

In the 1930s, Maurice Blackmore started turning his belief in the healing and preventative properties of herbs and mineral into a company based on such naturopathic principles. Launched with Brisbane's first health food store in 1938, followed by naturopathic clinics, colleges and associations around Australia, his family business, Blackmores Laboratories, was incorporated in 1962. The company went public in 1985 and changed its name in 1988 to Blackmores Limited, as it is listed today on the Australian Securities Exchange (ASX).

Blackmores has grown into a prominent multinational, with more than 1200 employees across Australia and more than a dozen overseas markets. The Chinese market and consumers are of particular relevance for Blackmores because of the role of traditional medicine in their culture and the daigou phenomenon that has emerged in the last decade and help Blackmores fast track their market penetration. In 2019 the Ruthven Institute identified Blackmores as the 17th highest performing listed company in Australia in terms of return on shareholder funds over the past three years. In 2020, they ranked in 37th spot.

The Blackmores Group's products fall under the definition of Complementary and Alternative Medicine (CAM). Today, the Blackmores Group includes five divisions:

1. **Blackmores**, which claims number one market share status in Australia (16.4%), Thailand, Malaysia and Singapore for vitamins and dietary supplements (VDS) sold off-the-shelf
2. **Blackmores Professional**, and
3. **BioCeuticals**, both of which provide VDS after consultation with a qualified healthcare professional
4. **PAW by Blackmores**, VDS for pets
5. **The Blackmores Institute**, the Group's research and training arm.

Sensing the International Environment

Maurice Blackmore's son Marcus took the reins of the business 1975. He travelled extensively to trade shows across the world, looking to identify relevant trends that

The RI Hub is an alliance between the University of Melbourne and the Ruthven Institute centred on research and curriculum development to improve the profitability and sustainable success of Australian businesses.

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could affect Australia and which Blackmores could adopt. In 1976, Blackmores were approached by an Australian wholesaler commencing operations in Singapore who offered to distribute their products in this emerging market. This first international endeavour was quickly followed by a move into neighbouring Malaysia. New Zealand followed in 1983. During this period, Blackmores made unsuccessful forays into the UK and the US. The former was doomed by the challenges of managing at such great distance. Despite the US operation building sales very quickly, it was shut down within a year by a nervous Board who felt Australian investors were discounting Blackmores' share price due to the perceived risks of internationalisation.

Internally, there remained a strong appetite for foreign expansion. Marcus Blackmore was aware the Australian market was very small in comparison to the Asian region. As he phrases it "Australia is a tiny country, and we're a tiny company. There are so many more mouths to pop pills into in Asia than anywhere else". The experience in Malaysia showed consumers were open to the philosophy of complementary medicine, aligned as it is with their traditional beliefs and practices. The focus has thus remained principally on Asia, with the company expanding into Thailand in 1989, Indonesia in 1995 through a joint venture, and Taiwan in 2007. When new CEO Christine Holgate took the reins in 2008, she quickly assessed that Blackmores could be doing even more to boost its Asian presence. Soon operations opened in South Korea (2010), Hong Kong, Macau and China (2013), Kazakhstan (2015), Vietnam (2017, with a distribution partnership), and Pakistan in 2019.

Given the challenges of operating in such a multitude of markets across the Asia-Pacific region, Blackmores has established three *Global Business Units*: (1) Australia and New Zealand, (2) China (entered in 2013) and International (Hong Kong, Indonesia, Kazakhstan, Macau, Malaysia, Pakistan, Singapore, South Korea, Taiwan, Thailand, and Vietnam). These units aim to implement consistent global marketing strategies while also adapting to the local markets to foster consumer-relevant innovation. There is a clear aspiration to be the best vitamin company in the world, as well as one of the largest.

Case prepared by Francesca Pujatti and André Sammartino (2021). Thank you also to Marcus Blackmore for his feedback and inputs. All errors are ours.

For more cases, see <https://fbe.unimelb.edu.au/cwl/research/the-ruthven-institute-hub>



The VDS industry is highly regulated, especially in Australia. The costs of meeting strict product registration requirements impact the firm's ability to compete on price in less regulated markets. This is the main reason they have not reentered the more laissez faire US market. This has also provided opportunities for Blackmores, however, as they have developed expertise in navigating such systems, and their products typically meet the most stringent of rules. Several Asian markets have mimicked Australia's regulatory frameworks, meaning Blackmores is quick to achieve compliance and is insulated from multinational rivals from less regulated home markets.

Nevertheless, laws and policies do differ from country to country, and Blackmores has faced problems on occasion. In 2017, for example, Blackmores was fined AUD \$65,000 by the Shanghai Administration for Industry and Commerce (AIC) for using global marketing material that contained claims on the curative and preventative efficacy of the company's products. Such statements have been illegal in China since 2015 for health foods and vitamins.

Operating across a diverse set of countries has challenged Blackmores to adapt its messaging and product portfolio. China has inspired Blackmores to focus on modern career women with their product development and marketing. In other markets with large Muslim populations, such as Malaysia, Singapore and Pakistan, work has been done to ensure vitamins and dietary supplements are Halal.

Blackmores' most recent announcements regarding its international expansions see it planning to enter the Indian market late in 2021, while also focusing on the well performing Indonesian and volatile Chinese markets, especially by boosting the use of digital retailing and technology.

Holistic operations

Blackmores is a vertically integrated company with in-house operations that span from R&D to retailing and customer service. Blackmores prides itself on being innovative: their Institute and the breadth of their product offerings being a testament. The Blackmores Institute's purpose is twofold: to research new natural ingredients and their combination to improve wellbeing; and to educate healthcare professionals and customers through evidence-based claims. The evidence-based medicine sphere generally distances itself from *traditional* and natural medicine. To address this skepticism, Blackmores' collaborates extensively with universities and

research organisations. Founder Maurice Blackmore's biggest regret was that he didn't see naturopathy become a respected profession in Australia. This has led the Blackmore Foundation, the philanthropic trust run by his son Marcus and daughter-in-law Caroline, to donate \$10m to Southern Cross University's National Centre for Naturopathic Medicine, and to financially support Western Sydney University's National Institute of Complementary Medicine, and University of Technology Sydney's Australian Research Centre in Complementary and Integrative Medicine.

A total of 600 different formulations are produced by the Group. Blackmores Australia has one of the nation's largest range of vitamins and dietary supplements (VDS) sold (a) off-the-shelf and (b) after the consultation with a healthcare professional, with over 160 different formulations for each of these two categories. The PAW by Blackmores line, established after the acquisition of Pure Animal Wellbeing in 2010, can be seen as a form of horizontal integration that uses the same natural healing and preventative principles for the wellbeing of pets. The PAW range counts over 30 different products.

Blackmores Limited manufactures 70% of its total products in-house thanks to the acquisition of Catalent Australia's 30,000m² Braeside plant (Victoria, Australia) in 2019. This facility specialises in the production of tablets and soft-gel capsules, decreasing Blackmores' dependence on third parties. Blackmores' logic for internalising such core activity is to benefit from the flexibility required to quickly adapt to changing market trends and to protect the intellectual propriety of their formulations: what the company defines as "consumer-led innovation". Packing, bottling, quality control and distribution are also handled internally at two different sites in New South Wales, Australia.

Complementarity

Blackmores' vertical, horizontal and international growth strategy has been driven, at least in part, by mergers and acquisitions, joint ventures, partnerships, and distribution agreements.

Upstream, the company's strategic sourcing aims to nurture a relatively small number of long lasting and mutually beneficial partnerships to create synergies, achieve scale and improve transparency, while never compromising on quality. This is a challenging prospect with more than 1,000 different ingredients to be sourced.

As noted, horizontally, Blackmores has extensive research alliances and the firm

collaborates with healthcare professionals and veterinarians both in the product development process and through educational programs. For BioCeutical and Blackmores Professional products, the qualified healthcare professionals need to have a registered account, and to qualify for one they must be members of a Government Accredited Healthcare Related Professional Association (eg: Chiropractors, Herbalists, Medical Practitioners, Naturopaths, Nutritionists, Osteopaths, Pharmacists, Physiotherapists, Traditional Chinese Medicine).

Downstream, the company sells its products through a mix of owned channels (flagship stores and online e-commerce) and third parties (supermarkets, pharmacies, health food stores and online retailers such as Tmall, Koala and J.D in China) for a total of 33,000 points of sale with the help of 18 distribution partners overseas.

Internationally, Blackmores is supported by specialist advisors to comply with local regulations, and it engages and builds relationships with governments, industry and regulatory bodies to mitigate the risks that come from operating in different geopolitical situations.

Externalising costs

Daigou, which translates to “buying on behalf of”, is essentially a backchannel means to export products to China. Australian products, considered to be of superior quality to Chinese ones, are purchased in Australia by Chinese international students, Australian residents or tourists (daigous) for end-customers in China. The phenomenon started with the 2008 Chinese baby formula scandal and the consequent decrease in consumers’ confidence for local products. Over time, this system has become more sophisticated and has seen the establishment of intermediary companies that collect and combine the products purchased in Australia, shipping them to China through Free Trade Zone ports. Similarly, the number of daigous has grown exponentially as has their interaction with companies like Blackmores that recognise the effectiveness of the relationship and trust built up between the Chinese end-customer and their daigou. This can be viewed as essentially outsourcing a range of processes: marketing, promotion, sales, and logistics. Marcus Blackmore describes the daigous’ ability to match supply and demand as “astounding”, with requests for specific products by prospective buyers on Chinese platforms very quickly matched by bulk purchases from retailers in Australia.

By 2019, daigous accounted for around 25-30% of Blackmores' Australian sales according to Marcus Blackmore. Blackmores Limited's former CFO, Aaron Canning described daigous, who essentially run their own businesses, Blackmores' "largest network of sales, people, ambassadors and influencers". Daigous use WeChat to promote and sell their service and, indirectly, Australian products. Among the other educational programs that Blackmores offers to customers and health professionals, the company has also developed a specific course titled "Blackmores Education for Daigous", to help them with their professional development.

The relevance of daigous has been demonstrated by the COVID-19 pandemic, that led to the closure of Australian borders and a dramatic decline of international students and tourists in the country. This contributed significantly to a decrease of 14.8% in Blackmores' Australian revenues in 2020 as compared to 2019.

Facing the China Challenge

In 2019, China introduced e-commerce laws that require daigous to register their business and pay taxes to the Chinese government on the revenues generated from their exporting activity with the aim to rebuild confidence in Chinese products. Blackmores claimed a reduction of 40% in their daigou sales in Australia in 2019 as a result of Beijing's decision. Additionally, Chinese consumer preferences are reversing towards nationally made products and companies with diminishing brand loyalty for established brands like Blackmores. In 2019 and 2020 the company observed a decrease of 15% and 16% respectively in revenues compared to the previous years in this market.

Investors' views of Blackmores have soured also, with the share price down from a high of \$210 in 2016 to around \$75 in August 2021. In mid-2019, Blackmores appointed a new CEO Alastair Symington. Mandarin-speaking Mr Symington brings extensive experience in Asia, having previously run Procter & Gamble's Wella brand in China, and then headed up their Coty operations for the Asia Pacific, Latin America and the Middle East. Despite the political tension between Australia and China affecting trade, the first half of 2021 is showing an increase of 27% in Blackmores' revenues in China compared to the first-half figures of 2020. With these latest figures and statements on future growth, it looks like Blackmores has accepted the challenge in China.

Further Reading

Blackmores (various years), *Annual Reports*

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IBISWorld (2020), *Company Profile: Blackmores Limited*

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Ruthven Institute (2021), *Profitability - 100 Best Listed Public Enterprises*

CASE QUESTIONS

1. Blackmores is a proudly and visibly Australian firm. To what extent is this an advantage as a *wellness* brand? Why? Why not?
2. Blackmores has a high level of vertical integration. To what extent do you see this as beneficial and why? What risks do you see with keeping so much in-house?
3. Blackmores operate across several different product markets. Is there a sound logic to their mix of businesses? And what dangers can you see in this spread?
4. Blackmores has certainly benefitted from the operations of Daigous. What risks can you see with this channel? How could Blackmores ensure they minimise these risks?
5. While Blackmores has certainly built a considerable international footprint quickly, there remain many untapped markets. Where would you advise they go next? And why?