider margin to protect against such risks as currency fluctuation.

On the negative side, if the product was introduced to the market through a convenience store and it was just one of many brands there, would it be able to build its own brand capital in Japan like Häagen-Dazs had? Would the product essentially become a store brand? Without brand capital it could be difficult to distribute the product beyond the Seven-Eleven chain. An alternative approach of setting up well located scoop shops, along with an effective marketing or publicity campaign, could give the product cache, resulting in consumer pull that could give Ben & Jerry's a price premium, as well as a range of marketing channels. Would committing to one huge retail chain be a case of putting too many eggs in one basket? A falling out between Ben & Jerry's and Seven-Eleven Japan could leave the ice cream maker with nothing in Japan. Even during discussions with Ben & Jerry's, the retailer was known to be terminating its supply agreement with the French ice cream manufacturer Rolland due to allegedly inadequate sales. Presumably Seven-Eleven could similarly cut off Ben & Jerry's at some future date.

While weighing the pros and cons of the business arrangement, there were also production issues that Ben & Jerry's had to consider. Nakanishi insisted the ice cream be

packaged only in personal cups (120 mL) and not the 473 mL (one pint) size that Ben & Jerry's currently packed. The main argument for the small cups was that ice cream is seldom consumed as a family dessert in Japan, but rather is consumed as a snack item. A secondary argument was that, for sanitation purposes, customers liked their own individual servings. Cake, for example, was generally served in restaurants with each slice individually wrapped. Nakanishi's insistence was despite the fact that Seven-Eleven stocked Häagen-Dazs and some of its local competitors in both sizes.

Bruce Bowman embraced the challenge of designing a production system that would accommodate small cups that the company had never packed before. It seemed that about \$2 million of new equipment would be needed, though it could be installed in the existing buildings. The sizes of some of the chunks would have to be reduced in order for them to not overwhelm the small cups. Besides requiring these known adjustments to production operations, Seven-Eleven might be expected to request other product changes. Japanese buyers were known for being particularly demanding in their specifications.

Ben & Jerry's had long been shipping ice cream to the West Coast and to Europe in freezer containers. Shipments to Japan were feasible, though the Seven-Eleven approach to just-in-time inventory procedures would make delivery reliability especially key and, of course, costs would have to be minimized. Logistics research indicated it would likely take at least three weeks shipping time from the plant in Vermont (the St. Albans plant would be used if the Japan plan were implemented) to the warehouse in Japan. Because of the Japanese label needed in Japan, production would have to carefully meet the orders from Seven-Eleven. The product could not be shifted to another customer, nor could another customer's product be shifted to Japan.

A number of sticky points needed to be resolved. In addition to changing the package size, Seven-Eleven wanted to provide its own design for the package art and the design would definitely not include a photo of Ben and Jerry. Packaging had always been an important part of the Ben & Jerry's product. Funky lettering and the images of Ben and Jerry are part of what made the product unique. If Seven-Eleven were given control over the package art, what would that do to the benefits of developing a global branded product? Would consumers be confused about the placement of the product as they travelled? On the other hand, the carton designs had already been evolving somewhat and maybe a bit more evolution would satisfy Seven-Eleven. In fact, the earlier focus groups by Morinaga brought out the concern that it was too bad the "strange

Ben & Jerry's packaging" had to detract from the good ice cream.

Ben & Jerry's sent a number of samples to consider and Nakanishi developed a short list that would be tested (if the deal went forward) in a couple dozen Seven-Eleven stores so that the top five flavors could be identified for the market entry. "Chunky Monkey" was near the top of Nakanishi's list, though the name absolutely had to change, he said. It turned out that only minor ingredient modifications would be needed to reduce the sweetness and to replace "vegetable gum" with "protein solids."

Through numerous communications and several meetings during the summer of 1997, a number of issues would be discussed and resolved. For example, Seven-Eleven would acquire only a six-month exclusive right to Ben & Jerry's and even that would be only for the specific flavors being sold to Seven-Eleven. Because of its relatively small size and inability to cover a loss, Ben & Jerry's was asking for sale terms that would transfer title (and all risk) for the product at the plant gate. It also was asking for 12 weeks lead-time on any order to allow for sourcing of ingredients, as well as efficient production scheduling. It appeared that these requests would not be too burdensome for Seven-Eleven. The sensitive issue of price was intentionally left until late in the discussions. Häagen-Dazs was being sold for 250 yen per 120 mL cup and Seven-Eleven wanted to position Ben & Jerry's at a slightly lower price point. This would be problematic for Odak, who had recently increased the domestic price for Ben & Jerry's ice cream in part to support the product's position as equal or superior in quality to Häagen-Dazs.

A concern yet lurking in the boardroom in Burlington, Vermont, was what would be the company's social mission in Japan. Since the early 1990s, the company had moved beyond using its profit to fund philanthropy. The new imperative was to make the workplace, community and world a better place through regular day-to-day operations. On the other hand, profits were still needed in order to even have day-to-day operations and a new market (such as Japan) could be the ticket to those profits. In the meantime, no particular social mission had emerged from the summer discussions of entering the Japan market.

The Approaching Deadline for a Summer 1998 Japan Launch

Odak and his staff had made steady progress narrowing and developing their Japan options during the summer of 1997. If they were to enter the Japan market for the summer 1998 season, though, they would have to commit to one

plan or another no later than autumn 1997. Two distinct entry options had emerged.

The Yamada option was largely the same as it had been at the beginning of the year. His proposal was to have full control of marketing and sales for Ben & Jerry's in Japan. He would position the brand, devise and orchestrate the initial launch and take care of marketing and distribution well into the future. He would earn a royalty on all sales in the market. By giving Yamada full control of the Japan market, Ben & Jerry's would have instant expertise in an otherwise unfamiliar market, as well as relief from having to address the many issues involved in putting together an entry strategy and in ongoing market management. Yamada knew frozen foods and he had an entrepreneurial spirit and marketing savvy, evidenced by his success in launching and building up the Domino's pizza chain in Japan. Giving up control of a potentially major market, though, could not be taken lightly. Because Yamada would invest his time in fleshing out and executing a marketing plan only after reaching agreement with Ben & Jerry's, there was no specific plan available for consideration. Even if there were, Yamada would retain the rights to change it. For the near term, however, Yamada would expect to add selected flavors of Ben & Jerry's ice cream cups to the Domino's delivery menu, providing an opportunity to collect market data based on customer response.

The Seven-Eleven option would leave Ben & Jerry's in control of whatever market development it might want to pursue beyond supplying Seven-Eleven in Japan. While Seven-Eleven would provide an instant entry to the market, the company would not be in a position to help Ben & Jerry's develop other distribution channels in Japan. The retailer thought it could sell at least six cups per day at each store, which would be the minimum to justify continuing to stock Ben & Jerry's. Looking at the size of Seven-Eleven's ice cream freezer cases suggested that this would require approximately 10 percent of Seven-Eleven's cup ice cream sales to be Ben & Jerry's products. Ben & Jerry's was as yet unknown in Japan and it did not have the budget for a marketing campaign there. Sales would have to rely primarily on promotional efforts by Seven-Eleven, but the company was making no specific commitment for such efforts.

Another option was increasingly compelling—that of holding off on any Japan entry. Japan's economy was continuing to languish, with increasing talk that it could be years before recovery. A financial crisis that had commenced with a devaluation of Thailand's currency in July 1997 seemed to be spreading across Asia. If the pending Asia crisis hit an already weakened Japanese economy, the

economics of exporting ice cream from Vermont to Japan could become infeasible.

Though the value of the yen had recently fallen to 125 yen to the dollar, Ben & Jerry's could still sell the product at the plant gate at an acceptable profit with room for both shipping expense and satisfactory margins for Seven-Eleven and its franchisees. If the rate went as high as 160 yen to the dollar, then the price in Japan would have to be raised to a level that might seriously cut into demand,

especially relative to Häagen-Dazs, which had manufacturing facilities in Japan.

It would be a long evening meal as Odak, Pezzani, Bowman and Hight gave their final thoughts to the decision before them. Not only had Odak promised Iida that he could make a decision, but Yamada needed an answer to his proposal as well. In any event, Ben & Jerry's had to proceed with one plan or another if it was going to have any Japanese sales in its 1998 income statement.

End Notes

1. Monetary values are in U.S. dollars unless otherwise noted.
2. A brief explanation of the relationship between the Japan Seven-Eleven organization and the U.S. 7-Eleven organization is in order. 7-Eleven convenience stores originated in Texas in 1927 as a retail concept of Southland Corporation, which had been in the ice business. Southland began using the 7-Eleven banner in the 1950s because the stores would be open from 7 A.M. to 11 P.M. The business grew through company-owned and franchised stores. Southland gave a master franchise for Japan to the Ito Yokado Company, a large supermarket operator there, which in turn established Seven-Eleven Japan to conduct the 7-Eleven business in Japan through company-owned and franchised stores. In the 1980s, Southland was in financial distress and Ito Yokado, along with its subsidiary, Seven-Eleven Japan, bailed out Southland, acquiring a controlling interest in the company. In this light, Odak's dinner with Iida in Japan constituted a sort of executive summit between Ben & Jerry's and its largest customer.