▲ UNI-PRESIDENT ENTERPRISES CORPORATION

C.Y. Kao
Chairman, Uni-President Enterprises Corporation
Alex C. Lo
Group Executive Vice-President, Uni-President Enterprises Corporation

In October 1992, we were interviewed by *Asian Money & Finance*. Asked whether the Uni-President Group aspired to become the world's largest food company by 2017, which would mark the company's 50th anniversary, our only response was to laugh loudly. Of course, it's something that we would always aim for, but it would take a huge amount of hard work, determination and good fortune to achieve it.

Though I, C.Y. Kao, am semi-retired today, I still hold a keen interest in shaping the future of Uni-President Enterprises Corporation (UPEC) in the coming decade. "Going international", as I have always said, has been the paramount guiding principle for the Group's development and future.

Company background

UPEC started its business in 1967 when Taiwan's government relaxed a moratorium on the ownership of flourmills by private enterprises. That year, our company began to produce animal feeds using by-products from flourmill operations and, in 1969, we began manufacturing instant noodles. Since then, the company has pursued a strategy of product diversification and vertical integration to take advantage of the many opportunities presented by the growing Taiwan economy. In the two decades from 1970 to 1990, the Taiwan economy expanded at an average annual rate, in real terms, of 9.5%, so the opportunities were real indeed.

It took only five years for the company to grow into Taiwan's largest food conglomerate; however, we did not stop there. Mainland China's Open Door policy, which reduced political tension across the Taiwan Straits, and the Taiwan government's lifting of restrictions for Taiwan-based companies to invest in China, have enabled us to grow our business on the mainland. Today we have roughly 46 different operations in the PRC. As we were entering and expanding on the mainland, we also headed into Southeast Asian markets – in Thailand, Indonesia, Vietnam and the Philippines. In 2002, the company achieved US$2 billion in sales in the food sector alone.

As a diversified Taiwan-based conglomerate, the group dominates the local retail sector as its largest player. UPEC operates 3,304 *7-Eleven* stores in Taiwan and 173 in the Philippines; 75 gas stations in Taiwan; 107 Starbucks Coffee shops in Taiwan and another 25 in Shanghai; 90 personal-care products stores in Taiwan; 29 hypermarket outlets in Taiwan and six in mainland China in collaboration with the French-based Carrefour organization. In addition, the company has substantial interests in financial services and real-estate development. Total group sales for 2003 were about US$1.9 billion.

Strategic intent and moves

We intend to spend the next 15 years creating a global food empire by adapting a formula that has proven successful in Taiwan over the past 36 years. As we go forward, the market on the Chinese mainland will undoubtedly play a major role in shaping the company's ~~overall~~ resource deployment. We already have 125 sales offices in China, in addition to the

46 operations mentioned above. Our sales in mainland China passed the US$1 billion mark in 2004.

However, we realize that our group's current resources alone will not be sufficient to achieve our expansion objective and, thus, we are actively seeking and forming strategic alliances with other global concerns for mutual development and exploitation of favorable opportunities. Many of the operations already mentioned benefit from partnerships. These include Carrefour to operate hypermarket outlets; Nissin for edible oil and instant noodles; Kikkoman in soy sauce; Cargill in grain-based commodities; and Starbucks for coffee outlets, in addition to many others already operating or being developed.

Key strategies in mainland China

We realize that only a company which achieves number-one status on the mainland will have the power and mass to become a global leader in the foods industry in the future. The mainland market – due partly to its sheer size but also to the fact that it is just starting to develop – is a key determinant of a global food company's future success. We recognize this reality and are therefore shaping our company's short-, medium- and long-term strategies for the next decade in order to achieve that goal.

These strategies can be grouped into four areas:

- building brands;
- improving business portfolios;
- reducing costs; and
- leveraging scale and capitalizing on geographic expansion.

All are important, but we view the first, building brands, as the most challenging task because of the level of planning and execution involved, and also because it has great impacts on the company's structure and organization. An enduring brand is the ultimate manifestation of the company's overall organizational capabilities and its specific ability to implement goals.

The route to globalization

Our strategy of going international is built around a much more elaborate plan to build worldwide manufacturing bases, supported by a strong distribution network. ~~Going international~~ will also help us to take advantage of changing consumption patterns and new market opportunities. In 1990, UPEC was the sixth-largest conglomerate and the ninth-largest publicly owned manufacturing company in Taiwan in terms of market capitalization. In the food industry, UPEC had about three times the annual sales of its largest competitor and had no serious competitors in the increasingly saturated market at home. Because of this, we were anxious for the ROC government to lift restrictions banning private companies in Taiwan from investing in mainland China. The mainland market had already demonstrated a lot of economic momentum, especially in the wake of its Open Door policy, and it became clear that we needed to invest there in order to grow in the ways that we envisioned.

We began our quest to go international in 1990 by undertaking the largest acquisition by a Taiwan company in the U.S., in buying Wyndham Baking Company, Inc., which at that time was the third-largest cookie company in the United States. In the fall of 1992, to build on this position, UPEC acquired the San Francisco-based Famous Amos Chocolate Chip Cookie Corporation. The consolidated sales for the American operations exceeded US$600 million.

In addition to building a base in the U.S., UPEC also utilized its American operations to invest in mainland China with two plants in Tianjin and Shanghai, respectively. In 1991, the Taiwan government eventually removed its ban and allowed companies in Taiwan to invest indirectly in China. This changing scenario prompted UPEC to carefully consider its resource allocations. In 1998, UPEC took advantage of economic prosperity in the U.S. and sold its American operations to another cookie company. Loaded with handsome returns from this sale, UPEC was in a better financial position for developing markets in Asia. In retrospect, we were fortunate to have been able to enter and exit the U.S. with such positive results.

Moving into mainland China

In 1991, UPEC set up its first operation for producing tomato products in Urumqi, Xinjiang, the most northwesterly province in China. That operation – a joint venture with the local government – formally marked the first step in our ambitious plans for the vast mainland market. Since then, UPEC has established its plants and operations in coastal provinces and developed its bases along the Yangtze River. Today, most of our 46 operations on the mainland, with another four projects currently in development, are in the food sector.

In the first phase, UPEC's entry into the Chinese market was achieved by forming joint-venture companies with local government agencies or with local state-owned enterprises (SOEs). The reasons for this were our relative lack of knowledge and connections necessary for doing business on the mainland. Thus, in addition to the tomato venture in Urumqi with the local government, and along the same principles, we started instant-noodle operations in Beijing and livestock operations in Shanghai. Over time, these ventures have presented mixed results. We have found that government companies or SOEs have had different motives and philosophies which may or may not match our own attitudes. Thus while we take a long-term and grand development plan for the mainland market, and would like to reinvest any profits back into our operations to enhance market standing, in our experience, government agencies or SOEs have been eager for a quick return from these operations to pay off debt. This divergence in beliefs tends to create tensions between the companies and management, and these have become roadblocks to our broader expansion plans. Of course, we have tried to learn from these lessons, which have given us a valuable understanding of the local market. We have also more diligently cultivated good relationships with different levels of government agencies.

Our second phase of expansion on the mainland is marked by starting to establish fully owned plants across the country. Meanwhile, in our existing joint ventures, UPEC plans to mitigate influence from SOEs, either by offering an attractive premium to buy back shares or increasing capital to dilute the partner's stake.

In Taiwan, UPEC developed its successful business model starting from grain-based products, and then moving to consumer-packaged goods and then retailing products. The hope was that, eventually, each business would become a leader in its respective market space. Ideally, we wanted to replicate this model for success on the mainland, and thus tried it from the very beginning. With the benefit of hindsight, using our Taiwan market model for the mainland turned out to be somewhat costly in terms of resource deployment.

Although UPEC is one of the largest grain-based concerns, on the mainland we do not yet have the latitude to fully exert the expertise and skills which have been acquired in Taiwan. We had missed a sensitive and subtle aspect in doing business in this sector on the mainland, which is that grain-based businesses are still highly regulated by the government. The state regulates supply and demand, as well as pricing, in order to provide a stable environment for consumers, which we agree is critical and necessary in an emerging economy such as that on the mainland. As a result, UPEC's grain business is still struggling to survive, despite having been in the market for 10 years already. On the other hand, we can look with pride at our operations in instant noodles and beverages, market sectors in which we have a leading position. Overall, we are fortunate that, taken as a whole, our mainland operations are profitable.

Partnership with multinational companies

Collaboration with international concerns to develop joint businesses in China or Southeast Asia is another of our critical factors for success as we globalize our operations. Even with 10 years' experience and knowledge in developing business in mainland China, UPEC recognizes very well that there is no company in the world today that has enough resources to reach and fully tap a market as large as that on the mainland. The country is endowed with vast geographic size, a huge population and tremendous potential. Working with multinational companies to share costs and develop businesses thus seems a logical approach and we are working to refine that as part of our business model. Our rationale is that many issues that we have faced on the mainland are common to many foreign businesses operating there. Many of these issues, though not all, relate to the problem of how to establish effective and efficient distribution channels. If UPEC is willing to share its infrastructure and platform with other players, all parties involved could benefit by sharing costs, reaching a larger market, and enhancing their respective positions. Indeed, our idea of serving as a gateway for multinational companies to enter China has proven to be quite persuasive and welcomed by potential partners.

To date, UPEC has formed a number of alliances with global companies. Our main approach is to be very flexible in designing organizational structures to accommodate the specific conditions of each partnership. For example, UPEC has formed joint ventures with six out of Carrefour's 32 outlets in mainland China; with Nissin Oil in edible oil; with Kikkoman in soy sauce; with Kirin in beer; and with Cargill in grain. On May 15, 2003, UPEC announced a strategic alliance with Nissin Foods, a Japan-based concern and the world's largest instant-noodle producer, to jointly develop instant noodles on the mainland and in Taiwan. Under that agreement, Nissin eventually ~~has the~~ right to invest for a 10% holding of UPEC's subsidiary in Kunshan, outside of Shanghai. The equity participation in this subsidiary by Nissin Foods has turned a new page for UPEC to apply in its strategies ~~for working~~ with international partners.

The lessons learned

Since Deng Xiaoping's Open Door policy in the early 1980s, the country's economy has grown to seven times larger than it was 20 years ago, and it continues to enjoy what may be the greatest economic expansion ever witnessed, any time, anywhere. Today, foods and beverages is one of the largest industry sectors on the mainland, and consumer-packaged food and beverage sectors are among the least strictly regulated. This enormous opportunity has driven companies from across the globe to enthusiastically build their presences on the mainland. Perhaps because this has created an intensely competitive market, most foreign food-and-beverage companies still find it difficult to attain even modest profitability in the mainland market.

As a case in point, UPEC entered mainland China as early as 1991, but we did not start making money until 1999, many years later than we had initially anticipated or hoped. Through more than 13 years' experience in doing business in mainland China, UPEC has learned that other foreign companies have encountered similar adversities. Many problems have been due to our flawed understanding of market demand and the level of competition that we would face, which leads companies to commit mistakes such as excess investment, improper resource allocation, or inaccurate reading of consumer expectations (for example, assuming that China is an extremely underdeveloped market that would absorb outdated products). Moreover, foreign companies usually severely underestimate competition from local companies, which is often much fiercer than expected.

Though many factors have proved workable in mainland China, UPEC has drawn up its own recipes for building a successful business there. In fact, most successful companies in mainland China recognize some of these success factors.

No amount of excellence in execution can compensate for a bad decision about where and how to invest. Like leaders in combat, business leaders must first decide which battle to fight, the optimal configuration of forces to use, and how best to deploy the forces to break through competitive positions. According to research released by a Chinese government agency, for the second half of 2002, 90% of 600 major merchandisers suffered from oversupply; an increasing pressure compared with that of the first half of the year. This oversupply results from severe duplication of investments and market deflation in the short term. Clearly, selecting structurally advantaged categories in which to invest becomes the first agenda to consider. Categories with an advantage have three defining attributes: (a) immediate acceptance by a large base of consumers; (b) high affordability; and (c) sufficiently robust economics for market leaders, even in the face of rising competitive intensity.

As already emphasized, affordability is critical to widespread consumer adoption. Selecting an appropriate price band is thus the second critical strategic choice. The power of value-pricing and scale lies in their integrated nature and the ways in which they complement one another. In general, value-pricing could generate the demand required to build scale. In turn, that scale would translate into a low-cost operation that would further support value-pricing. For pricing strategies, mass-market pricing, value-for-money pricing, high-end pricing and premium pricing are most often adopted. A tiered portfolio approach to pricing can usually raise overall category profitability.

The third key choice is the breadth and pace of volume growth and geographic expansion. Scale is all-important in a large emerging market like that on mainland China. Mergers, acquisitions and alliances, together with effective integration plans, are critical to building scale and capabilities.

Where to focus resource investments plays a critical role in making decisions. Experience shows that hybrid approaches to people and asset use might yield surprisingly similar market results. The mainland China market is still evolving and transforming fast in consumption patterns, tastes, behavior and style. UPEC suggests that the companies doing business in mainland China had better invest their limited resources in softer aspects such as local marketing, sales skills and organizations, rather than in hard ones such as physical assets.

Ultimately, food-and-beverage companies operating in mainland China will earn most of the value created by their industry if they build strong brands. This is common to many consumer markets. Therefore, building enduring brand equity will be the ultimate task for any food-and-beverage company. A strategy built around brand equity has also been applied to developing our operations in Southeast Asia.

Moving into Southeast Asia

UPEC's very clear corporate objective is to build our presence into a leading market player in mainland China, but we never let ourselves be overwhelmed by that market's potential. We know that we could not put our entire company's future into one market, even one as large as that on the mainland. This understanding has led us to focus on other markets within Asia, especially those in Southeast Asia, even though these markets are totally different in mode and background from that in China. To execute our parallel entry into both regions, we needed a very clear understanding of our company's relative strengths and potential in these markets. These market developments have followed a completely varied track and presented mixed results, thus shedding light on our management of international operations.

UPEC's entry into the Hong Kong market is rooted back in the 1980s. A Hong Kong native who was also a good friend of the chairman of UPEC was granted rights as the exclusive agent to import our products from Taiwan for distribution in Hong Kong. In mid 1990, to integrate operations between its Hong Kong business and that of the Pearl River Delta in China's Guangdong province, UPEC decided to try to regain control of the distribution rights. However, the company was surprised to find out that the CEO's good friend had already registered all trademarks for the distributed products in Hong Kong under his own name. It took UPEC about two years to settle suits and retrieve all of its trademarks. Then, it set up a branch office in Hong Kong. The business mainly operates in trade by integrating operations from Hong Kong and the Pearl River Delta.

In 1992, an overseas Chinese businessman who lived in Jakarta approached UPEC's chairman for possible collaboration to set up a company in Indonesia. Intent on going international, the chairman immediately decided to form a joint-venture company with the Chinese-Indonesian to produce instant noodles. In Indonesia, the market for instant noodles was vast and was monopolized at the time by Indofoods, a local conglomerate. Equipped with differentiated products, knowledge of the local market and marketing skills, the joint venture took little time to develop into a successful and stable organization with a 10% market share. Except during the period of the Asian financial crisis, the business was profitable. We strongly believe that it will continue to bear fruit well into the future. At present, UPEC's top management is evaluating more opportunities by expanding operations into beverages. After market analysis, the company has decided to go ahead with a market test by working with another local producer.

Thailand was the second market in Southeast Asia that UPEC entered. However, this move was far from being a product of sound analysis and background research. In 1994, an overseas Chinese who lived in Thailand approached the chairman of UPEC and invited UPEC to invest in the country. Without too much thinking and evaluation, the chairman assigned the project to his vice-president for the beverage division to proceed. Coincidentally, the VP at that time was very intoxicated by the unprecedented success achieved by his division in the domestic market and thus perhaps too eager to set up an overseas base regardless of location. In a sense, he wanted to earn credit as a pioneer who developed overseas markets. His aspirations might have been commendable, but his process was definitely out of order, since it was based on emotional and almost personal concerns. Thus the joint venture was established in Thailand without a well-formulated strategy backed up by information and good execution.

As could have been expected with such a move, the venture did not see even a minimum level of success until recently. During the past nine years, the Thailand business burned three times its initial capital and had to buy back all of its shares from its Thai partner. It never established even one winning and sustained business, and executive-level management at the head office received only endless bad news. After review, head office attributed the repeated disappointments over the first five years to a string of bad decisions made at the initial stage, while bad management was to blame for the rest.

Actually, the move into Thailand attracted little attention from UPEC's management, which at that time was just starting to direct most resources towards the growing business in China. With that distraction, the head office left all decision-making regarding the Thai operations to the division, which was operating the business in a very laissez-faire style. In 1997, our top management deemed the "black hole" to be out of control and immediately removed the divisional management team, both at home and abroad. In 2000, the cleaning process continued by changing the managing director for the Thailand office and returning the governance of that unit to the newly established strategic business unit (SBU) for beverage products. Since then, after launching several appealing products which were well received by the market, the Thai operation has developed into a much more stable organization. The company turned its losses around and, starting the final quarter of 2002, the division was fully back in the black.

We visited Vietnam's central government with a Taiwan government-led trade mission in 1993. During the visit, the Vietnamese government warmly welcomed UPEC to invest in their emerging market and generously granted an exclusive permit for producing flour, animal feed and instant noodles. Motivated by those incentives, UPEC established a 100%-owned subsidiary and poured a total of US$40 million into the initial phase. It formally launched products in early 1999 and, by the first quarter of 2003, UPEC had already posted profit from its Vietnamese operations, mainly because of successful products in animal feeds. Simultaneously, instant noodles have demonstrated an upward momentum as well.

UPEC's entry into the Philippines has been very rough. The original plan was to form a joint-venture marketing company with East Asiatic Company (EAC), a Danish-based international trading company. That collaboration was aborted because EAC decided to withdraw from the Southeast Asian markets, which were badly battered by the East Asia financial disaster of 1997. With frustration, UPEC's representative in the Philippines had to take another two years to pursue another option. By

2001, it finally reached an agreement with RFM, a locally based food concern, to form a joint-venture company to produce instant noodles. UPEC owns a 51% stake in the joint venture. In late 2002, the joint venture started to roll out its first offerings to the market. Encountering strong counterattacks by local competitors, the joint venture has learned a strong lesson from its initial results and will be taking a very long road to attaining even a modest footing in the market.

Challenges

Comparing experiences in China and Southeast Asia

Despite the fact that markets in mainland China and Southeast Asia share certain similarities, such as a young consumer profile, strong market momentum and increasing opportunities, we have found that we need different approaches to tap these. To succeed in business on the mainland requires a collective business model, with different strategic components working together in a closely coordinated fashion. For example, conventional wisdom asserts that the key to success in China is a combination of low costs and low prices. However, reality proves that a more dynamic and sophisticated model is needed to achieve this goal.

The markets in Southeast Asia are very varied in culture, religion and ethnic composition. For UPEC to be successful in the region, it has to devote its efforts to not only traditional strategies such as scale, cost, and price, but also to local market insights and creative thinking regarding resource deployment. Usually, working with a good local partner will assure some success.

Challenges vs. opportunities in building a brand business

Like many other consumer-oriented companies in the world, food-and-beverage companies such as ours realize that we will earn the most value from the industry by building strong brands. Therefore, building enduring brand equity is the ultimate goal guiding the company's development. However, companies that recognize and appreciate brand value may find it difficult at times to translate this concept into reality. In Taiwan, the traditional export-driven economy has long shaped the island's industrial structure, which in turn has encouraged Taiwan-based companies to acquire greater capabilities in manufacturing than in marketing. Moreover, Taiwan's domestic market is not very big and thus companies find it particularly costly and difficult, if not impossible, to build their own brands. As a result, Taiwan has long been known worldwide for its manufacturing capabilities and it is good at supplying a wide variety of products under the umbrellas of international clients, but rarely does anyone recognize Taiwan brands.

The opportunity to enter into mainland China has potentially changed this scenario. Driven by visions of the country's one billion consumers and the belief that early movers will reap a permanently disproportionate share of one of the 21^{st} century's biggest markets, consumer-goods companies have long poured investments into mainland China. Nobody can deny that the greatest attraction for Taiwan-based food-and-beverage companies entering mainland China is the huge domestic market that can support any committed company that consistently builds enduring brands for competing around the world.

Change of organizational structure to accommodate strategies

To implement the newly formulated strategies successfully, starting in 2000, UPEC has publicly vowed to transform its business from one rooted in and oriented towards manufacturing, towards one driven by marketing and consumer orientation. We realize that one of the most steep challenges in this task is the transformation of our institutional culture. UPEC has started to restructure its command and report relationships by embracing the conventional organization wisdom that "form should follow function" and "roles should follow function". The company established SBUs in 2002, and it has been retrieving final jurisdiction for branding management, which operating divisions used to own. Then, it has been handing the brand management back over to the function-enhanced Corporate Marketing and Planning Division.

Challenges to building brands across borders

Although management at the head office has set up the organizational framework to transfer brand-building skills across borders, there are still internal conflicts and thus a great need for coordination among diversified business units operating in multiple and sometimes distant locations.

While reviewing its portfolio, management has been astonished to see that the top 200 out of the company's 2,400-odd Stock Keeping Units (SKUs) contribute 70% to 85% of company-wide sales and profit, respectively. With that in mind, we realize that we need to speed up the process of brand consolidation to better deploy and focus the resources necessary to boosting overall performance.

Prior to the formal establishment of SBUs in 2000, UPEC had already built a substantial presence on the mainland. In turn, that operation has evolved many specific local operational modes and even created some expedient realities. Although, ideally, we may want to break or change these realities in order to consolidate the brands across the Straits of Taiwan, this may not always be very easy, and in some cases could be quite sensitive. During this process, head office has identified some common and recurrent problems. Some of these are due to the development of our business on the mainland, which UPEC has found to be much thornier than initially expected. Under the assumption that Taiwan and the mainland shared the same culture and language, initially – and with great optimism – UPEC launched products that had proven successful in Taiwan into the mainland market. This confidence immediately turned into a string of nightmares as all the successful products from Taiwan proved to be either failures or merely survivors. It took us around six years to become acquainted with the tastes on the mainland and to be able to develop products tailored for consumers in that market. Because we had to change the attributes and texture in those products for the mainland market many times, our goal of consolidating our brand has not yet been achieved.

Language stands as another interesting, but tricky, subject for the consolidation of brands. At first glance, Taiwan and mainland China appear to share the same language; the only difference is that the mainland uses simplified characters, while the Taiwanese use the traditional characters, which are unrecognizable to most people on the mainland, particularly the younger generation born after 1949. However, the difference in characters has more significance. The same Chinese characters or phrases may carry different connotations and some phrases may exist in one language but not the other. Thus one cannot simply transfer an existing brand directly from Taiwan to the mainland. Moreover, in many cases on the mainland, a specific brand name has already been registered by someone else. A similar set of issues awaits us in trying to create products for Southeast Asian markets where English is not a native language. In Taiwan, English is spoken and written widely. Therefore, naming products in English to serve needed markets is frustrating and often impossible for staff at head office.

Apparently, head office staff still need to establish the necessary credibility to transfer the knowledge and skills of brand management to other markets. This reality often legitimizes parochialism. Operational managers at local markets usually lack an appreciation of the significance of consistency of brand value that has been built successfully in the home country. They tend to apply their discretion to the local preference for naming those products, which even share the same attributes with those already distributed in the home country. They can always find hundreds of reasons to defend their adoption of locally preferred brands instead of those already established and offered by head office. How to achieve a balance between centralization and decentralization remains a frequent question for management locally and abroad.

UPEC's need to protect its copyrights in foreign markets is another daunting task, particularly in mainland China, where intellectual-property protection is notoriously weak. Unfortunately, copycats emerge from every corner of the country and immediately imitate a successful product that has been achieved through hard work. While we should be happy that our products are so successful as to offer incentives for copycats, in reality the violation threatens the survival and success of the original product. Thus we need to work effectively with different levels of government agencies to crack down on those counterfeits; indeed, in some parts of the organization, this is part of our daily agenda. In Taiwan, we have established a comprehensive procedure to tackle these imitations. On the mainland, though, local management in some cases has not yet determined the rules of the game.

Managing challenges and dealing with conflicts

Building consensus around brand value is the most important criterion for communicating with all management and operations teams at different levels. In achieving this consensus, there are several types of minds to convince. Some people lack the marketing sense necessary to appreciate the value created with brands; some do acquire the concept of branding, but do not have the know-how to build it up; some have the sense and know-how, but are not sufficiently equipped to implement what they may know they must do. Management needs to apply different kinds of education or resource support to accommodate all of these types.

Our corporation has intensive and regular brand-management education and training, which is widely delivered at all executive levels. In order to instill the concept and value of brand-building, the CEO personally monitors and announces the progress of selected leading brands in a monthly management meeting, and SBU managers have to carefully preserve and sustain these brands. By doing so for about two consecutive years, all managers have gradually acquired a notion that, like each individual, each product has its own name, but that very few can be successfully built into a preferred and valuable brand.

Responding to the increased complexity in brand management, UPEC has started to seek advice from internationally known brand image-development firms such as Landor and Interbrand, in addition to advertising agencies that have long been working with the company. These third parties can provide insights and valuable advice to our executive team to enable us to better steer or manage our brand.

Some of these efforts are beginning to bear fruit. Over the past two years, UPEC has already established seven mega-brands, each with at least NT$1 billion (approximately US$35 million) in annual sales in the Taiwan market. This performance is unrivalled by any other competitor. Furthermore, UPEC has added another six mega-brands that are generated from the mainland portfolio. The company has vowed to sustain the value of these great brands and is committed to building up at least 10 more in the coming years.

Objectively, building a mega-brand in the mainland market should be relatively easy compared to doing the same task in Taiwan. In Taiwan, UPEC's best product took only four years to build a brand and pass the NT$1 billion mark in annual sales. Most others require at least 10 years. However, given its market size, with hundreds of millions of potential consumers, mainland China offers UPEC a much better chance at developing mega-brands by sheer numbers alone. If the company positions its products with sound marketing and good execution, we should be able to reach this goal. The six mega-brands that have already been established in the mainland market have all been built from scratch, among them a juice product carrying the brand name "More", which will hit US$300 million by the end of 2003. For that product, UPEC took only two years to reach that level, which fully demonstrates the beauty of that continent-style economy.

Social responsibility: Realizing another dimension to business

It would be tempting to think that we can enter and expand within markets with only business issues such as market share, sales and profits as our primary goals. However, we have become very aware that we exist within a complex society, and that we as a major business have a social responsibility to fulfill.

In October 1987, Uni-President encountered an unprecedented crisis within the food industry. A blackmailer known as "Man of a Thousand Faces" sent an aseptic carton filled with a poison-contaminated drink and a letter to extort NT$15 million (US$530,000) from the company. He threatened to inject poison into the company's products everywhere if his demand was ignored or rejected. Enraged by such intimidation and surrounded by mixed proposals from his management team, Dr. Kao, the CEO and president at that time, was determined not to yield to this blackmail. He made an open announcement advising the general public to stop buying the company's products until the felon could be identified and caught. In the meantime, he made a recall of all the company's products from every retailer's shelf, and destroyed these in front of a government agency as a witness.

That decision put the public's anxiety to rest; furthermore the villain never took additional steps against the company. Though the company lost billions of dollars in this incident, it earned invaluable trust and confidence from the community. More significantly, the company set a model example to the industry on how to manage similar crises. Since then, a blackmail attempt of this nature has never succeeded in Taiwan's food industry.

At the start, when Uni-President set up shop with only 82 employees in a small southern Taiwanese city, it felt indebted to the community for the confidence it had in the company. The blackmail crisis engendered in Uni-President a deeper sense of its social responsibility. Uni-President recognizes that building a credible company alone is not enough; but as a high-profile enterprise, it seeks to influence or even guide society through its exemplary organizational behavior. Today, the company has a significant presence in many markets, and it employs as many as 60,000 people across the Asia Pacific region. We certainly sense our ever-expanding responsibilities towards the communities in which we operate.

As part of its commitment to being an exemplary enterprise, Uni-President constantly reminds all its employees that they need to adhere to the law in helping the company to maximize shareholder value. This adherence is a basic yardstick of a responsible corporate citizen. We believe that a greater company should set an even higher standard by always taking action to better our social behavior and value system, to protect our community's ecological environment, to utilize and allocate social resources more efficiently, and to contribute to our society in more meaningful ways.

Corporate social responsibility must not be embraced merely as a publicity slogan. Rather it is an endless process and a determination to show persistent and continued commitment. Uni-President pursues its vision of being a brand-driven entity; however, it understands that it can never achieve this goal without being perceived by the general public as a responsible corporate citizen. The management entrusted with this responsibility is as important as the brand portfolio. Corporate social responsibility is an indispensable pillar that complements the company's efforts in building its brand. As society increasingly associates a specific brand with the company it represents, the company can enjoy perpetual economic prosperity from a brand perceived as the ultimate choice.

Uni-President is fortunate to have acquired abundant opportunities to demonstrate its social responsibility. In Taiwan, the company has already established numerous foundations and has actively participated in a wide range of activities for various social causes. Since 2000, the company has promised to provide even healthier foods by using only natural ingredients in all its products. In 2002, to reinforce these commitments, Uni-President established a foundation named "Love for the Millennium", which is dedicated to carrying out the company's ongoing commitment to healthier and better living standards. In addition, the company's retailing subsidiaries such as *7-Eleven* are positioning themselves as the best neighbors to their respective commercial communities and are leveraging their pervasive presence by providing customers with both tangible merchandise and virtual services.

Conclusion

Motivated by strategic drive, UPEC must establish a new, highly complex managing role, which coordinates relationships between SBUs and does so in a highly flexible way. The key is to focus less on managing activities directly and more on creating an organizational context that is conducive to the coordination and resolution of differences. Creating the right organizational context involves establishing clear objectives, developing managers with broadly based perspectives and relationships, and fostering supportive organizational norms and values. Having built flexible central and local management capabilities, the next challenge is to link them in an organization that allows UPEC to do what it must to survive in an international environment – to think globally and act locally.

We cherish the hope that our company can continue to improve itself as it engages in different markets and in different societies. Though we are already a multi-billion dollar organization, UPEC will continue to experience a series of growing pains in its transformation from a local company into a global entity. We realize that in the future UPEC will enter a completely new battlefield with global rivals such as Nestlé, Unilever and Danone. Our response must be to upgrade overall competitiveness to survive and prosper. In our journey to become a world-class player, brand building is just a starting point, just as the mainland China market is only one market on the international map. UPEC realizes that there are still many organizational challenges like this that lie ahead.

1. **Growing from family-run to strategy-run.**
Uni-President entered several markets in ways that are commonly associated with a family-run or founder-led company; that is, by emotion or instinct rather than according to coherent strategy backed by market research and business development plans. In retrospect, the company acknowledged this approach as "misdirected" and made tangible plans to rectify the investment. In addition, by accepting and identifying the causes of the error, they have been able to learn from the episode and, through new systems of checks and balances, ensure that their future investments are made on much sounder ground.

2. **Aligning business plans with realities of markets and culture.**
Uni-President has been flexible in developing strategies which are tailored to meet the specific cultural, historal and industrial situations of various Asian countries. For instance, because of the structure of the industry and the cultural aspects of food products, they chose to enter several Southeast Asian markets with local industry leaders, such as with RFM in the Philippines. On the other hand, in Vietnam, where the government takes a stronger hand in industrial development, Uni-President accepted the government's recommendation to invest in a wholly owned venture. In mainland China, the company has used a combination of entry strategies – including partnership with the government and franchising – to meet the specific needs of each market.

3. **Rationalizing business structures as the organization grows across borders.**
The company has created new structures to meet the demands of a growing organization, and today has the SBU (strategic business unit) as an integral part of its strategy to extend brands across borders. The company realized that it needed to maintain certain functions (core administration, long-term strategy) at

headquarters but that it also needed to evolve an organization that could give limited autonomy to business units. Today, this structure allows new business units to be created as needed, whilst the central office manages activities and brands in an integrated manner.

4. **Assuming the mantle of industry and business leadership.**

The company has not been slow to assume the mantle of social responsibility that comes with being an industry leader and an organization with a growing global impact. As a part of this, they consider their employees as extensions of the company and thus try to instill civic values amongst employees across the company as a whole. This step sets UPEC apart from others in its industry group and in Taiwan.