

Discussion on the Reform and Innovation of Mengniu Dairy's Business Model Based on Time

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ABSTRACT

With the development of the world economy and the rapid implementation of poverty alleviation in China, people's demand for quality of life has shifted from basic food and clothing to the growing need for a better life, so the demand for the dairy industry has also increased substantially. As a leading brand in China's dairy industry, Mengniu Dairy has possessed a number of dominant products and high development in multiple areas, like room temperature milk, low temperature milk, iced milk products and milk powder in just twenty years. Therefore, it is certain that Mengniu Dairy has undergone great changes in its business model since the beginning of its establishment. By referring to a large number of relevant papers, this paper will take time as the mainline, focusing on the business model reform and innovation of Mengniu Dairy, including the crisis it was facing, the measures it took, and the corresponding effects it brought. At the end of the article, according to the problems and solutions written above, Mengniu Dairy should pay same attention to both customers and the quality of products. What is more, focusing more on cutting waste during the process of production is of great necessity.

Keywords: Mengniu Dairy; business model; time line; reform; COFCO era

1. INTRODUCTION

Mengniu dairy has faced a bunch of crises since established in 1999, for example, the "melamine" event, the Deluxe Milk OMP event, etc. These crises led to the loss of reputation, the great falling stock prices, and dipped business. The company has also been criticized for its disclaimer attitude towards external public relations, which caused several falls. However, After company mergers and acquisitions, Mengniu dairy has been taken over by China Oil and Food Import and Export Corporation(COFCO). COFCO carried on the iterative update of management and the change of public relations strategies, which prompted a great reinvigoration of Mengniu dairy. In addition, many leaders have taken charge of the company in two decades and every leader's leadership models and management methods differed a lot. So this article will focus on the Mengniu Dairy business model reform and innovation from 1999, when the company was founded, and take time as the main line to introduce the current leader, the crisis they were facing, the corresponding solution strategy. In the end, based on the historical problems written above, Mengniu dairy should pay equal attention to customers and products quality.

Besides, aiming for long-term development, Mengniu should focus on an environmentally friendly production process and be committed to waste reduction.

2. ANALYSIS

2.1. The "Niu Gensheng" era

In the circle of the Chinese dairy industry in 1999, Niu Gensheng, president of Mengniu, led his team to build a vertical and horizontal marketing network with far-sighted market strategy. in the praise and criticism of people, he created the miracle of this era with the determination of "everything is man-made".

There are several reasons accounting for such a great success of him: 1)Excellent capital operation and expansion[1]. In 1999, he didn't have enough money to help Mengniu dairy better develop, so he established a cooperative relationship with seven factories through leasing, trusteeship and cooperation. What is more, he shares all the shares with all members including the cleaning staff. Through setting up product brand and keeping outputting management methods, Mengniu dairy merged with many factories in order to lower the operation cost of daily running. At the same time, Niu

Gensheng rapidly increased Mengniu dairy's capital capacity by constantly expanding with low cost; 2)"Strict" enterprise management and "moderate" enterprise culture[1]. Niu Gensheng was strict with the site management, which meant the extreme clean of production factory and the sanitary room was a strict requirement for on-site hygiene of workers. 3)Eminent brand advertising. Mengniu brand reputation was mainly spread through a series of public advertising, including the participation in the charity activities. Besides, Mengniu was good at using the publicity in brand operation. In the early days, all the packages of Mengniu were printed with the words "learn from Yili and strive for the national industry", showing customers their respect and admiration for their competitors with a modest attitude[1].

2.2. The application of SIMATIC IT Unilab System

From the project launching meeting on March 20, 2007, Mengniu dairy's executed a test run of the first quality inspection, and a month later, the system was officially launched[2].

The Unilab system provides a friendly user interface and flexible configuration tools, the sample type, registration information and other major laboratory objects which were defined and maintained by the users themselves, avoiding the trouble of programming and customization.

Additionally, unlike other laboratory information management systems, Unilab can be implemented independently to achieve a set of advanced laboratory information management systems, instead of the original time-consuming, error-high paper-working process. Moreover, thanks to the flexible system architecture, the pilot project could quickly be extended to other regional laboratories. The scope of service of central database platform involved the whole China, realizing real-time sharing of enterprise quality data and convenient system maintenance.

Mengniu dairy is experiencing the accuracy, safety and efficiency of SIMATIC IT Unilab system.

The relevant leaders of Mengniu dairy had given a high evaluation on the Unilab project: "So far, Unilab is the best among the numerous information management systems applied by Mengniu, the personnel has a deep understanding of the system and the implementation effect is ideal."[2]

2.3. Dairy Crisis and the taken over by COFCO

In 2008, due to the contamination of Chinese dairy products, the OMP incident in Telensu and other problems, The stock price of Mengniu Company plunged, the production and sales volume also declined

sharply, mengniu Company faced a serious crisis of foreign mergers and acquisitions[3]. In July 2009, COFCO and Hopu Fund jointly acquired 20% of Mengniu Company's equity, thus COFCO became the largest shareholder of Mengniu Company, Mengniu Company also became an important link in the chain of the whole industry of COFCO.

At the time of the acquisition, COFCO promised not to intervene in operations for three years, not to adjust the management team or change the company's short-term strategic direction. In 2012, when the three-year commitment expired, COFCO began taking full control of Mengniu dairy.

The reformation taken by COFCO on Mengniu's style had changed from "emphasizing marketing, ignoring quality and milk source" to clearly putting forward the goal of "improving the quality management system, providing consumers with safe and high-quality products and services, and making Mengniu an innovation-led nutritional and healthy food company for a century". Mengniu dairy had established cooperative relations with Chenxi of Denmark, Danone of France, Ishares of New Zealand, White Wave food of The United States and The University of California, Davis. In addition, it had become the first company in China to apply LIMS system and SAP system for business integration, and had launched traceable products, which means that the consumers could track back the sources of the milk, and a series of innovative products in the industry[4].

2.4. "COFCO Era" the New Mengniu

On April 12, 2012, Sun Yiping was assigned by COFCO to become a leader of Mengniu dairy. It was not easy for her to take over Mengniu, which had gradually developed into a star enterprise in China's dairy industry with a value of over 10 billion yuan[5]. However, she was still able to think calmly under such anxiety that reformation of Mengniu should be started from the internal reform, not to defend, but to seriously reflect on their own shortcomings[6].

In two years, Sun Yiping tried to flatten the sales structure and reorganize the mengniu brand by reforming the overall structure, reintegrating the quality management process, optimizing the IT system and reshaping the personnel training system[7]. Through a series of transformation changes, Mengniu performance initially had great results. In the COFCO system, Mengniu's growth rate is the fastest, and its quality and safety management system is also ranked first.

She also pointed out that in the future, Mengniu should not only pay attention to consumers, but also be more involved in food safety risk management. For example, collecting milk had been the "hard wound" of China's dairy industry. At present, the proportion of

large-scale milk source of Mengniu is 93%, which means that the company is heavily involved in upstream milk source management[5].

What is more, Mengniu urgently needed a brand-rebuilding. After a series of trust and quality crises, the brand-rebuilding is crucial for Mengniu to get back on track[8]. The development strategy proposed by Sun yiping told that they firstly invited ogilvy & Mather, a well-known international advertising company, to help Mengniu rebuild its brand image. After that, the existing brand structure began to be thoroughly combed, in order to change the traditional development model of Mengniu brand driven by products to the new brand remodeling focused on "sunshine, openness, responsibility, nobility and innovation". In 2012, Mengniu changed the old packaging and replaced "good quality, green life" with "just for a little happiness", which undoubtedly represented the arrival of a new Mengniu era[5]. New Mengniu's goal was to transform from quality to management to international standards. It must shift from a traditional manufacturing environment to a digital social environment, from advertising to public relations.

2.5. The Impact of Foreign Investment On Chinese Dairy Industry

From 2009 to the present, the outbreak of "melamine incident" in 2008 greatly affected China's dairy industry. Foreign investment in China's dairy industry accelerated, and international brands began a new round of layout in China. (1) Domestic consumers prefer foreign dairy brands. Even though various problems of foreign milk powder had been exposed many times in recent years, they had not affected the market share of foreign milk powder in China. (2) The state had issued a series of regulations and norms to regulate the dairy market. One of the country's measures to rectify the market was to require all dairy companies to reapply for production licenses. The change of dairy industry form and pattern provided an opportunity for international dairy giants to further invest in the Chinese market. (3) The demand for Dairy products in China was strong and the market potential was huge[9].

However, there were still some positive effects of foreign investment in dairy industry on the development of Chinese dairy industry. Foreign dairy enterprises had promoted the development of China's dairy industry in many ways and narrowed the gap between China's dairy industry and developed countries on the whole. They had brought advanced technology and management methods, trained a large number of high school talents in technology, management and marketing, and effectively enhanced the technology and management level of Chinese dairy enterprises, improved product quality and innovated marketing methods. Foreign dairy enterprises played an important role in promoting the

transformation of dairy market competition from price competition to technology competition, product differentiation and brand competition. Foreign dairy companies also made important contributions to providing employment opportunities, expanding market capacity and increasing local fiscal revenue.

2.6. Lu Minfang Taking Charge

On September 15, 2016, as soon as Lu Minfang took office, he began to adjust the structure of Mengniu, dividing the original core business into normal temperature milk, low-temperature milk, ice products and milk powder and other independent business units, giving each business unit more autonomy[10].

The key to achieving the 100 billion strategy was to achieve organic growth of the core business, even if the difference was tens of billions, he would not make meaningless acquisitions. In the same year, he specially invited McKinsey to comb through all of Mengniu's business segments. In his opinion, the implementation of the new business division was an organizational restructuring based on the new business strategy to build the core competitiveness of the group to support the new business division. Besides, the comprehensive implementation of quality and efficiency improvement would enhance the profitability of Mengniu.

At the same time, The New policy of Lu strengthened the performance appraisal and the performance culture of all staff, for every business segment including small business.

Lu said: "Only if staff have the ability to do the work, can they have the chance to stay in Mengniu." [10] This series of initiatives further stimulated the ambition of Mengniu employees and improved the management level.

3. CONCLUSION

This paper mainly studies the development of Mengniu dairy from the establishment in 1999 up to now. Firstly, Niu Gensheng overcame the lack of operation fund by making good use of capital operation and expansion, setting up cooperation relationships with several companies and sharing shares with every staff in Mengniu, which were rather novel and risky. Besides, he executed the enterprise management strictly, which was the vital fact leading to his great success. Secondly, the application of SIMATIC IT Unilab system. The appliance provided a great platform for Mengniu to enhance their working efficiency and accuracy, reducing the time they spent on the data management. Besides, faced with the OMP incidents and others reputation crises, COFCO became the largest shareholder of Mengniu dairy and they signed a three-year contract. After three years, COFCO took full control and

transform the management style from highlighting marketing to emphasizing the milk quality and sources. Later on April 12, 2012, Sun Yiping was assigned by COFCO to assist Mengniu to better reform. She focused on the brand rebuilding and the company culture changing, through cooperating with international advertising company in order to rebuild image and through changing the old packaging to express their endeavor and determination on “creating a healthy life”. Then, encountered with the foreign investments, Chinese dairy bounced back by taking advantage of foreign techniques and management methods, which strove local dairy company to reform and better adapt to the international trend. In the end, Lu Minfang set up the new business apartment aiming to form the core competitive group to face the intractable problems and carried on another management change to better stimulate the ambition of the staffs. In the future, Mengniu dairy may beset with crisis again, so both focus on customers’ feelings by receiving feedback and attach great importance to the quality of product are equally important[11]. Aiming for reducing the possibility of these crises, forming a detailed, quantified, transparent and visualized production process is crucial[11]. Consumers may be less concerned about the range of products a company offers, but quality must be assured[12]. In addition, in the future, consumers will focus more on how to reduce the waste during the production process and what measures can be taken to reduce the pollution of the production to the ecological environment[13]. Therefore, these fields are which Mengniu Dairy industry still needs to make efforts in.

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