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Focus BRAND MANAGEMENT: Jiangzhong Hou gu (Mushroom) Biscuits

Yingxue Sun and Xiangrong Lin wrote this case under the supervision of Professors Jing Chen and Hubert Pun solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On October 7, 2012, Lily Xu, the chief executive officer of Focus Brand Management (Focus), a consulting and advertising company, sat at her desk preparing for a meeting with Jiangzhong Pharmaceuticals (Jiangzhong). Focus had been working with Jiangzhong on an annual analysis of brand tracking. Based on that analysis, executives at Jiangzhong believed that it was time to expand their business to the functional food industry. Their first product would be a line of biscuits featuring a core ingredient known as *hou tou gu*, a type of mushroom considered beneficial to stomach care, according to traditional Chinese medicine. Xu’s advice on the new product would have great influence on the future of the relationship between Jiangzhong and Focus. Xu reviewed several proposals on the new branding opportunity for the product’s launch, including brand name, packaging design, advertising and promotion strategy, and the choice of a suitable brand ambassador.

FOCUS BRAND MANAGEMENT

Focus was established in 1995 as a company that integrated consulting on a brand’s strategy, planning, creativity, and promotion. Since its launch, the company had provided its services to more than 100 brands across many industries, focusing on big health and fast-moving consumer goods companies. The total market value of all brands for which Focus had provided services was over ¥30 billion.[[1]](#footnote-1) Focus and its clients were primarily based in mainland China. The company had an excellent record for making use of the traditional Chinese culture and unique health concepts in its product positioning, branding, and marketing services. For example, being aware of the overeating and indigestion issues that were common during Chinese Spring Festival celebrations, the country’s most important holiday, Focus designed an enticing television commercial for a client’s digestive tablet, featuring a typical family gathering during the Spring Festival. The affinity of this commercial increased the seasonal sales for the product and considerably improved the customer acceptance rate for the digestive tablet. Inducing consumers’ needs, by picturing scenarios where the product was most useful, was Focus’s effective advertising strategy to reduce the awareness gap between the brand and the consumers.

Focus offered an extensive variety of services related to researching potential branding opportunities and developing a client’s brand. The services included assessing the customer’s needs, determining strategies for the product, finding the right marketing channel, establishing product pricing, and promoting the product after launch. Focus helped its clients build the brand and provided suggestions for product development, packaging, and promotional strategies.

Focus also believed that the brand name was critical to product development to inform the consumer about the product without a need for description. Packaging design also played a key role in capturing the consumer’s attention among competing products, including giant international brands. Focus also stressed the importance of effective product positioning and an appropriate brand ambassador.

Jiangzhong has been a Focus client for about two decades. During that time, Focus had helped Jiangzhong overcome the strong competitor, Motilium, with its own product, Jian Wei tablets. Both products targeted stomach health. While Motilium relied on molecular biochemistry, the Jian Wei tablet offered processed Chinese herbal medicine with lower drug efficacy but higher safety results. Focus decided to promote the safety of its product after it found, through market research, that the pharmaceutical company did not consider safety a core advantage. The Jian Wei tablet was remodelled into a daily therapy product that customers could use every day after meals that were excessively heavy, greasy, or difficult to digest. After several years of promotion, the product’s sales dramatically increased with frequent and repeat buyers, resulting in over ¥1.7 billion in revenue in the product’s peak year.

JIANGZHONG PHARMACEUTICALS

Jiangzhong was a rapidly developing pharmaceutical company founded in 1996, with headquarters in Jiangxi province, China. Jiangzhong was one of China’s best known innovative companies for over-the-counter (OTC) pharmaceutical products and the fifth-largest company in the Chinese medicine industry. With direction from Focus, Jiangzhong had gained nationwide fame since launching its star product, Jian Wei tablets. By 2012, Jiangzhong’s brand was valued at over ¥10 billion and was still growing.[[2]](#footnote-2)

Jiangzhong had three main production lines: OTC, food therapy, and nutritional supplements. Chu Yuan, Shen Ling Cao, and Hou Gu were the core products for the three production lines. The three products were designed for surgery recovery, nutrition nourishment, and stomach care, respectively.

An example of an OTC pharmaceutical product was the lactic acid probiotic tablet, which was taken to improve intestinal health. Jian Wei tablets were sold under both the OTC and food therapy business line. Another of Jiangzhong’s famous and profitable products was Chuyuan amino acid drinks, a post-surgery nutritional supplement. Chuyuan opened the market for post-surgery care products and still had the largest market share among competing brands.

Having had previous success in exploring new markets with Chuyuan, Jiangzhong decided to ride the rising trend of functional foods in China by launching a biscuit that was specially designed for patients with stomach conditions as well as consumers wishing to maintain good stomach health.

MARKETING RESEARCH ON the Jiangzhong STOMACH CARE BISCUIT

A 2015 Popular Science China article[[3]](#footnote-3) stated that 400 million Chinese residents, or one third of the Chinese population, had some degree of gastric problems. The number of people with stomach conditions was still growing at the high rate of 20.4 per cent per year. People aged 20 to 45 years were at an especially high risk. Some common causes of stomach problems were bacterial infection, unhealthy eating habits, and mental stress. Because these problems were so prevalent, they were not seen as requiring special treatment. Many people simply opted for traditional Chinese food therapy, rather than medicinal products, to avoid potential toxicity risks. A joint marketing research project by Focus and Jiangzhong tracked 3,000 customers with stomach problems and found that about 41.3 per cent of patients normally carried small packs of biscuits with them for relief. Of this number, 92 per cent indicated that they would buy biscuits intended to treat stomach problems. This finding seemed to reveal a market for biscuits on which Jiangzhong hoped to capitalize (see Exhibit 1).[[4]](#footnote-4)

*Hou tou gu*, the core ingredient of the biscuit, was a type of edible mushroom believed to have a nourishing effect on the stomach, according to traditional Chinese medicine. No scientific experiment ever confirmed the chemical structure of its functional substance or the efficacy of the mushroom at specific dosages. However, tablets containing that ingredient were still the most prescribed drug for treating stomach conditions. Based on Jiangzhong’s marking research,[[5]](#footnote-5) *hou tou gu* had a high recognition rate, making it an ideal ingredient for Jiangzhong’s stomach care product.

CHINA’S FUNCTIONAL FOOD INDUSTRY

The terms “functional food” or “health food” referred to food products that were either beneficial to the general health of consumers or targeted the performance of a specific body part, such as the heart, liver, or joints. In China, functional foods included traditional Chinese herbal products and vitamin supplements. According to research conducted by the Hong Kong Trade Development Council,[[6]](#footnote-6) China’s health food and supplements industry accounted for a total market value of over ¥1 trillion and was still growing. The favourable market potential was due to the Chinese consumers’ growing awareness of and demand for a healthy lifestyle, which had been increasing in recent years.

Historically, Chinese consumers believed in the benefit of food therapy and herbal curing, feeling that every food had some medicinal characteristic, such as cooling, warming, drying, or moisturizing. Certain foods were also linked to the well-being of specific organs. For example, brown sugar was believed to improve blood circulation in females, while sesame seeds were thought to prevent hair loss and discoloration. This cultural belief became neglected during China’s cultural revolution years, when industrial development and economic advancement were made at the cost of environmental pollution, resulting in a decline in the health of the populace. In the 1980s, the old-fashioned concept of food therapy saw a resurgence. As of 2010, the notion of health food consumption had become unprecedentedly popular, as people realized that the best way to ensure a higher quality of lifestyle with the current environmental and social distress was by eating healthy foods. Consumers of functional foods were eager to spend money on health food for themselves, their families, and their friends. Functional foods also made an ideal gift for special occasions and traditional holidays. As a result, most advertisements featured a family setting, intended to target the family’s adults and elderly.

The Chinese government was also actively promoting higher nutrition standards for its people, which was another contributing factor to the growing health food market. Data from the China Healthcare Association showed that health food products generated annual sales of ¥200 billion, with middle-aged and elderly consumers contributing over 50 per cent of this total.[[7]](#footnote-7) According to the Ministry of Civil Affairs, over 200 million people in China were age 60 or higher, accounting for over 15 per cent of the total Chinese population. By 2050, this segment of the population was expected to increase to more than 400 million, and the total market for seniors was expected to reach ¥106 trillion. The health food industries would thus grow at a rapid rate.[[8]](#footnote-8)

On the other hand, according to e-commerce platforms such as Taobao.com, 22 to 55-year-old females from urban cities were the strongest health food consumers in the categories of beauty, weight loss, blood replenishment, bowel treatments, and detoxification. This group of consumers generated 60 per cent of total sales of all health foods from online sources.[[9]](#footnote-9)

The booming health food market in China was inducing many pharmaceutical companies to transform and expand their health food divisions, in addition to the existing specialized health food enterprises. The influx of international brands, such as Proctor & Gamble and Pfizer, also created more competition in the Chinese market. Companies with multinational financial support were at a greater advantage. However, the level of consumer acceptance of imported health food was still tempered by local traditional Chinese medicine and food therapies, including the popular brands of traditional health food such as Wanji, Golden Sun, and Infinitus. Jiangzhong had the advantage of a successful 40-year history in processed Chinese medicine.

However, if Jiangzhong failed to quickly address the rising trend in health foods, it could soon lose its competitiveness and status as a large pharmaceutical and food therapy company. Therefore, developing a game-changing health food product was critical to Jiangzhong’s survival in the business. To assist with the launch of this important product, Jiangzhong needed professional assistance from Focus to determine the best strategies for branding, package design, and targeted advertising.

MAKING A DECISION

Xu would be representing Focus at the meeting with Jiangzhong’s executives. Before the meeting, she still needed to resolve some key questions. What promotional plans could she recommend for Jiangzhong’s mushroom biscuit to ensure its place as the next bestselling health food? What strategies should she use to make this stomach health care product impress the targeted consumers? With consumers’ limited budget for all available health products, how would this product stand out among all others? If Jiangzhong were to hire a celebrity to represent the image for this product, what traits should the ideal candidate have?

Jing Chen is a professor at Dalhousie University. This case was funded by the National Natural Science Foundation of China (grant no. 71671081 and 71331004).

Exhibit 1: marketing research Findings

Source: Company information—based on marketing research conducted for Focus and Jiangzhong on stomach problems.

1. ¥ = RMB = Chinese yuan renminbi; all currency amounts are in ¥ unless otherwise specified; ¥6.32 = US$1 on October 7, 2012. [↑](#footnote-ref-1)
2. “About Us,” Jiangzhong Group, accessed December 3, 2017, http://www.jzjt.com. [↑](#footnote-ref-2)
3. Popular Science China, “Body Paull ‘Stomach’ War,” China Science and Technology, December 24, 2015, accessed December 3, 2017, http://news.xinhuanet.com/science/2015-12/24/c\_134947597.htm. [↑](#footnote-ref-3)
4. Company information—based on marketing research conducted for Focus and Jiangzhong on stomach problems. [↑](#footnote-ref-4)
5. Ibid. [↑](#footnote-ref-5)
6. “China’s Health Food Market,” Hong Kong Trade Development Council Research, August 1, 2017, accessed December 3, 2017, http://china-trade-research.hktdc.com/business-news/article/China-Consumer-Market/China-s-Health-Food-Market/

   ccm/en/1/1X000000/1X002L54.htm. [↑](#footnote-ref-6)
7. Ibid. [↑](#footnote-ref-7)
8. Ibid. [↑](#footnote-ref-8)
9. Ibid. [↑](#footnote-ref-9)