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CASE STUDY

2.5 Jura Elektroapparate AG

Home and Commercial Appliances Industry

SUMMARY

JURA Elektroapparate AG is a world leader in the premium and luxury segments of hi-tech fully automatic coffee machines for home and light commercial use. The company distributes its products through its subsidiaries in key European markets, a joint venture in the US and via exclusive distributors in all other regions.



This case explains JURA's successful market entry strategy into China focusing on:

- the choice of market segments, and
- the local distribution strategy, i.e. selection of the best distributing partner, the advantages and risks of having an exclusive distributor and distributor relationship management

Figure 1:

Jura's activities, direct and indirect customers in China

Source: Swiss China Survey 2005

		B2B				B2C	
		Components	Equipment	Raw Material	Services	Consumer Goods	Services
Producing							
Purchasing	For own China operations						
	For mother company						
	For third party						
Selling	SOE						
	POE						
	FIE Global						
	FIE Local						

SOE - State-owned enterprises in China

POE - Private-owned enterprises in China

FIE Global - Foreign-owned international enterprises with operations in China that are clients of JURA in the global scale

FIE Local - Foreign-owned international enterprises with operations in China that are not clients of JURA in the global scale

GLOBAL COFFEE CONSUMER TRENDS

Through the years, coffee drinking has evolved from being a simple dining routine, predominantly in Western countries, into a global culture. Whether it is just a trend or a long-term social practice, drinking coffee today reflects a modern consumer lifestyle and sophistication that has gained substantial following around the world.

MOTHER COMPANY – JURA Elektroapparate AG

Company background and current situation

Since its establishment in Niederbuchsiten, Switzerland in 1931, JURA has been known as a pioneer in the development of innovative electrical appliances for the home. Today, the Swiss brand is recognized in Europe as a forerunner in the field of high-end fully automated household coffee machines. The company further uses its expertise and technical know-how in the development, marketing, distribution and after sales service support of semi-professional coffee machines for the office and food service sectors worldwide.



Outsourced manufacturing

JURA subcontracts the production of coffee machines to a partner company in Switzerland which owns three factories nearby Zurich and is one of the biggest original equipment manufacturers (OEMs) of fully automated coffee machines. This company sources some of the key components from China (Shenzhen) and Malaysia (Penang) and assembles the final product in Switzerland.

Product lines and segments

JURA's core business is centered on high-end fully automatic coffee machines for home and commercial use, with home use sales representing about 70% of the total. JURA's entire product range is characterized by exceptional design, user-friendly control functions and the ultimate coffee taste quality.

JURA establishes its products' quality as two of its Impressa models have been consecutively selected by Stiftung Warentest (Germany's leading consumer advice organization) as the "best" coffee machine in the market, "setting new standards" and "making a resounding impression with its espresso flavor and perfect "crema". Impressa F70 recently received the Stiftung award for 2005 while Impressa F50 won the same accolade in 2004.

The IMPRESSA Z, S, F and E lines are ideal for modern household kitchens while the IMPRESSA X line is distinguished by its outstanding price/performance ratio, multiple functions for varied coffee preferences and higher capacity for commercial settings like small businesses, bars, coffee shops, restaurants and offices.

Company size and turnover

In 2004, the total number of JURA employees worldwide was 434 with 255 based in Switzerland and 179 in overseas subsidiaries and representative offices. The company currently has three subsidiaries in Europe, Germany, Austria and the Netherlands, as well as a joint venture in the USA. These companies manage the distribution, marketing and after sales service of JURA machines. In addition, JURA is represented in more than 40 countries through distributors. Today, distributors account for 12% of the total unit sales; however they are growing at an annual rate of about 30%.

JURA posted CHF260m (USD199 million) consolidated revenues in 2004. Sales of fully automatic machines exceeded 180,000 units. The larger portion was contributed by international sales with CHF214.5 million (USD164 million) or 82.5% while Swiss revenues were CHF45.5 million (USD35 million) or 17.5%. Europe, with over 80% of total units, has the biggest share in worldwide sales. The US contributed 10%, while Asia's turnover accounted for 2% of the total.

Competitors and competitive advantage

Saeco is JURA's biggest direct competitor. They sell a wide range of both household fully automatic machines through retail outlets and semi-commercial machines. JURA's main international competitors in the business to business (B2B) segment are Franke and Schaerer. They also sell larger heavy duty machines with higher capacity but no home coffee makers. Solis is in the fully automatic segment with a range which competes with part of JURA's product portfolio, but not so wide in terms of the number of models.

JURA's key differentiators are:

- ability to make a variety of coffee products, including Cappuccino and Latte Macchiato at the push of a button
- minimalist styling
- quality and reliability of the machines
- user-friendly and high-tech functionalities
- first class after sales service support
- outstanding price/performance ratio in the semi-commercial segment



ASIAN COFFEE CONSUMER TREND

In Asia, following the global trend, the number of commercial establishments serving specialty type coffee has multiplied in major business and entertainment hubs. As an example, JURA observes an uptrend in Asia's general public awareness and interest in gourmet coffee and an increased knowledge and preference for specialty coffee machines. Although JURA's percentage sales in Asia is low (total of 2%), the region's sales are growing at an average of over 30% per annum. This sustained growth indicates that the region is becoming increasingly important for JURA.

JURA in CHINA

Subsidiary background and current situation

JURA has had a presence in Japan, Hong Kong, Taiwan and South East Asia (via Singapore) ever since the mid-1990s. The company partnered with a dominant Hong Kong coffee shop chain operator and coffee products retailer in 1997. This partnership ensured JURA's reach into the Hong Kong market that has a large number of foreign expatriates, international corporate offices and small to mid size commercial outlets. In 2000, JURA's Hong Kong distributor requested exclusive distributorship on Mainland China. At the end of 2000, JURA officially authorized its Hong Kong partner to distribute on the Mainland. However, after commissioning professional market inquiries in China in 2002, JURA realized that it was not efficient to distribute on the Mainland through Hong Kong. With the support of a local Swiss consulting network in Shanghai, JURA decided to appoint another distributor to manage the direct distribution in China market (excluding Hong Kong and Macau) in June 2003.

Figure 2:
 Jura's milestones in China
 Source: Swiss China Survey, 2005



A year after setting up direct distribution on the Mainland, JURA's sales figures in China doubled. To strengthen its market presence and improve communications with both its distribution partner and potential customers, the company intends to open a representative office in Shanghai in 2006 under the direct management of the mother company in Switzerland. The company has already appointed a Chinese manager located in Shanghai. The incumbent will work closely with the local distributor in market development and analysis, identification of new market segments and both above- and below-the-line marketing and PR activities.

Targeted market segments

JURA targets commercial establishments and small businesses such as coffee shops, coffee product retailers or importers, small to mid-size restaurants, bars, car showrooms and offices. In the business to consumer (B2C) segment, the company concentrates on the upper-class population with the following consumer profiles: Western expatriates, high-ranking foreign and local executives and wealthy Chinese opinion leaders.

MARKET ENTRY DECISIONS and ANALYSIS

Internal value chain

JURA Elektroapparate Group in Switzerland, the mother company, supplies directly to the appointed principal distributor in China. Some of the product components are sourced from Asia by JURA's manufacturing partner, which assembles the end product in Switzerland. The coffee machines are shipped from the mother company to China. In the B2B segment, the

principal distributor either distributes the products through its network of sub-dealers and appointed sales agents or sells them directly to commercial establishments and small businesses. The distributor may sign up coffee companies, coffee roasters or importers of other coffee machines as sub-dealers.

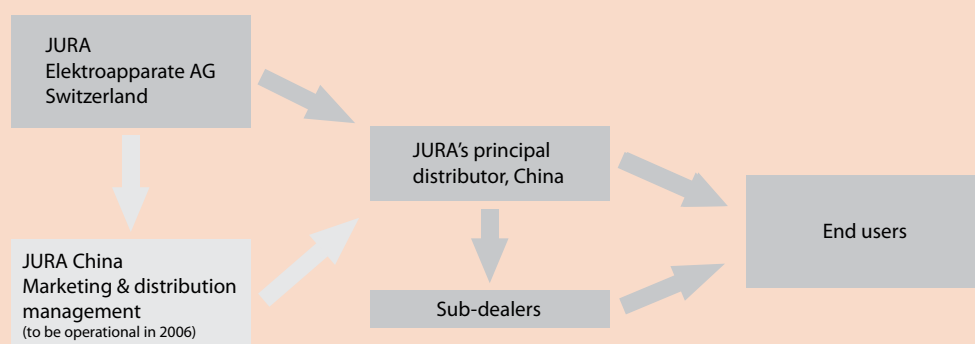


Figure 3:
Internal value chain
Source: Swiss China Survey, 2005

Location

JURA's distributor's main location is in Shanghai. It also has a branch office in Beijing and about 50 sub-dealers covering the major markets on the Mainland. JURA is confident that Shanghai has become a major center of overseas investments in Asia with the influx of foreign companies setting up their regional offices in the city. The presence of Western culture in Shanghai is influential to the city's growing number of coffee drinkers and the middle-class consumers' modern lifestyle. In addition, Shanghai's central location makes it convenient to reach different regions and cities in China. These factors convince JURA that Shanghai is the best location for its sales and marketing headquarters. This representative office will be the company's first in Asia; therefore, it may be developed as JURA's regional headquarters in the future.

Motivation and market entry strategy

JURA became aware of the Chinese coffee market potential when its Hong Kong distributor asked for exclusive China distributorship rights. Although the company initially appointed its Hong Kong partner to distribute on the Mainland, JURA quickly recognized that it was not gaining the optimum benefits of the China market in this way due to the following reasons:

- the Hong Kong partner distributed indirectly through a network of Chinese dealers because it did not have a direct distribution branch on the Mainland, therefore only adding an intermediary
- there was no direct communication between JURA and the Mainland dealers, which would have provided JURA the necessary market intelligence
- JURA was unable to attain the best margins and competitive sales prices due to multiple layers of distribution

As a consequence, JURA commissioned an in-depth market study in China. It indicated a change in the behavior of local consumers in tier one cities towards coffee drinking based on the number of coffee shops and restaurants that serve freshly brewed coffee in cosmopolitan cities like Shanghai. The research identified in the short term a market demand for fully automated coffee machines in commercial establishments like restaurants, offices and small businesses. The study also revealed, in the long term basis, the biggest potential in the market will be with its growing local middle- and upper-class population.

In order to enter the market most efficiently, JURA decided to develop first the more promising semi-commercial segment. At the same time, efforts are being made to reach the foreign offices and expatriates, as they are one of the trend setters for the developing middle class. In a second phase JURA will put a greater emphasis in developing the retail market.

Customers / market segments

JURA's first step was to target commercial end users (coffee shops, bars, small restaurants and offices). Indeed, JURA machines satisfy the needs of these businesses to provide high-quality coffee for small consumption without the requirement to invest in fully professional machines or experienced staff. Overseas enterprises in China offer a market of foreign expatriates, high-ranking executives and wealthy business individuals.



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Additionally, local opinion leaders and Chinese executives who are associated with foreign organizations and have been exposed to Western culture, make up JURA's target retail market segment.

However, differences between Chinese and foreign customers have to be taken into account. The foreign consumers' familiarity with specialty coffee is more advanced compared to the locals, thus, their appreciation of the proper coffee making equipment. They are also more willing to invest in the long term benefits of a superior product like JURA. Affluent Chinese, on the other hand, are known to take pride in their social standing and a premium-branded espresso machine may be flaunted while entertaining guests. As a result, for the Chinese home market, brand positioning and overall quality image is a key element.

Fully automated coffee makers are still not common household equipment in a developing, tea-drinking country. Regular coffee drinkers settle for instant coffee while brewed coffee beginners use much cheaper filter-type or manual coffee machines. For these reasons, JURA aims to become an aspirational brand that signifies sophistication and luxury and confines its market segment to the very top group rather than pursue the mass market.

Though this segment is limited today, JURA is confident that the consumers' increasing interest in specialty coffee is creating a need for JURA products, not just in the local coffee shops and restaurants, but also in China's contemporary households.

JURA generally expects its China business to achieve about 5% of its global sales in five years' time.

Sales channels and distribution strategy

JURA supplies directly to its principal distributor in Shanghai which manages the distribution network in all of China. It consists mainly of appointed sub-dealers and sales agents geographically specialized and focusing on specific market segments.

JURA opted for an exclusive distributorship strategy in China, even though no one distributor is able to cover this market satisfactorily, either geographically or in terms of segment. Yet, the long term benefits of having one exclusive distributor in China were considered to outweigh faster early sales. In fact, this strategy, compared to having multiple independent channels, provides the distributor with:

- stable and generally better margins: assigning territories to distributors does not actually work as all of them have intentions for expansion and may not respect agreements

Better margins and a stable business for the distributor provide:

- higher motivation to sell the product
- the ability to deliver excellent after sales service, a key element to maintain the brand image in a country like China. (Customers take service on expensive items for granted and they have little understanding of sophisticated appliances, therefore generating more failures.)
- financial security and more resources to develop at the same pace as JURA



Model: IMPRESSA X9

This exclusive distributorship strategy provides JURA with:

- the possibility to provide focused, efficient and customized technical, financial and marketing support without investing too many resources
- a long term and easier to manage relationship with the distributor and the possibility to develop joint marketing activities (promotions, fairs, etc.) without the difficulties of involving a set of partners
- the possibility to better control the end user price
- overall, the ability to maintain its global corporate image in China while minimizing resources

Yet, this distribution strategy's major risk is the quality, in all aspects, of the distributor. Should the distributor selected not understand JURA's philosophy and not make good on JURA's key advantages, results can be negative, generating a loss of image and a loss of time towards the competition. As a result, JURA went to great lengths to select the right partner in China.

Distributor selection

Selecting a partner in a specific market is a strenuous and time-consuming process particularly since JURA ensures that the local distributors are well-chosen to guarantee long term partnerships and the level of product image. JURA takes into account the following criteria in screening a new distributor:

- the size and suitability of its existing distribution coverage, in respect to geography and segments
- the absence of representation of directly competing brands and products
- the extent of its knowledge and experience in handling, developing and distributing premium branded products
- its capability and experience, manpower availability and grasp of the importance of efficient after sales services; and
- its financial stability, liquidity and capacity to cope with JURA's growth

The pre- and post-distributor selection process involved the following:

- JURA toured the new market and identified candidates
- JURA appraised the industry, market opportunities and the candidates by conferring with embassy contacts and consulting a local support network that knows the local market
- upon short selection by the local professionals, JURA met with all candidates, visited their premises, reviewed their product category and selected an exclusive distributor
- JURA invited the local partner to visit the Swiss site for an overview of JURA's business philosophy and standards

The selected distributor (a company invested from Taiwan) was considered the best for its:



Model: IMPRESSA F70, the best among its range. Winner of Stiftung Warentest Award 2005.



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- specific knowledge of the coffee maker market
- General Manager and part-owner's personal qualities
- better coverage of the market
- ability to raise capital, particularly scarce in China and particularly needed due to the rapid growth of the market

Legal environment

Products sold in China command 17% VAT, while duties on imported hot beverage equipment command either 10% or 32%, depending on the product's classification. "Home use coffee machine" is subject to China Compulsory Certificate (CCC) approval and 32% import duty. Products classified as "commercial hot beverage equipment" are subject to lower import duties at 10%. Initially JURA's distributor declared the products for commercial use, which was true to the fact as most of the machines were sold to commercial customers, and managed to import them at 10%. In mid-2004, the guidelines for imported electronic equipment classification were modified. The customs authority did not approve the shipment of household machines to be declared as commercial equipment, resulting in restricting the models available for sale to only semi-commercial machines. Obtaining CCC approval was a complicated and time-consuming process. In June 2005, JURA was accorded the CCC certificate for selected household models for China.

FACTORS FOR SUCCESS, RISKS AND OPPORTUNITIES

Opportunities

JURA expects tier one cities in China (such as Shanghai) to remain potential foreign investment hubs in Asia, which will generate an increase in the number of expatriates and affluent Chinese. This presents an opportunity for JURA to improve its turnover in China since the presence of Western influence will encourage the consumers' modern lifestyle and likewise improve the middle- and upper-class population. This offers the possibility to move into the retail market with automated coffee makers for household use in the big centers.

Besides, the growing awareness of local consumers in China on specialty types of coffee due to the emergence of commercial establishments that serve the beverage also presents an opportunity for JURA to sell its semi-professional coffee machines to commercial businesses in other less developed areas in China provided the logistics on after sales can be mastered.

Risks

As JURA moves toward retail selling in China, and the need to pay 32% import duties, JURA's distributor may have to assume the expense and either reduce its margin levels or increase the end user price. If the distributor's margins are decreased, this might jeopardize the high service level JURA needs to develop its brand and distribution network.

One of the downsides of granting exclusive distributorship to a local partner in a market as vast as China is that it is geographically challenging for a single distributor to cover 100% of the market and provide after sales service, particularly needed for commercial customers. Handling sub-dealers and sales agents in key cities like Shanghai and Beijing, neighboring areas and other nearby provinces, is both a management and a logistics challenge.

On the marketing side, a fully automatic coffee machine is not a home appliance necessity in the ordinary Chinese household. This will require JURA to devise creative and extensive marketing campaigns specifically designed to target the Chinese upper class segment and to convince them of the benefits of the high-end JURA brand.

This difficulty is compounded by the necessity to train the local distributor on JURA's high-end corporate culture, particularly in its marketing campaigns.

Success factors

JURA's successful entry into China can be summarized as follows:

- Timely and well prepared market entry with the support of a local support network
 - thorough market and distribution strategy analysis
 - careful and complete distributor selection process
- Step by step entry and adjustment of the traditional entry strategy: in the first phase, capturing the semi-commercial B2B market with a very attractive price/quality ratio, then moving towards home users for which the product is today perceived as very expensive
- granting exclusive distributorship and strong support to the distributor
- ensuring a high quality and level of service

JURA's timely and professional entry into the Chinese market was instrumental to JURA's success in capturing an emerging niche market in China, for high quality easy-to-make coffee in small outlets.

Another key success factor was the thorough selection process and methodical approach that JURA employed in choosing its distributor in China and ensuring the best possible fit with JURA.

Finally, by recognizing the vital role that its local partner plays in the market and affording strong, on-the-spot support, JURA shows its commitment, forms a long-term partnership founded on mutual trust and loyalty and allows good management of its distributor. This in turn ensures quality of service, brand image management and further motivation for growth.



Model: IMPRESSA Z5

*Information on JURA Elektroapparate AG courtesy of:
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Approved for publication on: August 2005*