

CJ FRESEWAY'S CHALLENGES

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INSTRUCTOR'S NOTE

CASE DESCRIPTION

This case describes how CJ Freshway enlarges in the food distribution industry utilizing its resources and reputation. It also forms joint venture with the local distributors in the name of Freshone to deal with the public opinion and gain local consensus. This case provides an overview of CJ Freshway within the food distribution industry. The case has a difficulty level of three, appropriate for junior level. The case is designed to be taught in one class period and is expected to require two hours of outside preparation by students.

CASE SYNOPSIS

CJ Freshway is the first large company to enter the food distribution business. They cover a wide range of the food distribution business in Korea. With the reputation of its parent company CJ Group in Korea, they could attract a number of customers, who are restaurant owners and franchise restaurant brands. CJ Freshway formed joint ventures called Freshone with small-medium sized food ingredients distributors by obtaining 51% or more of total share. Attracting more local distributors to join Freshone is vital for CJ Freshway to expand the business and get competitive advantage. Through joint venture, CJ Freshway could leverage the tacit knowledge and networks of the local distributors. Also, CJ Freshway could respond to the social atmosphere that requires coexistence with small businesses. By joining Freshone, distributors can secure stable income and shorten the distribution process with the advantage of CJ Freshway's system.

However, CJ Freshway's market share is only between 2-3% in the B2B section of food distribution industry. They are still the market leader, yet considering the profit earned, CJ Freshway has a long way to go. Furthermore, CJ Freshway underwent the conflict with local distributors. The conflict caused CJ Freshway loses trust from local distributors. What should CJ Freshway do in the food distribution market for sustainable competitive edge?

1. What are the success factors of CJ Freshway?

- Synergy with CJ Group

CJ Freshway gained synergy effect with the following subsidiaries of CJ group: CJ CheilJedang, CJ Foodville and CJ Korea Express. CJ CheilJedang, a food manufacturing company, collaborates with CJ Freshway as it purchases food ingredients used to manufacturing processed food items. At the same time, CheilJedang help CJ Freshway in developing Private Brand products. CJ Foodville has many restaurant brands and it is also another big customer of CJ Freshway. Lastly, CJ Korea Express is a logistics company and it supports CJ Freshway with efficient distribution system.

- Joint venture structure of Freshone

CJ Freshway formed joint venture with small-medium sized food distributors to enlarge their market share. In B2B market of food distribution industry, there are thousands of small-

medium sized distributors. By attracting these local distributors to join Freshone, the revenue and market share of CJ Freshway increased. As the quantity of food ingredients increases by attracting small-medium sized distributors, there is a higher possibility for CJ Freshway to gain more bargaining power with the suppliers. In addition, CJ Freshway can benefit from the network and know-how of the small-medium sized distributors. The network with local restaurants and know-how on sales and customer management can enhance competitiveness of CJ Freshway.

2. What strategy did CJ Freshway came up with to increase its profit margin?

- Freshone as a joint venture

CJ Freshway decided to pursue joint venture model as a way to realize economies of scale. This is because businesses in the food industry find it hard to record high profits compared to other industries. Sysco, the most dominant food distribution business in USA, have margin of about 4% which is relatively low compared to its overall scale. Distribution is more about process and shortening the steps between producers and consumers. This leads firms to leverage economies of scale. Thus, the firms in the food distribution industry tend to pursue M&A or joint venture. However, due to the environmental reasons in Korea, chaebol is regarded to destroy the local markets and thus pursuing M&A is heavily criticized. Therefore, CJ Freshway formed a joint venture called Freshone with the small-medium sized distributors to grow.

2. What are the current strategic issues for CJ Freshway in utilizing Freshone?

- Conflict between CJ Freshway and local distributors

CJ Freshway should utilize the Freshone to further grow in the industry by obtaining more small-medium sized distributors. Yet, CJ Freshway pursued the strategies that had characteristics of M&A in reality and tried to build C&C centers, which ended up breaking the trust of the distributors toward CJ Freshway. It eventually hindered CJ Freshway from attracting the distributors.

CJ Freshway tried to make C&C center in Busan, which was greatly opposed by local distributors. Through C&C, CJ Freshway may have excluded the small-medium sized distributors from the food distribution process by direct contact with the consumers. Thus, CJ Freshway's plan to build C&C in Busan ended up in failure.

CJ Freshway aimed to expand in the market using joint venture. Small-medium sized distributors and the public opinion are positive toward joint venture compared to M&A. However, CJ Freshway also increases their shares in Freshone centers which were thought to be fixed at 51% in the beginning. Since shares of CJ Freshway could take up more than 80% then it is virtually M&A with the title of joint venture. As the shares of local distributors decrease, the profit they obtain would decrease. It eventually has negative impact on the motivation of distributors to join Freshone. (Yang 2015).

- Poor communication between CJ Freshway and Freshone distribution centers

CJ Freshway is currently not utilizing the knowledge of local small-medium sized distributors. CJ Freshway sends three employees of HR department to each local Freshone distribution center for monthly meetings to share the performances. However, it is a critical problem that the tacit knowledge within the Freshone center is not shared enough through these meetings.

The Freshone centers located near Seoul are going through the same challenges of attracting more medium sized distributors, while the others are struggling to obtain more small sized distributors. Thus the absence of effective communication among the centers

shows that the regular meetings in the head office are not working well.

3. How can CJ Freshway make further progress in the future?

- Rebuild the trust of distributors

CJ Freshway should rebuild trust between the company and the distributors. They should first avoid making C&C centers. C&C is a strategy of Daesang Bestco and it is a convenient way of distributing food ingredients. It will be effective in enlarging the customer base. However, C&C provide food ingredients directly to the local restaurant owners. This may arouse negative impact on small-medium sized distributors, who have already joined Freshone.

Increasing the shares of CJ Freshway from 51% to above should also be prohibited to satisfy the public and local distributors. They should proceed with the strategy of the beginning and remain the same. Co-evolution is the key to gaining positive image and avoiding criticism. As mentioned before, Freshone is a joint venture and it allows the counterparty, small-medium sized distributors, to maintain their distribution business. Furthermore, they gain certain benefits by joining Freshone, mainly welfare and security. However, ownership in the operations management of business is handed over to CJ Freshway and that may seem a loss of control to small-medium sized distributors. Thus, CJ Freshway should utilize its strength, Freshone, to enhance the benefits distributors can enjoy and decrease the potential losses the distributors might face.

The loss that small-medium sized distributors undergo can be summed up into following. First, distributors are not able to gain power of the overall management. Also, during the time right after joining Freshone, distributors might undergo certain decrease in revenue. They now get paid by CJ Freshway rather than directly earning from the businesses. As an employee of CJ Freshway, they are provided with stable monthly income, yet it may be lesser than the high peaks of their income they gained before joining Freshone.

To reduce such losses, CJ Freshway should give them the right to make agreements on the critical decision regarding the management. CJ Freshway should also ask the small-medium sized distributors to give them feedback on their managerial decisions. For example, they should plan a weekly meeting between the Freshone managers from CJ Freshway and the small-medium sized distributors to enhance the communication.

- Enhance knowledge sharing and communication

Knowledge sharing should be enhanced between CJ Freshway headquarter and Freshone. According to the interview, 3 employees from the HR are sent from CJ Freshway to each Freshone centers. These employees gather up once a month in the headquarter of CJ Freshway in Seoul. According to the interview with the managers of Freshone Busan and Daegu, these dispatched employees are the only channel for Freshone to communicate with CJ Freshway. However, Freshone centers should be able to share their tacit knowledge and know-hows coming from experiences to further develop. It is thus necessary to form a standardized database in order to effectively manage the operation in the whole. The problem is that there's no such implementation yet. To make sharing feasible, CJ Freshway should act as a channel for Freshone centers to communicate. Due to the regional restrictions, it would be very hard for Freshone to interact with each other directly. To add, according to the interview with managers of Freshone Busan, Daegu and Gang-nam, Freshone centers do not interact with each other at all. The monthly meeting held in headquarter with the HR employees is the only connection between Freshone centers. CJ Freshway should acquire managers who deal with actual operation in the meeting as well. For example, an article introduces the story of Sang Jin Park (small-medium sized distributor of Freshone Nam-

Seoul). His know-how on attracting the customers is shown in the article (Lee, 2012). He always tries to have a short talk with his customers whenever he visits them, regarding their business.

- Utilize Private Brand products to attract more distributors

Developing Private Brand products can help CJ Freshway differentiate itself from other competitors and attract more distributors. Local distributors would be able to increase profit by making use of the PB provided by CJ Freshway. It is suggested that CJ Freshway should utilize their PB and exclusive brands, just like Sysco. CJ Freshway already has its own private brands called “It’s well”, and “Freshway”. Although it seems a great advantage that they have their own PB, it is necessary to further develop those brands.

Diversifying PB product lines targeting various customers would be feasible. Sysco, the leader in the US and Canada’s food distribution industry is thought of successful due to many reasons, and one critical key to their success is that they have diversified PB products. Sysco positioned their private brands not as substitutes of national brands but as unique and different. Unlike national brands, Sysco’s private brands are developed in a convenient quality and size for restaurants to cook. Their PB products have different levels ranging from supreme, imperial, classic and reliance (Kim, 2014). This shows how Sysco is successfully managing their PB as their competitive advantage. On top of that, Sysco has their exclusive brands like Portico, Bakersource, Citavo, Chefex, Casa Solana and so on. These offer their customers with high value adding businesses. As for PB products, the gross profit margin is 22.6 % in year 2014, which is 5.2 % higher than that of National Brands. CJ Freshway should try to make similar brand structure.

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