

LIQUID ASSETS

*A S Watson's brands appeal
to sophisticated Mainland tastes*

By Mark Graham



**Watsons Water is the prime local brand
that discerning consumers ask for by name.
Right: Mr. Juicy continues to be a market leader.**



AFFLUENT CONSUMERS in the world's fastest growing economy are beginning to demand a brand-name product when they order juice for the home, a mixer with their nightclub drink or a bottle of water from the local convenience store.

It is a trend that is benefiting A S Watson enormously: China's upper middle classes recognise the name as one that is synonymous with quality, yet with a price that is more affordable than imported drinks. Watsons Water, for example, is considered to be the prime local product that discerning consumers specifically ask for by name.

Lifestyle products in general have enjoyed an unprecedented surge during the past decade of astounding growth in China. When A S Watson ventured into the newly opened-up country more than two decades ago there was only a niche market for products perceived as high-end; state controls meant that all imported goods had to be sold in designated stores.

And, in any event, locals had neither the income, nor the brand-awareness, to contemplate spending their hard-earned yuan on luxury items. But come the late 1990s and demand went through the roof, particularly in the southeastern part of the vast nation, leading A S Watson to invest in three separate production facilities.

In Guangdong province, a factory produces various A S Watson beverages, while in the capital Beijing and the city of Shanghai plants are dedicated to water production. The plants altogether employ around 1,600 staff in China and have a production capacity of 650 million litres of beverages.

As the company celebrates 12 years of resuming production in modern China after a hiatus of half a century, the market looks very healthy indeed. Annual growth in the country as a whole is more than 10 per cent - significantly more in the coastal regions where much of the wealth is concentrated.

"From our current expansion mode and with fast economic development in China, we believe A S Watson will be one of the key players in the categories of water, professional mixer drinks and chilled juice," says Ricky Cheung, managing director, A S Watson Industries, Beverages.

With water, the company is targeting the segment known as mass premium, essentially white-collar and upper middle class



professionals who want a quality brand that has cachet. That is the area where there is most profit margin; while the lower-end brands sell huge volumes, competition is fierce and margins low.

Watsons Water provides its products in various sizes, from portable bottles to coolers that are suitable for offices and homes. That distinctive green logo is seen as the sign of a discerning customer.

It is a similar story in nightclubs, where managements like to offer Watson's Mixer and Water, rather than poorly-packaged local brands, as a sign of their commitment to high-end products. Tastes are also changing rapidly in the nation of 1.3 billion people, with most younger clubbers now opting for whisky combined with a mixer, instead of simply beer or the traditional cognac.

To target those free-spending drinkers, the company has hooked up with various liquor companies to ensure that when they order their gin tonics and whisky sodas they ask for the brand by name.

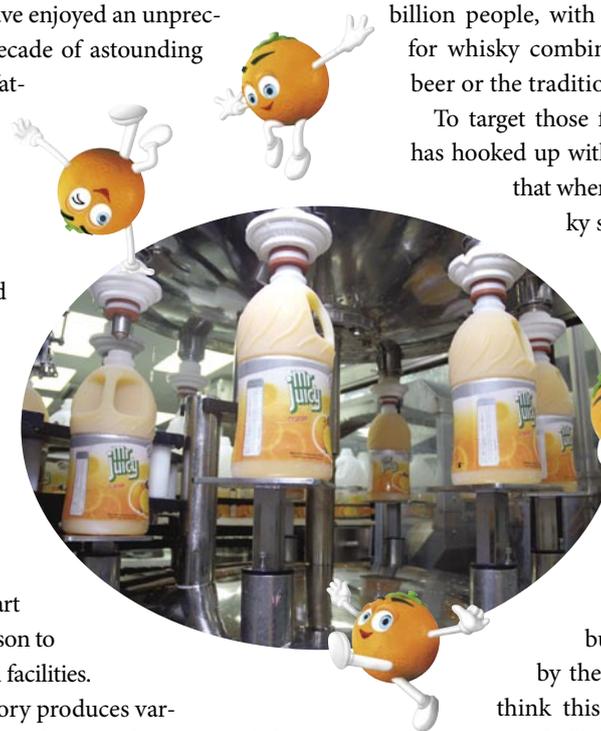
It is the custom in China to order an entire bottle for a table, with drinkers diluting their drinks with mixers.

"Our Watson's Mixer range will definitely be the market leader in the professional mixer category with western spirits," says Mr Cheung. "The price is less sensitive in the entertainment business. If you put Watsons Water by the side of imported water then people think this is the most premium local brand.

We are half the price of foreign bottled water but double that of other local brands.

"We are the only brand investing heavily at night spots and entertainment outlets on brand building with imported spirits. We are offering innovative marketing services and already have night-channel representatives in nearly all the major cities in China that serve both mixers and water. We will expand our service team to more secondary cities and towns."

With juices, A S Watson is, once again, targeting the upper middle classes who have plenty of cash to spend and are becoming avid consumers, keen to pursue the lifestyle they see on their travels abroad or observe on television. Initially, the company went into the market with ambient juice - the term used for juice with a long shelf life - but increasingly there is a demand for high-quality fruit juices that are stored in refrigerated conditions and have a more limited shelf life.





Affluent consumers in China are demanding a brand-name product when they order juice, a mixer or a bottle of water.



A S Watson emerged from humble origins on the Mainland

“The logistics and handling of chilled products are quite complicated and sophisticated,” says Mr Cheung. “But the competition will not be too intensive so we have room to grow our Mr. Juicy business region by region following our success in the south, where we are already a key player in the chilled category.

“We plan to extend juice manufacturing to Beijing and Shanghai in the next couple of years and later to the middle and western region. The idea is to establish more satellite plants outside the core regions.”

As well as the hugely popular orange juice, the Mr. Juicy range now includes more exotic mixtures of fruits such as Korean citron or purple carrot with aloe vera which are well received in Hong Kong and are being considered for the China market. Further down the road, A S Watson is exploring opportunities to introduce fresh juice corners and health water in the Mainland market.

The multi-million-dollar business of juice and distilled water is all a far cry from the first incarnation of Watsons. It came about when the founder Dr Watson, practising medicine in China in the 19th century, could not be guaranteed a regular supply of

quality distilled water. The medic’s solution was to start producing his own pure water, a commodity that was in such demand that commercial production became feasible in the 20th century.

From those humble beginnings, A S Watson emerged. The doctor could scarcely have imagined that a century later that China would be enjoying boom times, with Watsons as a brand-name that is associated with an affluent 21st century lifestyle.

One of the problems that A S Watson is now facing – an unwanted compliment – is copycat products. The packaging in some instances is almost identical to the distinctive Watsons bottles and cans.

“It is a big headache, and we are trying to eliminate it,” says Mr Cheung. “There are a lot of small players and it is difficult to clamp down on each and every one of them.”

The issue of intellectual property rights is just one of the many challenges to be faced in A S Watson’s China adventure. All in all, it looks like a busy few years for the A S Watson team on the Mainland, especially if the economy continues growing at its current average rate of 10 per cent.



The Watson’s Mixer range is a big hit.



to become a multi-million-dollar beverage business

MR. JUICY SHOWERED WITH AWARDS

AWARDS have been arriving at a fast and furious pace for the Mr. Juicy brand in its home market this year.

For the fifth consecutive year Mr. Juicy was voted as a Platinum Trusted Brand in the Reader's Digest Trusted Brands Survey. Respondents have to vote (unprompted) for their single most preferred brand based on trustworthiness, credible image, quality, value, understanding of customer needs and innovation. Platinum status is an extraordinary recognition of Mr. Juicy's market dominance: no other competitor came close in the Hong Kong juice category.

In addition, a recent Mr. Juicy television commercial won several awards in the 13th Annual Most Popular TV Commercial Awards organised by Asia Television and the Hong Kong Advertisers Association. It picked up the Most Honourable TV Commercial Award, the Top Ten Most Popular TV Commercial Award and, for its young star, The Most Adorable Kid Award.

The award is based totally on public voting and the Mr. Juicy television commercial received the highest number of votes among the top ten nominees.

