

Marketing Strategy Research in China's Dairy Industry: A Comparative Analysis between Mengniu and Yili

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Abstract. Dairy industry is a significant part of the national economy. Population, GDP per capita, income level of urban residents and dietary structure are all important factors affecting the development of dairy industry. Did though Chinese dairy products start late, they developed rapidly after the reform and opening up, and the milk production increased rapidly with a double-digit annual growth rate, much higher than the world average level of 1% during the same period. In particular, as the leading enterprises in China's dairy industry, Mengniu and Yili have become the world leaders in just a few years. The article starts from the domestic and foreign markets of Mengniu and Yili, studying the strategic objectives, using marketing theories, such as STP theory, conducts comparative analysis from the aspects of consumers, market positioning, marketing strategies, and summarizing their current situation and future development trends. By studying the business activities of Mengniu and Yili, the paper explores the development law of milk products, summarizes the successful management strategy, and puts forward the strategy to promote the sustainable and healthy development of milk products.

Keywords: STP theory; Marketing strategy; Mengniu; Yili.

1. Introduction

As China deepens the implementation of the new development pattern, characterized by a focus on major domestic circulation alongside the mutual promotion of domestic and international circulation, Chinese dairy enterprises are encountering a landscape marked by increased diversification within the dairy product market. This diversification poses significant challenges to these enterprises. To successfully distinguish themselves within the competitive dairy industry, companies like Mengniu and Yili have proactively crafted comprehensive development strategies and strategic market positioning. Their overarching goal is to continually address the evolving needs and aspirations of the Chinese population for an enhanced quality of life. In doing so, they aim to gain a competitive edge and bolster their presence in both domestic and international markets. A key aspect of this effort involves projecting a compelling and distinct brand image, one that embodies the essence of "Mengniu people" and "Yili people."

These initiatives signify a strategic commitment by Mengniu and Yili to not only survive but thrive amidst the dynamic and multifaceted dairy product landscape. By adapting to changing consumer preferences and fostering a strong market presence, they seek to solidify their positions as industry leaders while contributing to the overall prosperity and well-being of Chinese consumers [1].

Based on "Marketing Strategy Research in China's Dairy Industry: A Comparative Analysis between Mengniu and Yili" as the title, through the specific overview of Mengniu and Yili comparative analysis of the two enterprises, and the use of STP theory to analyze the market research strategy of Mengniu, Mengniu's future development status and selection.

The successful operation of an enterprise is inseparable from establishing a perfect brand image and creating a healthy market circumstance. Therefore, it is necessary to formulate correct experience strategies. On the one hand, it promotes the development of the dairy industry in the Chinese market. On the other hand, it promotes the development of the Chinese dairy industry in the international market. in an important position [2]. In summary, it is requisite to compare the marketing strategies of Mengniu and Yili.

2. Literature Review

2.1. Overview of the Chinese Dairy Market

Today, as the real economy is booming, the development of China's dairy products has gone through five stages: start-up period, rapid growth period, adjustment period, industry integration period and industry reshaping period [2].

Before the reform and opening up, individuals' demand for dairy products was low, a dairy processing system had not yet been formed, domestic milk production was low, and dairy processing was dominated by state-owned enterprises. By the early 1990s, as reform and opening up continued to deepen, it was the government that liberalized its authority to allow private breeding of dairy cows. In order to ensure a stable supply of feed, farmers were encouraged to grow fodder and provided subsidies. The public-private partnership production method has achieved great success, opening up the Chinese dairy market, with the average annual milk production reaching 16.9%.

From 1992 to 1998, when the national economy was transitioning from a planned economy to a market economy, the dairy subsidy policy was phased out, milk production dropped significantly, and the supply was clearly in short supply. For the sake of meeting the actual needs, the Chinese market adopted import measures to alleviate the current situation. Subsequently, the dairy industry Product companies reorganized and expanded production scale, and Chinese dairy industry recovered.

In 1993, Yili was born, and in 1999, Mengniu was established in Inner Mongolia. The emergence of these two dairy product companies significantly increased country's dairy product economic aggregate. At the same time, the competition between the two began. In the 2008 Beijing Olympics, Yili won wide recognition as a sponsor. Mengniu was not to be outdone and strengthened its cooperation with the NBA as the main marketing line in the Olympic era [3]. So far, the competition between Mengniu and Yili has waxed and waned, and they have almost monopolized the Chinese dairy market.

2.2. Overview of Mengniu

Mengniu Group was established in Hohhot, Inner Mongolia Autonomous Region in 1999. It is one of the top seven dairy companies in the world. It was listed in Hong Kong in 2004 and subsequently jointly established factories with many countries and regions, such as Russia and New Zealand. In the early days of its establishment, Mengniu was established through sponsorship with natural persons' investment, with a registered capital of only 13.98 million. Faced with a shortage of funds, Mengniu chose a market-first development strategy. As a result, Mengniu's sales grew rapidly. From 1999 to 2005, the sales change is 43.65 million yuan, 294 million yuan, 724 million yuan, 1668 million yuan, 4071 million yuan, 7213 million yuan as well as 10.8 billion yuan. The sales growth is shown in Fig.1 [2]:

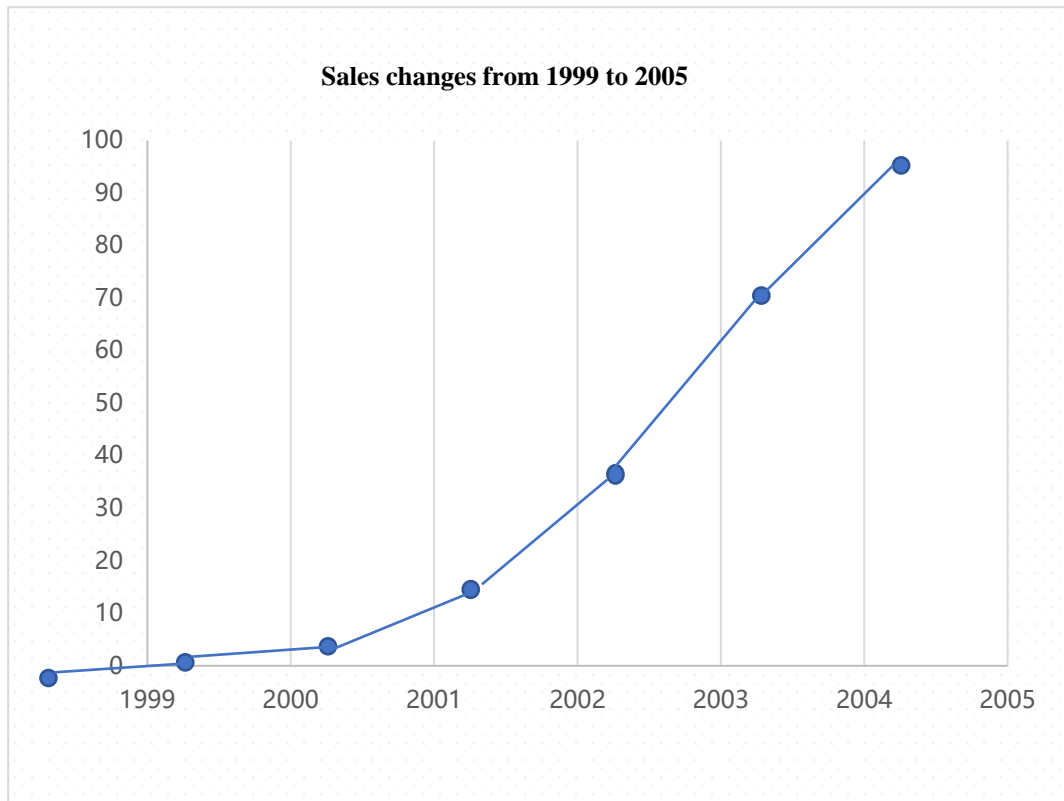


Fig. 1 Sales changes from 1999 to 2005.

At present, Mengniu has strong competitiveness in domestic and foreign markets, which is mainly reflected in the following points: first and foremost, it has wide markets and diverse products, which can be content with dozens of individuals. Furthermore, it has strong innovation capabilities and advanced production equipment. These aspects are vital for successfully manage.

Ultimately, in 2009, Mengniu officially belonged to COFCO Group. Based on this point, it has stable financing and extra bonus, which is one of the most significant affairs for it to occupy domestic market and lead the world. Simultaneously, Mengniu cooperated with Junlebao in 2010 and grasped 51% equity. Not only did it expand its yogurt market, but also it took this rival in the North China market into pocket [4]. In addition to this, China Mengniu Dairy Co., Ltd. and Yashili International Holdings Co., Ltd. jointly announced that Mengniu Dairy issued a tender offer to all shareholders of Yashili and acquired the controlling shareholder Zhang International Investment Co., Ltd. and the second largest shareholder CA Dairy Holdings, a wholly-owned subsidiary of Carlyle Asia Fund irrevocable commitment to accept the offer and commit to sell a total of approximately 75.3% of its equity interests. So far, this is Mengniu largest merger and acquisition, and it is also a vital milestone in the field of milk powder [4].

2.3. Overview of Yili

Yili Group was founded in 1993 whose head office is in Hohhot, Inner Mongolia. Apart from Mengniu, it is also one of the hugest dairies in China. Yili ranks among the top five dairy companies in the world, ranking first in Asia for ten consecutive years [5]. In 2008, it was the only dairy product designated brand for the Beijing Olympic Games. In July 2017, Yili Group became the official and only designated dairy partner of the 2022 Beijing Winter Olympics and the 2022 Winter Paralympics [6]. As of the first half of 2023, total operating income will be 66.197 billion yuan and net profit will be 6.314 billion yuan, an increase of 2.85% compared with the same period last year [7]. For details, see Fig.2:

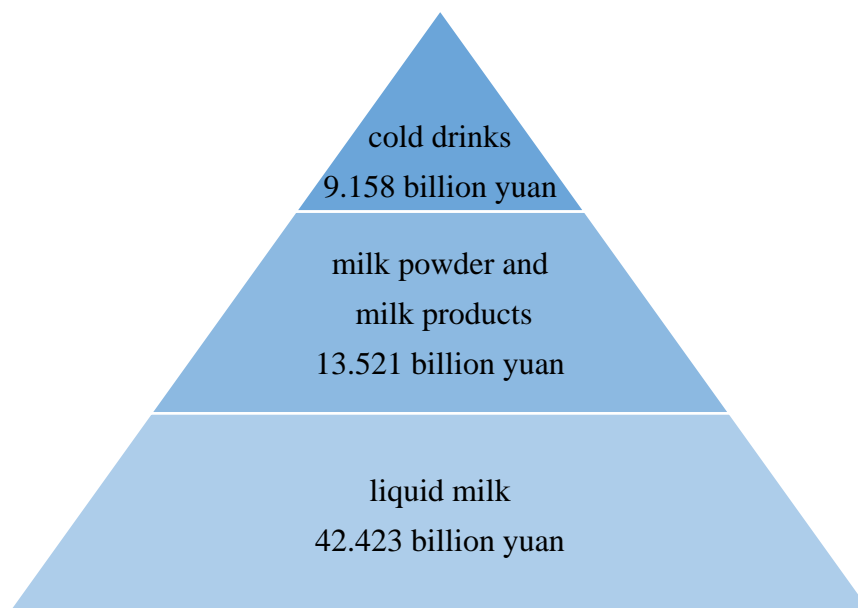


Fig. 2 Operating income in 2023

In 2018, Yili Group made a significant move in the international market by acquiring Chomthana, Thailand's largest local ice cream company. This strategic acquisition was a pivotal step towards expanding Yili's global presence and diversifying its product portfolio. Two years later, in 2020, the Food and Drug Administration of Thailand's Ministry of Public Health publicly unveiled the prestigious "2020 FDA Quality Award" recipients.

Notably, Yili Chomthana Company, as Thailand's foremost local ice cream producer, earned the distinguished "2020 FDA Quality Award" in recognition of its outstanding commitment to maintaining the highest standards of quality control. This accolade signifies the exceptional quality of Chomthana's products and its unwavering dedication to excellence.

The award's significance extends beyond mere recognition; it serves as a testament to Yili's ability to successfully integrate and elevate its acquired assets. Yili's acquisition of Chomthana Company has garnered widespread acclaim from various stakeholders in Thailand. This achievement underscores Yili's impressive marketing capabilities and reinforces its reputation for credibility and excellence within the Thai market [8]. It also highlights Yili's commitment to delivering quality products and maintaining the highest standards of quality control on a global scale.

3. Compare Mengniu and Yili Marketing Strategy Based on STP Model

The STP (Segmentation, Targeting, Positioning) theory initially originated with the pioneering work of Wendell Smith, an American marketing scientist who introduced the concept of market segmentation. Subsequently, this concept was refined and enhanced by Philip Kotler, widely recognized as the "father of marketing," evolving into a comprehensive and well-established theory. The STP theory has evolved to become the crux and quintessence of modern marketing.

Smith's early insights into market segmentation laid the groundwork for a more nuanced understanding of how diverse consumer groups could be effectively addressed in marketing strategies. Kotler's contributions further propelled this concept, shaping it into a robust framework that is central to contemporary marketing practices.

Today, the STP theory serves as the backbone of marketing strategies across industries, allowing businesses to identify specific market segments, tailor their offerings to meet distinct consumer needs, and position their products or services effectively in the marketplace. It represents a fundamental and indispensable aspect of modern marketing theory and practice, enabling companies to navigate the complexities of consumer behavior and market dynamics with precision and success.

3.1. Segmentation

The reason why Mengniu and Yili have won the trust of the public is, first of all, because they have accurately differentiated their consumer groups: infants, children, teenagers, adults, the elderly and adult women, and produces unique products to meet consumer needs. The distinguish is shown in Table 1:

Table 1. Consumer segmentation.

	Mengniu	Yili
infants	Mengniu Milk Powder owns infant milk powder brands such as Ruibuen, Oushi, Meiseries, Yashili and Dumex.	Yili Golden Collar Crown infant formula
children	Future Star, high calcium milk, 1.88 meters children's milk powder, Aishi Chengxi cheese	QQ Star children milk, milk powder
adults	Pure mike, High calcium milk powder, selected ranch milk, breakfast milk	pure milk, High calcium milk powder, selected ranch milk, breakfast milk, BeiChang sheep milk powder
the elderly	Yourui, Platinum, Multidimensional milk powder for middle-aged and elderly people, low-fat milk, probiotic high calcium milk powder	Xinhua middle-aged and elderly milk powder, high calcium low fat milk powder, high calcium high protein milk powder
adult women	Xiaoman cashew acid enzyme skimmed milk powder, women's milk powder	Qingmu, women high - speed high - calcium milk powder

Furthermore, consumers cannot make their purchasing decisions in a vacuum. Their decisions are largely influenced by cultural, social, personal and psychological factors. Prices are heavily influenced by these factors [9]. Various types of products also bring different experiences to people, and also meet the needs of small consumers with different economic bases. Faced with mid-to-high-end consumers, they don't care much about price but value quality and value. Therefore, in the high-end milk market segment, the main products are high-quality pure milk, organic milk, high-end functional milk and other products, such as Delon Su Desert organic milk, Jindian organic milk, Xinyangdao zero lactose series, ChunZhen yogurt and Anmuxi yogurt.

Table 2. Comparative analysis table of high-end products.

Product	Price	Time of sale
Delon Su Desert organic milk	99yuan	2021
Jindian Hulun Buir Organic Milk	90yuan	2022

According to the Table 2, what consumers can understand is that the price of Dalon su is higher than Jindian. It has so expensive price due to its awesome marketing strategies.

On the other hand, mid- to low-end consumer groups pay more attention to price and tend to ignore product quality. This market segment is the largest and the most competitive. Every company will produce this marketable product. Investors in the market segment of ordinary milk often choose the lowest-cost production method, such as reducing packaging fees and packaging in bags instead of boxes or bottles [2].

3.2. Target

The target market must be selected by corporate marketing. It affects a sales situation. In order to choose a profitable market, the company integrates resource advantages and pursues maximization of profits.

In 2021, Yili liquid milk accounted for 28.52%, 24.54%, 17.85%, and 29.09% in North China, South China, Central China and other regions respectively. The dates prove North China is the Selling Centre of Yili. Mengniu liquid milk for 96.51% in China and revenue in overseas regions accounted for 3.49%.

3.3. Position

Mengniu has competed with Yili since its establishment in 1999. However, faced with problems such as a small market and lack of funds in the early days of its establishment, Mengniu chose to lower its profile. In order to avoid a direct conflict with Yili, Mengniu entered the public eye in 2000 under the banner of "creating the second brand in Inner Mongolia". It is precisely because of this humble attitude that it has won many praises and laid the foundation for today's vigorous development [10].

Simultaneously, Mengniu has strategically adopted a three-step approach to pursue its market objectives, which involves targeting "Inner Mengniu," "Chinese cattle," and ultimately, the "world cattle" market. Notably, the company significantly accelerated its international expansion efforts following 2018. During the FIFA World Cup hosted in Russia, Mengniu played a pivotal role as a prominent dairy sponsor, leveraging this opportunity to penetrate the Eastern European market successfully. In that same year, Mengniu unveiled a transformative brand initiative through its partnership with the renowned Argentinian football star, Leo Messi. This collaboration marked a significant brand upgrade, characterized by the theme "Natural Force· Born to Be Strong." Fast forward to 2022, Mengniu is set to once again capture global attention as it sponsors the FIFA World Cup in Qatar. These developments signify the company's robust foray into the international market in recent years.

Yili has long positioned itself in green development and producing natural products, and later developed to focus on grassland as its main vision and appeal. In 2005, Yili officially established cooperation with the Beijing Olympic Games and became the only dairy company serving the Beijing Olympic Games. It invited Liu Xiang, Guo Jingjing and many other sports celebrities as brand spokespersons for the "Create Possibility for Dreams" brand [2]. In 2022, Yili adheres to the corporate creed of "Yili is Quality", improves people's health and well-being, injects new nutritional and healthy vitality into the Olympics, and fuels the concept of "Healthy China" to become a cooperative brand for the Beijing Winter Olympics. This is also the second time Yili is positioned at the Olympic Games. Yili also regards "Olympic quality" as its insistence at all times, always adheres to the corporate creed of "Yili is quality" and regards quality as life.

4. Future Challenges and Development for China's Dairy Industry

4.1. Challenges

The challenges faced by China's dairy industry stem from its relatively late development and the cultural preference for porridge over milk among a significant portion of the Chinese population. Historically, milk consumption was not as ingrained in Chinese dietary habits as it was in some other countries.

In recent times, the Chinese market has witnessed the gradual introduction of imported dairy products. Some of these imported products not only offer competitive pricing but also boast high-quality standards. As a result, an increasing number of consumers are opting for imported milk over domestic alternatives.

This shift in consumer behavior underscores the evolving dynamics of the dairy industry in China. While the challenges persist, the growing acceptance of imported dairy products highlights the need for domestic dairy producers to adapt, innovate, and enhance their offerings to remain competitive in this changing landscape.

Besides, like Mengniu and Yili, their price is a little high for the old and the young. Therefore, these people who attach importance to price refuse to drink milk. This phenomenon became extremely significant after 2008. The reason was the melamine incident in Chinese dairy products. This incident has aroused great concern in various countries and concerns about the safety of dairy products. After China's General Administration of Quality Supervision, Inspection and Quarantine released a melamine inspection report on infant milk powder produced by domestic dairy manufacturers, the incident quickly worsened. Melamine was detected in the milk powder of many manufacturers, including Yili, Mengniu, Guangming, Shengyuan and Yashili. The incident also severely damaged the credibility of Chinese-made products, and many countries banned the import of Chinese dairy products. Since then, China's dairy industry has begun to decline, and consumers have given up buying Chinese dairy products due to fright [12]. Nowadays, when some people buy dairy products for the elderly or infants, they give priority to imported brands, such as Kabrita goat milk powder and Royal Mysore. There are still a few people who have questions when buying Chinese dairy products: Do the chemical contents of these milks meet the standards? Is there melamine in them.

4.2. Development

Recent years Chinese dairy has large scale, till 2019, the scale had reached 427 billion yuan, a year-on-year increase of 10.5%. Among them, the market size of fresh milk, yogurt, milk powder, cheese and other products is constantly expanding. What follows is product innovation and upgrading as well as increased industry concentration. For instance, in Inner Mongolia, Mengniu and Yili have formed a regional production pattern that is an effective marketing strategy can improve brands the capability of competition.

Dozens of dairies dedicated to innovation, Mengniu is a wonderful example: Miracle Lando Cheese is currently the dairy product with the leading sales in the Chinese market. In the current business and management activities of Miracle Lando Cheese products, its main advantage is that it mainly uses imported milk sources and introduces first-class overseas production technology and equipment to ensure that Each cheese stick is rich in calcium and protein, with a delicate taste and more comprehensive nutrition. It is also co-branded with the cartoon <Paw Team Makes Great Contributions>, which is very popular among children. In recent years, it has specialized in the innovation of room temperature dairy products. In 2021, it accelerated its layout of cheese snacks and launched more than 15 cheese snacks. It innovatively combines cheese with dried fruits, puffed snacks and other categories to create a series of innovative products that are more suitable for Chinese tastes have opened up a new category with great potential [13].

Through a comparative analysis of Mengniu and Yili, it can be concluded that Chinese dairy companies represented by Mengniu and Yili also face poor risk resistance ability to adapt to changes in international conditions, as well as their own impetuosity and eagerness for success.

5. Conclusion

This article analyzes the similarities and differences in the marketing strategies of Yili and Mengniu to identify the shortcomings and advantages of successful operations and provides a guide for other companies to successfully operate. Chinese dairy products can flourish in a place where porridge is a "drink", thanks to the hard work and creativity of Chinese dairy companies. In particular, Mengniu has become China's leading dairy company in just a few years under the "five shortages" of lack of factories, lack of markets, lack of raw materials, lack of manpower, and lack of funds. I hope that these experiences can be passed on to new companies and provide them with Provide inspiration.

However, this study has certain limitations during its process. First of all, due to limited time, this article does not have a deeper exploration, which affects the analysis effect to a certain extent. Secondly, due to the narrow nature of the data, the article lacks discussion in line with international standards, and only two representative dairy companies were selected, making it impossible to draw a specific overview of the development of Chinese dairy companies. Therefore, the article is not suitable. Used in small business marketing.

In the future, the article will be stretched vertically to conduct an in-depth and precise analysis of China's dairy market, select more cases, and make more detailed comparisons. At the same time, it will summarize several business failure cases and analyze the international environment to make it suitable for Most of them are business operations.

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