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**Can China become a major chocolate market?**

An empirical analysis on chocolate consumption and  
perception of Italian Venchi brand for Chinese consumers

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# 引言

这本论文的目的是为了分析中国消费者对巧克力的想法以及这种产品进入中国市场的历程和有关策略。巧克力是一种在四十年前进入中国市场的舶来品。由于每个国家的文化和社会跟自己的饮食传统非常密切，新食品进入新市场的过程不会一定容易。近来，由于中国中产阶级人口数量增加了，中国人更有机会去外国旅游、体验各种各类的美餐佳肴，比如欧洲巧克力。大量外来食品逐渐地融合到中国消费者的现代生活方式，因此越来越多外国企业进行饮食行业把中国市场作为它们有利可图的市场。

这本论文的内容包括五个章节，也分为三个部分：

**第一个部分** 包括两个主要话题，也就是中国巧克力市场的大概状况和在中国市场的最著名巧克力品牌。关于第一个方面，我们主要来分析巧克力在进入中国市场的过程中的障碍。80年代早期的中国，外来公司应该面对的最大两个障碍是巧克力口味和供应链。虽然中国烹调包含不同类型的甜品，但是它们的味道比西方甜品的没有那么甜，并且中国人没有吃

大量甜品的习惯，因此对中国人来说，巧克力太甜了。第二个问题在于在中国的巧克力供应链短缺。其实，巧克力很容易地融化，那时候，空调仓库、空调货车和空调商店都是稀有品，所以夏天的时候，很多中国商店无法保存而销售巧克力。换言之，巧克力只在中国的最发达城市被销售，并且中国人把巧克力看作一种特别季节性的食品。

之后，我们把注意力集中在中国市场的五大巧克力先驱企业。一般来说，先驱企业的规模比较大，并且在技术、资金、人力资源、信息获取等方面的能力比较强。在中国巧克力市场，这些大企业是 *费列罗 (Ferrero)*、玛氏的巧克力品牌 *德芙 (Dove)*、*吉百利 (Cadbury)*、*好时 (Hersheys)* 和 *雀巢 (Nestlé)*。基本上，这些外来公司在中国市场都取得了很大的成绩，主要有两个原因：第一个是因为它们在中国市场进行了产品和品牌传播的本土化战略，第二个是因为它们在广告费用投入了很大的精力和费用。其中它们，一个更详细的介绍涉及到意大利巧克力公司费列罗，因为它是第一个把巧克力进口到中国市场。

分析巧克力先驱企业以后，我们可以分析进入中国市场的巧克力寡头后动企业。在许多情况下，它们是中小企业。一般

来说，这种企业的不同种类的资源相对有限，但是，由于规模比较小，与大企业相比，它们具有更大的弹性和灵活性，经营决策快，成本及综合风险相对低，并且它们对市场反应速度也比较快。在中国巧克力市场，它们还是小众品牌，其中最著名有起源于比利时的**歌帝梵 (Godiva)**、**列奥尼达斯 (Leonidas)** 及 **纽豪斯 (Neuhaus)**。这三个顶级和奢华巧克力品牌的历史很悠久，持续以传统工艺的生产方式来制作巧克力。此外，由于只选用高档可可豆而精选优质的材料，它们提供的产品价格也比较高。目前，歌帝梵肯定是最著名的。自 2009 年进入中国市场以来，在全国已设立了逾 50 家品牌专营店，并将持续为国内消费者传递品牌精神及比利时巧克力的文化。此外，由于如今越来越多的中国消费者网购，除了品牌的官方网站以外，自 2012 年以来，中国的巧克力爱好者也可以在歌帝梵天猫旗舰店上购买。

这本论文的第二个部分涉及到意大利巧克力公司**闻绮 (Venchi)**，特别是这家公司在中国的情况。主营意大利顶级巧克力、冰激凌和咖啡，这家公司创始于意大利西北的皮埃蒙特大区，今年已经有 140 年的历史。目前，闻绮把它的产品出口到世界 70 个国家，特别是用自己的概念店被叫做“Ciocco - gelaterie”来销售。里面，消费者可以体验



各种各类的巧克力美食，其中有巧克力糖果、酱、棒、热饮、可丽饼和其它许多甜品。其实，闻绮专卖店的目的是给消费者提供最高质量和最好吃的不同巧克力种类，而且让顾客体验到该品牌产品的文化及内涵。由于很多中国人对巧克力品牌和历史不太了解，体验店可以作为一个非常有效的品牌宣布工具。

在 2011 年，闻绮进入中国市场，已经体现一个在中国找到机遇的意大利制造公司了。目前，在中国大陆有六个闻绮分店，位于中国的最发达城市也就是北京、天津、上海、广州、成都和济南，并且在香港也可以找到六个分店。这家公司对产品的品质、营养配料和新鲜度非常重视，用工匠精神来做它们巧克力的佳肴美食。其实，它们只用天然原材料，比如可可脂、开心果和榛子的油脂，一直坚持不使用化学添加剂、化学色素和脂肪酸。此外，它们制造的明星产品，比如 *Cremino* 和 *Nougatine* 巧克力糖果还是保持有 100 多年的传统食谱和做法。

这本论文的第三个部分要分析我进行的巧克力实地调查。它包括两份调查问卷：一个针对闻绮的中国消费者，一个针对闻绮的中国店长。第一个调查的目的是了解中国人对巧克力

和闻绮品牌有什么想法，更具体地说，要了解他们对巧克力的购买习惯和消费行为。调查的第一个对象是在香港、北京、天津和上海闻绮分店里面采访的，一共为 238 位中国人。调查数据显示大多数中国人最喜欢吃的巧克力口味是黑巧克力而最喜欢的形状是巧克力棒。此外，大部分消费者吃巧克力的频率为每个月一次，他们一般是在自己的家里吃的，但是还有一个比较大的部分喜欢在品牌专卖店吃，因为对他们来说，这个是可以买巧克力的最有保障的地方。

最后，针对闻绮店长的调查问卷主要涉及到三个方面，也就是每四个分店的销售情况、经营管理以及客户的信息。

关于第一个方面，我们要分析巧克力和冰激凌商品的销售量，也要了解中国消费者最喜欢吃的冰激凌和巧克力口味。关于第二个方面，我们要了解每四个分店的店长在人员管理、营销战略和商品供应的过程中有没有遇到过一些问题。最后一个方面要分析顾客在分店里的购买行为，更具体地说，要分析体验店对消费者的重要度和影响力，也要了解他们的购买欲在一个星期的什么时候是最强的。调查数据显示香港和北京闻绮店的中国顾客最喜欢吃巧克力，特别是黑和榛子巧克力，而天津和上海的顾客最喜欢吃冰激凌。

关于分店的经营管理，闻绮店长说没遇到过大问题，但是，对他们来说，员工需要更多的培训。最后一个方面涉及到闻绮顾客。一般来说，大多数顾客是 20 岁的年轻女人和年轻父母陪自己的孩子们买冰激凌。

深入地分析巧克力在中国市场的情况以及闻绮中国顾客和店长的回答之后，我们能提出了一个总体的结论：

首先，在中国市场，巧克力公司会有更多的机遇，因为中国消费者对巧克力的饮食和购买习惯已经发生很多变化了。现在，中国人不只是用巧克力作为礼物，而是自己用，因此他们越来越重视巧克力的质量和营养价值。其次，由于中国市场的竞争非常激烈，巧克力公司打算取得很高、长期的成绩，也应该在不同的商务层面推行本土化战略，比如在包装设计、产品、广告和传播等有关商务方面。最后，由于大多数的中国人把意大利看作是巧克力原厂国，意大利品牌可以把“意大利制造”精神和主要价值作为它们在中国市场的核心竞争力。这些价值，比如精致的手工艺，巧妙新颖的设计和意大利的“甜蜜”生活方式会吸引中国消费者的注意力，令他们对意大利巧克力品牌赢得更多的信任。

# FIRST CHAPTER

## CHOCOLATE AND CHINA

### 1.1. CONTEXTUALIZE CHOCOLATE IN THE CHINESE SOCIETY AND CULTURE

Before analyzing chocolate's journey in the Chinese market, it is important to contextualize this product in its deeply-rooted society and culture. Chocolate started to make its appearance in China in 1980s <sup>1</sup> and before that date, very few Chinese people had already eaten a piece of chocolate: it was an unknown product, without any tradition or history in the country, it was basically *foreign*. Lawrence Allen in his book "Chocolate fortunes: The Battle for the Hearts, Minds, and Wallets of China's Consumers"<sup>2</sup>, coins a definition to portrait Chinese consumers' attitude towards chocolate at that time, by defining them as *chocolate virgins*. It may be a strong definition to use, but it perfectly fits with their lack of knowledge and experience towards this product.

China has a current population of 1.4 billion of people <sup>3</sup>, with a constant growing of urban consumers' per-household disposable income<sup>4</sup>, thus representing a huge

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<sup>1</sup> Li, F., & Mo, D. (2016), The Burgeoning Chocolate Market in China, in *The Economics of Chocolate*, Oxford University Press, p. 383.

<sup>2</sup> The mentioned book was written by the former executive both at Hershey's and Nestle's in China. He gives a first and inside look to the efforts made by Big Five Chocolate Companies to break into Chinese market in the late '90s and early 2000s, describing their strategies, successes and failures.

<sup>3</sup> <http://www.worldometers.info/world-population/china-population/>, consulted on September 2017.

<sup>4</sup> It stands for the amount of money that households have available for spending and saving, after income taxes have been accounted for.

potential market for chocolate. Anyway, its size is both its blessing and its curse, mainly because exist huge variations within the country, in terms of population and educational levels, per capita GDP <sup>5</sup>, average income levels and consumer spending habits<sup>6</sup>. All these aspects constitute China's heterogeneous growing economy and an extremely dynamic and complex market, difficult to understand and predict for new and foreign market players. Generally speaking, the launch of a new product in a new market can be difficult and unsuccessful, especially if companies merely transfer and replicate their domestic strategies. Since the purchasing and consuming patterns of a certain product are extremely linked to a country's social and cultural contexts, thus consumers belonging to diverse cultures may buy the same product, but for different reasons and usages. This mainly occurs because what is really difficult to transfer is its more original meaning <sup>7</sup>.

To understand chocolate's role and way of consumption in China during its introduction phase, it is good to understand how was chocolate perceived by Chinese people: it was basically viewed as an expensive and exotic product, associated with high-quality and authenticity <sup>8</sup>. For this reason, thirty-seven years ago, chocolate was accessible to a very small part of Chinese population, limited to its emerging consumer class in the major cities. Due to this limited financial accessibility and to the lack or very little knowledge of this item, the only possible chocolate consumption pattern was the one of gift-giving <sup>9</sup>.

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<sup>5</sup> Is the acronym for Gross Domestic product and consists in the monetary value of all the finished goods and services produced within a country's borders in a specific time period (generally on an annual basis)

<sup>6</sup> <https://www.b2binternational.com/publications/china-market-entry/>

<sup>7</sup> Nancy, Y. W., & Aaron, C. A. (1998), *Personal taste and family face: Luxury consumption in Confucian and Western societies*, *Psychology & Marketing*, 15(5), pp. 423-441.

<sup>8</sup> Mo, D., Rozelle, S., & Zhang, L. (2016), *Chocolate Brands and Preferences of Chinese Consumers*, in *The Economics of Chocolate*, p.170.

<sup>9</sup> Allen, L. (2009), *Chocolate Fortunes: the battle of hearts, minds and wallets of China's consumers*, New York, AMACOM Div American Mgmt Assn.

China always had a very strong gift-giving culture, both for the private and public sphere. In fact, alcohol, tobacco and food products (including candies, chocolate and biscuits) became very soon popular gifts for ceremonies (weddings, birthdays) and festivities occasions (Mid-Autumn festival, Chinese New year)<sup>10</sup> , but also common gifts for maintaining business and political interactions (the so-called gūanxi 关系). Because chocolate was a luxury item at that time, Chinese consumers justified its consistent expense, by giving chocolate as a gift in these multiple occasions, that helped them in maintaining reputation with the others and to “ gain face instead of losing it ” (miànzi 面子).

The concepts of 关系 and 面子 are extremely important and interdependent in Chinese cultural tradition: the ability to build many relationships (of different nature) increases reputation and consequently, earning a high reputation gives more chances to build other strong relationships. In addition, because China is a collectivist culture, Chinese people consider their “self” component (including tastes, personal values, thoughts and skills) extremely linked to the others, especially to family members and tend to subordinate their individual needs, goals and aspirations to satisfy a more collective interest. Due to this assumption, Chinese consumers will be more influenced by people’s opinions about them and they will seek for symbolic and publicly visible possessions, rather than hedonic and private use items. Last but not least, Chinese people are “very fond of items that are not accessible in China”<sup>11</sup>, perhaps due to their past and long-lasting closed-door policy. In this case, the consistent price of a product became an outward symbol for reflecting their social status.

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<sup>10</sup> <https://chocolateclass.wordpress.com/2015/03/14/china-and-chocolate-how-to-succeed-in-a-foreign-market/>, consulted on September 2017.

<sup>11</sup> <https://chocolateclass.wordpress.com/2015/03/14/gifting-and-growing-cultural-adaptations-driving-the-expansion-of-chocolate-in-china/>, consulted on October 2017.

All these mentioned cultural aspects have consistent marketing implications and so must be properly assessed. At this point, we can definitely state that chocolate during its introduction phase, was not evaluated and purchased for its taste and selected ingredients, but mainly for its social value and the idea communicated, that was a mixture of luxury, exoticism and high-quality, or according to Allen's words "an icon of the Western world's decadence and self-indulgence". To confirm that, in 1990s, the same chocolate firms who operated both in the Western and Chinese markets presented a total different situation: in the first one, 90% of their total sales came from self-consumption, on the contrary in China, a consistent 50% of their total profits exclusively relied on gift giving <sup>12</sup>. This percentage could really represent a huge potential for these firms, that very soon started to find strategies for developing a more oriented self-consumption market.

## **1.2.ROLE AND PERCEPTION OF LOCAL CHOCOLATE IN CHINA**

As previously said, Chinese consumers were used to perceive chocolate as a foreign product, imported by large American and European firms. Anyway, considered its huge sales potential, many domestic firms attempted to gain market share in this growing industry, as well. Nowadays, around 70% of China's chocolate market is dominated by European companies, that since the beginning invested money and efforts in the creation of efficient marketing plans and strategies to better appeal its Chinese consumers. Besides this aspect, there are two main reasons for which many local firms are still afraid of not being able to compete and to meet consumer expectations. First of all, because chocolate has no tradition or history in the country's food culture, an evident disadvantage can be found in their total lack of expertise and knowledge in the chocolate production process, compared to the

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<sup>12</sup> Allen, L. (2009).

European expert chocolatiers. For its “exotic” perception, chocolate should be produced by and with an European style and not by Chinese companies: as result, if western chocolate was associated with high-quality and authenticity, a Made-in China chocolate was automatically associated with low-quality and regarded with mistrust. This belief can also be viewed as a clear example of the so-called country of origin effect (COO), that is basically the effect that, the localization or the country in which a certain product is produced, has on the consumer behavior and on its final purchase decision. Many domestic firms understood this disadvantage and tried to imitate the foreign competitors, leading to some evident knock-offs and notorious cases of local copycatting (the most famous is the Chinese Zhangjiagang Dairy Factory’s imitation on Ferrero Rocher)<sup>13</sup>.

Second, foreign food products have always shaped better the expectations and desires for consumption among consumers in East Asia<sup>14</sup> , mainly due to some big food safety scandals occurred in China in the past decade; the scandal of milk and infant formula product contaminated with melamine<sup>15</sup> (2008) was probably the most resounding, followed by the sale of rotting 40-years-old frozen meat (2015) or the use of gutter oil for cooking use<sup>16</sup>. Since many chocolate bars contain milk, it was understandable Chinese consumers’ concern and their preference towards chocolate manufactured abroad. Even some large western confectionery companies such as the British Cadbury, due to the possibility of melamine contamination in their dairy products, withdrew 11 types of chocolate bar produced in China <sup>17</sup> .

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<sup>13</sup> Allen, L. (2009), pp. 57-58.

<sup>14</sup> Nancy Y. Wong, Aaron C. Ahuvia (1998).

<sup>15</sup> This scandal arises from the Sanlu Group, one of the largest dairy producers in China, admitting that its milk powder was contaminated with the toxic chemical melamine. As the scandal unfolded, more Chinese dairy firms became implicated. From this contamination, about 300,000 babies became ill and six died.

<sup>16</sup> Beghi S. (2017), *Food Safety in China*, pdf report.

<sup>17</sup> <http://www.telegraph.co.uk/news/worldnews/asia/china/3102123/China-milk-scandal-Cadbury-recalls-Dairy-Milk-bars.html>, consulted on October 2017.



For this reason, local Chinese companies' path towards the creation of competitive products seems long and difficult. Nevertheless, even if they have some evident advantages compared to foreign competitors, such as the possibility to have lower operating costs and consequently to set lower prices, facing the fierce competition with big multinationals also requires consistent investments on economic and human resources, together with the development of a long-standing expertise in the chocolate industry. In other words, local chocolate firms need to improve product quality and facilities, adopt international technologies, select good raw materials and obtain some main cocoa certifications.

A Chinese chocolate brand need to be mentioned is Le Conte (金帝), which mainly operated in Chinese first and second-tier cities and faced strong competition with the big foreign brands. Founded in 1990 in the Guangdong province, it quickly became one of the most appreciated and sold Chinese chocolate brands. Quality, innovation and brand communication were the key factors of its success and differentiation from other local firms. Regarding the quality aspect, Le Conte selected American and African cocoa beans and adopted Swiss methods for the chocolate manufacturing process, thus assuring a good quality product to its consumers. This quality focus was quite unusual for most of domestic chocolate companies, who generally add cornstarch, gluten, vegetable oil, flavors and only used a 20% of cocoa butter <sup>18</sup>. Then, since imitation had not been a successful and long-term strategy to apply, this company mainly focused on innovation, launching a varied range of chocolate products, contained in fine and aesthetically appealing packaging.

Moreover, they heavily invested in store-promotion, displays and television advertising to enhance brand awareness among customers and to focus on their

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<sup>18</sup> <http://www.leconte.com.cn/>

good quality\price ratio, that offered chocolate products at about a 25 to 30 % price discount, compared to foreign competitors<sup>19</sup> .

Nevertheless, in the last few years, the strong competition of leading firms, the arrival of new foreign market players, along with some operational level issues, caused to the company a significant drop in chocolate sales. As result in 2016, Le Conte - the largest Chinese domestic chocolate confectionery company – was sold to the Fujian Province wedding candy brand Hollygee (好邻居) . From this acquisition, general manager of Hollygee, Mr. Zhiteng Cheng hopes to “develop new innovative products with Le Conte’ s knowledge and techniques of chocolate”, with a particular focus on Chinese wedding gifting market”<sup>20</sup> . Le Conte’s case is not the only example among domestic chocolate makers’ flops: in the last years, some of China’s top confectionery enterprises have been absorbed by famous multinational firms.

In 2011, Nestlé acquired a controlling stake in Chinese largest confectionery manufacturer Hsu Fu Chi (徐福记)<sup>21</sup>, with the intention of replenishing Nestlé’s distribution network and logistics system in China<sup>22</sup>, while in 2013, Hershey’s acquired the Shanghai Golden Monkey (上海金猴食品股份有限公司)<sup>23</sup>. Since Chinese first- and second-tier cities have already been taken by western chocolate brands, domestic chocolate firms may have a chance in third- and fourth- tier cities,

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<sup>19</sup> Allen, Lawrence L. (2009).

<sup>20</sup> <http://www.confectionerynews.com/Manufacturers/China-chocolate-brand-Le-Conte-sold-to-Hollygee-for-33m>, consulted on October 2017.

<sup>21</sup> Founded in 1992 and based in Dongguan, Hsu Fu Chi mainly manufactures biscuits, chocolates, jellies, sachima and snacks. It was the first company to introduce the "Pick and Mix" format in China.

<sup>22</sup> <http://fints.cn/chinese-domestic-chocolate-brands-look-for-new-opportunities-amid-tough-status/>, consulted on October 2017.

<sup>23</sup> <http://marketrealist.com/2015/10/hersheys-acquisition-shanghai-golden-monkey-disappointing/>, consulted on October 2017. The company was founded in 1996, in the Henan province. Its main products are candies, chocolate and dried tofu. From 1998 to 2001, this firm obtained a few quality certifications and some important business recognition awards.

mainly targeting at the low-end market segment. A domestic firm still surviving is the Chinese Fujian Yake food company (福建雅客食品公司); founded in 1993, it focuses its attention, both on the selection of raw materials (selection of high-quality, Ivory-coast imported cocoa beans and milk imported by New Zealand) and on the employment of advanced technologies and facilities.

All these given examples can reflect Chinese consumer's current metamorphosis: in a highly competitive and international market, making a good chocolate is not enough to survive. Anyway, it can be a good start for Chinese local firms aiming at entering domestic market; Chinese consumers are getting more and more chocolate-educated, with a more sophisticated awareness and curiosity in tasting chocolate in every form. Besides, with their growing purchasing power and a higher willingness to go premium, especially local firms need to constantly make innovative products of good quality or make strategic partnerships to increase their credibility, if they want to survive.

### **1.3. CURRENT SITUATION OF CHINA'S CHOCOLATE MARKET**

After having delineated the cultural and social role of chocolate in China, it is now possible to assess its past and current situation in the market. According to the 2004 Euromonitor survey, in that year, China's chocolate sales still had not reached the value of \$ 1 billion (683.2 US\$ millions). In 2007, they reached the value of US\$ 1.2 bn, with a growth rate of 17 %, compared to the previous year and in 2013, the value of US\$ 2.4 bn. Currently in 2017, its value is estimated to US\$3,08 bn (around CNY 20.2 bn) and according to some market forecasts, total sales should grow to \$4.3 billion by 2019, resulting in a growth rate of 40 %, compared to 2017<sup>24</sup> .

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<sup>24</sup> <http://www.businessinsider.com/r-china-chocolate-market-seen-growing-to-43-billion-by->

Despite this relevant increase, as the above table shows, among the three confectionery product categories (chocolate, gum and sugar confectionery), chocolate results to have the lowest market sales in China.

Year	Chocolate		Gum		Sugar Confectionery	
	Sales (US\$ Millions)	Growth Rate (%)	Sales (US\$ Millions)	Growth Rate (%)	Sales (US\$ Millions)	Growth Rate (%)
2004	683.2	9.82%	797.1	13.42%	3656.4	6%
2005	762.2	11.56%	917.6	15.12%	3909.7	6.93%
2006	874.9	14.79%	1070	16.61%	4269.6	9.21%
2007	1023.9	17.03%	1234.8	15.40%	4759.4	11.47%
2008	1241.6	21.26%	1450.3	17.45%	5482.6	15.20%
2009	1383.8	11.45%	1556.5	7.32%	5818.9	6.13%
2010	1569.4	13.41%	1776.7	14.15%	6339.4	8.94%
2011	1863.9	18.77%	2127.4	19.74%	7211.7	13.76%
2012	2138.7	14.74%	2446.9	15.02%	7993.4	10.84%
2013	2422.6	13.27%	2750.4	12.40%	8784.6	9.90%

**Figure 1.1.** Confectionery sales and growth rate in China in US\$ millions (2004-2013)

Source: Data from Euromonitor International (2014), reprinted by Squicciarini, Mara P., and Johan Swinnen, eds, *The economics of chocolate*, Oxford University Press, 2016.

In addition, data on chocolate per-capita consumption seems to enhance this tendency; as is shown by the CAOBISCO (European Union Association of the Chocolate, Biscuit and Confectionery Industries) and ICA (International Confectionery Association)'s report, China still shows a low value, by only consuming a 1 kg/capita (the equivalent of ten 100 gr chocolate bars). Low value in the mentioned category are generally common to the East Asia countries, with South Korea not present in the list and Japan showing a modest value of 2.1 kg/capita. On the contrary, Germany and Switzerland result to be the two countries with the highest per-capita consumption, which respectively amounts to 11.5 and 10.5

2019-hershey-2015-2?IR=T, consulted on October 2017.

kg/capita. Northern Europe countries also show a high value (from 7 to 9 kg/capita), while Southern Europe countries like Italy (3,7 kg), Spain (3,6 kg) and Greece (3,5 kg) result in a lower consumption. Thus, European countries are generally the ones with the highest chocolate per-capita consumption and can be also noticed that, the consumption increases as the country's temperatures decrease<sup>25</sup>.

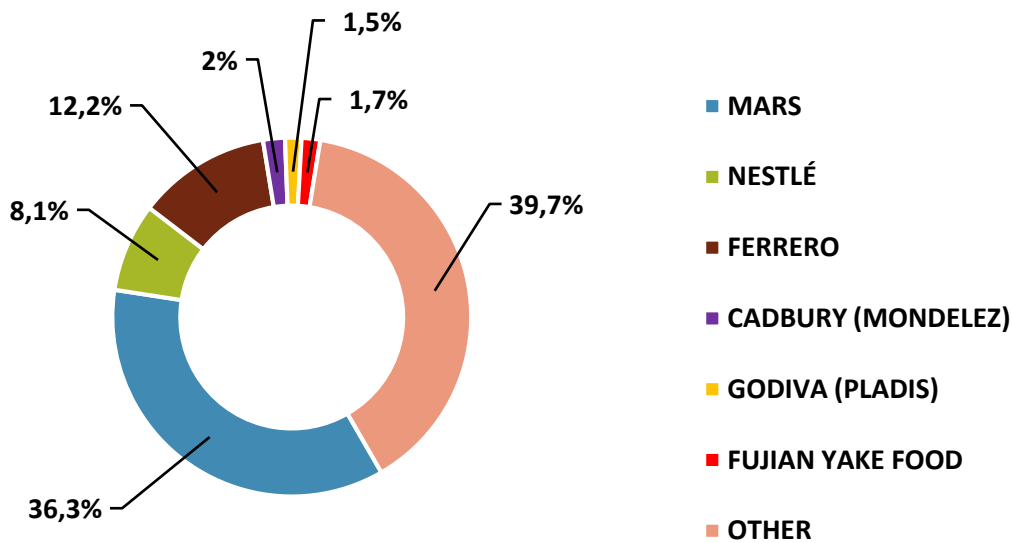
	2000	2010	Growth in Volume between 2000 and 2013 (in %)
	Volume (in kg/capita)	Volume (in kg/capita)	
Germany	9.97	11.56	16
Switzerland	10.75	10.51	-2
UK	9.41	9.72	3
Norway	8.13	9.44	16
Denmark	8.22	8.49	3
Austria	7.37	8.16	11
Finland	6.02	7.26	21
Sweden	7.61	6.37	-16
France	6.97	6.34	-9
Estonia	n/a	6.21	/
Belgium	8.05	6.1	-24
Lithuania	n/a	5.4	/
USA	5.32	5.29	-1
Australia	5.79	4.51	-22
→ Italy	3.62	3.74	3
Poland	n/a	3.61	/
Spain	3.93	3.6	-8
Greece	2.83	3.51	24
Hungary	n/a	3.33	/
Brazil	1.84	2.93	59
Portugal	2.81	2.72	-3
Japan	2.18	2.09	-4
Bulgaria	n/a	1.26	/
→ Netherlands	4.79	n/a	/
China	n/a	1.0	/
India	n/a	0.7	/

**Figure 1.2.** Chocolate confectionery per-capita consumption (kg/capita)

Source: Data from ICCO (2010,12) and CAOBISCO (2013), reprinted by Squicciarini, Mara P., and Johan Swinnen, eds (2016), *The economics of chocolate*, Oxford University Press.

<sup>25</sup> Scudiero, D. (2015), *Il cioccolato nella postmodernità. Un'analisi empirica su un campione di giovani consumatori*, Università Ca' Foscari, Venezia (Bachelor's thesis).

Currently, China's chocolate confectionery market is mostly dominated by international players, in particular, the leading company market is the US multinational Mars, which in 2017 occupies a 36,3 % of total market share. Mars' leading position is related to its many and well-established brands, which enable the company to target different consumers groups. Then, Italian company Ferrero is present and occupies a total market share of 12,2 %. Swiss Nestlé and British Cadbury (now owned by an US multinational) respectively own 8,1 % and 2%, while a 1,5% is occupied by Belgian luxury brand Godiva. According to this Euromonitor market research, in 2017 Godiva sales amounted to 308 mn CNY<sup>26</sup> (\$46,89 million), showing an increasing trend for high-end brands in the market. The only Chinese chocolate confectionery company shown is the Fujian Yake Food, with a market share of 1,7 %.



**Fig. 1.3.** Chocolate confectionery companies' shares in Chinese market (2017)

Source: Euromonitor (2017), published by confectionerynews.com

<sup>26</sup> <https://www.confectionerynews.com/Article/2017/09/01/M-M-s-Dove-and-Snickers-maintain-chocolate-market-lead-in-China>

## SECOND CHAPTER

### BUILDING THE NEW CHOCOLATE MARKET

Regarding the chocolate industry, pioneer foreign firms made their appearance in Chinese market around the '80s, facing a real challenge because at that time China had just begun to adopt an open-door policy (1978), aimed at encouraging foreign trade and investments. This multi-aspect reform led to a shift from a centralized-planned economy to a new oriented-market one<sup>1</sup> ; in fact, before 1978, private companies and foreign investments were generally prohibited, and almost all the country's industrial production was controlled by the government and managed by the state-owned enterprises (SOEs.) Foreign trade was the last and "extreme" solution and it was adopted only when China needed to import foreign goods that could not be obtained within the country. Imported luxury items, such as chocolate, were commonly misjudged and were only available in state owned-stores like China Friendship Store (友谊商店)<sup>2</sup> for a very niche market<sup>3</sup> . With Deng Xiaoping's economic reforms, many Chinese enterprises started to operate and compete on free market principles and the removal of trade barriers started to attract the inflow of

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<sup>1</sup> Chow, G. C. (2004), *Economic reform and growth in China*, Annals of Economics and Finance, 5, pp. 93-118.

<sup>2</sup> A Friendship Store (友谊商店) is a state- owned retailing chain, founded in the late-1950s with the aim to foster relationships between Chinese people and foreign visitors. These stores originally sold both high-quality western and Chinese goods, but exclusively to tourists, foreigners, diplomats, and government officials. From 1990s, they started selling these products to Chinese consumers as well. <https://www.globusjourneys.com/travel-stories/china/friendship-store/>, consulted on November 2017.

<sup>3</sup> Allen. L. (2009), p.33.

many foreign direct investments (FDI)<sup>4</sup>. Before analyzing the first companies that introduced their chocolate products in China, it is important to delineate a clear and general profile of first mover's main characteristics and related advantages.

## **2.1. FIRST MOVER APPEARANCE: MAIN CHARACTERISTICS, ADVANTAGES AND DISADVANTAGES**

A first mover, also called “market pioneer” represents the first individual or company to bring a specific product or service to an existing or a completely new market. In the B2C business, first movers are mainly large multi-national enterprises (MNEs)<sup>5</sup> , that thanks to their global basis operations, are more able to manage consistent physical and financial assets. In fact, in order to build the “unacquainted markets”, these companies largely invested on advanced and sophisticated technology for manufacturing process, on advertising and marketing expenses for increasing their sales, but also on human capital, with the employment of skilled and open-minded managers.

Being the first on the market leads to some inevitable advantages. According to the firm's industry, not all advantages have the same relevance, for example being a first mover in the pharmaceutical or electronics industry can lead to gain technological leadership, while a first mover in the agri-food sector will rarely obtain this kind of advantage, since is commonly regarded as a low-tech industry<sup>6</sup> . Regardless the operating sector, first mover may present three main advantages:

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<sup>4</sup> Morrison, W. M. (2013), *China's economic rise: history, trends, challenges, and implications for the United States*, Current Politics and Economics of Northern and Western Asia, 22(4), 461.

<sup>5</sup> Pontiggia A, Vescovi T. (2015), *Panni stesi a Pechino*, Egea spa.

<sup>6</sup> Green, A., Karan, S., & Rasmusson, B. (2004), *Factors indicating first-mover advantages and second-mover advantages*, 2004.



- 1) **Brand loyalty**: Being a market pioneer will more easily bring to consumers' brand loyalty and to the brand name recognition, resulting in a long-term key for a company's success; in particular, this last factor may not only enhance loyalty among existing consumers, but may also attract new customers, due to its high popularity, once the company has already entered the market. Brand name recognition becomes even more important if its name evokes a foreign origin. Especially dealing with food and beverage products in Chinese market, this may be a considerable competitive advantage over local competitors and may help to increase the brand credibility and influence the consumer's final purchasing decision. Finally, a first mover may also guarantee the privilege to shape the consumers' tastes and create a sort of "habit consumption" towards the product, because if the consumer is satisfied with a particular product, then the purchase will be more easily repeated, "will eventually become a habit, when the consumer will buy the product without thinking" <sup>7</sup>.
  
- 2) **Buyer switching costs**: are the costs for the customer to switch from one brand to another. This can be considered a first-mover advantage, since a late-mover has to make more investments to attract potential customers. Companies offering products or services easy to replicate at competitive prices typically have low switching costs, because the buyer's efforts and costs in the shift would be little. On the contrary, companies creating unique products and having only few competitors generally lead to high switching costs<sup>8</sup>. Generally speaking, food and beverage products have low switching costs, especially if compared to technological and electronics products.

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<sup>7</sup> Green, A., Karan, S., & Rasmusson, B., 2004.

<sup>8</sup> <http://www.investopedia.com/terms/s/switchingcosts.asp>, consulted on November 2017.

3) **Economies of scale**: They represent a cost advantage and is the firm's ability to reduce unit costs, as its outputs increase. This advantage is typical of large, multi-national corporations, that gradually learn to produce more efficiently with less costs and less waste and to leverage on advertising, marketing and R & D development. Due to this assumption, early entrants have a longer "learning or experience curve effect", compared to late entrants.

Being the first to enter the market also implicate some disadvantages, that are basically the second-mover' advantages, therefore they will be analyzed in the following chapter, dedicated to second movers.

## **2.2.FACING CHINESE MARKET CHALLENGES**

When pioneer chocolate firms planned to enter Chinese market, they had to face some relevant obstacles: first of all, taste was a big problem: China is a huge country and almost each region has its own culinary tradition. Commonly, eight distinct regional cuisines are mainly recognized and further grouped into four major cuisine styles, in Chinese "四大菜系". These four major cuisines comply with the famous Chinese quote stating that "South is sweet, North is salty, East is spicy, and West is sour" (南甜, 北咸, 东辣, 西酸). Anyway, China's idea of "sweet food" is far different from the Western concept: especially in French and American cuisine, "sweet food" is mainly associated to a dessert, that represents the perfect way to end a pleasant meal and refresh the mouth. On the contrary, Chinese cuisine gives little importance to it and its role in the whole meal is completely different. On a typical Chinese meal, some sweet food is put on the table, together with the other dishes and it is mainly used to "alternate" and "balance" the spicy and savory tastes.

Besides its different function, the taste and ingredients are also completely different: compared to the French super-buttery pastries and American chocolatey cakes, Chinese bakeries are lighter and slightly sweetened, enriched with fruit and tea flavors<sup>9</sup> . Due to these consistent differences, the strong and defined chocolate's flavor needed to be balanced and somehow adapted to the new Chinese palates.

Another major issue was the lack of proper infrastructure and distribution channels throughout the country. Because chocolate is a product that tends to melt, in order to maintain its original consistency, it needs an unbroken chilled distribution channel from the factory to the store, especially during the summer months. Once the product arrived in China, this cool channel was broken, because it happened that chocolate remained for days stuck at the port. In early 1990s, only Chinese most developed cities were provided with air-conditioned shops that could guarantee a year-round chocolate business. This shortcoming implied a drastic gap in chocolate sales during the whole year: indeed, in cold months, chocolate products were also distributed in non- air-conditioned stores, leading to high peak sales while in summer, chocolate was withdrawn from these stores and exclusively sold in the most modern equipped ones, causing a heavy drop in sales. Thus, this situation even enhanced the "hyper- seasonal" nature of chocolate in Chinese consumers' perception.

A third relevant retailing issue dealt with the impossibility to replicate this product's merchandising techniques in Chinese retail stores. This happens because this aspect is extremely influenced by consumers' perception of a product in a certain country or culture; take European or American consumers as example: they mainly perceive chocolate as a sweet, yummy product to crave on and they mainly buy it for self-

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<sup>9</sup> <http://www.seriousseats.com/2014/10/chinese-bakery-pastries-buns-egg-tarts-guide.html>, consulted on November 2017.

consumption. Chocolate is mainly purchased on consumer-impulse, with a deep involvement of consumer's emotional sphere. Due to this perception, most of chocolate sold in convenience stores, hyper- and super-markets, is strategically located in check-out areas, around the checkout counters or in an aisle in front of it. Since chocolate in China was at first mainly purchased as a gift, these evergreen merchandising techniques could not be successfully applied. On the contrary, chocolate products needed to be located in highly visible, large and attractive aisles, with foreign chocolate brands divided from the local ones. Moreover, chocolate purchase did not occur under impulse, on the contrary, a certain degree of consumer involvement and evaluation was required before buying the product.

### **2.3.CHOCOLATE “BIG FIVE COMPANIES” IN CHINESE MARKET: FERRERO, MARS, CADBURY, HERSHEY’S AND NESTLÉ**

According to the author of “Chocolate fortunes”, Lawrence L. Allen, there are five main international brands who have contributed the most in the birth and rising of China's chocolate consumption. These companies have all experienced different market strategies, some opted for the replication of their original business model on the new market, some opted for a strong local adaptation, thus resulting in different levels of commitment and investments, nevertheless each of them left a great mark in the development and growth of chocolate business in China, along with their successes and failures.

#### **2.3.1. FERRERO IN CHINA (费列罗 Fèilièluó): STRATEGY, SUCCESS AND CURRENT SALES IN THE MARKET**

First chocolate's ambassador in China was the Italian multi-national company Ferrero, which entered through the strategic commercial gateway of Hong Kong. In

the '80s, this city was gradually shifting from “a manufacturing economy to a more service one”<sup>10</sup>. Indeed, in those years, due to the cheap labor force, many Hong Kong-located factories were moved to China’s new special economic zones, and Hong Kong started to become “*the most important trade and international fund-raising center for the Mainland*”<sup>11</sup>. It represented one of the largest seaports in the world and China’s perfect gateway to the western world. In this context, the first luxury items started to be imported and Ferrero Rocher was one of them, where arrived in 1984, only two years after its first launch in the Italian market. Ferrero decided to penetrate the market through an export-based entry mode, which was fast, low-risky and required a minimum use of company’s resources and investments, compared to an FDI strategy<sup>12</sup>. Going back to the '80s, according to Allen’s words<sup>13</sup>, many Hong Kong businessmen had Cantonese origins and during Chinese festivities, they were used to bring to their relatives the most popular food gifts, such as imported and expensive chocolate boxes. Due to its high price and foreign allure, this praline represented a concrete symbol of success and status position, that gradually became widespread all over the country.

According to an Euromonitor survey, in 2017 Ferrero Rocher occupies a market share of 5,7% in the overall China’s chocolate confectionery market<sup>14</sup>. If Italian people think about Ferrero, they immediately associate this company to one particular product, that is Nutella. Italian consumers used to eat it for breakfast, spread on a slice of bread, along with a cup of “caffè latte”. Chinese people do not have this consumption use and this explains why after 35 years on Chinese market,

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<sup>10</sup> Allen, L. (2009).

<sup>11</sup> Wong, Y. C. R. (2002), *The Role of Hong Kong in China’s Economic Development*, The University of Hong Kong, Working Paper Series.

<sup>12</sup> Pontiggia A., Vescovi T. (2015).

<sup>13</sup> Allen, L. (2009).

<sup>14</sup> <https://www.confectionerynews.com/Article/2017/09/01/M-M-s-Dove-and-Snickers-maintain-chocolate-market-lead-in-China>, consulted on November 2017.

Ferrero is still mainly known for Ferrero Rocher and is still the world leader in its category<sup>15</sup>. We can now synthesize Ferrero Rocher's strategy and success in Chinese market, by analyzing the 4 p's of its marketing mix, that are packaging, product, promotion and price.

- ❖ **Packaging**: this iconic praline is wrapped in a golden foil, with its logo positioned in the center. The product wasn't adapted to Chinese market, but for many of its features, it perfectly fits to it. As in Western imaginary, the gold color has a very positive connotation in Chinese culture, representing wealth and richness. Therefore, the perception of a luxury product is mostly given by its fine and exquisite packaging. Its round shape is another attractive aspect, symbolizing unity, harmony and fullness. Somehow, it can be regarded as a "moon at its fullest in miniature" and this explains why this product is commonly given as a gift for Chinese Mid-Autumn festival. Since Chinese people aren't big chocolate eaters, its bite-size is another key of success, that enables consumers to taste and make experience of chocolate flavor, without being cloying or exaggerating in its quantity.
  
- ❖ **Product**: Ferrero Rocher is a whole roasted hazelnut, wrapped in a thin wafer shell and covered with milk chocolate and chopped hazelnuts. Its taste could easily suit to Chinese unsophisticated palates, due to its balanced use of ingredients: nuts are heavily consumed by Chinese people besides, the use of milk chocolate represents the perfect compromise between the bitter extra-dark and the sweetest white chocolate's flavor.
  
- ❖ **Promotion**: Due to its gift perception, Ferrero Rocher's promotional activities steadily increased during Chinese main festivities, such as Mid-

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<sup>15</sup> <https://www.ferrero.com.cn/en/fc-1865>, consulted on November 2017.

Autumn and Chinese New Year's festival, while in the rest of the year, sales heavily dropped. In these peak-sales periods, retail stores were filled with special large retail displays and in-store promoters, used to attract consumers. In addition, to better "seasonalize" the product, seasonal sleeves were put on chocolate gift boxes<sup>16</sup> and a massive use of television advertising was made: a young Chinese man giving to his fiancée a Ferrero Rocher or a Chinese couple bringing to their parents a big chocolate box were the emblematic scenes used to communicate the product and enhance its premium image. Ferrero Rocher was portrayed as a precious and perfect chocolate and as a tool of love and caring for family and beloved people.

- ❖ **Place:** in Hong Kong, the product was distributed through a local leading imported food distributor, gaining the advantage to be sold in big retail chain stores, such as Carrefour and Watson's<sup>17</sup>. In Mainland China, due to the initial ban of licensing foreign companies, Ferrero Rocher was introduced through a gray-market channel, generally under the Chinese name of Jinsha (金莎 literally means "gold sand" ), but along with the establishment of a representative Chinese office and the fast development of Chinese retailing sector, Ferrero Rocher soon became more accessible to Chinese consumers and thus enabled chocolate market to grow within the country. Regarding its retailing strategy, the product was aimed at a selected distribution in high-end hypermarkets and supermarkets in Chinese first-tier cities, such as Beijing, Shanghai and Guangzhou. Currently, Ferrero Rocher can also be found in separated and special displays of Chinese main convenience stores, such as Family Mart and 7 Eleven and regarding the online retailing, in 2011 the company launched its official online shopping

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<sup>16</sup> Allen, L. (2009).

<sup>17</sup> Allen, L. (2009).

store and is also present in the main e-commerce platforms, such as T-mall (天猫), Jing Dong (京东) and Yihaodian (1 号店).

- ❖ **Price:** since the beginning, Ferrero adopted a premium pricing strategy, by setting high prices targeted to the most affluent consumers. In this case, the high price represents an added value to the product, since these customers perceive that quality is directly proportional to the price paid. Therefore, any reduction would diminish its prestigious brand image<sup>18</sup> and probably sell worse. In the last decade, with the new-coming of premium- and super-premium chocolate brands and many Chinese consumers' growing purchasing power, Ferrero Rocher has become affordable to a larger segment of Chinese market and many price-sensitive consumers can buy it: for example, on T-mall's Ferrero online flagship store<sup>19</sup>, its smallest packaging containing 3 pralines is priced at 15 yuan (around 1,90 €), while the largest chocolate box of 32 pralines is priced at around 150 yuan (around 19 €).

In the last years, Ferrero has shown an increasing commitment in Chinese and surrounding markets, that led in 2015 to open its first manufacturing plant in Hangzhou (Zhejiang), with the objective to better and faster supply these emerging markets. Currently, Ferrero's sales on Chinese market are mainly obtained with its Ferrero Rocher and Kinder brands, in particular this last one has shown a recent increase and in 2017, occupies a 6,5% of market share<sup>20</sup>. Kinder brand's best-selling product is Kinder Joy (in Italy, is called Kinder Merendero), an egg-shaped milk chocolate snack, mainly tailored for children.

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<sup>18</sup> Allen, L. (2009), p.65.

<sup>19</sup> <http://ferrero.tmall.com/>.

<sup>20</sup> <https://www.confectionerynews.com/Article/2017/09/01/M-M-s-Dove-and-Snickers-maintain-chocolate-market-lead-in-China>, consulted on November 2017.



Its launch in 2007 well fit with the growing introduction of milk in Chinese modern dietary habits. Before 2000s, milk was a relatively new product in China and it started to be promoted as a healthy, nutritious and enjoyable drink, especially for children<sup>21</sup> . Since this product is entirely made on a milk-chocolate base, before its launch, it was necessary that Chinese consumers had at least a little knowledge and consumption tendency toward it. In fact, Kinder Chinese name is 健達 Jiàn dá, in which the first character means “strong, healthy”, thus enhancing milk high nutritional values.



**Fig.2.1.** Ferrero Rocher and Kinder ’s displays at 华普超市 (Jian-Mart supermarket) in Beijing. Source: photo taken on March 3rd, 2017.

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<sup>21</sup> <https://chocolateclass.wordpress.com/2015/03/14/gifting-and-growing-cultural-adaptations-driving-the-expansion-of-chocolate-in-china/>, consulted on November 2017.

### 2.3.2. MARS AND ITS CHOCOLATE BRAND DOVE (德芙 Défú)



Founded in 1911, Mars is an American global company, mainly manufacturing pet food, confectionery and other food items. Currently, is the leading company in Chinese chocolate confectionery market, thanks to its extended brands portfolio, that mainly include M&M's, Dove and Snickers, which respectively occupy a market share of 6.8%, 23,8% and 5,7% <sup>22</sup>, for a total percentage of 36,3%. The company entered Chinese market through the establishment of a representative office in Beijing, in 1990<sup>23</sup> and that year, also acted as the sponsor of Beijing Asian games with its famous kids' candy, the M&M's. At that time, the company's candy products did not receive much appreciation from Chinese consumers, who couldn't associate it to a chocolate product, but more to some funny kids' candies.

Mars's business strategy applied in China was completely different from the one adopted by Ferrero: the Italian company decided to merely export its product, by using leading distributors on the market and without any product adaptation. On the contrary, Mars aimed at manufacturing its products in China and in 1993, opened its first factory near Beijing. Due to the Chinese market complexity and enormous size, the company opted for an in-country organization, but still focused on producing high-quality products and without changing the products' original recipes. Offshoring strategy was considered as a big advantage for the firm, that could reduce

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<sup>22</sup> <https://www.confectionerynews.com/Article/2017/09/01/M-M-s-Dove-and-Snickers-maintain-chocolate-market-lead-in-China>, consulted on November 2017.

<sup>23</sup> Allen, L. (2009), p.185.

its labor costs and better concentrate its own funding in other important company's business aspects, such as marketing, promotion activities and R & D operations. Currently, Mars has two chocolate manufacturing factories in China, located in Huairou (Beijing) and Jiaxing (Zhejiang)<sup>24</sup> and their outputs are sold throughout China and distributed in many other countries. The company overseas manufacturing started with the production of Mars chocolate brand's Dove (德芙), that aimed at offering a premium chocolate product at a quite affordable price, that could not only be purchased for gift-giving, but also consumed for personal and self-indulgent eating occasions<sup>25</sup>. It represented a perfect compromise, in terms of quality, price and way of consumption. Thus, the brand was rapidly well-accepted by China's first generation of chocolate consumers.

Since its introduction in the market, Mars' strategy was aggressive in many aspects of its business: regarding the retailing strategy, along with the growth and improvement of many super- and hyper-markets in China's main cities in the 1990s, Mars products always gained the best merchandised locations on retail shelves and during the festivities, the products were shown in large seasonal displays. Moreover, because of its rich brand portfolio, the company always offered a broad range of products, and in order to better and faster promote the new ones, they were used to apply attractive in-store promotions<sup>26</sup>. Brand communication represented another important investment for the company, mainly focused on television advertising: the company has often chosen Chinese young celebrities and social media influencers to enhance the brand's credibility and attractiveness (such as actress Tang Wei, model Angela Baby and singer Li Yifeng), usually conveying a message of romanticism, youth and self-indulgence.

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<sup>24</sup> <http://www.mars.com/china/>.

<sup>25</sup> Allen, L. (2009), p.186.

<sup>26</sup> Allen, L. (2009), p.193.

For example, Chinese Dove TV commercial of 2013<sup>27</sup> mainly focused on seduction and romanticism: it shows a young Chinese man approaching to a young Chinese woman, with the chocolate bar becoming the man's gateway to show his love and interest to the girl. This is quite related to how Chinese young men considered the art of seduction: the boy receives the girl's attention, by giving her many gifts and taking all initiatives and in this case, chocolate can become a great help in achieving this goal. Besides the emotional appeal of consumers, the company also wants them to give more relevance to the product itself: Dove Chinese slogan is "silky smoothness" (纵享丝滑), referring to its texture that tends to melt in mouth.

In 2016, Dove has found an innovative way to refresh this core brand feature, by creating two ASMR (Autonomous Sensory Meridian Response)-inspired commercials. ASMR is defined as a sensorial and experiencing video, in which the use of some hinted actions including whispering words, scratching and tapping with fingers are used with the purpose to relax the viewer and to arouse a pleasurable tingling that "typically begins in the head and scape, and often moves down the spine and through the limbs"<sup>28</sup>. In the first Dove ASMR commercial, there is no particular setting or character involved, the scene is just a close-up shot on a Chinese girl, unwrapping a Dove chocolate bar, eating a piece of it and murmuring how easily the chocolate melts in her mouth.

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<sup>27</sup> <https://www.youtube.com/watch?v=5VdgHmiKh4M>, consulted on November 2017.

<sup>28</sup> <https://asmruniversity.com/tag/bbdo/>, consulted on November 2017.



**Fig.2.2.** (Video frames from) Chinese Sihua Dove ADRM Campaign 2016 (female version)

Source:<http://creativity-online.com/work/dove-chocolate-asmr-video--angelababy/44057>, consulted on November 2017.

The second one shows a Chinese boy explaining how Dove chocolate obtains its silky smoothness texture, while selecting and grinding some cocoa beans. It is the brand's way to create a connection with its audience, which is invited to participate to this sensorial experiment. In addition, the image of cocoa beans turning into the iconic bar, along with the grinding process is useful to make the viewer more acquainted about the chocolate's process, from the very raw material to the final product<sup>29</sup>.



**Fig. 2.3.** (Video frames from) Chinese Sihua Dove ADRM Campaign 2016 (male version)

Source: <http://creativity-online.com/work/dove-chocolate-asmr-video--li-yifeng/44056>, consulted on November 2017.

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<sup>29</sup> <http://thefoldcg.com/bbdo-dove-asmr/>, consulted on November 2017.

This innovation in communicating the product represents a step forward in how Chinese consumers currently perceive chocolate and this image is now closer to how Western consumers (especially American and European) approach to its consumption: until twenty years ago, a similar advertising could not be used on Chinese market, mainly because a deep education and experience of the product itself was lacking. This advertising perfectly fits with Dove chocolate's core characteristics, but also invite the consumer to focus on a more intimate and sensorial sphere, that can be aroused by the taste and the unique texture of chocolate.

### 2.3.3. CADBURY (吉百利 Jíbǎilì)



Founded in 1824, Cadbury is a British multinational confectionery firm, mainly known for its iconic Dairy Milk bar, sold for the first time in the remote 1905<sup>30</sup> .

Cadbury opted for the Chinese brand name of jibaili, that means “best of luck and a hundred of blessing”, conveying a propitious and symbolic message. In addition, the name sounding is also similar to the Mandarin word for chocolate, that is qiaokeli<sup>31</sup> . Along the development and rapid growth of chocolate business in China, this company decided to enter the new market at the end of 1980s, but its massive presence begun in 1995, when Cadbury's Australian subsidiary developed a chocolate production plant in China, thus shifting from a less risky export strategy to an in-country manufacturing one. Unlike Mars' successful offshoring<sup>32</sup> in China, Cadbury faced some relevant issues in the market, mainly due

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<sup>30</sup> <http://www.mondelezinternational.com>

<sup>31</sup> Wood, L. J., & Grosvenor, S. (1997), *Chocolate in China: the Cadbury experience*, *The Australian Geographer*, 28(2), 173-184.

<sup>32</sup> Offshoring is a type of outsourcing and occurs when a company moves some of its business functions (mostly its production activities) overseas, mainly with the purpose to lower labor costs or acquire local specific skills.

to some forced and unsuccessful replication strategies. Since its introduction, the company was in direct competition with Mars' Dove chocolate bars, both mainly aimed at the self-consumption segment, but with different strong points: Dove's chocolate was rich in imported, good quality cocoa butter, while Cadbury's bars were mainly known for its massive use of milk: "*Every 200 grams of milk chocolate contains a glass and a half of pure milk*" was also used as the company's slogan<sup>33</sup>. Before implementing its new in-country strategy, Cadbury used to sell imported Australian-made chocolate, thus Chinese consumers were already accustomed to that specific taste. When the company started manufacturing in China, the use of Chinese fresh-milk in their products caused a drastic change in the taste, resulting in a big drop in sales. The company hoped to replicate the original taste, but Chinese milk was undoubtedly of lower quality, resulting in a cheesy smell<sup>34</sup>. After this episode, the firm still wanted to use local fresh milk, because milk was considered a core ingredient in their flagship bars, while the use of a good quality, but powdered, imported milk, could have diminished the brand image and its core values. Therefore, due to this relevant taste difference, the company was forced to make relevant investments in the best selection, control and processing techniques of raw material to reduce this problem.

Another but less concerning replication failures the company experienced dealt with the bars' size. Cadbury initially sold big chocolate bars, because they were hot selling products in other firm's markets. But as we know, Chinese people are not big chocolate eaters and the chocolate product' size plays a major role in the consumer buying decision: especially if they are not brand loyal, they prefer buying a small-sized product to reduce their "investment risk". As result, many of their big chocolate bars remained unsold.

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<sup>33</sup> Allen, L. (2009), p.187.

<sup>34</sup> Allen, L. (2009), p.77.

Despite these mentioned mistakes in Cadbury's initial strategy in China, the British company implemented a high degree of adaptation and commitment to the new market, mainly for two reasons: one, because it did not only decide to plant manufacturing facilities within the interested country, but also decided to use part of Chinese raw materials, such as milk and sugar for manufacturing. Second, Cadbury found a reliable Chinese partner for its joint-venture in the BCG (the Beijing General Corporation of Agriculture, Industry and Commerce), that was well-connected, in terms of "guanxi" with the Beijing government and that could easily help them, in case of legal and administrative obstacles, that used to affect foreign firms investing in China<sup>35</sup> .

Nevertheless, at that time, it was premature to build a reliable manufacturing and distribution presence in the country, at least according to the demanded high-quality standards of the British firm. Currently, Cadbury's owns 2% of China's chocolate market share and since 2010, the firm is wholly owned by the American multinational firm, Mondelez International. This company has a variegate chocolate brands' family, including Milka, Oreo, Cote d'Or and Toblerone<sup>36</sup> . Its strategy aims at creating collaborations among them, in order to increase sales among customers and attract new ones with the launch of new products; for example, in 2012 Cadbury's partnered with Oreo brand (famous for its cookies) to create a New Cadbury Dairy milk filled with the Oreo iconic biscuits.

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<sup>35</sup> Wood, L. J., & Grosvenor, S. (1997), p.177.

<sup>36</sup> <http://www.mondelezinternational.com/brand-family>



#### 2.3.4. HERSHEY'S (好时 Hǎoshí)



Hershey's is one of the largest American chocolate manufacturer company. Founded in 1894, it is mainly famous for Hershey's chocolate bars and Hershey's kisses: these little chocolates widely entered into many American houses and were mainly consumed during family gatherings and holidays<sup>37</sup>. Among these Big five chocolate brands, Hershey's has been the most recent to enter Chinese market, in 1995. That year, the firm established a representative office in Shanghai, started importing its products from United States and only twelve years later, the company took a step forward, by establishing its first Chinese manufacturing plant, in 2007. From the beginning, Hershey's decided to set a high-medium price on its products, sure that a new and imported chocolate brand could attract Chinese consumers and stimulate a certain "willingness to pay" a higher price.

Hershey's Chinese name is its phonetic translation 好时 Hǎoshí, that also means "good times", and is also similar to the 好吃 Hǎochī Chinese phonetic sound, which literally means "yummy, delicious". The primary goal of the company was to create brand awareness and credibility, by using television advertisement and in-store promotions as main communication tools. Since the little knowledge of the new market, the firm started by selling on Chinese market its best-sold product in US, the Hershey's bar, which directly competed with Cadbury's and Dove's similar products in the category. Anyway, Hershey's kisses (little chocolates) very soon became the firm's iconic product for its Chinese consumers. Indeed, its bite-size is perfect (one

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<sup>37</sup> <https://www.candyindustry.com/articles/86106-hersheys-kisses-reaches-100m-in-sales-in-china>, consulted on November 2017.

kiss only weighs 5 grams), the shape is very appealing and resemble a flat- bottomed teardrops or a baby’s bottom. Individually wrapped Hershey’s Kisses are generally gathered and offered in packaging of different sizes and formats, with the aim to satisfy different consumption occasions.

In recent 2013, to better target at Chinese gift-giving segment, the company developed a premium line of classic Hershey’s kisses, called Hershey’s Kisses Deluxe. Wrapped in a gold foil, they were purposely made for gift-giving occasions, perfectly fitting with Chinese consumer tastes and consumption patterns. As result, the product line was so successful that in 2014, its sales reached the \$100 million only in China, proving the still high profitability of the gift-giving segment in this country’s chocolate industry.



**Fig. 2.4,** Hershey’s displays at No.1 Department store, in Shanghai.

In the second image, the slogan is “用 KISSES 说出你的爱”, that means “Express your love with (Hershey’s) kisses”. The design was specifically set up in occasions of the Chinese St. Valentine’s Day (七夕节), celebrated on the 28th August.

Source: photo taken on July 9th, 2017.

### 2.3.5. NESTLÉ (雀巢 què cháo)



Founded in 1866, the Swiss transnational firm is one of the biggest food and beverage company in the world, characterized by a huge brand portfolio strategy, ranging from baby, medical and pet food to ice cream, snacks and dairy products. Company's most successful product in China is its instant coffee, launched in the 1990s and sold under the Nescafé brand, which is still the leader in its category and currently owns a 72% of market share<sup>38</sup> . Nestlé Chinese name is què cháo 雀巢, that literally means “sparrow's nest”. This name can be associated to the logo's image<sup>39</sup> , in which are pictured two big birds (the parents) and a little one (their baby), inside a nest (the house or family unit). This picture perfectly fits with Nestlé brand image of nutrition, quality and product safety, together with its slogan “Good food, Good life”.

Nestlé entered Chinese market in remote 1984: it established a representative office there, imported its own products through Hong Kong as commercial gateway and started selling milk-based infant formulas and powdered milk. Chocolate and confectionery categories had not been Nestlé's most profitable business in China and this was mainly due to the company's choice to enter chocolate bars' segment (chocolate market' core segment), with its Kit Kat chocolate-coated wafer. The

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<sup>38</sup> <https://www.marketingtochina.com/coffee-market-explodes-china/>, consulted on November 2017.

<sup>39</sup> <http://blog.tutorming.com/business/brand-names-in-chinese>, consulted on November 2017.

product itself did not present any particular shortcoming in the taste or way of consumption: composed of a 30% wafer crunchy part and a 70% of milk chocolate, it ensured a lighter and consequently more pleasant chocolate taste<sup>40</sup>. In addition, with its original four-finger bar format, it was easy to break and share in company. The main problem regarded its positioning on the market: instead of being merchandised together with other chocolate-coated wafers and biscuits, it was sold in the chocolate aisles, facing a direct competition with Dove's and Cadbury's chocolate bars.

In addition, in 1996 the firm established its first chocolate and confectionery factory plant in Tianjin, exclusively tailored on Kit Kat's production. This choice was a failure, on one hand because Kit Kat's sales were lower than expected, and on the other one, because the company decided to substitute cocoa butter with a compound chocolate to reduce its operating costs and recover profits: Nestlé erroneously believed that Chinese consumers, due to their little knowledge in chocolate products, would have not perceived a difference in Kit Kat's taste. Since Nestlé was considered a company offering healthy, nutritious and safe products, this strategy clearly did not fit with the company's values and reputation.

In 1998, the firm recovered profits with the launch of Nestlé Wafer , also called “脆 鲨 - Cui Cui sha” in Chinese, that means “crispy shark”, for its crispy consistency and the image of a shark on the packaging, to better appeal Chinese children and adolescents. Nestlé Wafer was a success and still replenishes Chinese super- and hypermarkets in the snacks and biscuit aisles, next to Chinese confectionery brand and since 2013 Nestlé partner, Hsu Fu Chi. It is another chocolate-coated wafer, very similar to Kit Kat, but with two main differences: the size and the prize. First, Nestlé

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<sup>40</sup> Allen, 2009, p.150.

wafer only weighs 20 gr, compared to Kit Kat's 41,5 gr. and second is very cheap, with a retail price of around 1 RMB per bar. As previously said, trusting a new brand product on the market is not easy for consumers, especially if there is a total lack of communication and promotion of the product itself. But if the product is small and cheap, consumers perceive a lower investment risk and therefore, it may be higher chances for the product to be purchased. This is what occurred at first with Nestlé's Crispy Shark, due to the failures encountered with Kit Kat.

In 2015, due to its lack of market premiumization, the company decided to reposition its 200-year old Swiss Cailler brand (凯雅) in the super-premium segment of international markets. Thus, Nestlé has developed a selective distribution channel, mainly focusing on travel retail outlets in major international airports, with the aim of providing physical touchpoints in luxury environments, and e-commerce, for a better targeting of its consumers<sup>41</sup>. For example, in China, Cailler primary online retailer is Amazon, which also provides its Chinese customers with many information about the product and about the brand, including its core values and history, through images and video.

Last but not least, Nestlé's Cailler has adopted a premium pricing strategy as well, to communicate the high-end quality of its products: the prices range from 98 RMB (around 12 €) for a chocolate bar of 195 gr to 299 RMB for a 25-pralines chocolate box (around 38 €). Currently, with its best-selling brands Smarties, Kit Kat, Cailler and Baci Perugina (acquired in 1988), Nestlé owns 8,1% of market share in China's overall sector.

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<sup>41</sup> <https://www.confectionerynews.com/Article/2015/10/01/Nestle-plays-premium-chocolate-card-with-global-Cailler-rollout>, consulted on November 2017.

关于Cailler 凯雅



**瑞士巧克力之家 始于1819年**

欢迎来到我们的巧克力之家——Maison Cailler。瑞士中部水草丰茂，草地苍翠繁茂，山间小溪清澈见底，我们的巧克力制造工厂就坐落于此。自1898年品牌继承人Alexandre-Louis Cailler 选择在这里建厂后，我们便一直在此精心制作巧克力。



**世代传承的精湛工艺**

秉承深植于心的瑞士匠人品质，François-Louis Cailler，在近两个世纪前生产出了Cailler巧克力，随后他的女婿创造出了世界上牛奶巧克力。从那以后，Cailler独有的巧克力制作配方和技艺便代代相传。



**瑞士牛奶**

美味上乘的牛奶巧克力，离不开新鲜的瑞士牛奶。得益于得天独厚的地理优势，Cailler巧克力所使用的牛奶均来自1800头在Broc附近青葱牧场上悠闲吃草的瑞士奶牛。



**严选上乘原料**

优质的巧克力离不开上等的原料。我们严选来自世界各地的优质原料，并引以为傲。从西非和厄瓜多尔精选而来的可可豆，到我们亲手烘烤的榛果和杏仁，每种原料都经我们精心处理，并完美调配在一起，呈现给您的是品质上乘，味道纯正的巧克力。



1819年Cailler巧克力由其创始人M.Francois-Louis Cailler先生倾心制作而出。此后，Cailler独创的巧克力配方和传统制作工艺便被世代传承。

Broc 是我们在瑞士的家乡，这里有郁郁葱葱的青草牧场，自在吃草的奶牛，还有山间清澈透明的小溪。1898年，品牌继承人Alexandre-Louis Cailler 在这里建起了巧克力工厂Maison Cailler，此后Cailler巧克力便一直出产于此。

近200年来，Cailler始终沿用独有的巧克力配方和传统工艺制作巧克力，每一颗榛仁和杏仁都由自己烘烤，决不轻手他人，制作巧克力的牛奶则取自距高布罗克的Cailler之家不足20英里的牧场，这一切都成就了Cailler巧克力那份独特馥郁的美味。

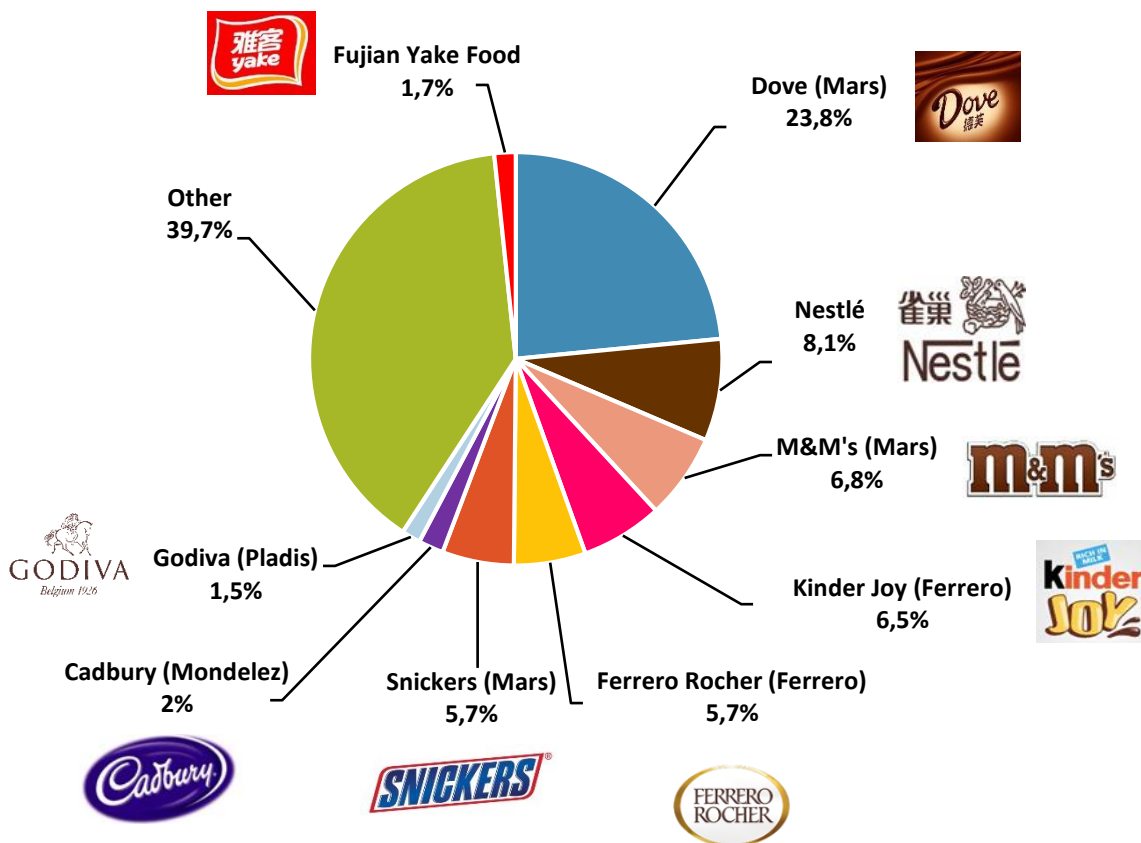
来品尝纯真的味道

Fig.2.5. Special section about Cailler brand on Amazon China

Source: <https://www.amazon.cn/Cailler>

Finally, it is now possible to delineate a clearer view about some of these companies' brands positioning in the current market (2017). Starting by the leading company, Mars gains a 23,8 % with its Dove brand, mainly producing chocolate pieces, bars and truffles. The company also occupies a 6,8 % with M&M's and a 5,7 % with its Snickers brand, both positioned in the snack segment and targeted at Chinese youngest consumers. Italian company Ferrero has a 5,7 % with Ferrero Rocher and a 6,5% with Kinder Joy.

After Ferrero, Nestlé occupies 8,1% with its numerous brands, while Cadbury (now owned by the American Mondelez) gains a small 2%. Therefore, except for Hershey's, all the other big brands still own a representative market share in China's chocolate industry.



**Fig.2.6.** Chocolate confectionery brands' shares in Chinese market (2017)

Source: data from an Euromonitor survey (2017), published by confectionery news.com

# THIRD CHAPTER

## EDUCATING THE NEW MARKET

### 3.1. SECOND MOVERS' APPEARANCE: MAIN CHARACTERISTICS AND ADVANTAGES

The previous chapter has analyzed early entrants in China's chocolate market, focusing on their entry mode strategies, marketing and retailing activities, along with their consequent successes and failures. This chapter is dedicated to the second-movers in the chocolate industry, that waited for a *cultural growth* of Chinese consumers, before entering the market. In this context, this expression mainly refers to the ability of consumers to perceive and be able to evaluate differences, both in the product's quality and performances, among competitors of a certain product's category<sup>1</sup>. Thus, with the use of a symmetrical structure to the previous chapter, this chapter will first introduce second movers' role and main advantages and then it will analyze some specific cases of second movers' chocolate brands in Chinese market.

A second mover or late comer, is a company which enters an already existing market, that has been previously explored by first movers<sup>2</sup>. In B2C markets, second movers are mainly MMNEs (medium-sized multinational enterprises), that can be generally defined as private companies, having a number of employees ranging from 150 to 2000 and branches (trade offices, warehouses) located in extra European markets or production plants abroad<sup>3</sup>.

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<sup>1</sup> Pontiggia, A., & Vescovi, T. (2013), *Medium Size Multinational Firms Internationalization Strategies: When Size Matters in Chinese Markets*, In Proceedings EURAM Conference 2013.

<sup>2</sup> Green, A., Karan, S., & Rasmusson, B. (2004).

<sup>3</sup> Pontiggia, A., T. Vescovi (2013).



This kind of firms enter as second-movers, mainly for two reasons: one is because they have a limited size and availability of resources (physical, human and monetary) and second, because their sophisticated offering is not suitable to sustain a business in an unacquainted market <sup>4</sup>. Therefore, they first take an initial “wait-and-see” approach towards the first-mover strategy, which on the contrary, is aimed at creating a basic knowledge and learning on the new product, suitable to a mass market and then, the second-mover may plan its coming, in particular by targeting niche segments of the new market, in which consumers are able to understand and appreciate the quality and complexity of their offering. Indeed, second-movers are used to operate in their domestic market, where consumers demand for very specialized and sophisticated products, due to their already deep knowledge about them.

Regardless a firm’s operating industry, second movers’ strategy may benefit from the following main advantages:

- ❖ **Free-rider effects**: they refer to the possibility of late entrants to benefit from first movers’ investments, mainly by imitating them in different areas, such as on product development, innovation process, consumer education and organizational forms. Since imitation costs are lower than the costs of innovation, this situation mainly leads to second movers’ cost-savings, in particular on research and development (R&D), marketing and advertising expenses. Pioneer firms may in part avoid these free-ride effects, by using strong “isolating mechanisms”, such as patent protection, brand loyalty, high buyer switching costs and economies of scale, that enable to better sustain their first-mover advantage<sup>5</sup>.

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<sup>4</sup> Pontiggia, A., & Vescovi, T. (2015).

<sup>5</sup> Green, A., Karan, S., & Rasmusson, B. (2004).

- ❖ **Resolution of technological or market uncertainty**: This advantage is even more important, when dealing with emerging markets, such as China. China represents for foreign Western firms an uncertain market, mainly because of its complexity and dynamicity, under the social, economic, legal and political aspect. By entering as second movers, these firms have the possibility to assess how all these related changes may impact on its consumers needs and preferences and leverage on these critical points. Nevertheless, in order to successfully cope with environmental uncertainties, due to their resources' gap (in terms of financial, skills, knowledge and technology), these companies need to acquire external resources, mainly by establishing close relationships with local suppliers and logistics service providers (LSPs), which can help them mainly in two tasks: 1) creating more innovative products or services and choose a better positioning for them, to obtain a competitive advantage over first movers 2) better and faster meet unexpected high demand from customers.<sup>6</sup>
  
- ❖ **Incumbent inertia**: can be defined as the tendency of incumbents (first movers) to resist and even to fail in adapting to discontinuous changes (mainly technological) in the market. This situation may incur for three main reasons: 1) first-mover has heavily invested on fixed assets and thus, bear high sunk costs<sup>7</sup> 2) first-mover is reluctant to introduce new products that may “cannibalize “(reduce volume of sales) the existing ones and 3) the firm's organization is inflexible<sup>8</sup>.

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<sup>6</sup> Chin, T. A., Hamid, A. B. A., Rasli, A., & Tat, H. H. (2014), *A literature analysis on the relationship between external integration, environmental uncertainty and firm performance in Malaysian SMEs*, *Procedia-Social and Behavioral Sciences*, 130, pp. 75-84.

<sup>7</sup> A sunk cost is a cost that has already incurred and that cannot be recovered. This may include costs on employee training, marketing research and research and development.

<sup>8</sup> Lieberman, M. B., & Montgomery, D. B. (1988), *First-mover advantages*, *Strategic management journal*, 9(S1), pp. 41-58.

In comparison the MMNEs, due to their reduced size, have a fewer stock of resources, less complex organizational structures and processes to manage, but for this reason, they also tend to be more dynamic and flexible towards changes in the market environment. Their capability in balancing their exploitation and exploration's orientations in the market environment, considered as making the best use of existing competencies, while creating new opportunities can provide them with a remarkable advantage and make them more "ambidextrous" organizations <sup>9</sup>.

### **3.2. THE RISE OF PREMIUM AND LUXURY BRANDS IN CHINESE MARKET: MAIN CHARACTERISTICS AND DIFFERENCES**

Generally speaking, "Premium" and "Luxury" brands are characterized by the offering of a high-quality product or service to a more expensive price, compared to others in the same product or service category. Nevertheless, these two terms are not interchangeable when dealing with a brand positioning in the market, nor can be considered a continuum of the other. Premium brands want to offer an "affordable luxury" to its consumers, while luxury brands do not take into account the affordability, but only focus on the exclusivity, that is present in every aspect of their business. First of all, the target doesn't completely coincide; luxury brands target is narrowed to a very niche market segment, mainly because of the economic unaffordability of these products, while premium brands aim at reaching a broader market segment, consumers belonging to a middle-class can be quite representative, but basically whoever justifies the higher price with the brand's added benefits proposed. Regarding the pricing strategy, premium brands present a high degree of interdependence in the quality-price ratio of their offerings, that can be synthesized

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<sup>9</sup> Raisch, S., Birkinshaw, J., Probst, G., & Tushman, M. L. (2009), *Organizational ambidexterity: Balancing exploitation and exploration for sustained performance*, *Organization science*, 20(4), pp. 685-695.

with the expression “pay more, get more”, implying that the higher price is justified by the higher quality provided. For luxury brands, price acts as a selection and skimming tool to preserve its exclusivity and it greatly exceeds the functional value of the product <sup>10</sup>. Production is another point of difference: premium brands can manage a mass production, that enable to increase sales, while luxury brands tend to produce in less quantity and speed, rigorously in their home country, without relocating manufacturing abroad to lower costs and produce faster. As consequence, distribution will reflect respective production strategies; thus, premium brands will provide a broader distribution channels, such as independent retailers, super- and hyper-markets and online retailers, on the contrary luxury brands will be distributed almost exclusively through corporate-owned channels, such as brand physical and online stores or within exclusive multi-brands outlets and airport duty free stores.

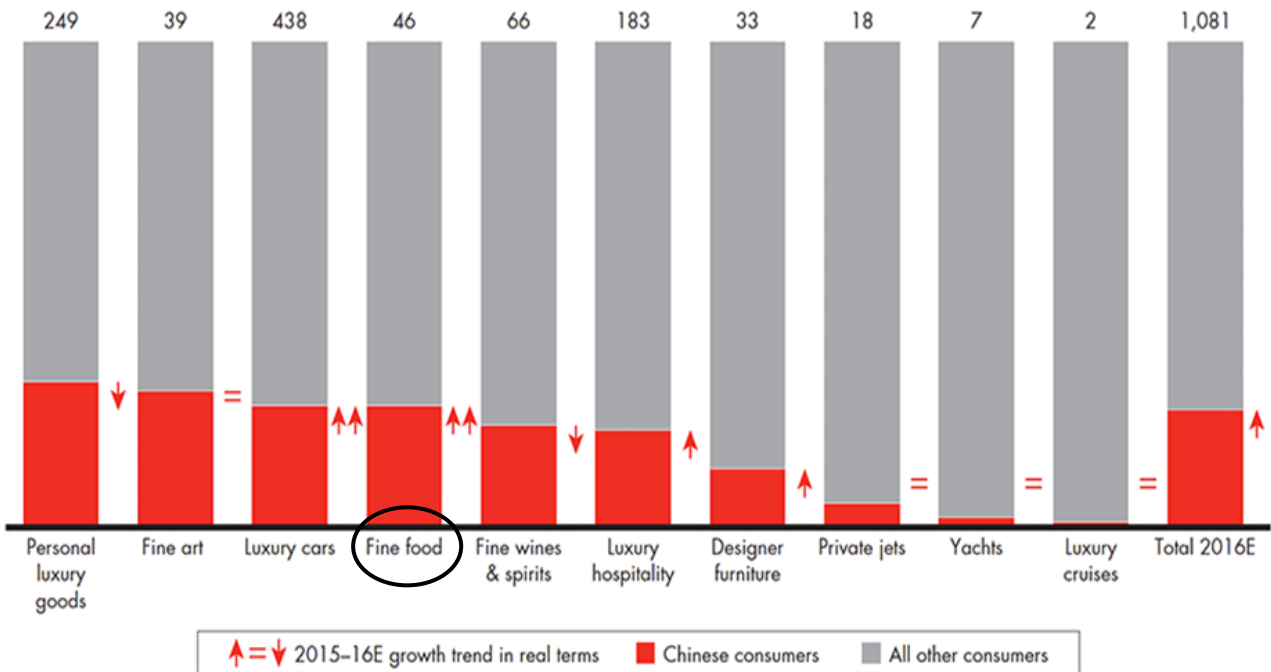
According to McKinsey’s report<sup>11</sup>, in 2016 Chinese consumers have spent more than 500 billion RMB in luxury goods, accounting for almost a third of the global luxury market (32%), and their forecasts predict that by 2025, it will account for a 44 % of total luxury market. This means that Chinese wealthiest consumers (with an annual household income of more than 300,000 RMB) will represent an important driver in the global luxury market growth. Currently, chocolate has not yet become a top-selling luxury product, with Chinese consumers’ preferences for other product categories. In particular, personal good’s category (including shoes, jewelry, women’s and men’s wear, watches, cosmetics) remains the top luxury segment purchased by Chinese consumers, both considering purchases occurred within China and abroad. Nevertheless, the fine food segment (including chocolate) has shown an increasing trend in 2016.

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<sup>10</sup> <http://eightluxurymarketing.com/whats-difference-luxury-premium-brand-strategy/>, consulted on December 2017.

<sup>11</sup> Bu L., Durand-Servoingt B., Kim A.,Yamakawa N. (2017), *Chinese luxury consumers: The 1 trillion renminbi opportunity*; McKinsey PDF report.

Share of spending in global luxury goods, 2016E (€billion)



Source: Bain & Company

**Fig.3.1.** Chinese consumers' shares of spending in global luxury goods, in € billions, 2016.

Source: the 15th edition of the *Bain Luxury Study*, published by Bain & Company for *Fondazione Altgamma*.

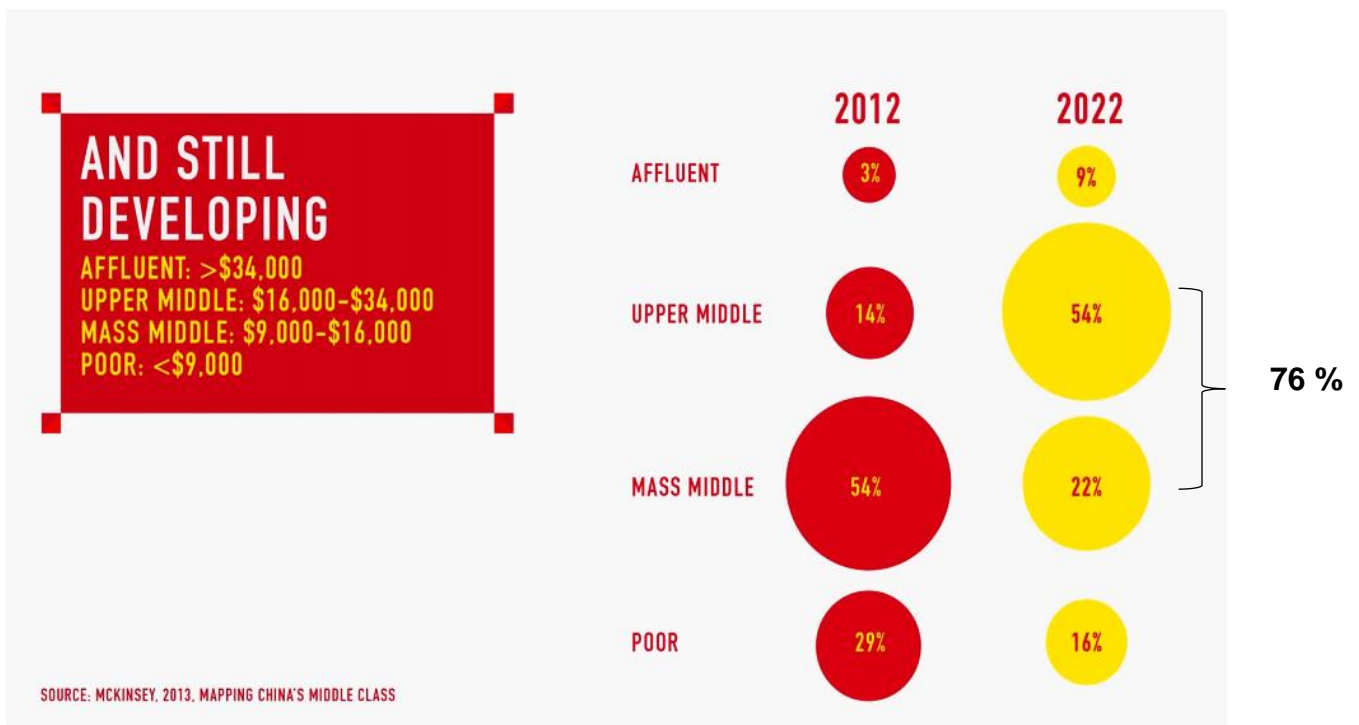
Positive prospects for luxury chocolate can be related to the fact that Chinese consumers are gradually changing their luxury consumption behavior: first of all, in the last five years, they have become more sophisticated and focused on quality, showing a sign of market maturity, compared to their previous “show-off” consumption attitude. Chocolate was introduced in China as a luxury foreign item, but, compared to cars, jewels and bags and other consumption goods, it presents a low degree of “show-off”, mainly because is an edible and non-durable good. Another important driver can be find in the changing composition of luxury consumers: once, males between 35 and 45 years old dominated the luxury segment<sup>12</sup>, mainly with gift-giving purchases, such as Swiss watches. Nowadays, Chinese women have

<sup>12</sup> <https://www.bloomberg.com/news/articles/2017-09-28/luxury-back-in-vogue-as-china-s-women-middle-class-lead-the-way>, consulted on November 2017.

greatly surpassed men in luxury consumption, mainly shifting on bags, jewelries and shoes and, because women have a sweeter tooth than men, luxury chocolate may have good chances to increase its popularity in the following years.

### 3.2.1. LEADING FACTORS OF CHINESE MARKET'S PREMIUMIZATION

The increasing demand of premium and luxury brands in Chinese market reflects the market phenomenon of *premiumization*, that can be largely related to some major shifts in the country's socio-economic context. First of all, *the increasing growth of middle-class* is a key factor: in 2000, only the 4% of Chinese consumers belonged to the middle class (including both the mass and upper- middle segment). In 2012, this percentage has reached the 68 % and, according to a recent McKinsey's study, by 2022, it will account for a total 76%. <sup>13</sup>



**Fig.3.2.** Mapping China's middle class

Source: McKinsey, 2013

<sup>13</sup> <http://www.businessinsider.com/chinas-middle-class-is-exploding-2016-8?IR=T>, consulted on November 2017.

In particular, the upper-middle (\$16,000-\$34,000 per year) and high-(above \$34,000 per year) income consumers will increase the most, and their disposable income per-head will double, as well. Therefore, this big segment of population will increase its demand for higher quality and higher price items.

*Urbanization in Chinese major cities* and the consequent changes in many people's life-styles can be considered another push to premium trends. Nowadays, Chinese middle class is not only clustered in Chinese coastal, first-tier cities (Beijing, Tianjin, Shanghai, Shenzhen and Guangzhou), because Inland China is developing many important commercial, financial and industrial hubs as well, mainly located in Chinese second-tier cities (provincial and sub-provincial level), like Wuhan, Chengdu, Chongqing and Foshan, that will represent another potential for 300 million new luxury buyers<sup>14</sup>. Moreover, by 2022, more than a 30% of China's upper-middle class will be clustered in third-tier cities (prefecture level)<sup>15</sup>.

China is known for its "collectivistic" culture, but market "premiumization" can also mirrors a strong tendency to *a rising individualism among its younger generations*; Chinese youngest consumers are struggling and seeking at the same time, for a balance between some modern individualistic values, such as wealth, ambition, independence and progress and the respect for some traditional and collectivistic ones, such as harmony, responsibility and sacrifice to the community<sup>16</sup>. This change in their value system is particularly strong among young Chinese women, who are gaining more financial independence, social position and a higher purchasing power, that enable them to afford more premium and luxury products, as a personal reward and accomplishment for their hard work<sup>17</sup>.

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<sup>14</sup> <https://www.forbes.com/sites/michaelzakkour/2014/01/17/the-china-luxury-downturn-is-real-global-luxury-brands-must-adjust/#238148fa785a>, consulted on November 2017.

<sup>15</sup> <https://www.mckinsey.com/industries/retail/our-insights/mapping-chinas-middle-class>, consulted on November 2017.

<sup>16</sup> Xiao, G. (2005), *The Chinese consumers' changing value system, consumption values and modern consumption behavior* (PhD thesis).

<sup>17</sup> <https://martinroll.com/resources/articles/asia/chinese-luxury-consumers-trends-and-challenges-for-luxury-brands/>, consulted on December 2017.

Nowadays, around 30% of Chinese population<sup>18</sup> (around 400 million) is composed of millennials, people with an age ranging from 18 to 35 years old. More specifically, they are divided into the ones born after '80s (八零后 bālíng hòu) and the ones born after the '90s (九零后 jiǔlíng hòu). Their common point is that they both belong to the one-child generation, enacted in 1979 by Deng Xiaoping: this generation raised in a more privileged and florid period of Chinese history, children were treated as “little emperors” and “little empresses” by their family members and used to gain the best of everything. In particular, this last category is more open-minded, individualistic, with a particular tendency in demanding innovative and better-quality products, along with a strong willingness to pay higher prices for discretionary goods<sup>19</sup>. Many firms can satisfy their market demand, by introducing new products under their premium lines or brands.

Related to urbanization and individualism among young people is also *the rising of OPH (One-person household) phenomenon*; nowadays, the majority among them live alone, as a major consequence of delayed marriages, increasing divorces, and increasing geographic mobility (due to work or study reasons). Single-households and co-residence with family members households have very different consumption patterns, and with the OPH increase, possibilities and preferences in buying premium products have increased. Therefore, many premium brands have tried to capitalize on this new living trend and to offer more personal and innovative products, that could somehow reflect and embrace their modern life-styles and emerging of individual tastes.

All these new changes in the economic and social Chinese landscape are intertwined and have contributed to the rise of premium brands in Chinese market. Anyway,

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<sup>18</sup> <https://thediplomat.com/2017/05/chinas-millennials-consumer-superpower/>, consulted on November 2017.

<sup>19</sup> Discretionary goods are non-essential goods or services, such as durable goods, apparel, entertainment and leisure, and automobiles. They are related to a consumer's discretionary income, that is the money a consumer has left after paying taxes and necessities (foods, housing, transports etc).



being “premium” is not enough to meet consumers’ approval. Since many premium brands are foreign, if they want to succeed in the Chinese market, they have to adapt their marketing mix strategies to local tastes and preferences and show great differentiation, in terms of quality, attractive communication and strong brand equity. We may define brand equity as the added value a brand name gives to a product beyond its functional benefits provided <sup>20</sup>. Since premiumization consists in creating more value, both for the firm and the customers, this aspect results to be the most relevant, but also the most difficult to be accomplished. First, brand equity constitutes a strong competitive advantage, that enables to increase customer loyalty and the ability to keep a premium price. This has the highest degree in luxury brands, due to the low irrelevance of its functional utility, over the owner’s prestige and image<sup>21</sup>. Second, few studies have proven that building a strong brand equity (this broad concept include brand loyalty, perceived quality by consumers, brand associations and brand awareness) arises more favorable *affective* attitudes or responses (mainly emotional feelings) in the consumer and strongly predict and contribute to its purchase behavior and decision.

### 3.2.2. PROFILE OF CHOCOLATE BRANDS IN THE PREMIUM AND LUXURY MARKET SEGMENT

We can now better delineate the main aspects on which a chocolate firm should currently focus in positioning its premium and luxury chocolate brands in Chinese market:

- ❖ **The “imported \foreign” allure:** as previously mentioned, in the category of premium luxury market, foreign brands are the most preferred by Chinese consumers, for two main reasons: first because, especially in the agri-food industry, *imported* is considered a synonym of food safety,

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<sup>20</sup> Vescovi, T., *Marketing to China*, McGraw-Hill Education, 2016.

<sup>21</sup> Siu, N. Y. M., Kwan, H. Y., & Zeng, C. Y. (2016), *The role of brand equity and face saving in Chinese luxury consumption*, *Journal of Consumer Marketing*, 33(4), pp. 245-256.

quality and credibility, especially after some serious food scandals occurred in China in the past decade. Second, due to these products' general good-standing reputation, Chinese people gain a strong social relevance from their purchase and maintain a high-degree of face saving. A big segment of these luxury consumers is composed of those in their 20s, 30s and 40s<sup>22</sup>, who often travel abroad and as result, they are more exposed to and informed about international brands. Thus, a foreign chocolate brand that aims at targeting a high-end segment will have more probability to be well accepted by Chinese consumers, rather than a local one. In chocolate industry, the COO (Country-of-origin) effect still has a strong impact on consumer's product quality evaluation, both in its cognitive and affective dimension; under a cognitive approach, COO effect is considered an extrinsic and non-physical product-related attribute, which heavily influenced the mentioned process. COO effects infer consumers' beliefs about a specific product, based on their perceptions about the country from which the product originates. Under the affective approach, COO effects infer specific emotional and symbolic meaning on the specific product. Thus, in the first case, COO effect in chocolate product will mainly bring Chinese consumers to prefer a Made-In Europe chocolate, in particular the Belgian, Swiss and Italian one, while under the affective approach, chocolate will be more associated to symbols and feelings, such as exoticness, luxury, romanticism and self-indulgence<sup>23</sup>. As result, premium and luxury foreign chocolate brands tend to capitalize on the COO effect on consumers, for example through the visual impact of the brand logo, in which many of them include their country of origin.

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<sup>22</sup> Siu, N. Y. M., Kwan, H. Y., & Zeng, C. Y. (2016), p.248.

<sup>23</sup> M., Ulgado, F., Wen, N., & Lee, M. (2013), *Country Image and Brand Equity Effects of Chinese Firms and Their Products on Developed-Market Consumer Perceptions*, Asian Journal of Business Research.

Here are shown some emblematic examples:



**Fig.3.3.** Godiva, Leonidas, Neuhaus, Guylian and Lindt's chocolate brands logos

- ❖ **A story behind the brand:** Chinese consumers search a lot of information, before buying a foreign premium brand, due to the high-risk investment (in terms of money) and the social relevance of their purchase. Create an attractive and emotional narrative content behind it, may represent an effective way to create more value and differentiation among competitors; a brand that communicate consistent values and generate positive feelings through a storytelling, enables to create an emotional attachment of consumers and lead to a stronger brand awareness and loyalty. Main chocolate premium and luxury brands have a long-lasting history and expertise in the industry and they start communicating their heritage, by putting the company's foundation year in their brand logo, as we can notice from the examples above. Since consumers may search information about the history of the brand, the company website may be the right place to include this information and create a more exotic and dreaming allure. In brief, Chinese adore to hear a story behind a brand they are going to buy, because this story contains values, to which consumers can identify with and feel more connected with the brand.

- ❖ **The attractive packaging:** packaging represents the most visual and immediate cue in the consumer purchase decisions' process, both in self-consumption and gift-giving chocolate purchase. In the first situation (that may be mostly the case of premium brands), flavor and smell are commonly considered the most important, but unfortunately not the first perceptions that are used when buying chocolate. Thus, packaging becomes a decisive element for consumers, who perceive it as a sort of mirror and flavor anticipation of the internal content. In the second situation, that is mainly the one of luxury chocolate, packaging wants to communicate the brand values and personality, and ensuring a gift-giving essence.

Current packaging trends are mainly focused on chocolate box design, which both for its shape and material employed resemble the one of a jewel. Dark brown, which recalls chocolate nuances, red and gold that symbolize richness and luxury or the brand representative colors are heavily employed, together with a minimal but attentive use of details, such as strings and little bows. Packaging becomes an important tool for communicating the brand concepts of luxury, elegance and exclusivity, its purchase loses and goes beyond any functionality and becomes a super hedonistic and mysterious product to make experience of. This idea has increased trends in more essential and minimal packaging designs, which now contain only few information about the product.

Below are shown the design of two luxury chocolate boxes:



**Fig.3.4.** Godiva chocolate truffles gift box



**Fig.3.5.** Neuhaus chocolate box

- ❖ **High price:** As previously said, setting a high price is part of the premium pricing strategy and enhances the brand credibility. Chocolate gift boxes are generally the most expensive items in the product category. Premium and luxury brands may present a consistent difference in the price, for example a Swiss Lindt gift box containing 22 chocolate pralines is set at a price ranging from 160 to 190 RMB, resulting as a very “affordable luxury” product for many Chinese consumers. On the contrary, luxury brands, such as Godiva and Neuhaus may sell gift boxes to its double price. Nevertheless, both in the case of conspicuous and self-indulgent consumption, a high price is a strong point of differentiation, because embodies respectively a marker of social relevance and of good quality.
- ❖ **High-quality:** The high quality of raw material, that for chocolate is cocoa beans, is essential for manufacturing a very good chocolate. Chinese consumers are getting more and more experts, when dealing with the texture, flavor and taste of a good chocolate. In particular, first-tier cities are recognized to be more interested in the product quality than logos<sup>24</sup>.

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<sup>24</sup> Liu, S., Perry, P., Moore, C., & Warnaby, G. (2016), *The standardization-localization dilemma of brand communications for luxury fashion retailers' internationalization into China*, Journal of Business Research, 69(1), pp. 357-364.

The figure of the chocolate artisan is still very popular, both for advertising and in-store promotion, through demonstrations and chocolate lessons, because communicates the hand-craftmanship and caring for quality. Another main focus of chocolate brands is the constant extension of their brands product portfolios, ranging from truffles, cigars, cookies, bars and chocolate liquors, with the purpose of satisfying every chocolate consumption situations.

- ❖ **A strong brand communication:** brand communication mainly refers to what a company offers and how it creates an interaction with *its* customers; its main purpose is building a positive brand reputation and enhance its loyalty among them. Communication needs to be adapted to local needs and demands at a certain degree, but without undermining the brand's global positioning and consistency: currently, China is the most "connected" country in the world, for this reason many foreign chocolate brands have decided to embrace digital and social media platforms, for both their communication and marketing activities; in particular, they have built a strong presence on Chinese main social networks, such as WeChat and Weibo: in 2017, around 600 million of Chinese people are daily users of social network <sup>25</sup>, and a consistent portion among them is composed of premium and luxury brands' consumers. Social media enable brands to create a dialogue with their customers and a stronger identification with its core values, through a massive use of comments, posted photos and videos, events participation and other related interaction activities. Even if social networks have a global reach and can be mainly considered a mass communication tool, premium and luxury chocolate brands on WeChat can target both their loyal and potential customers, that decide to follow them on their official pages. In addition, these brands can faster share their new products,

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<sup>25</sup> <https://www.statista.com/statistics/277586/number-of-social-network-users-in-china/>, consulted on December 2017.

information about opening stores, VIP discounts and consequently receive a real-time feedback from their audience. Another powerful online communication is the brand official website. Some related studies state that 85% of online Chinese consumers choose a digital channel to acquire information on a new product<sup>26</sup>. Chocolate brands, such as Godiva and Lindt provide a Chinese version of their website, that surely attract more Chinese consumers and can influence through their content and design. One of the strongest brand communication tools surely remains the physical retail store and mainly, the brand concept store. Chocolate is a food item and consumers want to have a direct contact with the product, see and taste it before buying it, especially those who have a low degree of brand awareness and loyalty. Concept and flagship stores provide the highest level of direct consumer engagement, reduce the distance between the company and the consumer and represent the tangible experience of a brand's heritage, story and creativity.

- ❖ **Embrace the digital market:** Besides the classic physical retailing channel, nowadays, most of premium chocolate brands in Chinese market sell their products online, mainly through two channels: the brand's Chinese-language stand-alone shopping website and a virtual flagship store on Chinese e-commerce 's marketplaces, mainly Alibaba's T-mall and Jd.com. These two B2C's main platforms are currently the most popular in China, with JD.com that occupies a 25% share of total B2C e-commerce sales and T-mall a 57%, in 2016<sup>27</sup>. T-mall has steadily enhanced e-commerce's credibility, especially among Chinese's most affluent consumers and thus, convinced many international brands to join this platform, because of its main advantages: first, it uses Taobao's infrastructure<sup>28</sup> and Alipay

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<sup>26</sup> <https://www.chinaskinny.com/blog/website-china-marketing-mix/>, consulted on January 2018.

<sup>27</sup> <http://www.businessinsider.com/jdcom-is-gaining-ground-on-alibaba-2017-3?IR=T>, consulted on January 2018.

<sup>28</sup> Taobao (淘宝) is a C2C (consumer to consumer) online marketplace, while T-mall stands for its B2C (Business to consumer) version. Both are owned by the Chinese Alibaba group.

paying system, to whom Chinese are very familiar to and that results to be extremely fast. Second, it provides the highest degree of safety against counterfeiting, because allows exclusively to brand owners and authorized agents to sell their products, and consequently guarantee the product authenticity and quality to its buyers. In addition, premium and luxury brands from different industries can open their flagship stores on this marketplace, that also ensures a premium customer experience, in terms of customer care, smarter logistics and product availability, creating a real continuum and extension of the physical store experience. Last but not least, T-mall is provided with an efficient update system of data Analytics and daily report sales, which can help the already present sellers to better assess purchasing and consumption behaviors among their customers.<sup>29</sup>



**Fig. 3.6.** Home page of Godiva’s flagship store, on T-mall.

Source: <https://godiva.tmall.com/>

<sup>29</sup> <https://www.nanjingmarketinggroup.com/blog/tmall/everything-about-tmall-global>, consulted on January 2018.



### 3.3. A CHOCOLATEY POWER: BELGIAN BRANDS IN CHINESE MARKET

Together with Switzerland, Belgium is internationally known for being a chocolate country. As every tradition deeply rooted in a country's culture, Belgian chocolate is not an exception and takes its origins from the country's history: in the 17<sup>th</sup> century, Spanish explorers imported South America's cocoa beans in Europe, that soon reached the Belgian community and in particular the nobility, who consumed it as hot chocolate. Later in the 19<sup>th</sup> century, along with Belgium's Congo colonization, chocolate production widely expanded, due to the massive exploitation of its cocoa plantations<sup>30</sup>. Besides the large and exclusive supply of high-quality cocoa beans, since the very beginning Belgian chocolate's manufacturing stood out for the adoption of high-quality standards, sanctioned in 1894 with a law that imposed a 35% minimum use of cocoa to prevent the use of low-quality fats and cocoa substitutes<sup>31</sup>. Thus, the selection of pure cocoa beans and a strong commitment to the most hand-crafted way of manufacturing are still considered religious principles in the Belgian chocolate tradition and this explains why a consistent portion of Belgian chocolate is still manufactured by independent chocolatiers, working in their small laboratories. Among the entire Belgian chocolate production, the *praline*<sup>32</sup> is the most exported product, in terms of value market, accounting for almost the half of its entire export value<sup>33</sup>.

Belgian brands that have decided to expand outside their home-country, have first settled a presence in neighboring European countries and gradually have reached more distant markets, like China and India. Currently, Belgium is the world's second largest chocolate exporter after Germany, with an export value of \$2.9 billion and

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<sup>30</sup> <https://theculturetrip.com/europe/belgium/articles/a-brief-history-of-belgian-chocolate/>

<sup>31</sup> Garrone, M., Pieters, H., & Swinnen, J. (2016), From Pralines to Multinationals, In *The Economics of Chocolate*, p.108.

<sup>32</sup> The Belgian praline is a chocolate shell with a filling (mainly liquid), made of different combinations of hazelnut, almonds, sugar, syrup and often milk-based pastes.

<sup>33</sup> Garrone, M., Pieters, H., & Swinnen, J. (2016).

around 400 companies involved in the business<sup>34</sup>. As shown in the below table, its exported value has resulted to be very constant between 2014 and 2016.

Chocolate exporters	Exported value in 2014	Exported value in 2015	Exported value in 2016
World	27,959,271	25,722,162	26,484,884
1) Germany	4,964,014	4,382,664	4,503,326
<b>2) Belgium</b>	<b>2,952,838</b>	<b>2,697,666</b>	<b>2,912,291</b>
3) Netherlands	1,989,122	1,764,190	1,857,889
4) Italy	1,713,673	1,591,688	1,650,384
5) United States of America	1,646,525	1,633,917	1,607,435
6) Poland	1,405,253	1,461,848	1,552,310
7) Canada	1,199,646	1,354,300	1,468,288
8) France	1,617,426	1,380,386	1,430,737
9) United Kingdom	935,862	865,875	868,944
10) Switzerland	869,532	822,363	802,162

**Fig.3.7.** List of chocolate exporters by country (2014-16), unit: US dollar thousand.

Source: ITC calculations based on UN COMTRADE and ITC statistics, 2016.

According to the International Trade Commission (ITC) statistics, Belgian chocolate's main importing countries are European in particular, France (557,7 million USD) and Netherlands (531,4 million USD), while USA, Japan and Canada are the main non-EU importing countries. In 2016, China has imported almost 5,900 tons of Belgian chocolate, accounting for a value of 34,9 million USD. Compared to the previously mentioned countries, this value is quite low, covering only a 1,2% of Belgian chocolate's total exports, nevertheless in the last six years (2010-2016), its value has shown a considerable increase, featuring a growth value of 125%.

<sup>34</sup> <https://www.vlerick.com/en/research-and-faculty/knowledge-items/knowledge/the-success-of-belgian-chocolate-export>, consulted on December 2017.

Importers of Belgian chocolate	Exported value in 2010	Exported value in 2013	Exported value in 2016
<b>1) France</b>	477,597	553,882	<b>557,669</b>
2) Netherlands	328,226	485,588	531,355
3) Germany	406,512	476,664	452,119
4) United Kingdom	229,821	294,075	284,970
5) United States of America	97,467	148,789	147,203
6) Italy	87,904	82,913	76,652
7) Japan	50,888	68,482	69,096
8) Spain	71,550	54,697	64,576
9) Luxembourg	40,740	45,625	51,525
10) Canada	38,764	61,950	44,983
<b>15) China</b>	<b>15,488</b>	<b>28,325</b>	<b>34,876</b>

**Fig. 3.8.** List of importing countries for Belgian chocolate (2010, 2013, 2016), unit: US dollar thousand  
Source: ITC calculations based on UN COMTRADE and ITC statistics, 2016.

Most of Belgian chocolate brands entered Chinese market around the 2000s, when first movers in the industry have already built a presence there. Currently, Guylian (sold to South Korean confectionery company Lotte), Cote d'Or (since 2013 owned by the American Mondelez), Hamlet, Belgid' Or and Leonidas are the most popular in the premium segment, while Godiva, Neuhaus and Pierre Marcolini<sup>35</sup> occupy the very high-end segment, with the establishment of chocolate mono-brand boutiques in Chinese major cities. The chocolatier Pierre Marcolini has been the last to enter the market in 2015, through the establishment of a partnership with the Chinese private equity-firm, EverYi (益源资本)<sup>36</sup>. Thanks to this joint-venture, Marcolini has opened its first flagship store in Shanghai, building a little presence in the new market.

<sup>35</sup> Is a Belgian luxury chocolate brand established in 1995. (<https://eu.marcolini.com/>)

<sup>36</sup> Based in Shanghai and Hong Kong, this investment firm supports both foreign and local firms in the premium and niche segment to enter Chinese market (<http://www.everyicap.com/>)

### 3.3.1. A FRESH BELGIAN CHOCOLATE: *LEONIDAS*

Among chocolate premium brands in Chinese market, Leonidas (列奥尼达斯) is already a well-established and appreciated brand; founded in 1913, the brand name was taken after its founder, the Greek-American chocolatier Leonidas Kestekides.



Currently, the company operates in more than 50 countries, with more than 1400 POS all over the world. The company uses its specialty shops as its main brand communication tool and sales channel. The ones located in Brussels (around 20) are directly managed by the company, while the others are independently owned franchises<sup>37</sup>. Besides their wide chocolate assortment, most of Leonidas shops also offer ice-cream, hot drinks, pastries and cakes and for this reason, they are called “Chocolate cafés”. Firm’s production is entirely concentrated in Brussels and surrounding areas and made with the latest technologies, but still respecting the traditional recipes and artisanal secrets. Leonidas has a long-standing reputation in Belgium and is also Warrant holder of the Court of Belgium<sup>38</sup>, that automatically recognized it as a Belgian authentic chocolate.

A more recent, but less implemented sales channel is the one of e-commerce, mainly due to the possibility of slow logistics issues. This is not irrelevant since freshness is a main focus involving the brand’s entire production, that doesn’t include frozen ingredients but only fresh raw materials and 100% pure cocoa butter. All Leonidas products have a very short expiration date, compared to other brands in the same product category, with a shelf life that doesn’t go beyond the three months. Furthermore, in order to taste the best “freshness” of their items, the company

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<sup>37</sup> 田怡琴(2006), *Leonidas: 巧克力的传统与创新*, 21 世纪商业评论, (4), pp. 127-128.

<sup>38</sup> Is a title recognized by the Belgian King to national companies or privates showing talent and professionalism in their activities, thus becoming official supplier of the Belgian royal court. (<http://www.dghb.be/en/>)

advice to eat the chocolates within eight days of purchase<sup>39</sup>. Another Leonidas' strategic sales channel is the one of travel retailing<sup>40</sup>, especially in Asia, where is growing fast, among the upper-middle class of young Asian travelers. Most of their travel confectionery purchases consist in chocolate gift-boxes, a Leonidas' best-selling product in these markets. Leonidas' presence in this retail segment is also strategic, because enables the firm to gain a faster product-assortment rotation, which has resulted to be extremely important in the short shelf-life of Leonidas' products.

Leonidas has been one of the first confectionery and chocolate brands to enter Asian markets in the premium segment. In 1999, they opened a first shop in Hong Kong, then Tokyo and Taipei. Regarding Mainland China, in the same year they opened a shop in Shanghai and in 2000, seven special counters in Beijing<sup>41</sup>. In fifteen years, the company has developed a wide retailing network throughout China, that currently counts around 45 specialty shops in main first- (Beijing, Shanghai, Guangzhou and Shenzhen) and second-tier cities<sup>42</sup>. Chinese second-tier cities' category is very broad, for this reason it should be further classified, according to these cities' decreasing GDP, infrastructure level, population size and other related aspects. Nevertheless, Leonidas has established a presence in cities belonging to all these sub-categories, from the more to the less developed ones (including Wuhan, Chengdu, Hangzhou and Shenyang). Thus, the company aimed at expanding through small but many POS, in particular special counters located in big shopping malls and primarily selling their flagship product, the chocolate pralines: they can be purchased unpackaged, to enable the consumer to select different flavors in the desired portion, or within already packaged chocolate boxes, mainly for gift-giving occasions.

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<sup>39</sup> <http://www.leonidas.com/en/>

<sup>40</sup> <http://hkmb.hktdc.com/en/1X09Z5L0/first-person/Sweet-Sense>, consulted on January 2018.

<sup>41</sup> <http://www.kisscocoa.cn/1/1leonidas.html>, consulted on December 2017.

<sup>42</sup> <http://www.epochtimes.com/gb/15/2/18/n4369714.html>, consulted on January 2018.

Regarding the pricing strategy, Leonidas attempts to provide a good quality\price ratio, for example, by offering a 9 chocolate pralines chocolate gift- box at 170 to 190 RMB (from 25 to 30 US dollars). Leonidas underlines that the company's mission is "to make pralines accessible to all", providing a high-quality, but still "affordable" chocolate, especially if compared to other Belgian chocolate brands. For example, a 1 kg of Godiva chocolate pralines costs around 120 dollars (around 800 RMB), while Leonidas offer them for the same weight at around 85 dollars (around 560 RMB).

Finally, innovation on products assortment is another company's key focus, that currently offers more than 150 chocolate products and 80 different flavors. Regarding the adaptation to the Chinese market, Leonidas is mainly focused on creating seasonal and tailored packaging for Chinese main festivities. For example, in 2016 the brand has launched a Mooncake chocolate gift-box limited edition for the Chinese Mid-Autumn Festival, that portrays in gold the famous legend of Chang' E and the rabbit flying to the moon, a famous legend of this Chinese Moon worshipping festival. For the Chinese New Year 2017, according to the Year zodiac, it has created the Leonidas Rooster Limited Edition.



**Fig.3.9.** Leonidas Mooncake gift box 2016 limited edition

**Fig.3.10.** Leonidas New Year's Rooster gift box 2017 limited edition

### 3.3.2. TWO BELGIAN LUXURY CLASSICS: *GODIVA AND NEUHAUS*

As previously mentioned, the luxury chocolate market in China is still slowly developing. Nevertheless, Belgian luxury brands, in particular Godiva and in part, Neuhaus are showing a growing commitment to China, to prove that they see a strong potential in this market. China is currently a focus market for Godiva: the firm aims at creating a strong, multi-aspects differentiation strategy, that encompasses product quality and broad assortment, customer services, price and brand management.

Godiva (歌帝梵) was founded in 1926, by the master chocolatier Joseph Draps in Brussels. The brand name was given in honor to lady Godiva, portrayed on the brand logo naked on her horse. This noble woman embodies the timeless values of generosity, purity and sensuality, balanced with a modern boldness. Since 1968, Godiva chocolate became a must-have in the Belgian royal family and still today the company is a Warrant holder of Belgium court. All these important events enormously contributed to the creation of a strong brand heritage and storytelling, which differentiates it throughout the world. Godiva fully embodies all the requisites for being considered a luxury chocolate brand; chocolate is hand-crafted by expert chocolatiers, according to the traditional Belgian recipes, that require the use of 100 % pure cocoa butter and the most natural aromas and ingredients. The price point is very high, with a small gift box priced more than 300 RMB. Currently, the company operates in more than 80 countries through 500 different POS, including its chocolate boutiques, e-commerce and special retail counters located in department stores and duty-free shops.

Due to the large number of supplying markets, in 1967, the firm established a U.S. plant in Reading, Pennsylvania, which supplies the whole North American market, while the Belgian manufacturing plants supply the Europe, Middle Est and Asia. Godiva decided to explore the Asia-Pacific markets very soon: it arrived first in Japan in remote 1972, followed by Hong Kong in 1998, and Taiwan and Singapore in the

early 2000s<sup>43</sup>. Its major focus was concentrated on travel retailing, that led to the establishment of a strategic partnership with the Hong Kong DFS's luxury leading in the industry in 2008, automatically positioning the brand in the niche segment. Furthermore, this sales channel enabled Chinese wealthiest consumers who often travelled to know Godiva, before it actually entered the market, in 2009. At that time, Chinese consumers' annual chocolate per-capita consumption was of 1 kg, which resulted to be very low, if compared to Switzerland (8.8 kg) or USA (5.5. kg)<sup>44</sup> annual consumption. Nevertheless, that was a profitable year for chocolate industry that gained an increase of 18% on Chinese market: Hershey's and Ferrero already occupied the medium-high segment market, but still there wasn't a luxury brand targeting the very niche one. Thus, in 2009 Godiva opened its first flagship store in Shanghai, with a first floor selling desserts, pastries and beverages all made with Godiva chocolate and a second one entirely dedicated to the chocolate world. Nowadays, the company owns 1,5% of China's chocolate market, has 50 stores located in 16 Chinese cities and plans to open nearly 200 stores by 2019. <sup>45</sup>



**Fig.3.11.** Godiva concept store at Xintiandi, Shanghai.

Source: <http://www.godiva.cn/html/help/xtd.html>

<sup>43</sup> Garrone, M., Pieters, H., & Swinnen, J.F., (2016).

<sup>44</sup> <https://www.statista.com/>

<sup>45</sup> 何丽银(2015), *Godiva: 巧克力“劳斯莱斯”的在华之路*, 新营销, (5), pp. 74-77.



In China, the company has opted for a multi-channel selling strategy to better reach its affluent consumers, including both in-store and non-store retailing; in 2015, 85% of the total business's firm was obtained through the in-store retailing channel, while the other 15% through the e-commerce, wedding (B2C) and company's catalogues (B2B). These data can mainly confirm two important aspects in Chinese consumption behavior: one is that they tend to prefer the physical in-store purchase, where they can see, taste and make direct experience of the product, especially before buying it. Second, the in-store purchase represents the consumer willingness and personal interest to discover the brand values and origins. Due to this assumption, e-commerce was introduced only in 2013, after 4 years of consumer education through Godiva chocolate boutiques. Today, e-commerce represents an effective company's distribution channel that enables to reach approximately 300 cities, especially the ones that are not provided with the physical stores <sup>46</sup>.

Regarding the firm's market adaptation strategy, Godiva aims at meeting customer needs and demands in its many different markets, while staying loyal to the Belgian tradition. In China, due to the country's strong gift-giving culture, Godiva creates special limited edition packaging for Chinese main festivities, with the purpose to enhance the cultural and affective link between the product and the customer; localization then meets innovation, when new flavors and products are created: in 2014, the company launched an entire new product collection, made with some typical Chinese ingredients, like Sichuan pepper, Black tea, lychees and chocolate mooncakes, as well. Another strong differentiation aspect regarded its focus on the niche wedding segment, that in 2015 covered 25% of Godiva sales in China; chocolate boxes are more and more used as take-home gifts for the guests, and as a showing-off product for married couple in the upper class. This strategy has been very successful for Godiva, that could create a dislocation over its competitors, by concentrating its resources in this neglected market segment<sup>47</sup>.

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<sup>46</sup> <http://www.thatsmags.com/shanghai/post/6225/interview-godiva>, consulted on January 2018.

<sup>47</sup> [http://www.chinadaily.com.cn/food/2017-02/21/content\\_28286868.html](http://www.chinadaily.com.cn/food/2017-02/21/content_28286868.html), consulted on February 2018.

Finally, another Belgian luxury brand that more recently made its appearance in this market has been Neuhaus (诺豪斯). This name represents a milestone in Belgian chocolate history, mainly for two reasons: its founder created the first filled chocolate, called “praline” (or bonbon), while his wife designed the iconic “ballotin”, the famous chocolate gift box wrapped in a gold foil. Founded in 1857, the firm has more than 1500 selling points in 50 countries and the entire production is made near Brussels. Regarding China, the company entered the market at the end of 2011<sup>48</sup>, with the opening of its Neuhaus café, two years after Godiva’s entry.

Currently, there are only 4 Neuhaus shops in Mainland China and one in Hong Kong and one in Taiwan. In addition, Neuhaus shops in Beijing, Shanghai and Hong Kong are located within these cities’ airports, that are daily exposed to international customers. Brand communication and product distribution still mainly occurs through its own shops and some market adaptation efforts can be noticed in the creation of exclusive and limited-edition packaging for Chinese main festivities. Nevertheless, the Belgian company has showed a cautious and still little presence in the new market, mainly due to the encountered difficulties in understanding the flavor preferences and shopping habits of Chinese customers. Indeed, Neuhaus current major markets are Europe and US, while China is considered a potential, but still a premature, big chocolate market.

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<sup>48</sup> <http://www.chinaluxus.com/20121226/255787.html>, consulted on February 2018.

## FOURTH CHAPTER

### VENCHI, AN ITALIAN CHOCOLATE STORY



#### 4.1. A BRIEF INTRODUCTION ON “*MADE IN ITALY*” CHOCOLATE AND ITS CURRENT SITUATION IN THE INTERNATIONAL ARENA

Besides Belgium and Switzerland, that are generally recognized as “chocolate countries”, if we must mention another country deeply involved with the “food of the gods”, then it definitely should be *Italy*. Italy offers a few chocolate hubs widespread throughout the country: in the north, Piedmont region is mainly famous for its gianduja paste and giandujotti<sup>1</sup> and is home of the most famous chocolate spread, Nutella. Central Italy offers a gluttony “Chocolate Valley”, with its center in Pistoia (Tuscany region) and Perugia, home of the famous Perugina brand and of one of the most important Italian chocolate fairs, the Euro chocolate. Last but not least, Southern Italy offers the Sicilian “Modica” chocolate, already exported throughout

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<sup>1</sup> Giandujotti are chocolates made with gianduja paste (a paste of sugar, cocoa and Piedmont hazelnut “Tonda Gentile delle Langhe”) and were officially created in 1865 in Turin, by maître chocolatiers Pierre Caffarel and Michele Prochet. These chocolates were created from the need to offer a more “affordable” product to consumers, that contained less amount of cocoa, due to its high imports’ prices set under Napoleon’s reign. (<http://www.italian-traditions.com/when-history-comes-to-the-kitchen-gianduiotto/>)

the world and next to be certified by the EU with the PGI<sup>2</sup> (Protected Geographical Indication) label.

As every respectful tradition, the history of Italian chocolate is deeply rooted with its territory: at the end of 16<sup>th</sup> century, chocolate was introduced in Sicily and very soon brought to the royal court of Turin by the Duke of Savoy, Emmanuel I and his wife. Here, in the 17<sup>th</sup> century, the aristocrats started drinking chocolate as a hot beverage during their exclusive gatherings, while in the various city districts, chocolate was hand-crafted by skilled artisans in their small laboratories<sup>3</sup>. Turin quickly became a real innovation and production chocolate hub, and in the 19<sup>th</sup> century the most famous laboratories, including the Caffarel- Prochet, Talmone and *Venchi* emerged as excellent chocolate factories, that left a mark in the city's cultural heritage.

Nowadays, chocolate represents an important part of Italian agri-food exports and is usually associated to the "Made in Italy" concept, especially in the international context. In fact, this association can be useful to promote Italian small and medium chocolate manufacturing enterprises in being portrayed as Italian excellences throughout the world and to create value and differentiation, especially in the more distant and competitive markets. Today, this concept has become more complex and broad, not merely limited to the country of origin where the entire product's manufacturing process occurs. In fact, under these conditions, chocolate could not be considered an authentic Made-in-Italy product, mainly for two reasons: first, because the raw material (cocoa beans) is mainly imported from South and Central

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<sup>2</sup> It is a quality logo, released by the EU, that "*identifies products whose quality or reputation is linked to the place or region where it is produced, processed or prepared, although the ingredients used need not necessarily come from that geographical area*"

([https://ec.europa.eu/agriculture/quality\\_en](https://ec.europa.eu/agriculture/quality_en))

<sup>3</sup> <http://www.thechocolateway.eu/countries/italy/history/>

America and second, because some initial manufacturing processes on cocoa beans may occur in loco.

“Made in Italy” is nowadays more identified with a set of values encompassing the excellent quality, hand-craftmanship, design and reliability and all attributes evoking the Italian “Dolce vita” lifestyle<sup>4</sup>. Thus, Italian artisan and gourmet chocolate companies may not label their products under the “Made in Italy” trademark, due to the already explained reasons, but embody this set of values, have a long and strong linkage with their local territory and locate most of their chocolate manufacturing processes in Italy. Unacquainted markets like China give considerable importance to the “Made in” connotation, mainly because in lack of knowledge about a product’s intrinsic attributes (performance, taste, design), they relate to some product’s extrinsic ones, like price, brand image and in this case, the country-of-origin and country image, as major substitutes and indicators in the product’s quality evaluation. This is a main reason explaining why “Made in Italy” have a very positive image and success in the Chinese market.

In 2016, Italian chocolate exported throughout the world has reached a total value of 1,650,384 billion USD, featuring a + 4% growth, compared to the previous year. Main importers remain European countries in particular, France (+4%), Germany (+26%), UK (+4%) and Netherlands (+4%), while among the extra-European ones, there are United Arab Emirates (-1%), Hong Kong (-17%) and Saudi Arabia (+35%). According to the 2016 ITC statistics, China still shows a low import value (15,795 million USD), currently representing the 23<sup>o</sup> importer country for the Italian chocolate, which only accounts for a 1% on total Italian chocolate’s exports. Below, the mentioned data are shown:

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<sup>4</sup> Vianelli, D., De Luca, P., & Pegan, G. (2012), *Modalità d'entrata e scelte distributive del made in Italy in Cina*, Franco Angeli.

Importers	Exported value in 2015	Exported value in 2016
World	1, 591, 688	1, 650, 384
1) France	274,764	286,749
2) Germany	108,920	137,457
3) United Kingdom	101,936	106,274
4) Netherlands	73,642	76,314
5) Belgium	69,848	75,500
9) Hong Kong, China	65,875	54,733
10) Saudi Arabia	36,435	49,270
23) China	91, 089	15, 795

**Fig.4.1.** List of importing countries for Italian chocolate (2015-16), in US dollar thousand.  
Source: ITC calculations based on UN COMTRADE and ITC statistics, 2016.

In the last decade, Italy has become China's first chocolate supplier. In 2015, China imported 19,760 tons of Italian chocolate, accounted for a value of 175,874 million USD, followed by Belgium (44,369 USD million) and Switzerland (29,449 USD million), as its major chocolate suppliers. Despite China's increasing demand for Italian chocolate products, in 2016 its imported value has heavily decreased to 92,320 USD million, with a loss rate of -48%, compared to 2015. This phenomenon is related to the Ferrero's strategy of delocalizing part of its Italian production (occurring within four manufacturing plants) in the Chinese city of Hangzhou, Zhejiang province (2015), with the objective to better sustain this increasing demand of chocolate, both in China and surrounding Asian markets<sup>5</sup>. Below, it is possible to observe the significant drop in China's imported value of Italian chocolate, occurred in 2016:

<sup>5</sup> <http://www.ulissemag.it/article/litalia-che-cala/>, consulted on January 2017.

Exporters	Imported value in 2015	Imported value in 2016
<b>World</b>	<b>516,449</b>	<b>335,330</b>
<b>1) Italy</b>	<b>175,874</b>	<b>92,320</b>
2) Belgium	44,369	44,367
3) Switzerland	29,448	27,364
4) United States of America	28,477	25,733
5) Germany	51,816	25,560
6) France	14,954	15,589
7) Australia	10,710	10,426
8) Korea, Republic of	6,357	9,716
9) Poland	45,401	9,407
10) Austria	10,453	8,889

**Fig.4.2.** List of chocolate supplying countries for China (2015-16), in US dollar thousand  
Source: ITC calculations based on UN COMTRADE and ITC statistics, 2016

## 4.2. THE HISTORY OF VENCHI FIRM

This story starts in remote 1878, when the young maître chocolatier Silvano Venchi opened its first small laboratory producing candies and chocolate pralines in Turin. Men, women and children from every social class were fond of these delicacies, especially the famous *nougatine*<sup>6</sup> and the classic *caramella torinese*<sup>7</sup>, produced with an accurate selection of ingredients. At the beginning of 1900, Venchi was recognized as a symbol of Piedmont confectionery industry and, due to its growing success and growing market demand, in 1905 it was decided to move the production to a larger plant of 12.000 mq, provided with 12 work units. Manufacturing was

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<sup>6</sup> Nougatine is a small candy caramelized with hazelnuts pieces and covered with 56% dark chocolate.

<sup>7</sup> Is a kind of praline, made with chocolate and hazelnut.

mainly entrusted to female workers, the so-called “caramellaie” and aimed at producing various kind of confectionery items <sup>8</sup>.

Venchi history is strongly linked to two other Piedmont’s chocolate companies, that are Talmone<sup>9</sup> and Unica. They both belonged to a joint-venture, the “UNICA” (Italian acronym for National Union of Confectionery and similar industries), founded by the entrepreneur Riccardo Gualino, in 1924. This conglomerate gathered six main Italian chocolate and confectionery firms and was aimed at offering high-quality products, but still targeted at the mass consumption. In those years, Venchi had already developed a large distribution network, covering many Italian cities and heavily employed advertising campaigns for a better and wider promotion, also in international markets. In the Fascism period of ‘30s, Italian and especially Turin’s chocolate industry remained heavily affected by the autarky-based economic reforms, that consequently hindered cocoa and sugar imports and led to the steady increase of chocolate price.

As result, many companies in the industry suffered this situation, Venchi was one of them that, in order to survive, in 1934 was merged with the UNICA and renamed “*Venchi & Unica*”. In 1955, this joint venture also joined the entry of Cuba<sup>10</sup>, another local company famous for its *cuneesi al rhum*<sup>11</sup>, thus expanding its production. In 1978, some relevant financial and management problems caused the ending of the JV between Venchi-Unica-Cuba. Almost 20 years later, in 1997, the Venchi-Cuba was acquired by a group of private investors and three years later, re-branded and re-launched in the Italian market as the current *Venchi*.

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<sup>8</sup> Donna S., Casati L., Sorrentino G. (2014), *Una storia di cioccolato, C’era una volta la Venchi Unica*, Monginevro Cultura.

<sup>9</sup> Founded by Michele Talmone, in Turin, in 1850.

<sup>10</sup> Is a historical chocolate factory of Cuneo, founded in 1949, by chocolatier Pietro Cussino.

<sup>11</sup> Is a chocolate with a rum cream filling and coated with 56% dark chocolate.



### 4.3. VENCHI TODAY: WHEN TRADITION MEETS INNOVATION

Today, Venchi is a completely renovated premium chocolate company, but still deeply rooted to its 139 years-long tradition and history. The headquarter is located at Castelletto Stura (Cuneo) and is a 12000 m<sup>2</sup> factory plant, where the entire production occurs. In 2017, Venchi has reached an annual turnover of 80 million euros and counts more than 700 employees throughout the world, with around 500 among them working within their mono-brand shops.<sup>12</sup>

The company's mission is to *"create and distribute the best chocolate, in all its forms and consistencies"*<sup>13</sup>, and this purpose is reflected in their extremely diversified production, that offers more than 350 chocolate varieties, including bars, pralines, cigars, blocks and spreads and 90 flavors of gelato, that rotate according to the ingredients' seasonality. Both in their product assortment and manufacturing process, Venchi aims at maintaining a balance between innovation and tradition: regarding the first aspect, classic products like Giandujotto 1878, the Cuba Rhum or the Nougatine still represent a core production for the company, in addition, new products or modern versions of the classic ones continue to be created for satisfying different demands from different consumers; for example in Autumn 2017, their iconic chocolate spread "Suprema" has been used to fill an external chocolate shell, for the creation of a new chocolate candy<sup>14</sup>. In addition, the company has launched the new "Tiramisù" praline<sup>15</sup>, inspired by the Italian tradition, that recalls the flavor

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<sup>12</sup> [http://www.repubblica.it/economia/affari-e-finanza/2017/10/09/news/venchi\\_il\\_cioccolato\\_democratico\\_che\\_ha\\_conquistato\\_anche\\_hong\\_kong-177864416/](http://www.repubblica.it/economia/affari-e-finanza/2017/10/09/news/venchi_il_cioccolato_democratico_che_ha_conquistato_anche_hong_kong-177864416/), consulted on December 2017.

<sup>13</sup> [http://www.ansa.it/terraegusto/notizie/rubriche/dolcicipiaceri/2012/06/11/Venchi-cioccolato-avanguardia-che-viene-passato\\_7017456.html](http://www.ansa.it/terraegusto/notizie/rubriche/dolcicipiaceri/2012/06/11/Venchi-cioccolato-avanguardia-che-viene-passato_7017456.html), consulted on December 2017.

<sup>14</sup> [http://www.affaritaliani.it/costume/venchi-lancia-un-nuovo-cioccolatino-506263.html?refresh\\_ce](http://www.affaritaliani.it/costume/venchi-lancia-un-nuovo-cioccolatino-506263.html?refresh_ce), consulted on December 2017.

<sup>15</sup> <https://www.comunicaffe.it/tiramisu-venchi-lo-lanciato-sul-mercato-nel-formato-un-cioccolatino>, consulted on December 2017.

and texture of the most famous Italian dessert. Regarding the second aspect, that is manufacturing process, they propose themselves as “evolved artisans”, with an intelligent and limited use of technology, focused on increasing the number of employees to fulfill small and specialized tasks, rather than the numbers of manufacturing machines<sup>16</sup>. Most of their traditional recipes and ingredients have not been changed and the 90% of factory workers are female.

Another important aspect in their production is the accurate selection of raw materials and ingredients. Cocoa is directly imported from South America (especially Ecuador and Venezuela) and Africa, where the company has established a transparent and direct contact with the local cocoa farmers; cocoa beans fermentation and toasting occurred in loco and, once the cocoa mass has been created, all the chocolate production occurs in Italy. Besides the cocoa, the other key ingredients are typical of the Italian tradition, such as the IGP Piedmont hazelnut, Sicilian pistachios and almonds and the extra-virgin olive oil, that is also used as main noble fat, together with the dried fruit’s essential oils. As result, all their products do not contain additives, hydrogenated vegetable oils, added sweeteners and are all gluten-free. According to these aspects, the company works in line with the values of quality, craftsmanship, passion and sustainability.

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<sup>16</sup> <http://www.gamberrosso.it/it/food/1020550-venchi-il-cioccolato-artigianale-diventa-internazionale>, consulted on December 2017.

#### **4.3.1. VENCHI IN THE ITALIAN MARKET: BUSINESS MODEL AND RELATED STRATEGIES**

Their core values of quality and hand-craftmanship are also reflected in the company's overall business strategy. The brand is positioned in the premium segment of the Italian chocolate confectionery market and aims at offering an "accessible luxury" to its customers: in fact, since a classic Giandujotto chocolate approximately costs 0,60 euro, a consumer may buy five pieces and spend only 3 euro. For this reason, the company essentially targets real chocoholics, caring about the quality and freshness, and provides them with a large products range, both in their size and assortment, to better cover different price bands for different consumers' demands.

Regarding the distribution channels, Venchi never aimed at a mass distribution (GDO), but only focused on selective channels, including restaurants, wine shops, patisseries, high-end bars, outlets and of course, confectionery shops, both in their physical and online stores. These represented the company's main distribution channels until 2006, when they launched its own retailing format. In addition, in 2013, they created their owned e-commerce platform on Venchi official website, shipping to many European countries, US, Canada and United Arab Emirates.

Today, the growing attractiveness and demand of Made-In-Italy excellences in international markets led the firm to increase its distribution channels and the to develop important partnerships, for example with Eataly. Within the famous Italian high-end food mall chain, Venchi has its own stores throughout Eataly's many international locations (including Europe, USA, South Korea, Brasil, Turkey, Japan, Saudi Arabia, United Arab Emirates and Qatar) and is also present on its e-commerce platform. Eataly represents an important distributor for the company, mainly for two reasons: first, it keeps high the brand reputation in the international context and

second, enables to penetrate distant markets without establishing a franchise agreement. Another recent partnership has been signed with the large Spanish department store chain, El Corte Inglés, with the plan of opening 9 “shops-in-shops” in Spanish major cities<sup>17</sup>.

Because the chocolate is a food that strongly involves the consumers on an emotional and perceptual level, Venchi highly focuses on the sensory marketing to better appeal its chocoholics consumers and provide them a full five-senses experience. For this reason, some partnerships have been recently developed for achieving this purpose: in 2017, on the new MSC Seaside Italian cruise ship, they have settled two “experiential” areas, respectively one for chocolate and one for ice-cream, enriched by four chocolate waterfalls, open-plan ice-cream production labs and chocolate sculptures <sup>18</sup>. An even greater and hi-tech project has been launched within the new food park “Fico Eataly World” in Bologna: a 30,000 Venchi pralines edible wall has been created, together with a multi-sensorial path, provided with a facial recognition system that detects the visitors’ sensations, while they are tasting the products <sup>19</sup>.

Furthermore, in the last years the company has established some co-branding partnerships with some Italian historical brands, that operate in completely different industries, but that share the common values of elegance, lifestyle and tradition. In 2014, they created a tailored chocolates and cigars line for the 100<sup>th</sup> anniversary of Italian luxury car manufacturer Maserati, while in 2015 they launched a limited edition in collaboration with Vespa, the iconic Italian scooter manufactured by Piaggio.<sup>20</sup>

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<sup>17</sup> <http://wine.pambianconews.com/2017/10/venchi-conquista-la-spagna-el-corte-ingles/178831>, consulted on December 2017.

<sup>18</sup> [https://www.ttgitalia.com/stories/tour\\_operator/138248\\_msc\\_e\\_venchi\\_partnership\\_per\\_la\\_seaside/](https://www.ttgitalia.com/stories/tour_operator/138248_msc_e_venchi_partnership_per_la_seaside/), consulted on December 2017.

<sup>19</sup> <http://www.eatpiemonte.com/ciocolato-venchi-a-fico-bologna/>, consulted on December 2017.

<sup>20</sup> <http://retailfood.it/index.php/2015/07/27/venchi-si-lancia-nel-co-marketing/>, consulted on December 2017.

Finally, advertising is not a priority for the company, still due to its selective business strategy. Venchi is present on the most popular social media networks, like Facebook, Twitter and Instagram and on Youtube, but its major promotion tool is the word-of-mouth. In certain cases, the company uses these social media platforms as an extension of it, by directly involving the consumer: for example, this summer, it has been launched on Facebook and Instagram the campaign “#gelatoinviaggio”, in which consumers could share their Venchi gelato’s photo throughout Italy with this hashtag. In this case, the consumer becomes a testimonial and promoter of the brand. Thus, word-of-mouth is extremely important, because they believe customers need to personally try the products and, if they obtain satisfaction from it, they can recommend it to other consumers as well. This is another major reason that led the company to create its own retailing distribution channel.

#### **4.3.2. THE COMPANY’S PATH TO INTERNATIONALIZATION: THE “CHOCO-GELATERIA” RETAILING FORMAT**

The 2006 has represented a crucial year for the company’s internationalization: Venchi acquired the know-how for an advanced ice-cream production system and launched its own retailing format, called “Choco-gelateria”, in which both chocolate and ice-cream are sold, thus ensuring the company a full year-round business. These concept stores are located in highly visible areas, including major airports, railway stations, cities centers (in Italy), but also premium outlets and luxury malls, or as corner shops within Eataly (abroad). Currently, thanks to these shops’ strategic position (especially railway stations and airports), 80%<sup>21</sup> of its customers are foreigners. Thus, this retailing channel definitely represents the main brand communication tool, designed as a chocolate laboratory-shop, in which consumers

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<sup>21</sup> <https://foodcommunity.it/venchi-140-anni-crescita/>, consulted on January 2017.

can make experience of chocolate in all its forms: from the classic chocolate pralines and bars, to the chocolate-based ice-creams, hot beverages and crepes. The idea of an “experiential laboratory” may find its inspiration in some luxury chocolate brands, that have already adopted the chocolate boutique format, for example the Belgian Godiva. The store design and furniture have a well-defined format: they are all decorated in gold and chocolate brown, recalling elegance and chocolate tones, with divided counters for ice-cream, chocolate pralines and blocks and employees’ work uniform recalling the one of chocolate artisans.

Each store has a laboratory, in which the final ice-cream product is obtained, while in front of consumers, employees make crepes, prepare hot beverages and cover ice-cream cones with chocolate. In addition, depending on the size and location, each store may present some variations; for example, in the larger ones, there is a “chocolate waterfall” positioned behind the ice-cream counter or is displayed a hand-made small-sized plastic ice-creams wall and two identic, but bigger ice-creams are placed at the shop entrance. All these details certainly contribute to enrich the consumers’ brand experience and the stimulation of its five senses.

Currently, Venchi runs 88 concept stores in 70 countries: among them, 47 are located in Italy (North and Central regions, and one in Naples) and the remaining 41 are widespread throughout Europe, Turkey, Saudi Arabia, USA, South Korea and China. The firm’s commitment on foreign markets continues to accelerate and currently, its export activities account for a 30% of the company’s total turnover.



**Fig.4.3.** Exterior design of Venchi concept store at China World Mall, Beijing.

Source: photo taken on April 8<sup>th</sup> 2017



**Fig.4.4.** Interior design of Venchi concept store at Tianjin Florentia Village, China.

The TV screen shows images related to the cocoa-chocolate production chain, from the very raw material to the final product. This is a simple but effective way to make the consumers more acquainted and involved about the product and its origin.

Source: photos taken on April 29<sup>th</sup> 2017

## **VENCHI FIRM'S EXPERIENCE IN CHINA**

Thanks to the support of two Italian Venchi managers, respectively the marketing manager for Venchi Italy and the general manager for Venchi China and Asia-Pacific markets, it has been possible to collect useful information about the company's business management in Mainland China and Hong Kong.

### **4.4.1. ENTERING CHINESE MARKET: MAIN DRIVERS AND RELATED STRATEGIES**

Venchi's choice of entering this market was mainly related to this country's increasing demand for chocolate products, stimulated by the willingness of many Chinese consumers to embrace a more Western food life-style. Its huge size and growth potential, that can only be comparable to US, represented another stimulating factor, but with the substantial difference that American consumers have always been big chocolate eaters, compared to Chinese. As many other foreign firms, Venchi decided to first settle a presence in Hong Kong, where arrived through some wholesale accounts in 2003, like department store Seibu and the high-end food supermarket Great Food Hall<sup>22</sup>; Hong Kong is commonly regarded as a strategic commercial, political and cultural gateway between West and East, provided with a free-trade policy, that doesn't require any custom tariffs and import licensing on chocolate products <sup>23</sup>. Moreover, considered that Hong Kong is one of the China's top travel destination, many affluent Mainland citizens had the chance to know the brand there, before it actually arrived in the country, in 2011.

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<sup>22</sup> <http://retailinasia.com/in-shops/venchi-ceo-on-the-five-senses-retail-experience/>, consulted on January 2018.

<sup>23</sup> [https://www.tid.gov.hk/english/import\\_export/ie\\_policy.html](https://www.tid.gov.hk/english/import_export/ie_policy.html), consulted on January 2018.



Considering these mentioned advantages, Venchi could slowly and better adapt to the Asian context. At that time, HK chocolate market was more sophisticated and developed than China's, but also more competitive, because many premium and luxury foreign chocolate brands had already established a presence there.

Due to these two main reasons, in 2011 the Italian company decided to develop a local partnership and created the "Venchi HK Ltd", to better establish a long-term and profitable presence in the city. That year, Venchi opened its first flagship store at Harbour City (Hong Kong's largest shopping mall), followed by the opening of other two retail stores in 2012, one situated in the metropolitan area of Wan Chai (HK Island) and one inside the Hong Kong International Airport <sup>24</sup>. "Venchi HK Ltd" legal entity is provided with a representative office, composed of local employees, moreover the firm's Italian general manager for China and APAC countries has been full-time sent there, to better manage relationships with retailers, distributors and search for new possible retail locations. Currently, Venchi has six stores distributed in Hong Kong, covering the whole area: one is located in the New Territories, two in Kowloon and three in Hong Kong Island. These two last areas are the smallest, but also the most exposed to international travelers and populated by the most sophisticated consumers, that generally shop in luxury malls and prefer buying international brands.

In 2011, the Italian brand decided to settle its first presence in Mainland China, by opening its first stand-alone store within the Tianjin Florentia Village; that was a particularly profitable year for the Italian chocolate export activities in the country: in 2010, its value reached the 70 USD millions (+56%) and in 2011 accounted for 100 USD millions (+44%), with almost twelve tons of chocolate exported<sup>25</sup>.

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<sup>24</sup>[http://www.investhk.gov.hk/resources/resources/en\\_ihk\\_news\\_201303\\_clientprofiles/files/assets/pages/page0002.sw](http://www.investhk.gov.hk/resources/resources/en_ihk_news_201303_clientprofiles/files/assets/pages/page0002.sw), consulted on January 2018.

<sup>25</sup> *List of supplying markets for chocolate imported by China*, ITC calculations based on Un Comtrade statistics, 2016.

Venchi's entire chocolate production occurs in the Italian manufacturing plant, thus the company sends the products' catalogues to the Chinese retail managers, for making the orders. Since the stores are distributed in the northern, eastern and southern Chinese regions, Chinese consumers' preferences and demands may highly vary, for this reason an accurate products selection must be properly implemented. Once the orders have been made, on seasonal supply cycles, the Italian company sends the demanded stock to every shop. Moreover, the firm has established a representative office in Beijing. The Italian company directly manages the distribution, through a direct-export strategy, also due to the importance of maintaining an un-broken chilled distribution, provided with optimum storage and transport temperatures (10- 18°C), until the goods reach the Chinese stores. Moreover, Venchi products lack of stabilizers and preservatives, which makes the whole process of ensuring the products' unaltered quality even more delicate.

#### **4.4.2. ONGOING BUSINESS, MARKET ADAPTATION AND THE COMPETITIVE ARENA**

In Chinese market, Venchi has kept its Italian name and has not translated it into Chinese that, according to its phonetic translation, it would be pronounced *wenqi*. Maintaining the original and foreign name is extremely important, to keep higher the brand image and give more credibility to its premium quality and price. Anyway, sometimes the Chinese name is also present, for example, on social media platforms, like We chat and Dianping, with the characters 闻绮. In Chinese, 闻 means "smell" and "hear", but can also be associated to the reputation and fame, while 绮 means "elegant" and "beautiful" and is also associated to the silk material, which can recall the chocolate texture. Thus, its Chinese translation can both related to a perception, extremely important for a food item like chocolate and to the elegance, two concepts that well match with Venchi's brand message.

In the market, the Italian firm faces direct competition with Belgian Godiva for chocolate and the American Häagen-Dazs for ice-cream. In particular, Godiva is used as the company's benchmarking for its market positioning. Like Venchi, these two brands mainly use the mono-brand shop as their main sales channel and invest a lot on it, because represents their main differentiation tool among competitors. This aspect becomes even more important, because their "Choco-gelateria" is currently the company's only selling channel in China. They are all designed with the same format as Venchi Italian flagship stores, but the Chinese ones are usually provided with tables and seats, to enrich the consumers' chocolate experience on-site. This aspect is extremely important, because they want to appear as elegant boutiques and cafés, that don't only offer gourmet products, but enjoyable occasions to its consumers. Their locations within high-end shopping malls and designer outlets perfectly fit with this purpose.

As previously mentioned, each "Choco-gelateria" has its own production laboratory for making the ice-cream, thus the Italian factory prepares pre-measured ice-cream tubs containing all-natural, dried ingredients to be sent in every Chinese shop and there, the ice-cream flavors are created, by adding the fresh ingredients, like milk, eggs, dairy cream and fresh fruit. These ingredients are obtained in loco, according to the highest and selective quality standards, to ensure that its flavor could resemble as much as possible the Italian gelato's authentic one. Regarding the in-store retailing management, Venchi employs local managers, that can better understand Chinese culture and quickly monitor changes and trends in the consumers' consumption and purchasing behaviors. The shops' employees are Chinese, as well, which need an accurate training, in order to comply with Venchi high-quality standards and working ethic. In addition, being the brand still not so popular in China and the product distant from their local food tradition, the company's HR process is differently managed, compared to Italy or Europe in

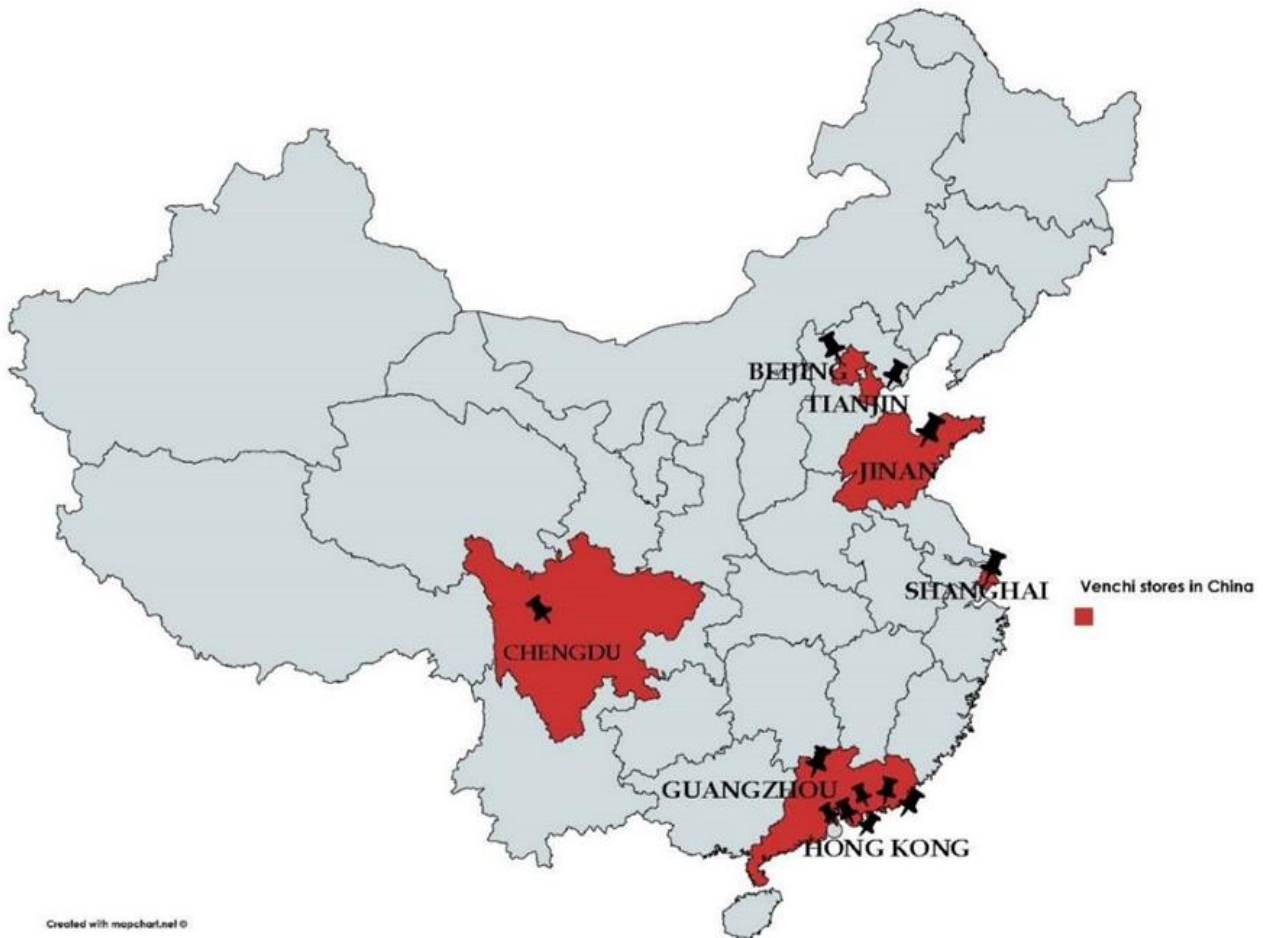
general, because Chinese employees are generally more profit- and task- oriented and less devoted to the company's values and culture organization.

Currently, Venchi directly manages six stores in China, after the first one opened in Tianjin in 2011, the company opened one in Beijing in 2012, one in Jinan (Shandong province) in 2014, one in Shanghai in 2015, one in Guangzhou in 2016 and one in Chengdu (Sichuan province), still in 2016. Except for Jinan and Chengdu, that are classified as second-tier cities, all the others are Chinese first-tier cities, directly controlled by the central government, with more than 15 million people and a GDP over US\$300 billion<sup>26</sup>. These stores are all collocated inside these cities' major luxury shopping malls, with the ones in Tianjin and Shanghai within the "Florentia Village" high-end designer outlet chain. This project' main investor is an Italian real-estate company called RDM Asia<sup>27</sup>, which has recreated a sort of Italian miniature with squares, buildings and fountains of Rome, Venice and Florence, based on the Italian Renaissance style. This context surely helps Venchi in being recognized as an Italian chocolate company. Another main advantage of being located within this "Italian village" is that, as many outlets, it also offers discounted prices from 50% to 70% all year round, especially to loyal customers, who are rewarded with VIP treatments and promotions.

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<sup>26</sup> <http://multimedia.scmp.com/2016/cities/>

<sup>27</sup> <http://www.italy24.ilsole24ore.com/art/real-estate/2015-03-04/florentia-village-outlet-mall-group-1-billion-six-outlet-push-china-170319.php?uuid=ABSQA13C>, consulted on January 2018.



**Fig. 4.5.** Mapping of Venchi concept stores in Mainland China and Hong Kong.

Source: created with mapchart.net

Until now, Venchi adaptation to the market mainly relates to two aspects: the product packaging and the brand communication. Regarding the first aspect, as many other chocolate brands, Venchi gives much importance to the gift-giving segment, in particular by developing seasonal and tailored packaging for Chinese’s main festivities, like Chinese New Year and Mid-Autumn Festival. In particular, for this last one, the company creates limited edition “Venchi Chocolate Mooncake Gift-boxes” that, besides a selection of classic pralines, also contain a Chocolate mooncake filled with Earl Grey crisp rice. Besides this special product and the creation of a green-tea ice-cream flavor sold within the shops, the company has still not developed special recipes tailored to the Chinese market. Nevertheless, since the

beginning, the company's entire chocolate and ice-cream production was already quite balanced and suitable to Chinese consumers' preference in less sweet tastes, and they are planning to further develop products containing more cocoa and less sugar. Moreover, they already offer an entire chocolate line (called choco-light) that employs the use of maltitol instead of sugar.

Regarding the second aspect, Venchi uses Chinese major digital platforms, like Wechat (微信), Weibo (微博) and Dianping (大众点评) as its main promotion and communication tools on the market, which are extremely important to enhance the brand image and gain higher brand recognition. WeChat is the most famous and used, because it can be considered a combination of Facebook and WhatsApp: here, the company has its own official account, provided with the wall, where updates about new openings, new products or in-shops discounts are frequently posted, and different sections, including the brand's history, products assortment's description and information with photos about all their Chinese stores. Moreover, Wechat is used as in-store payment method by the majority of Venchi customers, by simply scanning their personal Wechat QR code, directly linked to their credit card.

Weibo and Dianping are the most influential: Weibo can be compared to Twitter and for this reason, is the most interactive one: Venchi has created its own profile for mainly sharing photos and videos about its events, products and special promotions and followers can both comment and re-post them, by using official hashtags. Dianping is a combination of our Yelp, Tripadvisor and Groupon all together and currently represents the largest review website in China. Being present on this platform and gaining positive ratings from customers may be useful to attract new customers as well, especially because Chinese give much importance to the word-of-mouth, for this reason read a positive rating or see the picture of the purchased product may strongly convince them to try and trust the brand.

#### **4.4.3 FINAL CONSIDERATIONS AND VENCHI'S FUTURE PROSPECTS IN CHINA**

Finally, it was asked the two managers whether the company had faced relevant issues in this market. The encountered obstacles are generally common to many other Italian SME's dealing with food exports to China, starting from the import regulations on products, in terms of required documents, sanitation certificates, which are generally very bureaucratic and rigid, and the entry-inspection procedures, which are usually quite long. Besides these aspects, in their first years on the new market, great efforts have been focused on the creation of a strong and recognizable brand image among Chinese consumers in particular, by focusing on the difficult task of translation and interpretation, both in the in-store promotion campaigns and on digital communication tools. On this aspect, the company had to further highlight the brand's history and core values on which Chinese consumers are more sensitive on, and not to take these aspects for granted, as it usually happens in the Italian and European markets, where consumers are more familiar with this kind of product.

Finally, it was asked the company about their future plans in the Chinese market. Despite they are looking at the possibility to settle a digital presence in the country's growing e-commerce market, for the year 2018, Venchi will not consider other distribution channels in China, but will continue to expand by opening new shops throughout the country. Thus, as for the present shops, the company is looking for new Chinese locations, taking into account some important parameters, like the high visibility, prestige, a suitable customer target and reduced competition, that could well represent and highlight the image and values that the company wants to communicate to its Chinese current and potential customers.

## **FIFTH CHAPTER**

# **ANALYSIS ON CHOCOLATE CONSUMPTION AND ITALIAN VENCHI BRAND FOR CHINESE CUSTOMERS**

### **5.1. SURVEY RESEARCH METHODS, CONTENTS AND PLACES**

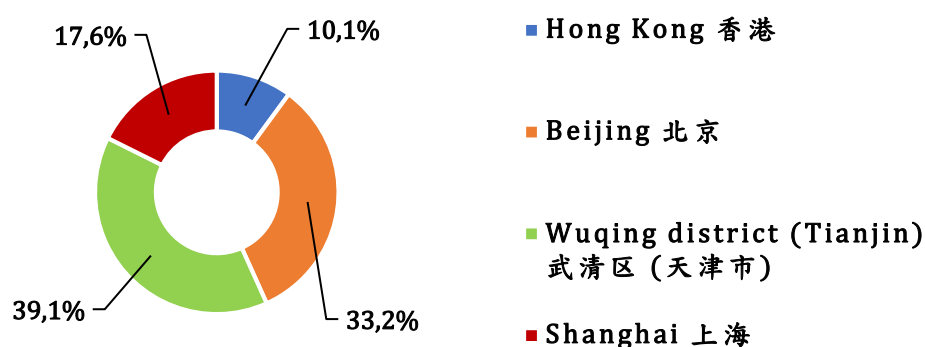
This last chapter is the result of a survey conducted on a sample of Chinese consumers, focused on chocolate and Italian Venchi brand. The research content relies on two questionnaires, in which both qualitative and quantitative methods have been applied; the first questionnaire targets Chinese customers (including both new and old ones) within Venchi stores in Hong Kong, Beijing, Wuqing (Tianjin) and Shanghai and mainly aims at understanding if and how their chocolate perception, purchasing and consumption patterns related to this product are changing. The questionnaires have been personally handed to each customer inside the stores and contain 12 multiple-choice questions (6 open and 6 closed-ended).

The second questionnaire has been conducted on Chinese retail managers of the above-mentioned stores, through 13 closed-ended and open-short questions. Its main objective is to delineate a more concrete view about retail sales of chocolate and ice-cream, possible shortcomings in the management of the four stores, customers' profile and shopping hours in which usually occur the highest peak sales within the stores.



## 5.2. SURVEY ON VENCHI'S CHINESE CUSTOMERS

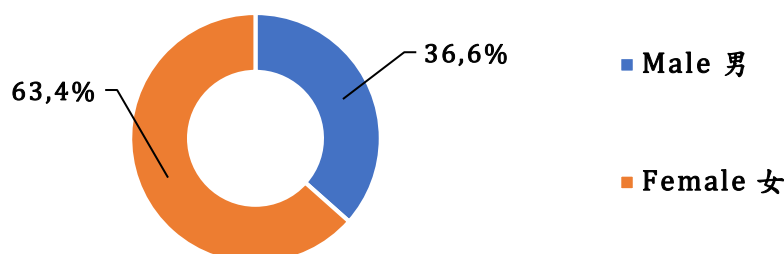
This market survey has been conducted between February and July 2017 and has been distributed to a sample of 238 Chinese consumers. In the specific, the interviewees were respectively 24 in Hong Kong (10,1%), 79 in Beijing (33,2%), 93 in Wuqing (39,1%) and 42 in Shanghai (17,6%). Venchi stores in Tianjin and Shanghai are located within the luxury designer outlet “Florentia Village”, the other two are located inside some luxury shopping malls, that are the “Festival Walk” at Kowloon Tong, (Hong Kong) and the “China World Mall” in Beijing.



**Fig. 5.1.** Places of survey data collection

Source: personal elaboration

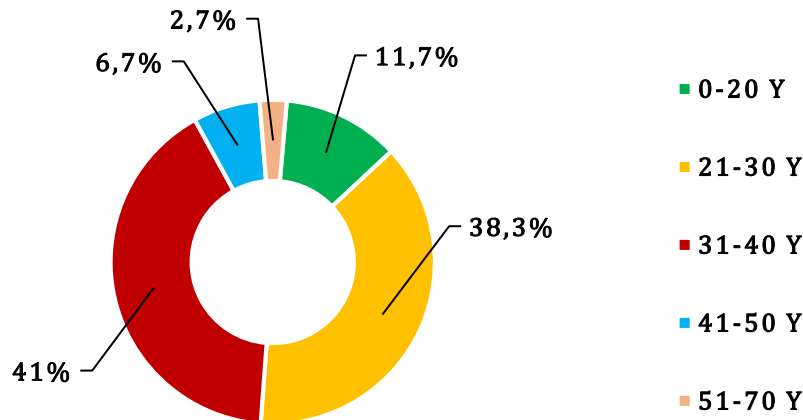
A first distinction on the analyzed sample can be made on some demographic characteristics, like gender and age. Thus, 63,4 % of the sample results to be female, and 36,6 % male.



**Fig. 5.2.** Gender of consumers' sample

Source: personal elaboration

A large consumers' segment is composed of young adults and adults, respectively with an age ranging from 21 to 30 years (38,3%) and 31 to 40 (41%). A smaller part is composed of children and teenagers (11,7%) and mature adults (6,7%), while the lowest percentage is given by senior consumers (2,7%). A graphical representation of the explained data is shown below:



**Fig. 5.3.** Age of consumers' sample

Source: personal elaboration

In order to have a clearer view of the survey content, it is possible to divide it into six sections:

- ❖ **The first section** wants to analyze to what Chinese consumers associate the world “chocolate” and “ice-cream”. Interviewees were asked to write respectively 3 words, that could be noun, verbs, feelings or adjectives on blank spaces, to leave them total freedom. Even if this research focus is on chocolate, questions about ice-cream are considered inherent to the survey content as well, mainly for two reasons: first, ice-cream can also be considered a way of eating chocolate and second, Venchi stores are defined as “Choco- gelaterie”,

thus emphasizing the relevance of this product in their retail assortment, that mostly offer chocolate-based ice-cream flavors.

- ❖ **The second section** aims at understanding what is considered the chocolate's country-of-origin (COO) for Chinese consumers, especially because this factor has proven to influence their perception and evaluation toward a brand and a product's quality.
  
- ❖ **The third section** analyzes both chocolate flavors' preference, taking into account dark, milk, white and hazelnut chocolate as options and their chocolate format's preference, including hot chocolate, chocolate pralines, bars, spread and ice-cream. This section may represent the starting point to understand if currently there is a significative evolution and acceptance of chocolate taste among Chinese consumers. In addition, since chocolate is an extremely versatile product, that can be tasted in many forms, consistencies and temperatures, this section enables to understand which are and which could be the current and future chocolate trends targeted at Chinese consumers. These two results' sections will be then crossed.
  
- ❖ **The fourth section** aims at understanding in which situations and in which frequency Chinese consumers are more likely to eat chocolate. This section is aimed at assessing the role and the degree of involvement they relate to chocolate. Due to the affinity of these two sections, their results will be crossed as well.
  
- ❖ **The fifth section** goes deeper and aims at defining in which places these consumers eat and purchase chocolate. The question dealing with the places of chocolate purchase has not been included in the very first questionnaire draft,

but only added in a second time, thus it has been conducted on a reduced sample of 159 consumers.

- ❖ **The sixth and last section** deals with Venchi brand and focuses on consumers' association to the Italian company and the reasons leading them to buy this specific brand, instead of others. Due to the little brand knowledge of a consistent part of the entire sample, many interviewees have encountered challenges in answering this particular question and giving at least one reason. Nevertheless, here will be analyzed the most significant and interesting answers.

### 5.2.1. SURVEY RESULTS' ANALYSIS

- ❖ **ANALYSIS OF THE FIRST SECTION: ASSOCIATION TO THE WORLD "CHOCOLATE" AND "ICE-CREAM"**

Starting from consumers' association to the world "chocolate", many concepts have been given, thus it has been possible to group them in three main categories:

- ✚ **Consumers' exclusive association to chocolate attributes:** this group includes adjectives and nouns related to chocolate's characteristics and properties, for example the taste, the texture and the smell. It has emerged that 54 consumers (22,7 % of the total interviewees) have made 106 associations belonging to this category. In particular, "sweet" and "delicious" have been the most used adjectives, respectively mentioned by 26 consumers. To describe this chocolate's intrinsic

characteristic, most of the interviewees have used the adjective 甜蜜 *tianmi*, which literally means “sweet as honey”. Due to this repeated sweet perception of chocolate, it has been analyzed this group’s preference in flavor, showing that their preferred chocolate flavor is dark and hazelnut, which are also the least sweet, among all chocolate flavors. Then, the energetic and caloric component of chocolate has been mentioned by 15 interviewees, while 13 among them have related to its “strong and long-lasting flavor” or “aftertaste”. Finally, 10 consumers have mentioned the “creamy and smooth texture” (in Chinese, this effect is called 丝滑 *sihua*, “smooth like the silk”), while at the bottom of consumers’ choice, 7 consumers have mentioned the adjective “bitter”. Thus, the consistent quantitative difference in chocolate’s association to “sweet” and “bitter” taste still remarks that Chinese consumers perceive chocolate as a sweet food, also in its more bitter versions.

✚ **Consumers’ exclusive association to emotions\feelings:** only 29 consumers (12,1%) have associated chocolate to this group, in particular, 19 consumers consider chocolate as “pure happiness” and “a good mood boosting food”, 11 consumers as “romantic love” and other kinds of affection, such as “friendship” and “family” and lastly, 7 and 5 consumers respectively as “enjoyment\ satisfaction” and “relax”.

✚ **Consumers’ association both to attributes and emotions\feelings:** this category is a mixture between the first and second group, that means that this part of consumers has associated chocolate both to the product’s characteristics and to a personal feeling\emotion.

This is undoubtedly the group with the highest percentage, which accounts for 53,4 % of the whole sample (127 consumers).

- ✚ In addition, **a fourth category** has been also created, including concepts related to objects, occasions, places and people, accounting for 10,8% of total sample. This group has mainly mentioned special occasions, such as St. Valentine's, childhood memories, visited places or people.

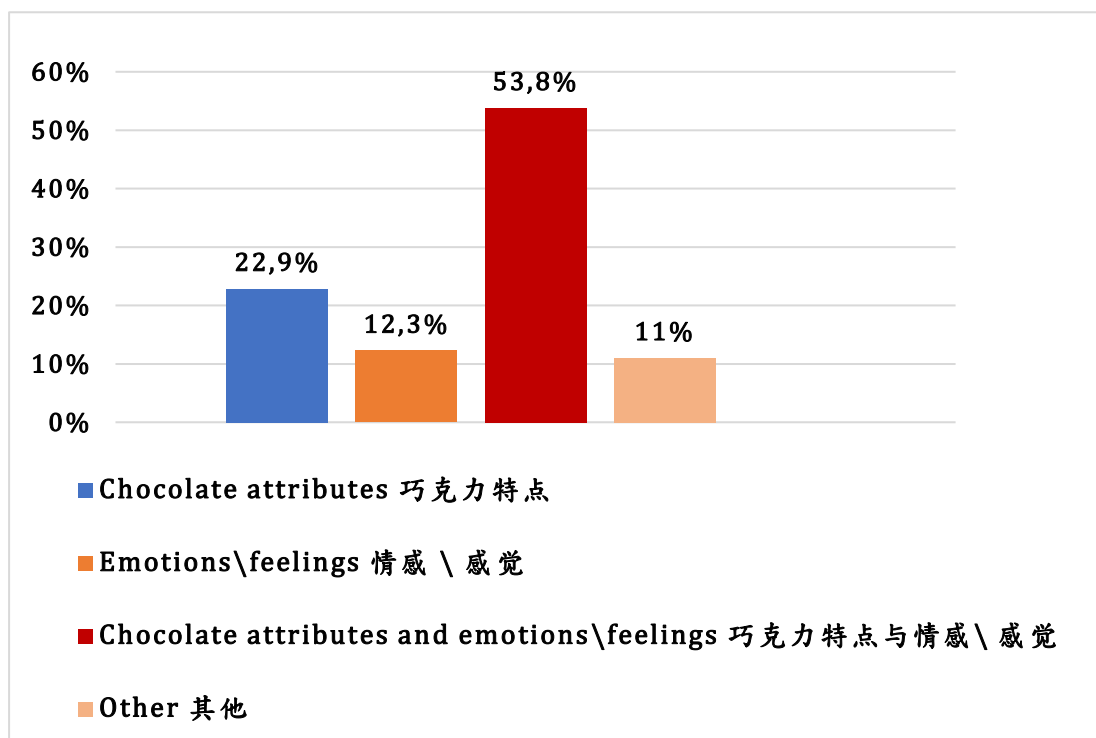


Fig.5.4. Consumers' association with chocolate

Source: personal elaboration

After having analyzed consumers' association to chocolate, a similar analysis has been also conducted on ice-cream, following the same groups classification:

- ✚ **Consumers' exclusive association to ice-cream attributes:** include 38,1 % (86 consumers) of the total interviewees, who associate ice-cream to a related attribute or feature. In particular, 59 consumers have

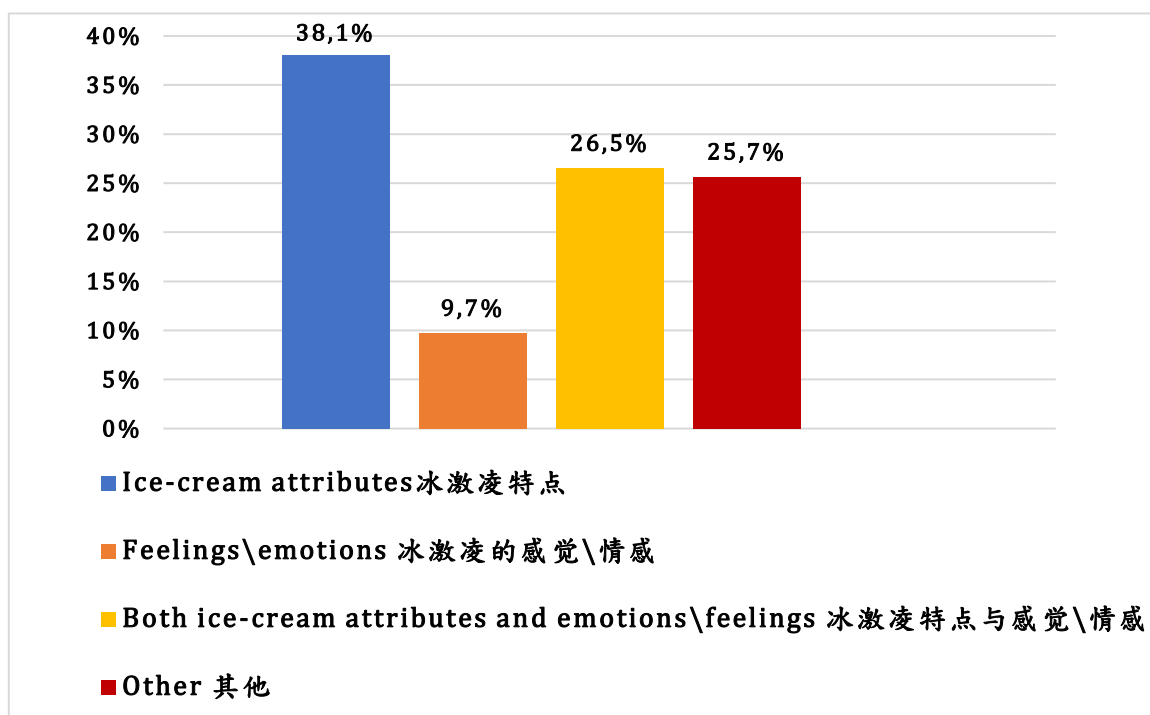
mentioned ice-cream's refreshing and cooling nature (consumers have used different terms, including 凉快 liangkuai, 清爽 qingshuang, 凉爽 liangshuang, 清凉 qingliang, but the meaning is the same), followed by "sweet" (41 consumers) and "delicious" (34 consumers). Finally, 14 consumers have also associated ice-cream to a "fat food" and 11 to its "smoothness".

- ✚ **Consumers' exclusive association to emotions\feelings:** this group only accounts a 9,7 % (22 consumers) of the entire sample. Thus, if we compare this result with the one obtained for chocolate in the same category (12,3 %), it is possible to notice that ice-cream is slightly less perceived as an emotional food, compared to chocolate. "Happiness" is the most associated feeling to ice-cream, followed by "Relax", love\affection and sense of satisfaction.
- ✚ **Consumers' association to both attributes and emotions\feelings:** in this category are included 60 consumers (26,5%), which associate ice-cream both to the first and the second group.
- ✚ **The "Other" category:** this group includes differentiate concepts associated to ice-cream, to which belong 58 consumers (25,7%). Concepts are mainly related to "summer vacations" (36 associations) and "childhood" (24 associations).

Ice-cream' popular association to summertime highlights that it is still perceived as a seasonal product. In addition, traditional Chinese Yin and Yang theory applied on food balance may enhance this consumption tendency: according to it, cooling foods (in this case, ice-cream) are more suitable to be

eaten during summer periods, to refresh and restore the body from the external heat. On the contrary, chocolate is considered a more warming food, to be consumed in cold months. Under these conditions, a chocolate ice-cream may represent a perfect compromise to satisfy both consumer's craving on chocolate and the need for refreshment.

Ice-cream association to "childhood" is still quite widespread, possibly for two reasons: the first is that, ice-cream may be perceived more as a craving food for kids, and second, it may recall childhood memories to the youngest consumers, who have experienced the rise and growth of ice-cream market in China, in the 1990s. In fact, all consumers who made this association result to have an age ranging from 20 to 35 years.



**Fig.5.5.** Consumers' association with ice-cream

Source: personal elaboration



❖ ANALYSIS OF THE SECOND SECTION: CHOCOLATE'S COUNTRY OF ORIGIN (COO)

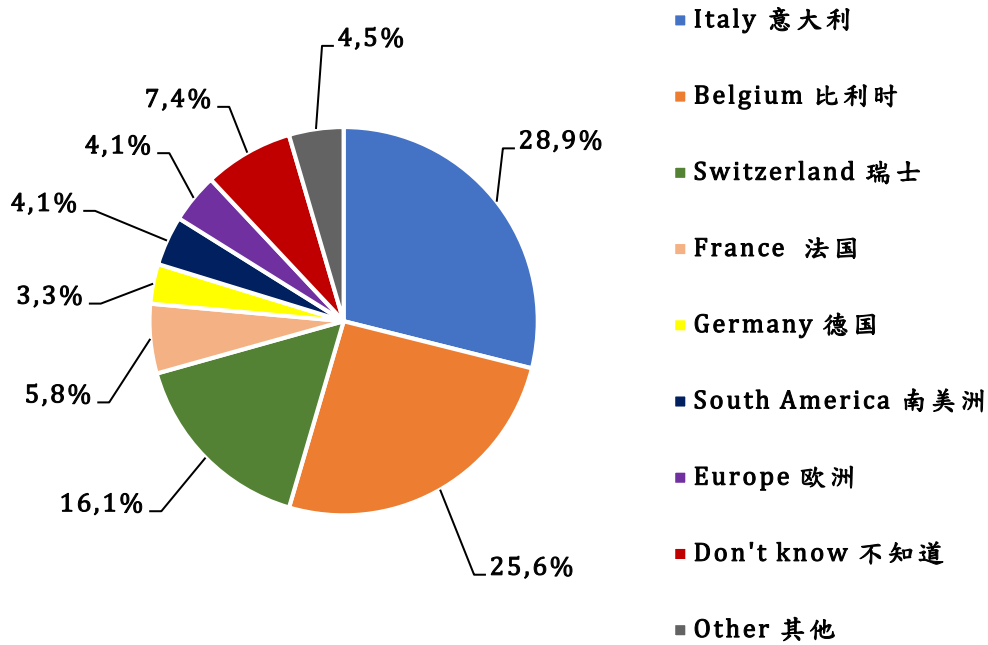


Fig. 5.6. Consumers' perception of chocolate's COO

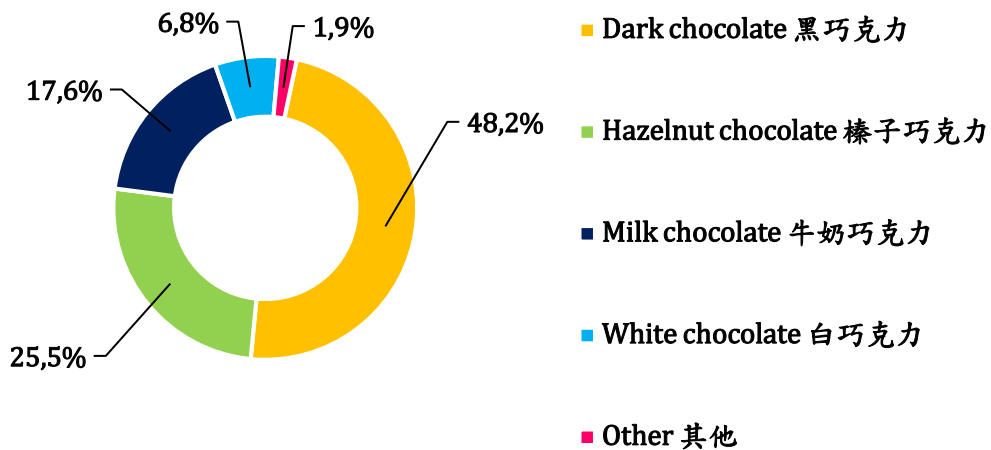
Source: personal elaboration

This second section wants to assess Chinese consumers' knowledge and perception about Chocolate's country of origin. Generally speaking, all consumers have recognized its "foreignness" and associated it to an European country. In particular, 28,9% of total interviewees consider Italy as the "country of chocolate", followed by Belgium, with 25,6% and Switzerland with 16,1%. After these three main choices, 7,4 % have mentioned differentiate countries, for this reason all put together in the "Other" category, including USA, UK and Japan, while the lowest percentage scores have been given to France (5,8%), South America (4,1%), Europe as macro-area (4,1%) and Germany (3,3%). In addition, a 7,4% have answered with "Don't know". Thus, we can observe that nowadays there is a general proper knowledge of chocolate's origin and history by Chinese customers. Because the survey has taken

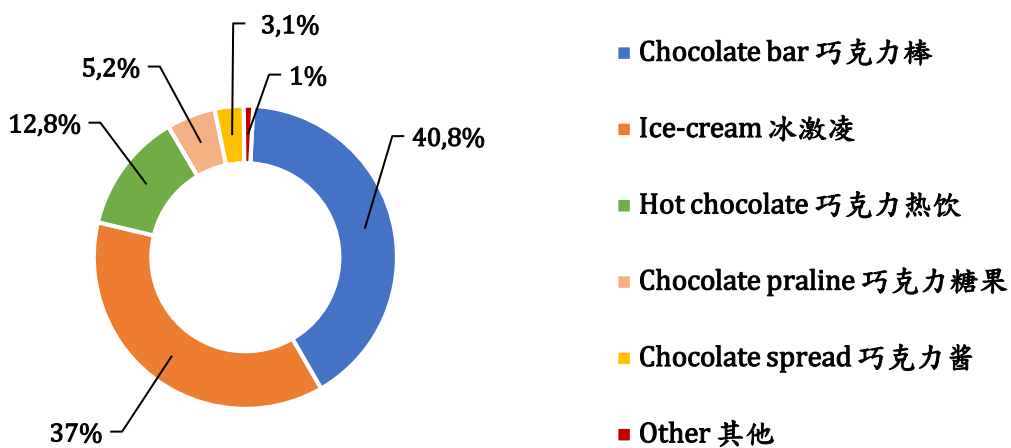
place within Venchi stores, it is very likely that Italy's highest percentage may have been influenced by this factor, nevertheless it is undoubtedly recognized that Ferrero's past and current success in Chinese market has heavily enhanced this perception. Consumers' second choice is also not surprising, as already mentioned, chocolate Belgian brands have put many efforts in building a strong brand image in Chinese market, mainly focusing on quality and brand storytelling. The third choice has been Switzerland, another famous chocolate country (its most popular chocolate brands on Chinese market are Lindt, Nestlé and its premium Cailler brand, Milka and Toblerone). Finally, there is also a low percentage of consumers who have mentioned South America countries, like Brazil, Ecuador and Columbia, which are worldwide recognized as major countries in the cocoa production, but in which do not occur the chocolate final manufacturing process.

#### ❖ ANALYSIS OF THE THIRD SECTION: CHOCOLATE FLAVOR AND FORMAT

This section analyses which kind of chocolate flavor consumers prefer and in which format they like to taste it. Regarding the first aspect, dark chocolate is certainly the most favorite, that has obtained a percentage of 48,2 %. With a remarkable difference, hazelnut chocolate has accounted for a 25,5 %, followed by the sweetest flavors, such as milk (17,6%) and white chocolate (6,8%). The "other" group is almost inexistent (1,9 %) and mainly coincides with the choice of pistachio.



**Fig. 5.7.** Consumers' preference in chocolate flavor  
Source: personal elaboration



**Fig.5.8.** Consumers' preference in chocolate format  
Source: personal elaboration

Regarding the chocolate format, the bar results to be the most traditional and preferred one, selected by 40,8 % of interviewees. Slightly above, there is ice-cream (37 %), followed by hot chocolate (12,8%) and chocolate pralines (5,2%). 3,1 % has opted for chocolate spread and a 1 % prefer "other" chocolate versions, like chocolate-based cakes and biscuits.

It is now possible to cross data from these two distinct sections, in order to develop some interesting observations.

	Chocolate bar	Ice-cream	Hot chocolate	Chocolate praline	Chocolate spread
Dark chocolate	76	63	15	4	6
Hazelnut chocolate	36	37	17	8	3
Milk chocolate	23	28	10	3	1
White chocolate	7	7	5	2	1

**Fig. 5.9.** Cross-sections data for chocolate flavor and chocolate format.

Source: personal elaboration

Analyzing the above cross-sections data, it is possible to notice that, consumers who like dark chocolate, are more likely to consume it under the bar format, while those preferring hazelnut flavor show nearly the same preference for the bar and the ice-cream. Consumers who prefer the hazelnut flavor and the ice-cream format can rely on a wide ice-cream flavor assortment within Venchi stores, which offer at least four hazelnut-based ice-cream flavors, that are Gianduja, Brutto ma buono nocciolato (made with milk chocolate with hazelnut), Cremino and Nougatine, besides the classic pure hazelnut flavor. Finally, consumers who prefer milk and white chocolate, tend to prefer ice-cream as well, because is generally sweeter than chocolate.

Regarding the first and most popular combination, interviewees had the possibility to motivate their choice and some of the most interesting comments have been collected below:

## 答案 ANSWERS

口感丝滑，甜而不腻。

The texture is creamy and smooth, moreover is sweet but not oily.

方便携带。

(The chocolate bar) is easy to carry around.

口感比较脆。

It has a crunchy texture.

吃在嘴里滑滑的回味无穷。

It leaves a long-lasting and pleasant taste in the mouth.

补充热量高。

It has a high-energetic component.

快捷。

It is fast and convenient.

个人习惯。

For a personal consumption habit.

味道不太填。

The taste is not excessively sweet.

选择众多。

It offers a wide assortment.

很喜欢小块的巧克力，放在包里，随时享用。

I can easily carry in my bag and eat small pieces, whenever I want to.

一块黑巧克力比较健康。

A piece of dark chocolate is quite healthy.

味道浓纯。

It has an authentic flavor

**Fig.5.10.** Interviewees' answers about their preference for (dark) chocolate bar.

Source: personal elaboration

To summarize these answers' content, the dark chocolate bar is the most appreciated match for our consumers sample, mainly because of four aspects:

- 1) **The texture:** even if most of Chinese prefer it smooth and creamy, there is also a part of consumers who opt for the bar because of its crunchiness. In addition, this characteristic can hardly be found in other chocolate products.
  
- 2) **The convenience:** the bar represents a convenient consumption format, on one hand because it can be portioned and eaten in small pieces, on the other hand, because it is easy to carry around. Regarding this point, it has also been observed that, among consumers who usually eat chocolate in the street, half of them prefer the bar version.
  
- 3) **Healthy benefits:** our consumers sample believe that the dark chocolate bar represents the healthiest and energetic way of experiencing chocolate. This becomes a key point, considering that our sample is mainly composed by young Chinese women.
  
- 4) **The taste:** finally, dark chocolate is more bitter, compared to milk and white alternatives, and is particularly appreciated by the most chocoholic consumers, because it is the most classic and authentic way to taste cocoa and authentic chocolate flavor.

❖ ANALYSIS OF THE FOURTH SECTION: CHOCOLATE CONSUMPTION SITUATIONS AND FREQUENCY

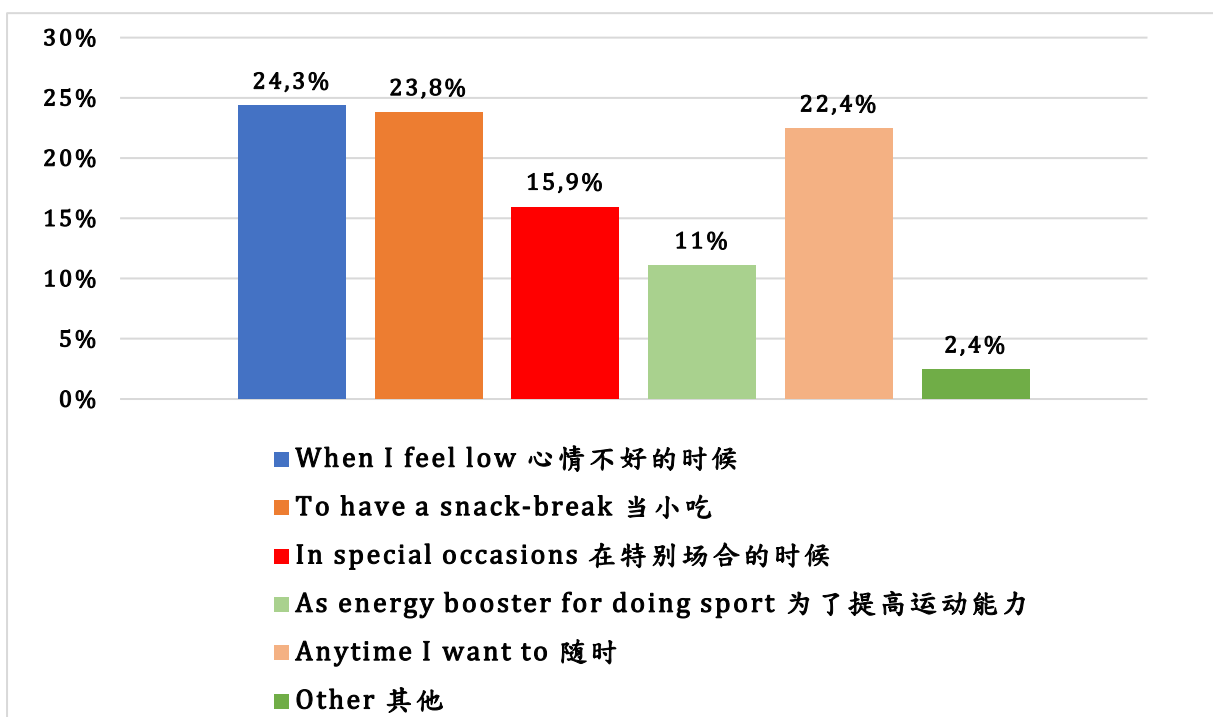


Fig.5.11. Chocolate consumption situations

Source: personal elaboration

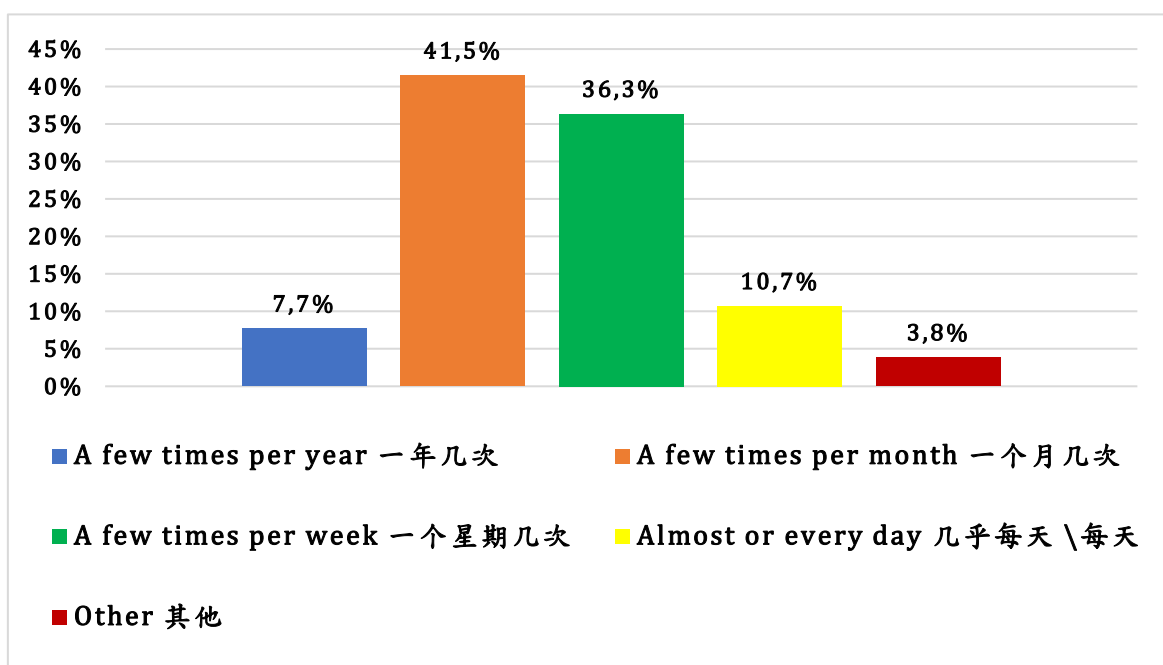
In this section, interviewees were asked in which contexts they are more likely to eat chocolate and how often they eat it. Results have shown that a 24,3% eat chocolate when feeling low or under stress and a 23,8% when want to have a snack-break. After these two main choices, a 22,4 % eat it anytime they want to, without referring to any particular moment. 15,9 % of interviewees eat it only during special occasions, a 11 % to boost energy before practicing sport activities and a 2,4% state to consume it during other non-mentioned consumption situations. Then, if we analyze these situations by gender, results obtained show that women are most likely to eat chocolate under low mood conditions, while men mostly eat it as snack. This may relate to the fact that women are more “emotional” chocolate eaters, compared to men, who on the contrary perceive it as a more functional food.

	Low mood	As snack	Special occasions	For doing sport	Anytime
Female = 144	61	57	41	21	47
Male=83	24	28	17	20	30

**Fig. 5.12.** Cross-sections data for gender and chocolate consumption situations

Source: personal elaboration

Regarding consumption frequency, 41,5 % of consumers eat chocolate a few times per month, resulting in a medium frequency, followed by a 36,3% who consume it a few times per week, resulting in a medium-high frequency. On the contrary, low consumption frequency (a few times per year) represents a very small percentage (7,3%) of total sample, while an encouraging result is given by the high frequency (almost or daily consumption), which accounts for a 10,7%. Of course, this group is not particularly relevant, if compared to the one of medium frequency, nevertheless it shows an increasing tendency in Chinese consumers' daily chocolate consumption.



**Fig.5.13.** Chocolate consumption frequency

Source: personal elaboration



It is now interesting to cross the data obtained from these two sections, that are consumption situations and frequency, in particular, with results obtained from the low (a few times per year) and the highest frequency (almost\every day).

	When I feel low	As snack	In special occasions	For doing sport	Anytime
A few times per year	3	5	7	2	6
A few times per month	29	37	25	16	30
A few times per week	38	35	21	17	33
Almost\every day	14	9	3	5	11

**Fig. 5.14.** Cross-sections data for consumption frequency and consumption situations

Source: personal elaboration

Analyzing this table (in which the “Other” category has been excluded for both the sections), it is possible to notice that, consumers who rarely eat chocolate (1\2 times per year) eat it the most during special occasions, showing that they tend to give a more social meaning to chocolate and less regard to the emotional and personal sphere. On the contrary, consumers who eat chocolate very often (almost or every day), are more likely to consume it under low mood or anytime they want to. This choice may imply that this category has already established a deep product knowledge and acceptance of chocolate in their daily food habits. They find in chocolate a comfort food and their chocolate eating experience is more stimulated by a hedonistic and personal choice. Consumers who show a medium-high chocolate consumption frequency, generally eat it as a snack and under low mood.

Data from consumption frequency can be matched with results obtained from chocolate flavor, as well. According to this cross-sections data, dark chocolate is the preferred flavor for every consumer, regardless their consumption frequency. In the case of lowest frequency, this may be due to its taste: many Chinese consumers don’t

like chocolate or eat it rarely, because they perceive it as excessively sweet, this dark flavor's bitterness may in part justify this choice. On the contrary, chocoholic consumers (belonging to the last group) prefer dark chocolate as well, but mainly because they perceive it as the richest in cocoa flavor, they are commonly more familiar with its strong taste because they often eat it and finally, they tend to associate it with a better quality.

	Dark chocolate	Hazelnut chocolate	Milk chocolate	White chocolate
A few times per year	11	2	3	2
A few times per month	44	37	20	12
A few times per week	53	23	21	3
Almost\every day	20	5	3	1

Fig. 5.15. Cross-sections data for chocolate consumption frequency and flavor

Source: personal elaboration

#### ❖ ANALYSIS OF THE FIFTH SECTION: PLACES OF CHOCOLATE CONSUMPTION AND PURCHASE

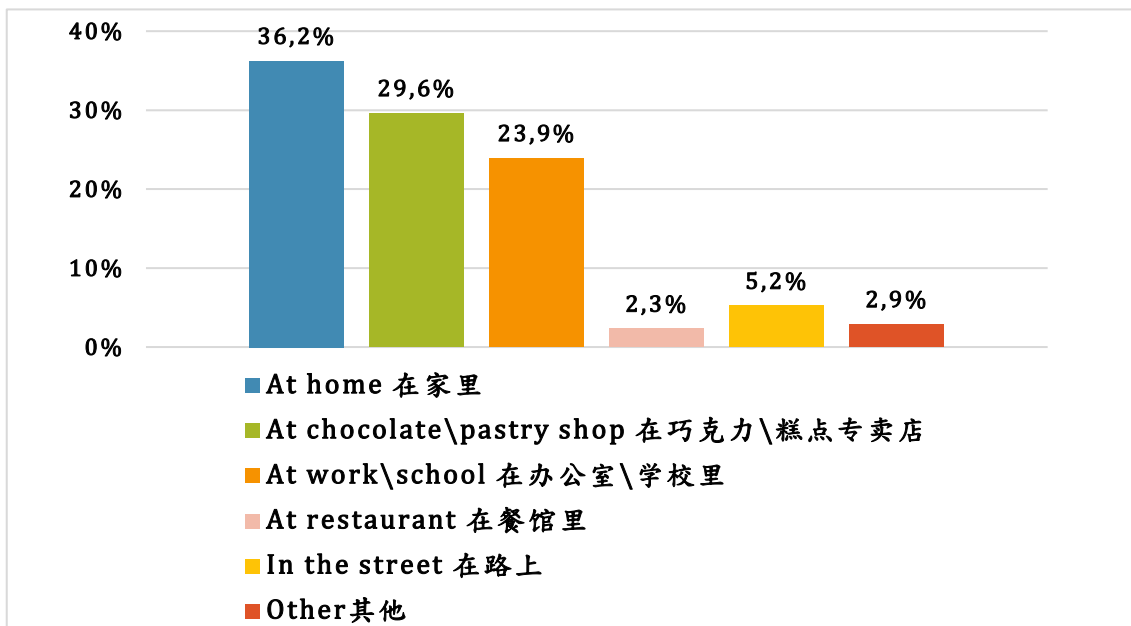


Fig.5.16. Places of chocolate consumption

Source: personal elaboration

Starting to analyze results of the first category, 36,2 % among interviewees eat chocolate at home, a 29,3 % within chocolate and pastry specialized shops, followed by the work or school place (24,1 %). 5,5 % eat in in the street, 2,9 % in other non-mentioned places and only a 2% in the restaurant. We can collocate the above-mentioned options in two macro-categories, that are the at- home and out- chocolate consumption places. In the last category, chocolate and pastry shops remain the most popular, since Chinese consumers still tend to perceive it as “trendy” and “western” places, suitable to talk to friends and relax. Nowadays, the most popular are still foreign branded stores, nevertheless Chinese local bakeries are also becoming more popular and for this reason, they are capitalizing on this increasing trend.

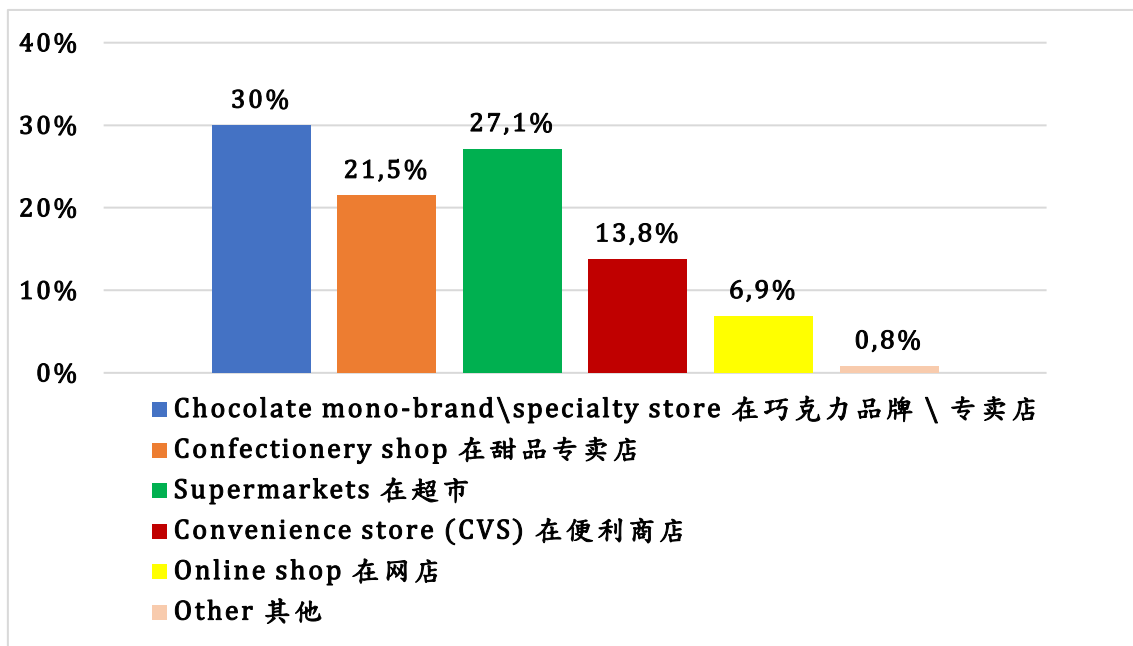
Crossing this section’s data with the one of consumption frequency, it can be noticed that, except for the medium frequency (second group in the table), all the other consumers eat chocolate more at home, than outside. Moreover, “home” and “chocolate shop” categories for the first (9;7) and second group (45;47) show a very slight difference. Thus, according to the results, the at-home consumption is more popular among those consumers who eat chocolate with a high frequency.

	Home	Work\school	Chocolate shop	In the street	Restaurant
1) A few times per year	9	5	7	0	1
2) A few times per month	45	28	47	9	4
3) A few times per week	48	37	36	6	2
4) Almost\every day	17	8	9	3	0

**Fig. 5.17.** Cross-sections data for chocolate consumption frequency and consumption places

Source: personal elaboration

In the second place, interviewees were asked where they usually purchase chocolate items. This question has been conducted on a reduced sample of 159 consumers.



**Fig.5.18** Chocolate’s purchasing places

Source: personal elaboration

From the results, it has emerged that our interviewees mainly purchase chocolate within specialized stores (30%), confirming the importance of the physical point for Chinese consumers and its strong influence in the purchase final decision; these findings well match with the growth of luxury chocolate boutiques in Chinese major cities. Supermarkets and hyper-markets represent interviewees’ second choice (27,1 %) and may be considered a more affordable and very widespread alternative for buying chocolate; largest hyper-markets, such as Carrefour, Wal-Mart and Auchan provide infinite chocolate aisles, with a large products and brands assortment, where many international premium brands, like Lindt, Cote d’Or and Perugina can be easily found. 21,5 % of interviewees usually but chocolate at confectionery stores, which are less popular, mainly because Chinese big retail chains also provide large confectionery products’ sections and most of their

purchase occur there. At the lowest levels are collocated Convenience stores, like 7-Eleven, Family Mart (Chinese name is 全家), Lawson (罗森), the online shops (6,9 %) and other unmentioned purchasing places (0,8 %). Crossing the data between chocolate consumption frequency and purchasing places, this is what emerges:

	Chocolate store	Confectionery shop	Supermarket	CVS	Online
A few times per year	8	3	6	4	0
A few times per month	31	23	30	14	4
A few times per week	29	19	23	11	6
Almost\every day	6	5	5	3	3

**Fig. 5.19.** Cross-sections data for consumption frequency and purchasing places

Source: personal elaboration

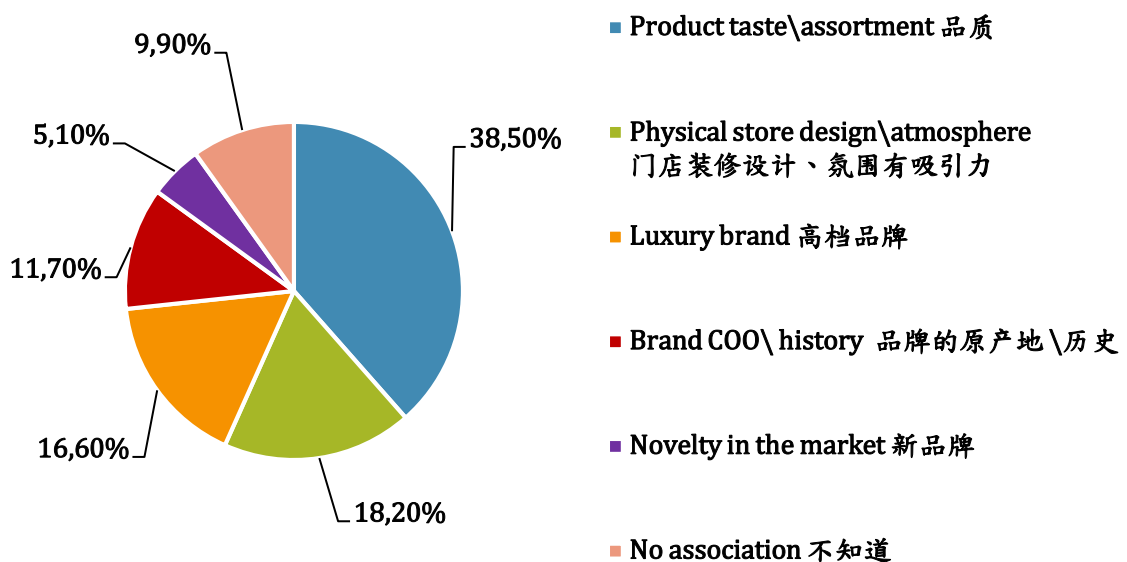
First of all, the results shown in the above table highlight that, both high- and low-frequency chocolate consumers tend to buy it at chocolate specialized shops, such as chocolate boutiques and retail outlets. In the first case, the main reason may be related to these consumers' brand loyalty for a specific brand. On the other side, consumers who do not often eat chocolate may purchase in these shops not necessarily for them, since they are not big chocolate eaters, but mainly for gift-giving purchases. In fact, the mono-brand is regarded as the more reliable, in terms of product quality, assortment and customer care, and generally perceived as a low-uncertainty store, especially for those consumers who are not very familiar with the brand and its product. Immediately after, supermarket appears to be the second most popular choice in all the four categories of consumption frequency.

On the contrary, online shopping is not a popular choice among our interviewees, especially in the low-frequency category: this may be due to the fact that, the online stores are commonly regarded as a continuum of the physical ones, mainly used by those consumers who often buy the product or at least, know quite well the brand

and its product assortment. In this case, the online store becomes the most convenient way to (re-)buy the product, especially if the physical point of sale is difficult to reach (as often occurs in China, due to its huge size).

❖ **ANALYSIS OF THE SIXTH SECTION: ASSOCIATION TO VENCHI BRAND AND MAIN REASONS FOR ITS PURCHASE**

The last section conducted on this sample of consumers focuses on their perception about Venchi brand and their reasons leading to choose the Italian chocolate firm, instead of other in the same category. Adopting the same pattern of chocolate and ice-cream association, it has been asked interviewees to define Venchi in three words, including nouns, adjectives, verbs and feelings. In addition, they had the possibility to freely leave comments about the brand, by explaining through one or two reasons, why they choose to buy this specific brand.



**Fig.5.20.** Consumers' association with Venchi brand  
Source: personal elaboration

According to the results, most of our sample (38,5%) has associated the brand with their products' taste and assortment. This choice definitely represents the most traditional and rational one, because is related to an intrinsic product' attribute (taste, texture, smell). Then, 18,2% have mentioned the physical store experience, in particular, the gold and sparkling decorations, the cozy environment and the careful customer care. Slightly above, a 16,6% has defined Venchi as a luxury or high-end brand, mentioning the high quality, high price and exclusivity of its offering. At the lower levels, a 11,7% has recalled the brand country of origin, mentioning Italy or Europe in general, together with the brand image of long-standing chocolate history and handcrafted specialization. Finally, there is a sample section, which resulted to be composed of new customers and that can be divided in those who defined Venchi as a novelty in Chinese market (5,1%), and those who have not made any association (9,9%).

Thus, starting from the highest percentage, taste still confirms to be a top attribute in the brand evaluation, along with the product assortment, that is another very appreciated aspect for Chinese consumers, who really enjoy trying new products. The physical store is their second most popular association, both for new and old customers. Venchi chocolate and ice-cream boutique has been defined "attractive", "fashionable" and consumers who just passed by, decided to enter because they were attracted by the external appearance. Regarding those who already knew the brand, they have mainly mentioned aspects related to the brand image and to its country of origin, recalling an Italian city or a street, where they have tasted the Venchi products for the very first time.

After this section, it has been asked consumers why they choose to buy this specific brand. Below have been reported some of consumers' comments about this topic:

### 答案 ANSWERS

因为坚持不使用化学添加剂，用工匠精神做意大利美食。

Because Venchi do not use chemical additives and handcrafts its Italian delicacies.

朋友推荐我来这里吃巧克力，吃了以后，就喜欢了。

My friends recommend the brand, once I have tasted their chocolate, I really appreciated it.

在中国，好的品牌的巧克力不多。闻绮是一个比较高端的牌子，并且是意大利的老牌。

Chinese chocolate brands are not so good, on the contrary Venchi is a well-established and high-end brand.

首先是因为知名度高，其次是巧克力的口感确实不错。

The first reason is because is really famous and second, chocolate texture is remarkable.

在意大利吃过，信任这个牌子。

I discovered Venchi in Italy and since then, I trust their products.

品类多，包装精美。

Venchi offers a wide product assortment, moreover the packaging is very elegant.

店铺位置好，位于购物环境。

Guomao (Beijing) location is very suitable, because is strategically positioned in an important shopping area.

送礼比较体面。

Their products ensure a good impression for gift-giving situations.

可可纯度高，品质有保障。

Use of pure cocoa powder, they ensure the quality.

闻绮有最好的榛子，新鲜度高。

Venchi use the best hazelnuts and ensure a high freshness.

属于低脂、低糖、低热量。

Their products are low-fat and low-sugar.

**Fig.5.21.** Interviewees' answers about their choice of Venchi brand

Source: personal elaboration



### 5.3. SURVEY ON VENCHI' S CHINESE STORE MANAGERS

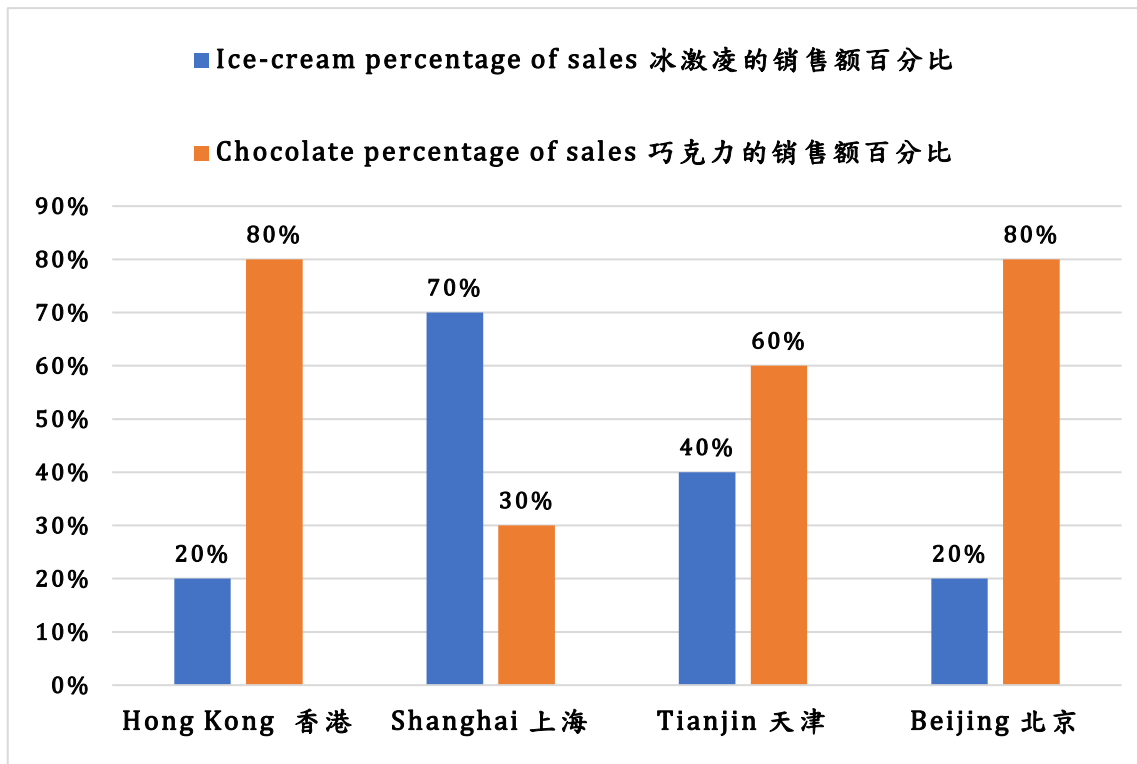
The other part of this chocolate survey section has been conducted on retail managers of Venchi stores, in Hong Kong, Beijing, Tianjin and Shanghai, aimed at delineating a more precise vision about three main topics related to these stores, that are:

- ✚ Chinese customers' ice-cream preference and related percentage of sales
- ✚ Chinese costumers' chocolate preference and related percentage of sales
- ✚ Venchi stores' management and customers' profile

#### 5.3.1 SURVEY RESULTS' ANALYSIS

##### ❖ VENCHI ICE-CREAM PREFERENCE AND RELATED PERCENTAGE OF SALES

Asking this question to Venchi retail managers, results have shown that, except for the one in Shanghai, that heavily relies on ice-cream sales (70%) over chocolate (30%), all the other three stores mainly sell chocolate items, in particular Venchi stores in Hong Kong and Beijing (both accounts for 80%). Furthermore, Beijing store includes within this percentage a 10% obtained from chocolate gift boxes 'sales. On the contrary, the highest percentage of ice-cream sales results to be in Shanghai (70%). This high ice-cream consumption may be related to the high temperatures that Shanghai reaches, especially in summer, when the city gets really hot and moist. Under these conditions, ice-cream may represent for consumers a sweet self-indulgent snack, that can also refresh them from the external elevate temperatures.



**Fig.5.22.** Ice-cream and chocolate sales percentage for each Venchi store  
 Source: personal elaboration

Regarding ice-cream, it has been asked retail managers to indicate the three best-selling ice-cream flavors in their stores. Generally speaking, results indicate a high consumers' preference for dried fruit-based ice-cream flavors, in particular pistachio (Hong Kong and Beijing) and hazelnut (Beijing and Tianjin). Currently, China is the world's largest importer of pistachios<sup>1</sup> and dried fruit is generally perceived by its consumers as a healthy and nourishing food, full of vitamins and anti-oxidants. Besides the pistachio and hazelnut flavors, the "Brutto ma buono" is another top sold ice-cream flavor in Shanghai, Tianjin and Beijing, because it is made both with chocolate (milk flavor) and dried-fruit (hazelnuts).

<sup>1</sup> <http://daxueconsulting.com/pistachio-industry-in-china-chinese-consumers-trend/>

On the contrary, strawberry is the only fresh fruit-based flavor mentioned and only in the Hong Kong store. Below are represented the obtained results:

HONG KONG 香港	SHANGHAI 上海
1) STRAWBERRY (草莓)	1) CUOR DI CACAO (VENCHI 明星)
2) PISTACHIO (开心果)	2) BRUTTO MA BUONO NOCCIOLATO (榛子牛奶巧克力)
3) EXTRA-DARK CHOCOLATE (特浓黑巧克力)	3) VANILLA (香草)

TIANJIN 天津	BEIJING 北京
1) CUOR DI CACAO (VENCHI 明星)	1) HAZELNUT (榛子)
2) BRUTTO MA BUONO NOCCIOLATO (榛子牛奶巧克力)	2) PISTACHIO (开心果)
3) HAZELNUT (榛子)	3) BRUTTO MA BUONO NOCCIOLATO (榛子牛奶巧克力)

**Fig.5.23.** Venchi's best-selling ice-cream flavors for each store  
Source: personal elaboration

A second aspect deals with the ice-cream preferred format. Besides Venchi customers in Shanghai, who prefer the small cup format, all the other strongly prefer eating the cone. The reasons may be different: first of all, the cone is edible and ensures no waste at all, in particular Venchi can offer to its customers special cones, filled with chocolate and covered with nuts in its superior part, thus enriching the ice-cream eating experience. Furthermore, consumers really enjoy its crispiness and consistency contrast with the ice-cream creaminess.

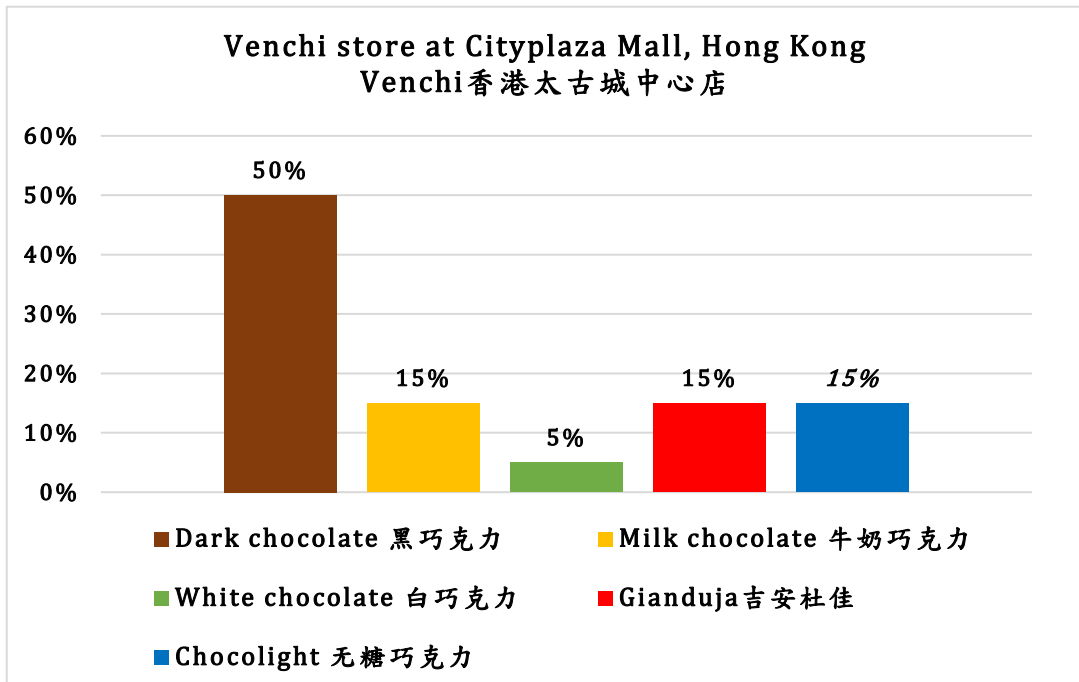
Second, they are more mobile, compared to the cup, since they can be eaten with one hand and easily carried around. Since there is a slight price difference of 10 CNY between the cup and the special cone, consumers definitely opt for the cone's alternative, which is definitely considered more satisfying and tasty. Moreover, Venchi stores are decorated by a series of plastic and colorful small-scale ice-cream cones, along with two big plastic cones positioned at the store entrance, that stimulate customers 'craving on a real ice-cream cone. Indeed, young people cannot leave the store without taking a photo with it.



**Fig.5.24.** Customers' photos within and outside Venchi stores, in Beijing and Shanghai  
Source: Dazhong Dianping (大众点评)

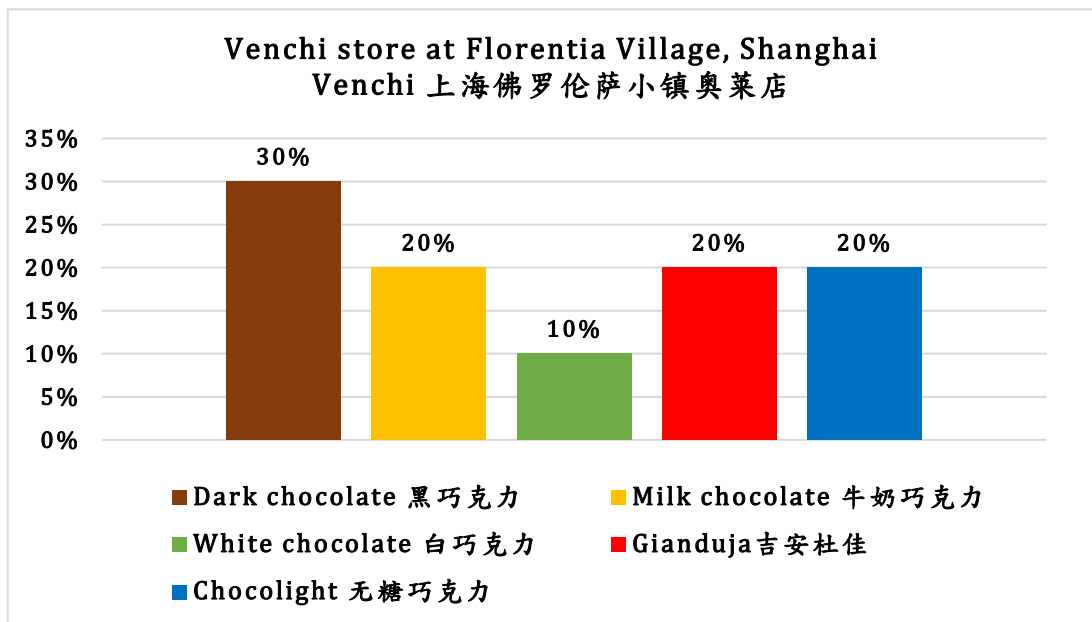
#### ❖ CHOCOLATE PREFERENCE AND RELATED PERCENTAGE OF SALES

Similar questions have been made on chocolate items, with a particular focus on chocolate flavors, formats and uses. Regarding the flavor category, these are the results emerged for each store:



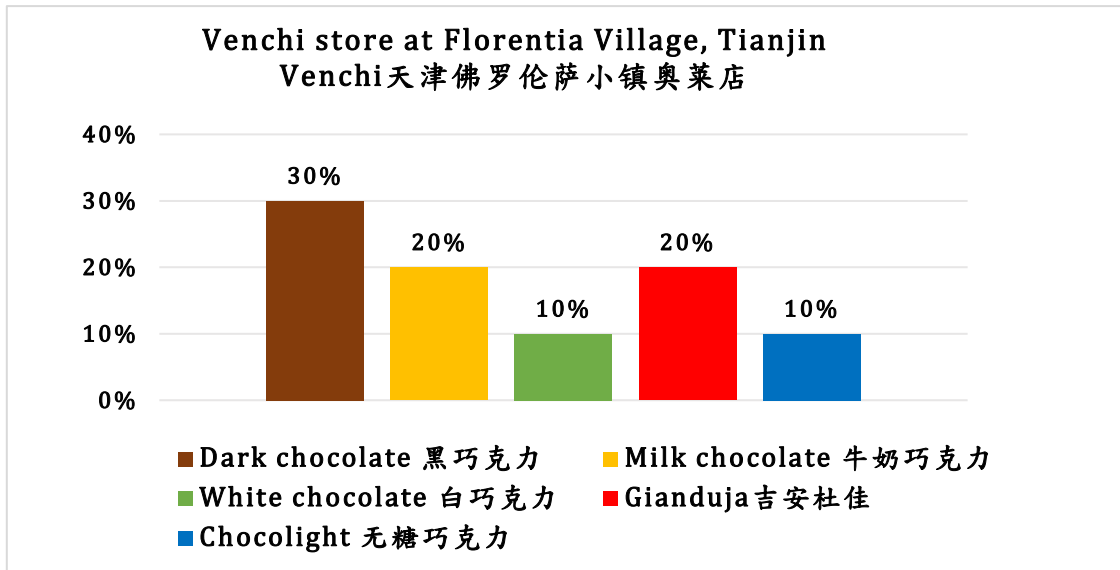
**Fig. 5.25.** Sales percentage for chocolate flavors at Venchi store, in Hong Kong.

Source: personal elaboration

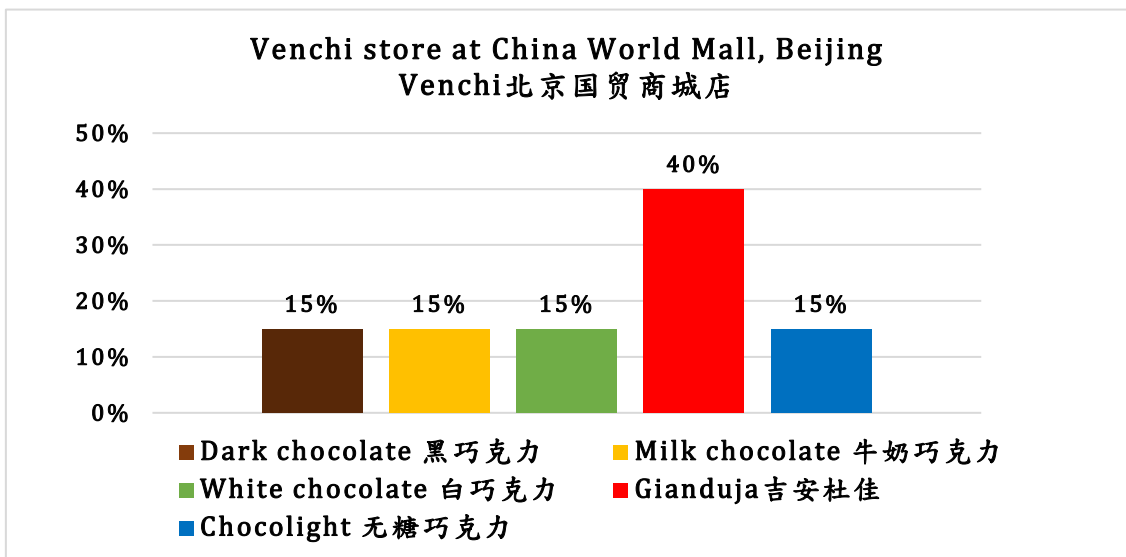


**Fig. 5.26.** Sales percentage for chocolate flavors at Venchi store, in Shanghai.

Source: personal elaboration



**Fig.5.27.** Sales percentage for chocolate flavors at Venchi store, in Tianjin.  
Source: personal elaboration



**Fig.5.28.** Sales percentage for chocolate flavors at Venchi store, in Beijing.  
Source: personal elaboration

In Hong Kong, the obtained results show a strong customers' preference for dark chocolate (50%) over sweeter flavors, in particular white chocolate (5%). In Shanghai, dark chocolate is the most sold flavor as well (30%), but there is a slighter difference with milk, gianduja and chocolight line, that account for a 20% on total

sales. This last mentioned is the brand product line including all the other flavors, but in a no-sugar added version. This shows that besides dark chocolate, customers also like tasting different and sweeter flavors, but tend to prefer the low sugar version. This tendency may relate both to the taste and to the caloric component. In Tianjin store, the sales percentage are almost the same than in Shanghai, with a slight less preference in chocolight line (only 10%). On the contrary, Beijing store presents a total different situation, with a visible preference in Gianduja flavor (40%) over the others.

In this case, the results obtained from the store managers and the consumers perfectly coincide, with dark and gianduja as the best-selling flavors, and white chocolate as the less popular, due to its excessively sweet taste. Below, it is represented a table containing the 3 best-selling chocolate formats for each store:

<b>HONG KONG 香港</b>	<b>SHANGHAI 上海</b>
1) PICK & MIX (散装带包装巧克力)	1) PICK & MIX (散装带包装巧克力)
2) GIFT BOX (盒礼品)	2) MAXI CHOCOLATE BAR (巧克力大棒)
3) CHOCOLATE BAR (巧克力棒)	3) CHOCOLATE SPREAD (巧克力酱)

<b>TIANJIN 天津</b>	<b>BEIJING 北京</b>
1) PICK & MIX (散装带包装巧克力)	1) CHOCOLATE BAR (巧克力棒)
2) LOOSE CHOCOLATE BLOCK (散装巧克力片)	2) MAXI CHOCOLATE BAR (巧克力大棒)
3) CHOCOLATE BAR (巧克力棒)	3) CHOCOLATE SPREAD (巧克力酱)

**Fig.5.29.** Venchi's best-selling chocolate formats for each store

Source: personal elaboration

From the results obtained, it emerges that “Pick & Mix” is the most sold chocolate format in Hong Kong, Shanghai and Tianjin. In fact, this format is the most suitable and tailored one, both for old and new customers, because enables them to fill a bag with different kind of chocolates and pay by weight, according to the desired portion. Moreover, this is a Venchi’ s core product, usually positioned at the entrance store and that particularly stands out in the entire store merchandising. Nevertheless, it also emerges a high preference for the bar, to sustain the previous results obtained from the consumers.



**Fig.5.30.** “Pick and Mix” section inside Venchi concept store in Beijing, China.

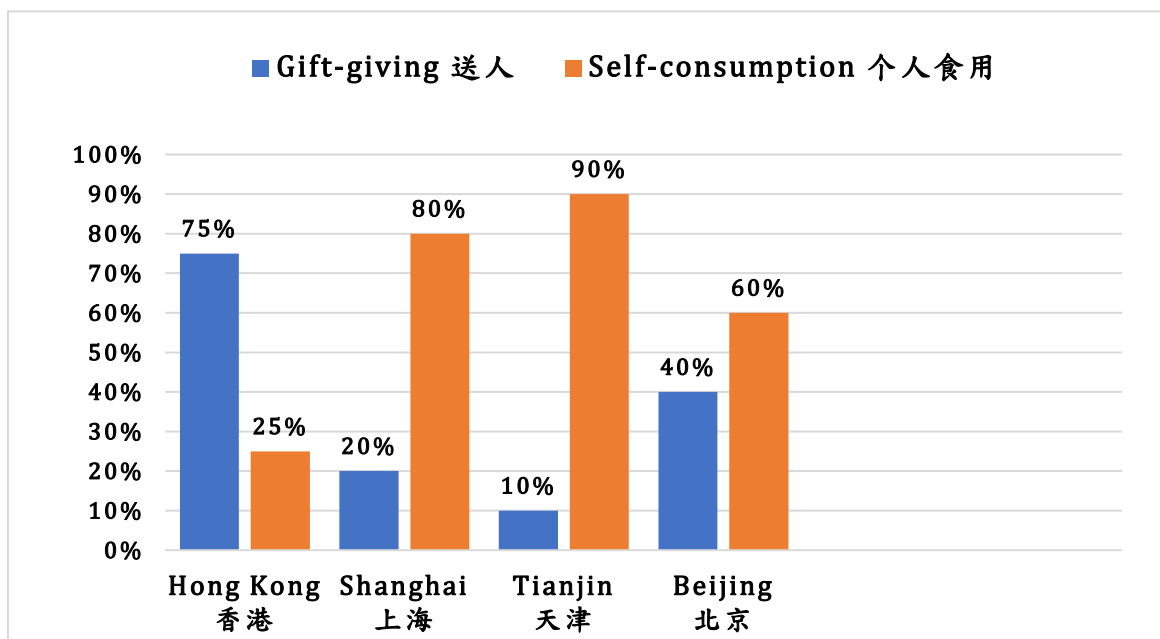
Source: Dazhong Dianping (大众点评)

After collecting information about chocolate format and flavors, it has been asked each store manager how much of chocolate is purchased for self-consumption and how much for gift-giving by consumers. According to them, except for Hong Kong customers, all the others mainly buy chocolate for self-consumption, in particular



the highest percentage can be found in Tianjin (90%) and Shanghai (80%). As previously analyzed, these two stores strongly rely on ice-cream sales (respectively 40% and 70%), and since ice-cream is a self-consumption food, purchased and eaten on the spot, this data well matches with this kind of purchasing behavior.

On the contrary, Hong Kong consumers mostly buy for gift-giving occasions, that well suits with its high percentage of chocolate sales (80%), compared to the ones given by ice-cream (only 20%). Generally, the most popular gift-giving product is the classic chocolate gift-box, which is also one of the most expensive item: a Venchi 9 pcs assorted gift box may cost around 230 HKD (around 25 euro). Hong Kong has a very large middle- class population, with a higher disposable income, thus this may partially explain Hong Kong's high percentage in gift-giving chocolate purchase.



**Fig.5.31.** Percentage of chocolate sold for self-consumption and gift-giving for each store

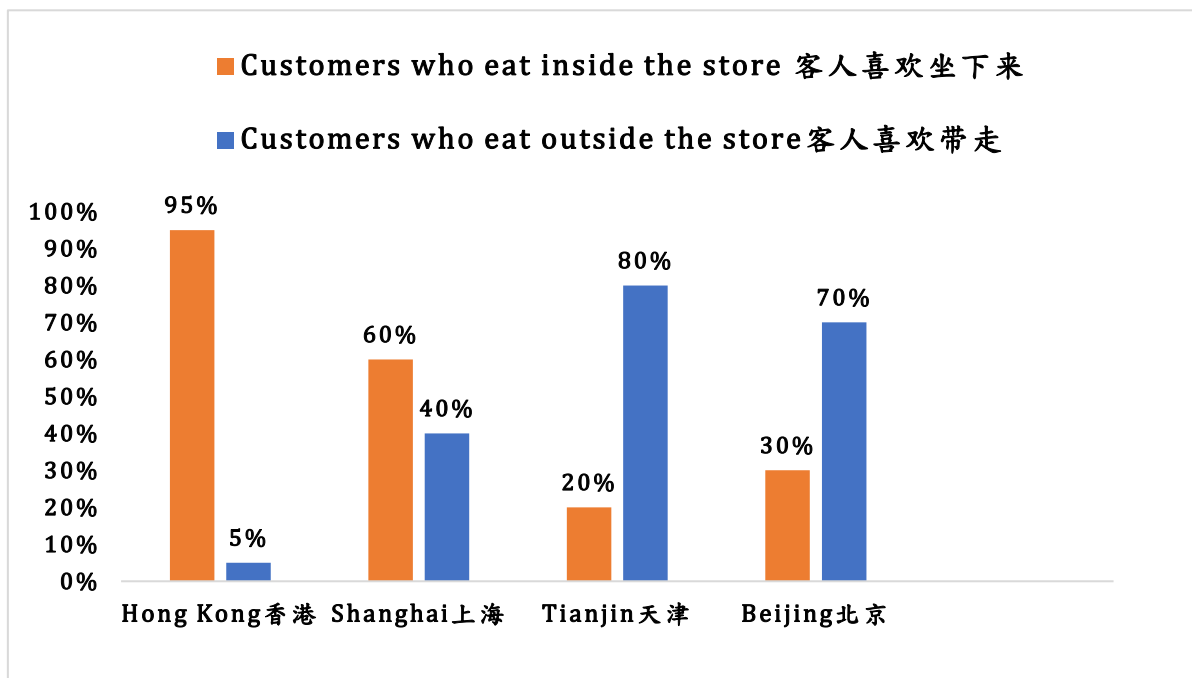
Source: personal elaboration

## ❖ VENCHI STORES' MANAGEMENT AND CUSTOMERS' PROFILE

The last section about the questionnaire aims at collecting information about these Venchi stores' management and its Chinese customers. Their profile results to be very similar in all the four shops; according to retail managers, their customers are mostly adults ranging from 30 to 40 years, mainly parents who bring their children in the store and buy them a chocolate ice-cream. Young people in their twenties, in particular young couples or friends are the other important customer segment for the brand. In Beijing, Tianjin and Shanghai, foreigners represent a very little percentage on total customers (around 5 to 10%), only in Hong Kong, the percentage is slightly higher (15%), due to its high concentration of tourists and expatriates.

Finally, information about peak and off-sales days and hours have been asked; according to retail managers, in Hong Kong, consumers used to buy more during the week, especially on Tuesday and Friday, at lunch break (13 to 14:30 pm) and after-work (18:30-20 pm). Shanghai and Tianjin stores are both collocated outside the city center, within two luxury outlets. As result, peak sales mainly occur during the weekends, especially in the late morning (from 11 to 14 pm) and in the afternoon (from 16 to 18:30 pm), when consumers visit the place to go shopping and meet friends. Both store managers confirmed that, during Chinese main festivities (Spring festival, Labour day and St. Valentine's Day), in-store sales are usually higher, because in these occasions, chocolate is mainly purchased for these gift-giving occasions, especially among young consumers. Another peak sales moment occurs when Venchi launches VIP promotions targeted at loyal customers or when within the Florentia Village, big brands offer discount prices, that generally lead to a higher flow of consumers within the mall.

Regarding the use of concept stores, it has been asked to what extent the physical store experience, including the setting, decorations and customer service are meaningful to the customers; on a scale from 1 to 10, with 10 being the most positive, all store managers gave an evaluation from 8 to 10, confirming that the store experience is extremely relevant for both old and new customers. Nevertheless, as shown by the following diagram, only in Shanghai and Hong Kong shops, consumers prefer sitting and consuming inside, while in Tianjin and Beijing, they are more willing to buy and leave.



**Fig. 5.32.** Percentage of consumers eating within\outside Venchi stores

Source: personal elaboration

Finally, the very last section wants to assess whether each of the interviewed manager has encountered or not problems in the stores management, in particular issues related to employees, marketing aspects and logistics. Below, are reported the store managers' answers:

## VENCHI STORE IN HONG KONG

### ❖ PROBLEMS ABOUT EMPLOYEES MANAGEMENT:

A more intense training guide is needed, both for employees and managers. Furthermore, the company should provide an employee handbook and a deeper training for chocolate and gelato serving.

### ❖ PROBLEMS ABOUT MARKETING STRATEGIES:

A more intense and faster communication is needed, it should be in line with the Italy schedule. This mainly because HK consumers always like to taste new products and to have a lot of variety to choose from.

### ❖ PLANNING\LOGISTICS PROBLEMS:

There aren't big problems, but there are still some difficulties in controlling the inventory par level.

## VENCHI STORE IN SHANGHAI

### ❖ PROBLEMS ABOUT EMPLOYEES MANAGEMENT:

Employees turnover is quite consistent.

### ❖ PROBLEMS ABOUT MARKETING STRATEGIES:

No problem encountered.

### ❖ PLANNING\LOGISTICS PROBLEMS:

No problem encountered.

## VENCHI STORE IN TIANJIN

### ❖ PROBLEMS ABOUT EMPLOYEES MANAGEMENT:

More time and guidelines are needed for employees and store managers' training.

### ❖ PROBLEMS ABOUT MARKETING STRATEGIES:

A more attentive customer care is needed to ensure higher standards.

### ❖ PLANNING\LOGISTICS PROBLEMS:

No problem encountered.

<b>VENCHI STORE IN BEIJING</b>	
<b>❖ PROBLEMS ABOUT EMPLOYEES MANAGEMENT:</b>	
	No problem encountered.
<b>❖ PROBLEMS ABOUT MARKETING STRATEGIES:</b>	
	No problem encountered.
<b>❖ PLANNING\LOGISTICS PROBLEMS:</b>	
	No problem encountered.

**Fig.5.33.** Venchi store managers' comments about problems in the retailing management.

Source: personal elaboration

Analyzing the given answers, store managers do not encounter relevant issues in the in-store retailing management, nevertheless emerges a common need for a better training guide for employees: it may be taken for granted that a Chinese employee will be able to make a cappuccino, or to put the ice-cream on the cone, but since these products are not intrinsic in Chinese food culture, it will be much more difficult for a Chinese employee to learn this mansion, than for an Italian one. Moreover, Hong Kong store manager has also mentioned a problem related to the maintenance of par level, mainly due to the fact that Venchi stores in Hong Kong are six, thus resulting in a higher need of stock within all the stores.

## CONCLUSION

This chocolate survey has been useful to assess if Chinese consumers are evolving their consumption and purchasing behaviors towards this product. According to its results and recent information collected from books and article on this subject matter, changes are happening. First of all, it has emerged a Chinese consumers' evolution towards chocolate taste and flavors, with a net preference for dark chocolate over all the others. These results mainly confirm that, on one hand, Chinese people have started appreciating a more "pure" chocolate taste and on the other, they still do not like eating too much sweet food; when chocolate was introduced in China for the first time, more than thirty years ago, it was unthinkable that this flavor could obtain such a high degree of preference among consumers, on the contrary, milk chocolate was favored and more suitable for their unsophisticated palates.

Results have also shown that consumers' relationship with chocolate is evolving, as well, shifting from a less social to a more personal and hedonistic consumption. This important change seems to very positive for chocolate firms planning to enter the market. Whether they operate in the niche or mass segment, it is fundamental to create new and appealing occasions for stimulating and increasing consumption on Chinese consumers. Current chocolate firms who have already achieved remarkable results in the market, have deeply focused on this aspect: for example, in 2014<sup>1</sup>, the leading market Mars company has created a gifting season for the Chinese college entrance exam " Gaokao " , with the objective to boost students' energy during their stressful study sessions, while Godiva has focused on the wedding niche segment, which is quickly expanding among the most affluent and youngest Chinese consumers.

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<sup>1</sup> <http://adage.com/article/print-edition/winning-china-s-chocolate-war/296091/>

Even though the gift-giving segment has been the very first profitable market in China, it is now important to develop the one of self-consumption, if chocolate brands want to further expand their presence and to increase sales. Considering that China's per-capita consumption is still very low and the portion in which they usually eat chocolate coincides with a few bites, this will not be an easy goal to achieve. Nevertheless, an increasing focus on chocolate "snackization" could represent a good strategy. This tendency has also strongly emerged in our survey's results, showing that many consumers like to eat chocolate as a snack, especially under the bar format.

Stimulating self-consumption requires to keep on educating the consumer to this product, in particular on chocolate's properties and healthy benefits. This perception is still not so popular among most of Chinese consumers, who tend to perceive it as a *comfort food*, that provides them with self-indulgent, but occasional moments. This idea has also emerged from survey's data on consumption frequency, showing that most of interviewees consume chocolate with a monthly frequency. On the contrary, promoting chocolate as a functional food, may heavily increase its consumption frequency and consequently lead to expand the whole chocolate market. Chocolate's education and promotion may occur in many ways, for example by creating events, cooking and tasting classes, exhibitions and television programs, that could directly involve the consumer and could explain in more detail its origin, composition and creation process.

After having analyzed some foreign chocolate companies' experiences in China, *adaptation*, *innovation* and *quality*, seem to be the three key and long-term concepts on which chocolate firms should focus on. Market adaptation may be implemented according to a firm's planned degree of commitment and available resources on the market, resulting in a partial or total adaptation on its marketing mix.

Nevertheless, because Chinese consumers perceive chocolate as a foreign item, it is important to maintain a balance between replication and adaptation, otherwise a brand credibility and image may be compromised. *Adaptation* requires investments and commitment in understanding Chinese consumers' needs, under a social and cultural profile. For this reason, it is also clear that Chinese market is not suitable for all chocolate firms.

Chocolate is a very versatile and still relatively new product in China, which means that, it will be very unlikely to reach a market saturation on this product. Regardless its target, a chocolate company must focus on *innovation* to stay competitive and profitable. This year, to prove its increasing commitment in China<sup>2</sup>, the world's largest cocoa producer and chocolate manufacturer Barry Callebaut, has decided to reveal the pink, fourth type of chocolate called "Ruby" in Shanghai. This kind of chocolate has not yet been launched on Chinese market, but its delicate and not excessively sweet and sour flavor, may really help in achieving great results, especially by attracting that consistent part of Chinese consumers, who do not like to eat the "classic" version. Last but not least, it has emerged that Chinese consumers are increasing the seek for *quality*: as they are travelling more abroad and experiencing new foods, their tastes consequently become more sophisticated and they will become more capable to distinguish a good or mediocre chocolate.

All these mentioned aspects seem to develop favorable prospects for China's chocolate market, especially because the current and future Chinese generations will develop an earlier chocolate consumption habit, encompassing the taste barrier experienced in the 80s. Our survey's results have confirmed that Italy is regarded as the "chocolate country of origin" for many Chinese consumers, providing Italian firms with a considerable competitive advantage, over other European ones.

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<sup>2</sup> [http://www.chinadaily.com.cn/china/2017-09/05/content\\_31600758.htm](http://www.chinadaily.com.cn/china/2017-09/05/content_31600758.htm)



The example of Venchi firm has been significant to sustain this belief: their Italian values of tradition, hand-craftmanship and passion have certainly helped in building a good and trustable brand image. Moreover, their low-fat and low-sugar production have led to a higher chocolate and ice-cream consumption, especially among Chinese young women, who are paying an increasing attention on products' calories amount and nutritional values, both for them and their children. Thanks to their chocolate and ice-cream experiential shops, the company has been able to establish a direct contact with its consumers, not only providing them with high-quality products, but mainly with a concrete gourmet Italian experience.

Due to the vastness and heterogeneity of Chinese market, it will take time and investments for the Italian company to gain a high and widespread brand recognition on a more national basis. Thus, it will be fundamental to increase both the physical and the digital presence on the market. According to the company's future plans in China, they will expand their presence by opening new concept stores, targeting Chinese second-tier cities, which are enormously and quickly developing. In addition, Venchi may also implement some strategic co-branding initiatives with other Italian firms, operating in excellent and leading "Made in Italy" sectors, like fashion, furniture and automobiles, to enhance Italian origin and related positive values. At the same time, it will be necessary to maintain a solid presence on Chinese social media, for example by creating virtual chocoholic communities, that may help the company in increasing brand loyalty and recognition.

## ATTACHED DOCUMENTS

- ATTACHED 1:

**QUESTIONNAIRE FOR VENCHI CHINESE CUSTOMERS 针对闻绮中国顾客的巧克力调查问卷**

大家好，我是意大利中国留学生玛丽安娜。为了撰写我的毕业论文，我在进行一个巧克力调查，特别是关于闻绮巧克力品牌。谢谢你们的配合！

Hello, my name is Marianna and I'm an Italian exchange student from Venice University. I'm currently carrying on a survey about chocolate and Venchi brand for my final degree dissertation. Thanks for your cooperation!

请你介绍一下你自己的情况 Please briefly introduce yourself

性别 Gender :

年龄 Age :

职业 Occupation :

用中文来回答, 请您把汉字写清楚, 谢谢 Please write Chinese characters in a readable way

1) 说到**巧克力**，你会想到哪些词汇？（可以用形容词，动词，感觉来回答）

Using 3 words, what does CHOCOLATE represent to you? (can use nouns, adjectives, feelings, verbs...)

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

- 2) 说到冰淇淋，你会想到哪些词汇（可以用形容词，动词，感觉来回答，都可以）

Using 3 words, what does ICE-CREAM represent to you? (can use nouns, adjectives, feelings, verbs...)

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

- 3) 你最喜欢吃哪种巧克力？只能选 1 个选项

What is your favorite chocolate flavor? Select only 1 option.

- 黑巧克力 Dark chocolate
- 牛奶巧克力 Milk chocolate
- 白巧克力 White chocolate
- 榛子巧克力 Hazelnut chocolate
- 其他 Other

- 4) 在哪个情况下，你一般吃巧克力？能最多选 2 个选项

In which situations do you usually consume chocolate? Select max. 2 options.

- 为了提高运动能力 As energy booster for doing sport
- 特别场合的时候（生日晚会，毕业典礼。。。） In special occasions
- 当小吃 To have a snack-break
- 心情不好的时候 When I feel low
- 随时 Anytime I want to
- 其他 Other

5) 你多久吃一次巧克力?

How often do you eat chocolate?

- 一年几次 A few times per year
- 一个月几次 A few times per month
- 一个星期几次 A few times per week
- 几乎天天\ 每天 Almost\ every day
- 其他 Other

6) 在哪个地方，你一般吃巧克力? 能最多选 2 个选项

In which places do you mostly EAT chocolate? Select max. 2 options.

- 在家里 At home
- 在工作的地方\在学校 At work\school
- 在巧克力专卖店\糕点店 In chocolate\pastry shops
- 在路上 In the street
- 在餐馆 At restaurant
- 其他 Other

7) 在哪个地方，你一般购买巧克力? 能最多选 2 个选项.

In which places do you mostly BUY chocolate? Select max. 2 options.

- 在巧克力专卖店 In chocolate specialty stores
- 在专业甜品购买的商店 In confectionery shops
- 在超市\量贩店 At super\hypermarket
- 在便利商店(7-Eleven, Family Mart 全家, Lawson 罗森) At convenience stores
- 在网店 Online
- 其他 Other

8) 你怎么喜欢吃巧克力？

How do you prefer eating chocolate?

- 巧克力热饮 Hot chocolate
- 冰淇淋 Ice-cream
- 巧克力糖果 Chocolate pralines
- 巧克力酱 Chocolate spread
- 巧克力棒 Chocolate bar
- 其他 Other

9) 用一个原因来说明你的选择（味道，口感，大小等等）

Give 1 reason for your answer.

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10) 对您来说，巧克力的原产国是哪个国家？

In your opinion, what is chocolate's country of origin?

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11) 说到闻绮巧克力品牌，你会想到哪些词汇？（可以用形容词，动词，感觉来回答）

Define Venchi brand in 3 words (adjectives, nouns, verbs, feelings).

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

12) 你为什么选择购买闻绮巧克力品牌？用两个原因来说明你的选择。

Give two reasons that explain why you buy Venchi chocolate brand.

1. \_\_\_\_\_

2. \_\_\_\_\_

● ATTACHED 2:

QUESTIONNAIRE FOR VENCHI CHINESE STORE MANAGERS 针对闻绮中国店长的巧克力调查问卷

1) 消费者在一天中的什么时间是购买闻绮产品的最佳时间？

In which moment of the day, consumers buy more in the store?

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2) 在一个星期的哪天您觉得消费者的购买欲最强？

Is there a specific day or period in which consumers buy more?

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3) 按百分比计算，冰淇淋、巧克力的销售量是多少？（巧克力可以包括朱古力，巧克力榛子酱，巧克力棒等等）

In terms of percentage, how much ice-cream and chocolate do you sell?

1. 冰激凌 Ice-cream:                    %

2. 巧克力 Chocolate:                    %

4) 店铺里，销售量最高的前三个冰淇淋味道是哪些？

Which are the three best-selling ice-cream flavors in the store?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

5) 甜筒和冰淇淋杯子之间，销售量最高的是哪个？

Regarding ice-cream, what is the most sold: cone or small cup?

---

6) 按百分比计算，顾客店铺里喜欢座来的数量是多少？

In terms of percentage, how many customers prefer consuming inside the stores?

1. 顾客喜欢坐下来 Customers who eat inside %
2. 顾客喜欢带走 Customers who buy and leave: %

7) 除了冰淇淋以外，销售量最高的前三个商品是哪些？

Excluding Ice-cream, which are the three best-selling items in the store?

- 朱古力 Pralines
- 自己选配的方式 Pick & Mix
- 巧克力棒 Chocolate bars
- 巧克力大棒 Maxi chocolate bras
- 巧克力酱 Chocolate spread
- 其他 Other

8) 您认为这个分销店的经营管理有一些问题吗？比如：

Using this kind of retail format, have you encountered some of the following managerial problems?

- 人员管理（培训管理，员工之间的协作，运作管理等等）  
Staff management (training, coordination of activities and employees...)
- 
-



- 营销战略（商品展示设计，品牌沟通，顾客服务。。。）

Marketing strategies (visual merchandising, brand communication, customer care...)

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- 商品供应，物流，食品保藏

Planning \ logistics problems (furniture, distribution, products preservation)

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- 其他问题 Other problems
- 
- 

- 没有任何问题 No problems

9) 按百分比计算, 请您告诉我你们的消费者是谁?

According to these categories, define your customers on a percentage basis.

- 年轻人 (14 -30 岁) Young people (14-30 Y)
- 成人 (31 - 60 岁) Adults (31-60 Y)
- 成人跟孩子们一起 Adults with children
- 老人 (61 - 90 岁) Old people (61-90 Y)
- 其他 Other

10) 您觉得闻绮体验店对消费者到底有多重要？

On an increasing scale from 1 to 10, how much is important the physical store's experience for your customers?

- 0-3: 不重要 Not important
- 4-6: 有一点重要 Slightly important
- 7-8: 比较重要 Quite important
- 9-10: 很重要 Very important

11) 按百分比计算，你们销售的巧克力，多少是：

In terms of percentage, how much chocolate is purchased for self-consumption and gift-giving?

1. 送人巧克力 Gift-giving chocolate

2. 自用巧克力 Self-consumption chocolate

其他 Other

12) 按百分比计算，你们的西方和中国顾客是多少？

In terms of percentage, how many Chinese and Western customers do you have?

1. 中国顾客 Chinese customers

2. 西方顾客 Western customers

13) 你们销售很多种类的巧克力。按百分比计算，这些巧克力的销售额是多少？

In terms of percentage, can you tell me the sales of the following type of chocolate?

- 黑巧克力 Dark chocolate
- 牛奶巧克力 Milk chocolate
- 白巧克力 White chocolate
- 吉安杜佳巧克力 Gianduja chocolate
- 无糖巧克力 Choco-light

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