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Entering the Chinese food market: the Delverde experience

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*“The man who moves a mountain
begins by carrying away small stones.”*

- Confucius

To my family.

前言

中国仍然是排在美国之后的世界第二大零售和餐饮消费市场（餐饮）。这使得中国市场对外国品牌越来越有吸引力，尤其是当中国消费者行为正在发生转变时。

中国人的饮食习惯正在发生着日新月异的变化。消费者购买力的增加导致了一种新的生活方式的出现，这也影响了他们的饮食——无论是数量还是质量。这一趋势使得肉类、奶制品、鱼、油、面食、糖果和方便食品的消费增长率非常高。这种情况导致食品进口急剧增加，涉及的品种越来越多样化。

新的进口产品分销渠道的推出正深刻地改变着采购系统：大卖场、超市、便利店和街角商店在城市地区蔓延，给予有竞争力的价格和改善的卫生条件，因此外国公司被刺激向这广阔的食品市场不断推出新产品。通过对创新的投资，他们也给予中国人渐增寻找的更高的食品安全，特别是在 2008 年发生的有毒婴儿奶粉爆发了一些丑闻之后。

食品需求的增长强烈地促进进口，使中国近年来成为全球第二大的市场而且对于意大利企业是重要的机会。

尽管基础设施分散和当地竞争加剧，欧洲中小企业在中国销售产品的机会可能会进一步增长。进口餐饮产品的增长是通过增加可支配收入和中产阶层的增长驱动的，有限的耕地，水资源短缺问题，城市化，人口老龄化，不断改善的物流系统，越来越关注食品安全，欧元兑人民币的贬值，以及对外国食品日益增长的兴趣。

在这种情况下，由于意大利正在经历一个糟糕的经济框架，这是意大利公司考虑进入中国市场的一个机会，并将其作为优先事项。中国的地理范围和经济增长指数，对有很大一部分人的收入产生积极的影响，中国为那些在意大利市场巩固多年的公司提供了一个重要机会。另一方面，意大利集市的资金高度饱和，无法给国内企业带来丰厚利润。

然而，有人发现，尽管许多公司有意愿进入这一有吸引力的市场，但由于资源不足、技能不佳和市场研究不尽完善，未能实施一项成功的战略。

从这些假设出发，本研究试图确定对中国食品市场进入流程管理的选择，考虑到国外公司成功进入中国这样一个新的大国外市场的不同可能性和需要遵循的法律；它还打算开展对分配制度的分析，结合具体的食品部门。适当的管理，在法律和中国分布发展方面的知识是在这个市场成功的关键和公司需要做好准备面对一个与意大利非常不同的背景。

草案的第一部分包括了对中国市场划分的研究，以及对中国食品行业的深入分析。

在第二部分中，我们提出了一个更具分析性的研究，来分析进入中国市场的方法和可能遇到的障碍以及公司应该预见的挑战。

本文以中国面食行业的研究为例，深入分析一个商业案例（Delverde 面食厂），找出他们进入中国市场使用的方法，他们是如何运作的以及他们未来的计划是什么。

第一章提出对中国划分的研究，考虑到不同的方式划分这个国家。例如，我们可以进行地理细分，包括增长的市场，新兴市场和未开发的市场，中国城市的集聚，社会人口细分以及心理细分。在这一段的结尾，我们还考虑到了目前影响中国市场细分的一些趋势，如中产阶级的增长、人口老龄化和城市化。成功的一个必要条件就是了解中国如何可以被细分的知识。

在第二章中，分析了中国食品行业的现状，以及中国消费者对意大利产品的感知，考虑到成功的音素和这一特定行业发展背后的障碍。重要的是要知道食物在中国习俗中所起的作用，因为它与西方世界有很大的不同。中国越来越多的城市（尤其是东海岸）显示出了西方化消费的强烈迹象，特别是在食品行业，这无疑有利于意大利产品的进口。意大利进口量的大幅增长反映出中国消费者对安全优质食品的需求日益增长。但是，也建议人们注意一些在中国出现的关于食品的“意大利声音”。

本文继续分析，在中国主要使用的零售渠道，即酒店和餐饮业批发、网上购物、大卖场、便利店等，以及一些进口和分销渠道即香港，世界进口网、家乐福、乐购、阿里巴巴等。

第三章深入探讨中国食品市场的进入方式和存在的障碍。本章重点是对法律和监管方面，要遵循在中国食品市场的进出口有关的各种法律框架，任何认证要求，进口商/出口商必须办理登记的过程，如何把产品建立成哪一种品牌、知识产权保护的问题，还有官僚主义。在考

察进入中国食品市场的方式时，我们也要考虑到一些市场上的障碍，需要注意试图进入中国食品市场过程中所要选择的分销渠道以及可能加剧的当地市场竞争力。此外，一家公司还可能面临其他的运营挑战，比如与中国合作伙伴合作的可能性，多数情况下这种合作是成功的，但如果不妥善处理也可能会失败。参加展销会是找到中国的合作伙伴进行合作的一个好办法，中国的展销会是非常频繁的，而且可以使一个或更多的合作伙伴来熟悉他们的业务。

最后，第四章旨在分析中国面食行业，从它在意大利的起源，研究了一个企业的案例，可以直接观察意大利公司在中国食品市场复杂的背景下的行为。

感谢对 Delverde 面食厂高级出口部经理的采访，直接看到面食的生产现场，我们更好的了解公司对本研究中所涉及的问题的看法。此外，我们可以欣赏到在推敲中出现的一些相似性和对比，以及从对案例的分析中得出的结论。

通过这项工作所取得的调查结果的分析得出结论，在公司管理中，商业灵活性对公司的成功至关重要。以下的研究，文章中的内容不预示立即的成功；事实上，除了战略和运营方面，企业也需要考虑到不可控制的因素，如心理和外国的文化，在这个案例中我们所考虑的是中国。出于这个原因，适应能力和灵活性成为一个公司想要以正确和持久的方式打入中国市场的关键特权。

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INTRODUCTION

China continues to be the world's second largest retail and consumer market for food and beverage (F&B) products, after the United States. This makes the Chinese market increasingly appealing for foreign brands, especially as Chinese consumer behavior shifts.

Chinese food habits are currently experiencing rapid changes. The increased buying power of the consumers has led to the adoption of a new lifestyle which also affects their diets - both in quantity and in quality. This trend affects consumption growth rates which becomes remarkably high for meat, dairy products, fish, oil, pasta, confectionery and convenience food. Such context has caused a sharp increase in the import of food products, involving an increasingly diversified range of offer.

The introduction of new distribution channels that also sell imported products is deeply changing the purchasing system: hypermarkets, supermarkets, convenience stores and corner shops are spreading in urban areas, granting competitive prices and improved sanitary conditions therefore foreign firms are stimulated to introduce new products in this vast food market. By investing in innovation, they also grant higher food safety which is what the Chinese are increasingly looking for especially after the insurgence of several scandals such as the highly publicized outrage concerning toxic baby milk in 2008.

The growth in food demand is strongly boosting imports, making China in recent years the world's second largest market and an essential opportunity for Italian businesses.

Despite a fragmented distribution infrastructure and increasing local competition, opportunities for European SMEs to sell products in China will likely grow further. Growth of imported F&B products is driven by rising disposable incomes with the growth of the middle-class, limited arable land, water scarcity issues, urbanization, population aging, improving logistics systems, growing

concerns for food safety, the depreciation of the euro versus the Chinese yuan, as well as a growing taste for foreign foodstuffs.

In this context and due to the fact that Italy is going through a bad economic framework, it is an opportunity for Italian companies to consider entering the Chinese market and to make it their priority. With its geographical extent and exponential economic growth, which have had a positive impact on the income of a large proportion of the population, China offers an important opportunity for those

companies consolidated over the years on the Italian market. The Italian market, on the other hand, is so highly saturated that it cannot offer wide margins of profit to its domestic companies.

Nonetheless, it has been found that many companies, though driven by the will to enter such an attractive market, fail to implement a successful strategy due to inadequate resources, poor skills, and inexhaustible market studies.

Starting from these assumptions, this study intends to identify the choices for the management of entry processes in the Chinese food market, considering the different possibilities a foreign company has to enter into it and also the laws that it has to follow in order to succeed when entering a new big foreign market like the Chinese one; It also intends to carry out an analysis of the distribution system, considering the specific food sector. Proper management, knowledge of laws and development of distribution in China are keys to success in this market and companies need to be prepared to face a very different context from the Italian one.

The first part of the draft includes a study on the segmentation of the Chinese market with a thorough analysis of the food sector in China.

In the second part, a more analytical study is presented to analyze the ways to enter the Chinese market and the barriers that can be encountered and the challenges that companies should foresee.

The thesis concludes with the study of the pasta industry in China with a deep analysis of a business case (Delverde pasta factory) to find out which methods they use to enter the Chinese market, how they operate and what their future projects are.

The first chapter proposes a study on the segmentation of China, taking into account the different ways to segment this country. For example, we can have a geographical segmentation that includes growing markets, emerging markets and unexplored markets, a clustering of Chinese cities, a socio-demographic segmentation as well as a psychographic segmentation. At the end of the paragraph we also take into consideration some current trends that are affecting the Chinese market segmentation like the growth of the middle-class, population aging and urbanization. One necessary criteria to succeed is the knowledge of how China can be subdivided.

The analysis continues in the second chapter with the study of the food sector in China and the perception of Made in Italy products among Chinese consumers, considering the factors of success and the obstacles behind the development of this specific sector. It is important to know the role that the food has in Chinese customs in that it is considerably different from that of the western world. A growing number of cities in China (especially on the east coast) shows strong signs of westernized

consumption especially in the food sector which has undoubtedly favored the imports of Made in Italy products. A significant increase in imports from Italy reflects the growing demand for safe and high-quality food on the part of Chinese consumers. However, it is also advisable to pay attention to the “Italian sounding” phenomena that sometimes occurs with some food products in China. This study continues analyzing retail channels that are mostly used in China i.e. hotel and restaurant industry wholesalers, online shopping, hypermarkets, convenience stores, and also some import and distribution channels i.e. Hong Kong, World Importer Net, Carrefour, Tesco, Alibaba and so on.

The third chapter intends to examine in depth ways of entering the Chinese food market and the barriers that lie there. This chapter focuses on the legal and regulatory framework with regard to the various laws that have to be followed regarding the import / export of food products within the Chinese market, any certification required, the registration process that the importer / exporter has to go through, which label to put on the product and how, Intellectual Property Rights protection issues, and bureaucracy. When examining the ways of entering the Chinese food market we also have to take into account some market barriers that can arise so, attention must be placed on the distribution channels that have to be chosen and the local competition that can increase while trying to enter the Chinese food market. Moreover, a company can also face other operational challenges like the possibility of collaborating with Chinese partners which in most cases is successful but can also be a defeat if not approached properly. A good way to find Chinese partners to collaborate is to participate in trade fairs, which are very frequent in China, and enable one or more partners to become acquainted with their businesses.

Finally, the fourth chapter intends to analyze the pasta industry in China, starting from its origins in Italy, and studying a corporate case that allows direct observation of the behavior of Italian companies in such a complex context as the Chinese food market.

Thanks to an interview with the senior export manager of the Delverde pasta factory, held directly on site where the pasta is produced, we get a better understanding of the company's vision of the issues covered in this study. Moreover, we can appreciate some similarities and contrasts that have arisen between what emerged in the elaboration and what emerges from the analysis of the case.

The analysis of the findings achieved through this work has led to the conclusion that business flexibility is essential to the company's success within the company management. Following the research herein, what emerges from the literature does not presuppose immediate success; indeed, in addition to strategic and operational aspects, businesses also need to take non-controllable factors

into account, such as the mentality and the culture of the foreign country, in this case China. For this reason, adaptation and flexibility become a key prerogative for a company that wants to penetrate the Chinese market in a correct and long-lasting way.

CHAPTER 1

CHINESE MARKET SEGMENTATION

1.1 China's geographical segmentation

Geographically speaking, there have been strong disparities, not only between urban agglomerations and rural areas but also within the same regions. These studies have led to the division of China into several macro areas, which unequivocally make each one different from the other.

More specifically, Professor Gen Cui has conducted the division into seven areas:

- South China;
- East China;
- North China;
- Central China;
- South West China;
- North East China;
- North West China¹.

These regional markets can in turn be agglomerated into three macro markets, defined by different levels of economic development and consumer awareness:

- growing markets (South China and East China);
- emerging markets (North China, Central China and South West China);
- unexplored markets (North West China e North East China)².

¹ MUSSO F., BARTOLUCCI F., PAGANO A. (2005), *Competere e radicarsi in Cina. Aspetti strategici e operativi*, Milano, Franco Angeli, pp. 45-47.

² BUSATO V. (2011), *Come vendere riso ai cinesi, Guida pratica al marketing interculturale verso la Cina per le Piccole e Medie Imprese italiane*, Franco Angeli, pag.44.

The need to decide in which area you want to act is extremely important: a nationwide distribution is impossible and companies that have tried this approach have had to admit a total defeat. The distribution network, in fact, has proven to be too wide and too difficult to manage in a profitable way for companies.

Figure 1.1: Geographical segmentation of China



Source: www.linkedin.com

1.1.1 Growing markets

One of China's most important markets is located in the south of the country (Guangdong, Hainan and Fujian province). It is the area closest to the West in terms of development and mentality. Indeed, the culture of this area is characterized by a strong desire to engage with the outside world and by solid entrepreneurial skills in the marketplace. It is in this area that the *China International Fair for Investment and Trade* takes place, an annual fair for the promotion of foreign investment throughout the country. This is where the wealthiest consumers in China live, and all the trends start from this area. There is a saying in China that states: "Hong Kong and Taiwan learn from the West, Guangdong learns from Hong Kong and Taiwan, and the rest of China learns from Guangdong".³ Being the richest and most developed area, products arrive there long before the rest of China and the population is oriented towards an intense and growing consumerism, typical of Western world.

Another very important economic zone is Eastern China (Shanghai, Zhejiang Province and Jiangsu Province). It is the Chinese financial and industrial zone, in fact it is also called the "dragon's head". This area has always been prosperous and productive, characterized by the fact that there is the greatest urban and industrial density throughout the country. In this area, there are medium sized cities, such as Suzhou, known as the Venice of the East. Like the inhabitants of southern China, consumers in this area are considered trend setters in terms of lifestyle and consumer choice products. The east coast is very developed, and the market in this area can be penetrated both from abroad and by developing an on-site business. It is an important market, immense and rich, very similar to the US market, where all large companies operate.

If we consider emerging consumption patterns, the population inhabiting these territories is very similar to the European population in terms of tastes and lifestyle. Recently, there has been a strong development of the middle class, which in 2022 will represent nearly 75% of the population of China as a whole. In parallel we have migration from rural areas to cities and, specifically, to cities in the South East of the country. In addition, the "ultra-rich" basin of China, i.e., those who enjoy a wealth of over a million US dollars, is increasingly expanding, reaching more than a thousand units. This slice of population appears to be very close to the European consumer's mentality and this means that foreign companies can easily consider this range of population as a potential target. In fact, said range is interested in all the luxury sectors of which Made in Italy excels, including food. In the coming

³ BUSATO V. (2011), Come vendere riso ai cinesi, Guida pratica al marketing interculturale verso la Cina per le Piccole e Medie Imprese italiane, Franco Angeli, pag.45.

years, the “gap” between the middle class and the "ultra-rich" class will become narrower thus China will become the first market of magnitude and importance for the consumption of luxury goods.

1.1.2 Emerging markets

The North of China is referred to when it comes to emerging markets, specifically to cities such as Beijing and Tianjin. A strong point in this area is certainly the proximity to the center of the country, and therefore the most important government centers. Many American and Japanese companies have invested a great deal of money there and at the same time, China is also making efforts to help state-owned companies in the telecommunications and pharmaceuticals sectors. The consumers in this area tend to be more conservative than those in the growing markets despite being equally as open to new ideas and products.

Central China is also considered an emerging market despite being one of the poorest areas in the country. However, the Chinese government is investing heavily in this area, principally to create rail links in an effort to reduce the difficulties of connecting with Europe mainly due to the fact that there are no sea ports.

The central area is currently in strong development, and is predominantly an agricultural area with large urban centers. The major cities in this emerging market are: Chengdu, Xi'an, Wuhan and Guiyang. The disadvantage of this area is infrastructure: the cities of the center of China are rich enough to compete with the east coast, but distribution and logistics facilities do not allow the circulation of goods to and from these markets.

The last emerging area is southwestern China, including Yunnan, Guizhou and Sichuan. Specifically, the latter is the most populous province in China, and is a destination for all foreign investors seeking to penetrate the Chinese market. Unfortunately, given its particular geography, this is an area difficult to reach.

1.1.3 Unexplored markets

These areas are very difficult to penetrate also due to their particular climate that does not make it easy to access. In north - eastern China we have Harbin, the northernmost city of the country, with a temperature that exceeds thirty degrees below zero in winter. These are areas with large spaces, but are very poor and backward. Here citizens do not have any spending power. Some companies are investing in this area, but they are pioneers. Indeed, it is premature to consider these regions as attractive to businesses since the presence of numerous cultural and economic factors, in addition to geographic ones, make these areas impossible to penetrate for certain consumer goods. Moreover, the population of these territories has strong traditionalist residues and little predisposition to change and novelty. Low income, limited culture and lack of media means that the spread of some products is very slow, if not impossible.

1.2 The clustering of Chinese cities

There is a strong difference between urban areas and rural areas. The trend of recent years is moving from country to city; "in 2005 urban areas accounted for about 43% of the entire population, 20% more than in 1985 [...], it is estimated that by 2025 more than 55% of the total Chinese population will live in urban areas"⁴.

An important strategic move made by the Chinese government was to control the degree of urbanization, just with one simple rule: those who decide to move to the city must already have a job in the city itself⁵. In addition, the government attempted to achieve a uniformly distributed growth, investing in many different areas, avoiding having few cities and numerous low funds, as in many other developing countries. Of course, there are also some difficult management aspects, such as pollution, water consumption and health services, to name a few.

It is now customary to subdivide Chinese cities into bands, more precisely in three bands. The first-class cities are the four most important ones in China: Beijing, Shanghai, Guangzhou and Shenzhen.

⁴ BUSATO V. (2011), Come vendere riso ai cinesi, Guida pratica al marketing interculturale verso la Cina per le Piccole e Medie Imprese italiane, Franco Angeli.

⁵ The name of the law is Hukou, in English "Register of residence".

These are now "westernized" cities that have already experienced a significant economic upswing. Second and third band cities are those that are currently experiencing a period of rapid growth. These are the cities where foreign companies invest, also because the total income available in some of them is higher than those of the first band.

If there are thirty-five cities in Europe that exceed one million people, in China there are 200 (one quarter of the total of Chinese cities). In 2009, Mckinsey⁶ proposed a clustering of 800 Chinese cities, and this was more significant than the one made up for bands. Thanks to this research, China has been divided into twenty-two clusters, within which the cities are very much alike in terms of habits, lifestyles and preferences. In addition, interesting discoveries have been made: for example, two neighboring cities that have always been considered very similar, Shenzhen and Canton, are actually part of two different clusters, and therefore have very different consumption characteristics.

There are seven important clusters, i.e. those that have a population of up to 55 million and are termed "mega-clusters". They themselves cover up to 12% of China's urban GDP. Indeed, twenty-two clusters seemed decidedly excessive so they were later regrouped together to form four larger clusters.

1.3 Socio-demographic segmentation

A crucial variable to consider when we want to segment a population is certainly its age. Analyzing the Chinese population through this variable, two very different groups can be distinguished: the first is composed of the oldest population still influenced by Mao Tse Tung's tradition and mentality while the second group includes much younger people who grew up during the government of Deng Xiaoping, attentive to brand names, packaging and the status that the products can help you to achieve once they are purchased. If the older population is attentive to the price, their younger counterparts like to try new and imported products, without considering the price as a crucial variable.

These two groups must be dealt differently in terms of marketing policies and strategies to be put in place.

⁶ McKinsey & Company is the trusted advisor and counselor to many of the world's most influential businesses and institutions.

To be able to target the most traditional segment, attention needs to be placed on the price and use of the product, as well as the actual utility and quality of the product itself. In addition, these consumers are used to buying products in stores close to their homes and this aspect should not be underestimated when you decide to approach this slice of the population; for this reason, it is crucial to invest resources not so much in advertising campaigns, which are very costly, but in the constant supply of the many retail outlets of the urban agglomerations.

For the younger segment instead, the product should be promoted by emphasizing the aspects most linked to youth and "freshness", placing them close to places most frequented by this part of the population, such as universities, sports centers and nightclubs.

There is a need for reflection on this topic. If we just considered the older population of Chinese citizens i.e. over the age of sixty, we would still face the ninth largest population in the world: in China, 11% of the total population is over sixty. If companies continue to invest their resources to reach the younger segment, they risk losing the great potential that the segment of the mature population might offer them. Moreover, if young people are more volatile and disloyal, the elderly are, on the other hand, very loyal and socially active.

1.4 The psychographic segmentation

The last type of segmentation is the psychographic one. It's proposed by McKinsey, according to which Chinese families can be subdivided into five subgroups based on their income. Precisely, those belonging to the first group are called "global", those to the second "rich", the third is the "upper middle class", followed by the "lower middle class" and finally the "poor"⁷.

The global class (those with an annual income of more than 200,000 RMB or approx., 25,694 euros) and the rich class (from 100,000 to 200,000 RMB, 12,847 – 25,694 euros) are the growing part of the Chinese population: if today they reach 1% of the entire population, it is estimated that by 2025 they will reach 6%. Despite the low percentage, however, it has major importance in absolute terms as it contains tens of millions of people, and this explains why many Western companies aim at penetrating this part of the population. This class is, of course, the most reliant on foreign companies, as it includes

⁷ BUSATO V. (2011), Come vendere riso ai cinesi, Guida pratica al marketing interculturale verso la Cina per le Piccole e Medie Imprese italiane, Franco Angeli.

those who are closer to Western consumers. People in this social class are innovative, possess all the latest goods of their generation and are willing to spend a substantial amount of money to flaunt their social status.

Nevertheless, companies should concentrate their attention on and invest more resources in the middle class, as it is the population that will have the most sustained growth rates.

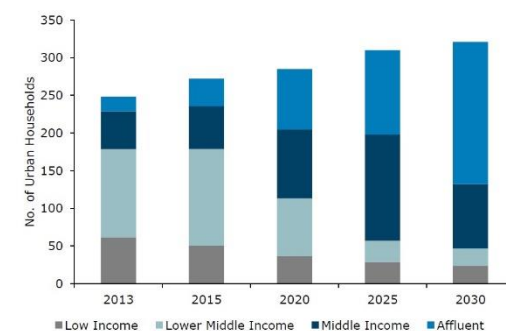
1.5 Current trends: the growth of the middle class, population aging and urbanization

A very important aspect that is crucial to consider is the distribution of income among the Chinese population; in fact, there is a strong concentration of wealth which is unequally distributed, so much so that more than 80% of the entire population lives with an income below \$ 10,000 a year.

However, as mentioned earlier, there is a constant and rapid rise of the middle class which is currently estimated at less than 300 million individuals but it will represent a little bit more than half of the Chinese population by 2020.

Figure 1.2

FIGURE 1. PROJECTION OF CHINA'S URBAN HOUSEHOLDS BY INCOME GROUPS



Source: ANZ Research

Along with the new middle class⁸, there is an extension of the ultra-rich population basin, i.e. the portion of individuals with a wealth of over \$ 1 million. These are 535,000 individuals, but they are constantly increasing: compared to a world average of 8.3% of ultra high-net-worth individuals in 2010, the ultra-rich Chinese have increased by twelve percent, ranking China fourth among the

⁸ Middle class means that range of individuals with an average income from about \$ 10,000 to \$ 60,000.

countries with the highest number of millionaires, after the United States, Japan and Germany⁹. These individuals are becoming more accustomed to the habits and lifestyles typical of Western consumers and are increasingly seeking high-quality goods. For this reason, this range of people focuses on luxury products and is expected to demand services and experiential goods in the near future, focusing on alternative sectors with a preference for health and wellness.

Another important trend is the aging of the population. In fact, it has been predicted that the number of young people between twenty and twenty-four will see a gradual decline in the coming years and that by 2030, Chinese people over the age of 65 will represent more than 16% of the entire Chinese population. This is mainly due to the "single child policy", which, launched in 1979 and abolished in 2013, obliged families to have only one child. This law came into effect to overcome the problem of overpopulation in China and involved families who did not comply with the aggravating tax payments and other expenses incurred for livelihood of the other children. These are two of the most important consequences of this tendency: the pension system is subject to strong pressure and the increase in the expenditure of young people towards parenting, which entails an increase in personal savings, could lead to a decrease in consumption.

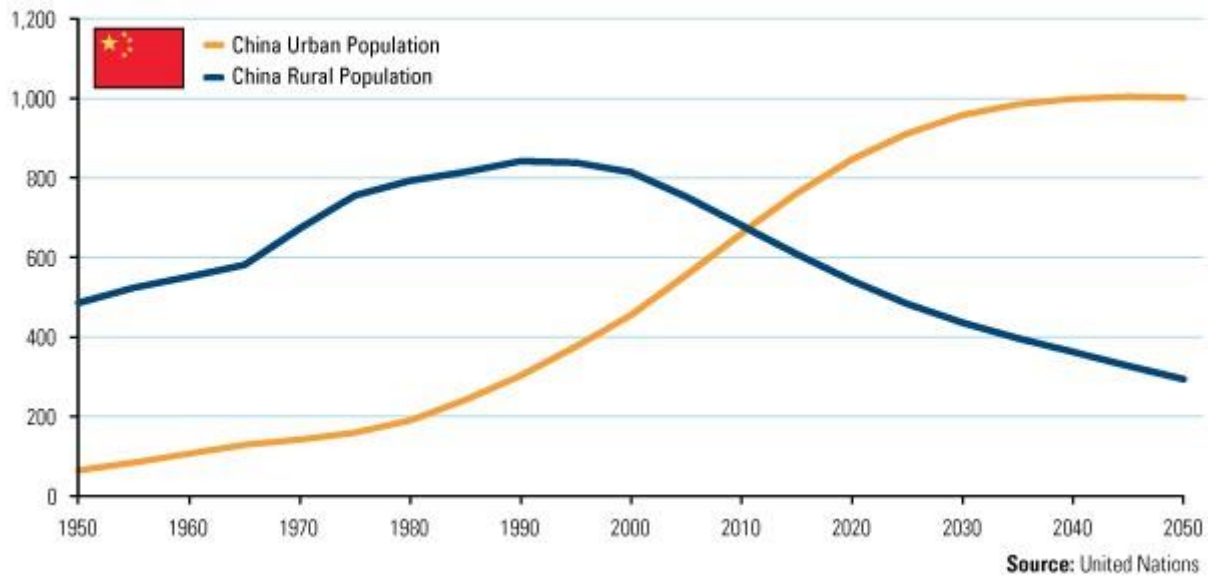
Finally, another important trend is urbanization, which has been intensifying in recent years. Over the next five years, there will be 221 cities with a population of more than one million and eight cities with more than ten million residents. These numbers will certainly require strong investment in terms of hospitality and the targets set in the five-year plan will find some obstacles along the way due to major risk factors.

First, there is a strong risk of a speculative bubble in the real estate sector caused by too much housing production, especially in the most indigenous regions. In addition, the presence of complex administrative procedures for transferring from the countryside to the city could deter many individuals from moving to urban areas. Another reason for this is also due to the improved lifestyle in rural areas.

⁹ Data from UNICREDIT and ACCENTURE (2010)

Figure 1.3

Urban and rural population projection in millions



CHAPTER 2

THE FOOD¹⁰ SECTOR

2.1 The role of food in Chinese eating habits

The important and successful sector of *Made in Italy* in China and indeed throughout the world, is definitely the food. It plays such an important role in Chinese life as to lead many to characterize the Chinese as having a food-centered culture. Food is classified into five types in accordance with different functions on the body: hot (性热 xingre), warm (性温 xingwen), neutral (性平 xingping), cool (性凉 xingliang), cold (性寒 xinghan). The concept here of temperature has nothing to do with how hot or cold the food is, but rather with its interior quality.

Neutral foods, help invigorate the spleen, soothe the stomach and tonify health. They can be eaten regularly by people of all constitutions without evident detrimental effects.

Cool (cold) foods help clear and reduce inner heat, detoxify the bloodstream, slow down the metabolism and relieve inflammation.

Warm (hot) foods promote flow of *Qi*¹¹ and blood and rid the body of “dampness”.

Similarly, there are five types of food according to their taste: sweet (甘 gan), sour (酸 suan), bitter (苦 ku), salty (咸 xian) and pungent (辛 xin), each of which acts on or has direct influence on a specific vital organ.

Sweet acts on the spleen and stomach, sour on the liver and gall bladder, bitter on the heart and small intestine, salty on the kidneys and bladder, pungent on the lungs and large intestine.

¹⁰ It is good to make a clarification about the different definition of food and agri-food. The agri-food product derives from the processing of agricultural materials, to which are added industrial transformations and commercial services. However, as Luciano Pilati says in the "Marketing Agri-Food:" not all food products have an agricultural origin. "There are, in fact, products such as salt or water, which, even if having a food destination, do not have any agricultural origin.

¹¹ Is believed to be a vital force forming part of any living thing.

Three principles are deemed most crucial in Chinese life care: ingredients should be proper (fresh and in season), balanced (between Yin-cold and Yang-hot) and personal.

China has a strong culinary tradition, of which the Chinese are very proud and which is deeply rooted in their customs, but also appreciated and loved all over the world. Italian food in this context is of great interest and represents a social goal, but it will never eradicate Chinese food traditions.

"The origins of food culture in China date back to the dawn of the Shang Dynasty (1600 bC - 1046 bC). At that time, Yi Yin, a political personality of prime importance and great knowledge of a nutritionist, formulated the theory of harmonization of food products, according to which the five flavors (sweet, sour, bitter, spicy and salty) correspond to the nutritional needs of the five major body organs (heart, liver, spleen / pancreas, lungs and kidneys). Although not dictating precise rules on nutrition, it has contributed to determining food behaviors stemming from political and economic relations. "¹²

The way to eat in China is very different from in Europe, both in terms of consumed products and in relation to the meal itself. For example, in China there is no custom to divide the meal in the Western style, that is, first the starter, then the main course, etc. but all portions are available at the same time, without any pre-defined order. Moreover, some foods are foreign to the Chinese consumer: two significant examples are dairy products and wine. This does not mean that these foods are not available in China or that its inhabitants do not like this kind of food, but that there is a need to prepare for the introduction of certain foods in the culture and in the everyday life of people. Furthermore, it is crucial to emphasize how China's food culture has long been characterized by a feudal stratification which saw the use of different foods depending on the caste belonging to it¹³; Although this stratification is no longer prevalent, however, there are strong influences of it when considering personal habits.

Food consumption patterns in China have changed significantly with improved standards of living.¹⁴ More consumers are exposed to a greater diversity of consumer products, both locally and when travelling abroad. Chinese consumers are increasingly discerning, and many now seek the following qualities when making purchases:

- Confidence in food safety and ingredients' integrity*

¹² T. Del Giudice, F. Caracciolo, G. Cicia, Klaus Grunert, A. Krystallis (2012), Consumatori cinesi e cibo: tra tradizione millenaria e influenze culturali occidentali, *Economia agro-alimentare*, n.3-2012 Franco Angeli Editore pp. 87.

¹³ For example, the emperor was the only one who could eat both beef, pork and mutton.

¹⁴ Source: EUSME CENTRE: https://d298t4b8zskb44.cloudfront.net/media/bic/knowledge_base/documents/CFDR.pdf

- High quality*
- Excellent nutritional value
- Better lifestyle through a variety of food and beverages
- Modern packaging
- Freshness
- Convenience^{15 16}

***Confidence in food safety, ingredients' integrity and high-quality products are the key reasons that Chinese consumers purchase imported F&B products.**

As a result, many mainland consumers are choosing safe, pollution-free, quality food items. Moreover, with increased spending power, consumers have shown a higher demand for F&B products imported from overseas. These reasons far outweigh other factors, such as better nutritional value, better lifestyle through more variety, modern packaging, freshness and convenience.

2.2 Food imports from Italy into China

The Italian agricultural and food products are designed for the medium to high market sector or those Chinese consumers of the middle class that aim for higher living standards and who have introduced typically Western foods and drinks in their diet. A growing number of cities (especially on the east coast) show strong signs of Westernization in food consumption and this has also favored the *Made in Italy* products: in 2015, imports of Italian food products in China grew by 22% and for the first time exceeded 400 million euro per year.

This significant increase in imports from Italy reflects the growing demand for safe and high-quality food by Chinese consumers and is encouraged by the development of conservation techniques that allow the transport of fresh food even to distant markets; in addition, it considers that the reduction

¹⁵ http://cn.chinagate.cn/economics/2015-04/08/content_35265734.htm.

¹⁶ USDA China Retail Report 2014, http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Chengdu%20ATO_China%20-%20People%20Republic%20of_12-31-2014.pdf

of duties on luxury goods, approved in 2015, has also covered high-quality food (especially, wines), making the purchase by Chinese consumers more affordable.

Another factor that favors the purchase of our food is the growing number of Italian restaurants, already present in the main cities of central and eastern China, not only in major cities of the eastern zone (Beijing, Shanghai and Guangzhou) where Italian restaurants were already established long time ago.

Currently, the main product exported from Italy is wine, followed by chocolate, pasta and bakery products; olive oil sees Italy as the second largest exporter after Spain; the miscellaneous other products, such as meat, sausages and dairy products are still low on the list of popular Chinese imports but chances of seeing a growing market for these products are good.

In 2015, Italy exported wine in China for a total of about 91 million euro, an increase of 16% over the previous year. However, the current position of Italian wine in China (fifth place, after France, Australia, China and Spain) is not yet adequate to the role that Italy plays in the global market of wine as the first producing country.

Another popular Italian product is chocolate whose value in imports is growing and puts Italy in first place as the supplying country. The current per capita consumption of chocolate in China remains very low compared to the per capita world consumption, so the Chinese market has very good future prospects. For this reason, many foreign manufacturers have been present on the Chinese market for several years such as Ferrero which has been a great success in the market and recently also opened a factory in Hangzhou.

2.2.1 The “Italian Sounding” phenomenon in China

The progressive development of the Italian sounding phenomenon shows the same trend as the international trade. Defined as the application of practices used in imitating food products, it identifies a set of phenomena carried out through the use of ingredients of lower quality and value than the originals, a productive process directed to cost containment and elusion of legal requirements; it also entails the counterfeiting of company identity, geographical origin, productive process and most important, the imitation of specific aspects of a product which suggest a misleading geographical origin, like the improper use of words, colors, names, places, and images.

If the fraudulent acts violate the rights of intellectual and industrial property and result in embezzlement and reproduction of particular characteristics of the original goods with a clear intention of fraud, the imitative practices result in the marketing of products similar by gender and appearance - but not identical to the original - intended to arouse fake expectations, without having the same properties of the original goods.

From a theoretical perspective, given the existence of information asymmetries, trade barriers and high transaction costs – Italian-sounding phenomena might lead to market failure, a possibility even more emphasized in the presence of a globalized market. As for China, the geographical distance and the volume of its market keep transaction costs high, while the cultural dispute between the producer and consumer can worsen information asymmetries. Thus, the natural aptitude towards imitation on the part of local firms is encouraged and results in putting at risk the reputation of the supplier of genuine Italian products.

Price is an inadequate factor for the recognition of quality, conversely it produces adverse selection on part of the consumers, whose purchase intentions are driven by expected quality rather than effective one.

The development of Italian sounding follows that of market, while the different national laws do not provide an effective protection, being limited to the prosecution of unlawful conducts. The imitation of Made in Italy is a profitable activity because of the positive evaluation attributed by the Chinese to our homegrown specialties. The right positioning of these counterfeited products in the market provides a consistent premium price.

The penetration of Chinese market by *Made in Italy* products is hindered by the persistence of trade barriers; hence the imitations fulfill the amount of demand that our firms are unable to satisfy.

From an economic perspective, the negative effects of this phenomenon do not affect only the individual product, but the supply system as a whole. Italian firms are unable to reach a position of competitiveness, because their positioning is undermined by the imitation activity, and as long as their investments do not generate income, they are unable to expand their market share.

Besides, the predominance of imitations causes the inevitable deterioration of the image of quality that *Made in Italy* has so far gained, thus hampering the strategies of demand segmentation. The consumer that purchases the average quality available damages the production of original products because they are sold at higher prices. Failing to expand its market, Italy suffers from the impossibility

to enhance its original specialties. The statistics on imitation activities occurring in China prove that only one product out of five turns out to be original¹⁷.

Despite its relevance, the phenomenon of Italian sounding has so far been underestimated and neither consumers nor producers seem to have perceived its importance. The majority of Chinese consumers is accustomed to buying Italian products without even questioning their real origin. But even on the part of suppliers the perception of the phenomenon and of the fraudulence that results in imitation does not receive the right attention. The underestimation of Italian-sounding does not recognize the potential of Italian firms, in terms of competitiveness.

By taking advantage of the information asymmetries, producers of imitations are able to reach favorable competitive positioning, enough to direct a good share of demand towards misleading surrogates rather than authentic products.

The price gap between the amount of products replaced by imitations and the original references represents the social cost of asymmetric information.

2.3 Retail channels in China

Hotel and Restaurant Industry Wholesalers

The high-end hotel and restaurant industry is an important channel for imported foods. Metro¹⁸, which targets small- and medium-sized restaurants, has the widest selection of imported products of any key international retailer. In 2012, around 10% of its total sales revenue came from imported products.¹⁹

¹⁷ Among the most counterfeited products are found Pomodorini di Collina produced by a Chinese firm, Chinese Parmesan, Pecorino (Italian sheep cheese) whose packaging portrays a cow instead of a sheep, Caciotta (Italian cheese) produced in China and bearing an Italian flag on its brand.

¹⁸ www.metro.com.cn

¹⁹ USDA China Retail Report 2012

According to Walmart's website in May 2015, the value of its import sales saw a year-on-year increase of 200% from 2014.²⁰

Wholesalers and retailers pay close attention to the supply chain development, and cold management is a prominent discussion topic. Yihaodian²¹ mainly targets packaged foods; in 2014, news reports revealed that cold fresh delivery is a major challenge, and Yihaodian expects higher sales revenues with the recent addition of fresh fruit delivery services launched in Shanghai (still on a trial basis). After the trial, Yihaodian will expand its cold delivery services (transporting fresh foods) to southern and northern China.²²

Online Shopping

From January to March 2015, China's national online retail sales totaled EUR 110 billion – an increase of 41.3% year-on-year – of which online retail sales of goods specifically reached EUR 90 billion, accounting for 8.9% of China's total retail sales of consumer goods. Of China's total online retail sales, e-sales of food increased by 51.0% in 2014. China's growing diversity of distribution channels (including e-sales) removes geographical barriers from the development of China's imported F&B industry. Due to transportation and infrastructure issues, historically big cities such as Beijing and Shanghai have consumed most of China's imported F&B products. However, this situation is changing: many middle- and small-sized cities that are a significant distance from the coast are now better connected and providing opportunities for imported food sellers.²³

Since 2012, e-commerce has become almost a daily routine for individual consumers. China's e-commerce continues to develop rapidly and is predicted to account for 18% of total retail sales in 2018, up from 8% in 2013.²⁴

²⁰ <http://www.wal-martchina.com/news/2015/20150205.htm>

²¹ B2C eCommerce platform with a focus on food and beverages: <http://www.yhd.com>

²² *USDA China Retail Report 2014*, <http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods%20Chengdu%20ATO%20China%20-%20People%20Republic%20of%2012-31-2014.pdf>

²³ <http://www.chinainternetwatch.com/11542/online-retail-market-expected-to-increased-by-25-yoy/>

²⁴ <http://www.chinainternetwatch.com/11542/online-retail-market-expected-to-increased-by-25-yoy/>

Leading players within the e-commerce market include Taobao, Yihaodian and Tmall. Furthermore, other platforms are being developed, including those specializing in products. For instance, TooFarm sells organic high-quality food. retail channels.

Hypermarkets

International hypermarkets are major sales venues for imported food products. These international retailers are familiar with imported products and have superior management and organizational skills. Despite this, imports rarely constitute more than 5% of total SKUs, even in high profile stores.²⁵

International hypermarket retailers generally have high awareness of imported brands and products, and they recognize the value of introducing new products to the market. However, in the past, hypermarkets in China have favored distributors and dislike working with unfamiliar companies unless offered strong market support, large numbers of products and other incentives.

Convenience Stores

The penetration of imported foods among convenience store chains has tended to be relatively low. However, this is slowly changing, and now it is common to find imported alcoholic beverages – including wine, beer and whisky – on sale in convenience stores. Well-known convenience stores including 7-Eleven, Family Mart and Lawson; these chains have speeded up the opening of new stores to expand their market share in China. Local giant retail groups, such as CR Vanguard and Hualian, have established sales networks through convenience stores. Moreover, large online retailers – JD.com, Tencent, Amazon.cn and Alibaba – have started to use convenience stores as part of their marketing strategy. These stores are becoming increasingly important distribution channels, not only in first-tier cities but also in cities in inland areas.²⁶

²⁵ *USDA China Retail Report 2014*,
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Chengdu%20ATOhttp://www.kjt.com/_China%20-%20Peoples%20Republic%20of_12-31-2014.pdf

²⁶ http://www.chinadaily.com.cn/hqcj/gcj/2014-12-04/content_12833517.html

Due to limited shelf and storage space, convenience stores typically require small or single-serve packaging and regular restocking. However, foreign players in this sector (such as 7-Eleven and Family-Mart) are introducing an increasing variety of imported food products in their retail outlets.

Total sales revenues for convenience stores reached EUR 387 million in 2012. However, in a survey of 25 cities in 2013, convenience store sales had grown 19.5%, higher than that of other traditional brick-and-mortar outlets. In 2012, 64.7% of convenience stores' revenue was generated from selling food, 34.6% from non-food items and less than 1% was derived from other value-added services.²⁷

In a report covering the development of China's convenience stores (2013-2014) published by the China Chain Store & Franchise Association (CCFA 中国连锁经营协会), 64.7% of convenience stores' revenue was from selling food, with fast food accounting for 7.0%. Non-food items totaled 34.5%, and 0.8% came from value-added services.²⁸

Smaller, privately owned convenience stores often carry imported wine, packaged snacks and confectionery. These stores are more likely to see the value of high-margin imports and tend to have better integrated distribution systems.

2.4 Import and distribution channels

Import and distribution channels are complex and change frequently²⁹. Import procedures must be handled by licensed importers who sometimes act as distributors as well. However, most food distributors and traders are unlikely to hold import licenses. Hong Kong traders offer the least risk as importers and distributors; they can arrange payments in foreign currencies and have a wide distribution network. Chinese traders can be reluctant to open lines of credit and sometimes lack a thorough understanding of international trading practices.

²⁷ USDA China Retail Report 2014, http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Chengdu%20ATOhttp://www.kjt.com/C hina%20-%20Peoples%20Republic%20of_12-31-2014.pdf

²⁸ <http://www.ccfa.org.cn/portal/cn/hangybzhun.jsp?lt=33&pn=5&pg=1>

²⁹ Source: 2013 EU SME Centre http://www.ccilc.pt/sites/default/files/eu_sme_centre_report_the_food_beverage_market_in_china_en.pdf

The Ministry of Commerce of the People's Republic of China (MofCom 中华人民共和国商务部) maintains a searchable platform of importers called the World Importer Net. Although it is not necessarily complete, its website places food and beverage importers into nine large categories and in more specific categories by the HS³⁰ code of each importer's foods and beverages. Users can search in a specific category for a given geographical area. For example, in the category 'beverages, spirits and vinegar, beer made from malt (HS code 220300)' there are currently 12 importers in Beijing and 19 in Shanghai. In addition, for each importer, the country of origin of their imports and their major import products are listed.

Inside China, there is a contradiction between the upscale and affluent appearance of many shopping precincts and the underlying retail distribution network that remains localized and fragmented. This disparity can impact the success of both importers and retailers. There is no nationwide network of trucks, highways or cold storage warehouses to efficiently deliver supplies from the manufacturer or importer to the store shelf.

Major retailers, including Carrefour and Tesco, are building a highly efficient distribution network through a central distribution center. However, these retailers have no large distribution centers regionally, and the infrastructure of these centers cannot meet the demand to efficiently deliver supplies from the manufacturer or importer to the store shelf. Distribution is generally handled on a store-by-store or city-by-city basis, with stores receiving most imports through a series of local distributors. This creates a fragmented distribution process and relatively high costs.

Major online retailers in China include Taobao, Tmall, Jindong, Yihaodian and Womai. Chinese consumers spent over EUR 400 billion (CNY 2.8 trillion) in 2014. Online F&B platform stores supply European goods, as well as wine and snacks.

The Online to Offline (O2O) channel has also seen rapid development in China with Alibaba, JD and others opening distribution points to deliver parcels, and opening offline stores in mall locations. Methods and technologies – including indoor mapping linked to offers, pop-up stores promoted through social networks and QR code links to stores' WeChat accounts – are being combined with O2O cinema advertisements and opening e-commerce offline stores, directly linking the online platforms with offline retail and entertainment experiences. In 2014, major mall developer Wanda led a joint venture with two of the largest technology companies, Baidu and Tencent, to drive this trend. Baidu is China's main online search/mapping/data tool that recently invested EUR 8.8 million

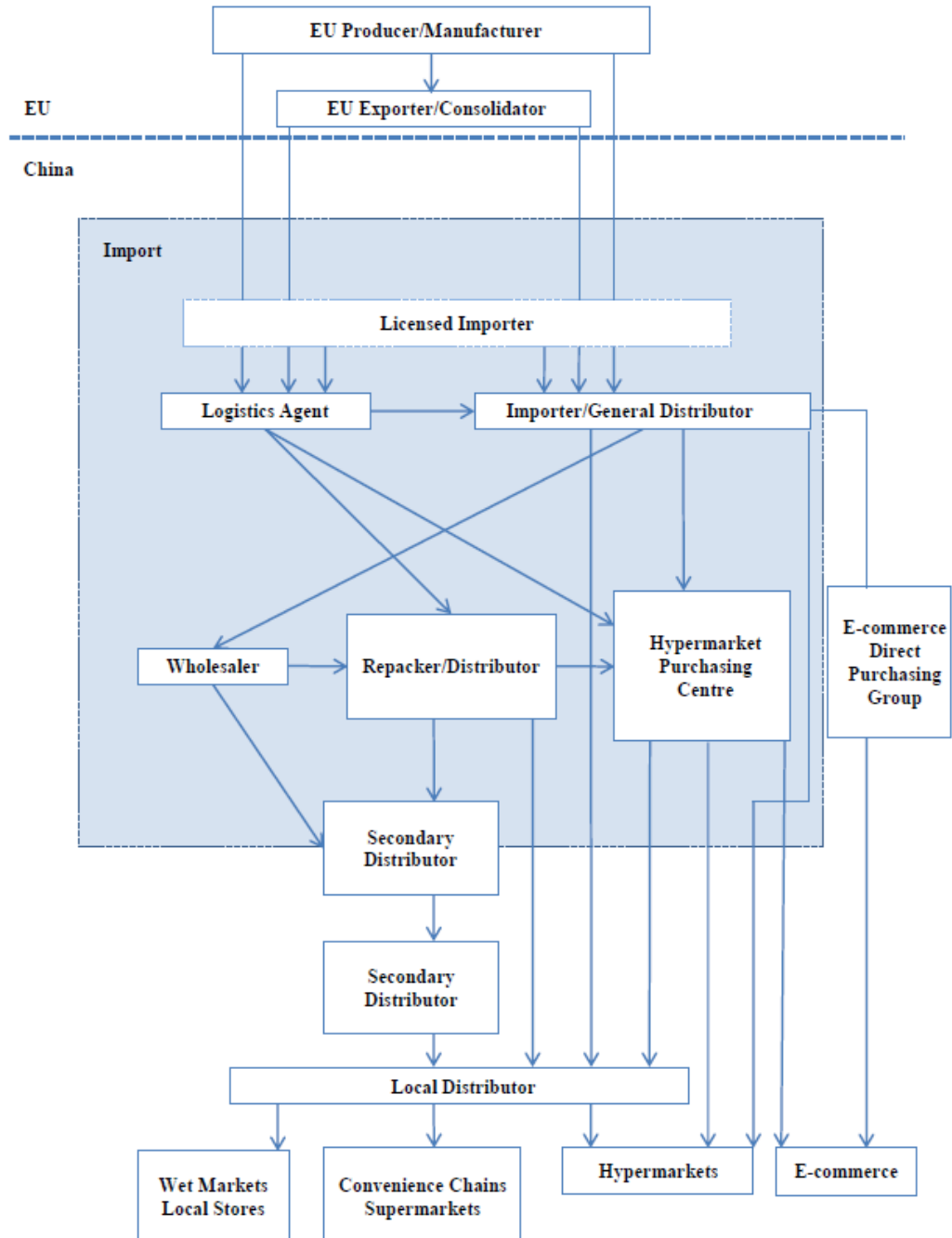
³⁰ The Harmonized Commodity Description and Coding System, also known as the Harmonized System (HS) of tariff nomenclature is an internationally standardized system of names and numbers to classify traded products.

(USD 10 million) in the Finnish magnetic-positioning technology company IndoorAtlas, boosting its indoor mapping capability.³¹ Tencent is now the main online social media platform in China and provides an online link to shoppers for advertising and e-payments.

³¹ <http://www.einpresswire.com/article/269162670/baidu-rolls-out-indoor-location-services-powered-by-indooratlas>.

The following chart represents the complexity of distribution channels in the food and beverage sector in China.

Figure 2.1: Distribution channels



Source: Adapted from USDA China Retail Report 2014³²

³² USDA China 2014 Retail Report, http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Chengdu%20ATOhttp://www.kjt.com/_China%20-%20Peoples%20Republic%20of_12-31-2014.pdf

CHAPTER 3

WAYS OF ENTERING THE CHINESE FOOD MARKET AND BARRIERS

3.1 Legal and regulatory framework

The Chinese Food & Beverage (F&B) market is compelling due to the market's size, but many opportunities remain difficult for European SMEs to exploit. There are various reasons for this, including high entry barriers related to the legal and regulatory environment, the characteristics of the market and the operating environment for both exports and investments entering China. More recently, China has put new regulations in place regarding certain industries, such as dairy, due to recent food safety scandals in the market such as the highly publicized outrage concerning toxic baby milk in 2008.

Since joining the World Trade Organization (WTO) in 2001, China has reduced tariffs on a wide range of imported products, but sanitary and phytosanitary restrictions (and, to some extent, labelling) continue to limit access to the market. Meanwhile, the New food safety law that took place in October 2015, requires stricter monitoring and supervision methods, tougher safety standards, and the recall of substandard products with severe punishments for offenders. Enforcement of regulations is often haphazard, creating confusion for exporters.

3.1.1 New food safety law

The new food safety law regulates:

- Production and trading of food and food additives;

- Packing materials, vessels, detergents and disinfectants for food and equipment used in food production;
- Food additives and food-related products used by food producers and traders;
- Safety management of food, food additives and food-related products;
- All imported food products, subject to the national food safety standards in China.

Latest news³³ say that China postponed for two years this regulation that requires certificates guaranteeing the quality and safety of all food imports, after pushback from the U.S. and European countries.

The delay came just before the rule's October 1st deadline, because Western trade groups said implementation in effect would cut China off from much of the global food supply. The rule covers all food products, from raw ingredients to processed items, requiring certification for each shipment. By covering all food shipments rather than just higher-risk foods, the measure was out of step with global practices.

China notified the World Trade Organization on Monday, September 25th, 2017 that it will institute a two-year transition period for the rule declining to give a reason for the change.

The European Union Chamber of Commerce in China thinks that these new measures indicate that China is replacing its risk-based food safety management system with a one-size-fits-all approach, but this is not in line with international practice.

China needs to pay attention to this situation because it's facing higher scrutiny of its trade practices, with foreign companies complaining about unfair treatment.

3.1.2 Registration of food & drink exporters

Since October 1st, 2012, food and beverage exporters to China have been required to register through AQSIQ³⁴. Registration can also be achieved through import companies. Both options can be accessed through <http://ire.eciq.cn>. This website includes guidance in both English and Chinese, enabling

³³ Source: <http://www.foxbusiness.com/features/2017/09/26/china-delays-implementation-food-import-rule.html>

³⁴ AQSIQ: Administration of Quality Supervision, Inspection and Quarantine

foreign suppliers to register themselves. It is important to note that Chinese importers' information must be filled out in Chinese before passing the registration process; therefore, companies are advised to work closely with their agents or importers to complete this process. AQSIQ recently formulated and announced the “imported food poor records management implementation details” that are effective as of 1st July 2014.

3.1.3 New regulations on exports of dairy products to China

AQSIQ also introduced new administrative measures for the inspection, quarantine and supervision of imports and exports of dairy products, which have been in effect since 1st May 2013.³⁵

3.1.4 New regulations/requirements for importing infant milk formula products to China

Companies exporting baby formula products to Mainland China must register with the authorities, according to AQSIQ; registration details are yet to be confirmed.³⁶This is due to the fact of the highly publicized outrage concerning toxic baby milk in 2008.

³⁵ Details of these new measures can be found at: www.defra.gov.uk/animal-trade/2013/cin-2013049/

³⁶ For more information on the import of dairy products into China, download the EU SME Centre guideline *Importing Dairy Products into China*, available at <http://www.eusmecentre.org.cn/guideline/importing-dairy-products-china>

3.2 Certifications

3.2.1 Standards and Certifications

There are high market-entry costs when entering China – both in terms of fees involved in mandatory certification and the resources required. Product registration, labeling and product expiry dates are particularly high concerns in this area. To enter the Chinese retail market, food products must receive a hygiene certificate from the local government where the product will be sold. Inconsistencies in the interpretation of regulations among officials at different entry locations and whether they loosely or more severely apply fines/penalties are also problems. Regulations change with some frequency and without warning. Adjusting and accommodating these regulations can be time-consuming and expensive.

3.2.2 Organic food certification

Chinese certification systems and foreign organic certification systems have not been mutually recognized. Hence, internationally recognized organic products that have not been certified in China or have been certified only by an overseas organic certifying body cannot be labeled as “organic” or “in-conversion to organic” or any other misleading labeling terms purporting to be organic when marketed in Mainland China.

To ensure the quality of imported organic products and reinforce regulations on organic produce, Chinese authorities have advised that they will verify consignments in accordance with the Regulation on Certification and Accreditation and the Administrative Measures on Organic Product Certification.

Certification costs can vary, as cost is determined by the process of inspection. For example, if a variety of lab tests is required, it will increase the cost of certification. On average, inspection can cost up to EUR 2,870 per product. However, there will be added costs if more tests are required. In addition to this cost, companies wishing to seek organic certification will have to pay travel and accommodation expenses of Chinese inspectors visiting to inspect suitability.

Organic certification needs to be renewed each year. Fees, however, are reduced by nearly one-third during the recertification procedure.

3.3 Some practical challenges

3.3.1 Food labeling

Since joining the WTO in December 2001, China has introduced or modified hundreds of food and agricultural-related regulations and standards. These have included changes in food laws, labeling requirements, packaging and container requirements, food additive regulations, multiple commodity regulations, commodity-specific regulations and specific procedures. Following are the key regulations that must be met by products imported to China.

To comply with China's food labeling regulations, all imported foods and beverages have to show a white label attached to individual bottles, cans or packets in simplified Chinese, as used in Mainland China³⁷. Labels must be approved by the Chinese Inspection and Quarantine Service (CIQS). The regulation requests that products are labeled before shipping, but as this can be difficult to carry out, CIQS allows labeling to take place in bonded warehouses in China.

The following is the minimum requirement of information to be listed:

- Standard name of foodstuffs;
- List of ingredients;
- Quantitative labeling of ingredients (percentage of ingredients);³⁸
- Net weight and configuration;
- Name, address and contact information of manufacturer and local agent or distributor;

³⁷Source: <http://www.britishchamber.cn/content/fb-export-guide>

³⁸ http://www.sda.gov.cn/WS01/CL1196/118041_3.html.

- Production date, use by date in YY/MM/DD format and guidance for storing;
- Generic name of the food additives as per the national standard;
- Quality grade;³⁹
- Food production license number;⁴⁰
- Code of the product standard;
- Special contents if there are any (e.g. irradiated food, genetically modified, nutrition list for baby food or diet food).

TYPICAL LABEL REQUIREMENT IN CHINESE

Size varies but normally a minimum of 30 mm square

Name of product
Ingredients
Country of origin
Alcohol content (beverages)
Name of distributor
Address of distributor
Tel and fax of distributor
Email of distributor
Production date
Best before date
Net content
Safety precautions (e.g. don't drop if glass bottle)

Customer Information Quality (CIQ) requirements often change and can be complex to interpret. European exporters are encouraged to reconfirm labeling requirements and other product certification with the Chinese importers (or relevant departments), prior to dispatching goods. Tighter and stricter regulations are being passed across food and beverage categories in response to food safety concerns. Before importing, EU SMEs must register with the Chinese MOFCOM and are well advised to check

³⁹ Food Safety Law of PRC, Chapter 6 - Food Import & Export article 97 - imported food label should be in conformity with this law that indicates information of manufacture is needed on the label.
http://www.sda.gov.cn/WS01/CL1196/118041_4.html

⁴⁰ http://www.aqsiq.gov.cn/zwgk/jlgg/zjgg/2011_1/201203/t20120305_210390.htm.

with the Chinese Certification and Accreditation Administration (CNCA; 中华人民共和国国家认证认可监督管理局) if products also require producer registration.

To clear customs, an EU SME's first shipment of pre-packaged goods will need to:

- Acquire a CIQ certificate of import food labelling verification for the product's Chinese label;
- Meet declaration requirements at customs;
- Acquire a CIQ sanitary certificate.

The following documentation is required⁴¹:

- Documentation providing permission to manufacture and sell in the country or region of origin;
- Documentation to support the label verification application which includes the following items:

First time-importers, in addition to regular label verification application materials are also required to submit:

- The original label sample along with a Chinese translation;
- The Chinese label sample of pre-packaged food and beverage;
- The business license copy of importers, distributors or agents that are listed in tags.

When pre-packaged food labels state that a product is award-winning, certified, from a certain geographical region, or that it contains a special ingredient, corresponding materials showing proof should be provided.⁴²

On the label, ingredients such as herbs or sugar must state specific types. Label verification from CIQS usually takes one to two weeks. This process is generally handled in conjunction with the importer or distributor, due to language issues and the need for cooperation with CIQS.

⁴¹Source: https://zum.lrv.lt/uploads/zum/documents/files/LT_versija/Naudingos_nuorodos/Tarptautinis_bendradarbiavimas/BGuidelines24052011.pdf

⁴² This information can be found in the following document: "Import and export of pre-packaged food label inspection supervision and management regulations" No. 27 Notice of 2012.

3.3.2 Intellectual Property Rights (IPR) protection issues

Counterfeiting is prevalent in many markets in China. In the food and beverage sector, well-known international brand names experience more problems than do smaller importers, although vigilance is always necessary. Recent serious cases of wine adulteration and counterfeiting have highlighted the issue across the broader wine sector.⁴³ The sheer amount of European ‘liquor’ in China’s market alone raises concerns regarding where it originates.

3.3.3 Bureaucracy

In systems that have a transparent set of well-understood procedures, it is relatively easy to place a product on the market. However, in China, personal relationships with importers, distributors, agents, officials and clients are important to help overcome unexpected hurdles. This is due to the legal system, which is developing but remains inconsistently applied. Hence, enforceability of contracts varies widely but is generally weak.

Business in China relies heavily on personal contacts and influence (*guanxi* 关系). Therefore, no investment will be more important to European SMEs’ success than the network of relationships they establish in China.

⁴³ http://www.chinadaily.com.cn/xinhua/2012-03-28/content_5537573.html

3.4 Market barriers

3.4.1 Distribution

The F&B market remains somewhat decentralized in China and is characterized by free growth and competition. There are few large distributors that are dedicated to imported food and beverages. The varieties of products are limited, as there are few distributors or importers with more than 1,000 imported food and beverage products.

Most Chinese distributors in this market tend to be primarily interested in wholesaling and do not put a lot of emphasis on brand development. They tend to be conservative in introducing new products. They are chiefly interested in products that are already in the market but are sold through “grey” (unofficial) channels or sub-distributors. Exporters with a limited product range need to simultaneously work both ends of the supply chain, identifying retailers interested in the product and distributors who can work with the retailers.

Due to growing disposable income and domestic food scandals, the extraordinary growth in online shopping has been a key driver in stimulating the boom of the imported F&B industry. The e-commerce market has expanded dramatically since 2012; this has resulted in the closure of several retail stores due to the increasing preference of consumers purchasing online.⁴⁴

According to Ebrun, an e-commerce news portal in China, companies should be aware of the following when considering e-commerce channels as a distribution channel in China:

- Traditional consumption habits are different from e-consumption habits, especially for snack foods;
- Distribution costs are high;
- High brand promotion costs are associated with using e-commerce platforms;
- There are requirements for warehousing and logistics;

⁴⁴ USDA China Retail Report 2014, http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Chengdu%20ATOhttp://www.kjt.com/_China%20-%20Peoples%20Republic%20of_12-31-2014.pdf.

- It is easy to create conflicts of interest among distribution channels.⁴⁵

3.4.2 Infrastructure and logistics

Beijing, Shanghai and Guangzhou are the key entry points to China from Europe. Improvements in the national highway system have greatly eased trucking directly out of Shanghai or Guangzhou compared to just a few years ago. High-speed rail has reduced travel time across the country; for example, in the Yangtze River Delta, trains from Shanghai to Hangzhou (Zhejiang) now take thirty minutes and, to Nanjing (Jiangsu), one hour. The government is continuing to support the rail network with further investment, as increasing high-speed rail is an important distribution network. China's container ports are the largest in the world, with Shanghai holding the world's top spot since 2010. In the Guangzhou region, Hong Kong's and Shenzhen's container ports are placed at numbers three and four in the world, respectively, and China has three other ports among the world's ten largest.

Ports in satellite cities offer a growing array of services, including bonded storage with temperature-controlled services, online inventory tracking, and duty-free industrial zones where goods can be repackaged or further processed, with duty paid only on the original import value and only after products leave the zone.

However, further inland logistics services are local, fragmented and inefficient, making it difficult to transport products directly from the coast to cities deeper inland. Importers are not yet confident in cold-chain transportation.

3.4.3 Economies of scale

China's gross domestic product (GDP) growth has been, on average, 8% per year over the past four years, and GDP per capita reached EUR 89 trillion (CNY 63.6 trillion) in 2014 (7.4% growth).⁴⁶

⁴⁵ <http://www.ebrun.com/tc/trade/shipin.shtml#mosh>

⁴⁶ <http://data.stats.gov.cn/workspace/index?m=hgjd>.

Organic producers, especially those with a geographical indication (GI) mark, face the challenge of scaling up their production capacity to meet Chinese demand, as well as produce sufficient volume to make a profit. At the same time, the quality of their products and their GI status depend on their small production capacity; that said, China is a large market, and if a product is successful, demand will grow beyond capacity. Given the costs involved and difficulties of entry, it can be a challenge to make a profitable market entry.

Local production can make production and selling at quantity more affordable. Hungarian and Dutch companies have had some success by breeding geese and producing goose liver locally in partnership with Chinese producers. A local company has established an Italian-style meat processing company that employs Italian processes and is marketed as Italian.

3.4.4 Increasing local competition

EU products are regarded as high quality and produced to high safety standards, but they are often more costly than their local equivalents. In terms of international competition, the United States remains the largest single exporter of consumer-oriented food to China, and it is the only exporter with a presence in most categories.

Local manufacturers, therefore, tend to push imported products out of the price-driven mass market and into niche markets, where quality and novelty are more important than price. In the past, restaurants and bars were often obliged to import all of their specialty European products; however, they are now able to turn to local producers. For example, Le Fromager de Pékin sells cheese directly to restaurants and hotels, and local producers are making European-style cured meats and other delicacies.

Some companies express concern that increasing local production threatens sales of their imported goods. However, the two can work in tandem – increasing consumer exposure to new products and allowing consumers with more discerning tastes to access better quality original products.

3.5 Operational challenges

3.5.1 Working with Chinese partners

One of the most common causes of business failure in China is deteriorating partnerships. Therefore, it is important to recognize cultural differences and spend time understanding how your Chinese partner operates. New entrants to China's market frequently become frustrated because they perceive that their Chinese partners are neither frank nor forthcoming. They find that agreements viewed as binding by the EU partner are more flexible or negotiable from the perspective of the Chinese partner.

Formal business meetings and informal social occasions are opportunities to build understanding and trust, as well as to receive advice and secure business deals. Ensuring that a company representative is present at all transactions will reduce misunderstandings and errors. It also offers the opportunity to adapt suitable portion sizes, alter ingredients (for example, reduced sugar content), and design packaging that appeals to Chinese consumers.

3.5.2 Participating in trade fairs

Food Hospitality World China 2016



On September 22nd, 2016, the fifth edition of Food Hospitality World commenced, for the second time in China. The fair was organized by the China-Italy Chamber of Commerce, in cooperation with

Worldex Fiera Milano Exhibitions (Guangzhou) Co. Ltd. It took place from the 22nd to the 24th of September 2016 in Guangzhou, capital of the Guangdong province, at the Poly World Trade Center, one of the most important exhibition centers in southern China. The decision about the venue for the event was taken in light of many strengths in the Guangzhou province. Indeed, as noted above, this is the most dynamic zone of China economically speaking, with GDP in 2015 reaching US \$ 3 billion, which means more than one-third of the national GDP. The population of this region are 456 million, which is 20.9% of the Chinese surface.

Just by noting that one of the organizers is Italian makes it necessary to analyze this topic more in depth. Specifically, this is a successful merger between two successful exhibitions organized by Fiera Milano: TUTTOFOOD and HOST. The first is a highly qualified exhibition in the food industry and can rightly be considered the only true Italian fair of its kind. In 2011, it attracted 1,750 exhibitors and more than 40,000 professional visitors. In addition, it is considered the most well-known and prestigious fair across Europe by industry professionals. HOST is an exhibition that deals with B2B⁴⁷, which is held every two years and is now well established (the year 2014 marked the 40th edition of it). Food Hospitality World (FHW) sees the collaboration of Worldex (China) Exhibition & Promotion Ltd, founded in 2001, which has always worked to create successful fairs with several departments of the Chinese government, chambers of commerce and various other associations.

FHW CHINA 2016 was the greatest international and professional food and hospitality trade fair in South China with 350 exhibitors from thirty countries, and was the best business platform for food suppliers entering the Chinese market. But the most interesting aspect is the substantial presence of Italian exhibitors during those three days, attracting more than 4000 trade buyers. FHW invites all major trade buyers, including importers, distributors, agents, supermarkets, and all other food retailers that are in the country. There are numerous activities organized by the fair, including the most important conferences on new trends in the food industry, press conferences, the media campaign and other activities such as seminars and tastings. These are all initiatives that could bring positive feedback to participating companies. In fact, for example, FHW cooperates with more than ten professional press agencies, both Chinese and international, and over forty food websites, which is undoubtedly an important form of promotion.

Considering the success of the previous editions, a sixth will be held from 8th to 10th of September 2017 in Guangzhou.

⁴⁷ B2B or BtoB: refers to a situation where one business makes a commercial transaction with another business.

Participating in trade fairs is a smart way to focus on the internationalization of our domestic companies that want to enter such an attractive market, but at the same time such a complex market. Fairs in and of themselves cannot guarantee a company will penetrate the market, but they are certainly a good starting point, crucial to understanding some of the important dynamics of the market better.

Companies generally decide to actively participate in fairs for a variety of reasons. First, they can show their products to a much more targeted public than they would find on any other occasion, sustaining a minimal cost per contact. As soon as a new product is launched, the fair is definitely an easy and inexpensive way to introduce the product and endorse it to a relatively large but *niche* audience. The fair can also be used to conduct targeted marketing research especially in the case of a trade exhibition abroad and in a not yet well-known market. In addition, a fundamental reason for a foreign company is the great opportunity fair offers to test the potential market for the product. Obviously, if any given company decides to enter a new market, the fair is definitely a great tool to achieve the goal. There is the added benefit of the press which is fundamental for divulging information about the company and the product and the opportunity to meet as many key contacts in a relatively short space of time.

Guangzhou International Food & Ingredients Fair 2017 (GIFMS)

This is hosted by China Council for the Promotion of International Trade, Guangzhou Council (referred to as CCPIT Guangzhou), organized by Guangzhou International Exhibition Company, held in Guangzhou in June every year, and it is the most internationalized food exhibition in South China⁴⁸. With the participation of excellent exhibitors from home and abroad, it has attracted buyers from various countries around the world. The fair is receiving high praise for its precise matchmaking between exhibitors and buyers, comprehensive services and the boost of the development of the entire industry.

⁴⁸ Source: <http://www.gifms.com/en/>

The last edition of GIFMS attracted 300,000 visitors and 48,000 professional buyers during its four-day ceremony⁴⁹.

With the participation of 800 excellent exhibitors from China and abroad (42% of the exhibitors were foreign enterprises), this large international food industry festival successfully held 22 supporting activities and 10 professional matchmaking meetings, achieving 120 million RMB international in transactions.

100ITA⁵⁰ was the only who had the honor to represent Italy with the Italian pavilion and *Made in Italy* products.



Along with Italian products, this fair displayed various high-quality food and ingredients from all over the world and received high praise for its precise matchmaking between exhibitors and buyers, comprehensive services and the boost of the development of the whole food industry.

⁴⁹Source: <http://www.easternwind.eu/foundation/2015/04/delegation-of-the-food-industry-to-guangzhou/>

⁵⁰ a project to promote the culture of “Made in Italy” food and wine all over the world, with the scope to convey the passion of people and companies that every day work on it and, at the same time, to reduce the imitation and the falsification phenomena of the Italian products.

EXPO 2015



Expo 2015 (officially Universal Exhibition Milano 2015, Italy) took place in Milan from 1 May to 31 October 2015.

The theme selected for Expo 2015 was "Feeding the Planet, Energy for Life" and intended to include everything from nutrition, food education to the serious lack of food that afflicts many areas of the world, and the issues linked to GMOs. Technology, innovation, culture, traditions and creativity related to the food and food sector have been called into question. The main axis was the inalienable right to healthy, safe and sufficient nutrition for all the inhabitants of the Earth. Concern for the quality of food in an increasingly populated world (it is estimated that in 2050 the Earth's inhabitants will be 9 billion) is accompanied by scenarios of increased risks for the total quantity of foods available through intensive exploitation and not sustainable natural resources of the planet.

Some of the main themes that revolve around Expo were:

- Improving the quality and the safety of food, i.e. the safety of having enough food to live and the certainty of consuming healthy food and drinking water;
- Ensure healthy and quality nutrition for all human beings to eliminate hunger, thirst, child mortality and malnutrition;
- Prevent the new great social diseases of our time, from obesity to cardiovascular diseases, from cancer to the most widespread epidemics, enhancing the practices that enable the solution of these diseases;
- Innovate the whole food chain with the research, technology and enterprise, to improve the nutritional characteristics of the products, along with their preservation and distribution;
- Provide proper nutrition to encourage new lifestyles, in particular for children, adolescents, disabled people and the elderly;
- Value the knowledge of "food traditions" as cultural and ethnic elements;

- Preserve bio-diversity, respect the environment as an eco-system of agriculture, protect the quality and safety of food, provide education about nutrition for the health and well-being of the person;
- Identify better control and innovation tools, starting from biotechnologies that do not pose a threat to the environment and to the health, to ensure the availability of nutritious and healthy food and drinking water and irrigation;
- Provide new food sources in areas of the world where farming is either not developed or is threatened by desertification of land and forests, by droughts and famines, and the where the fisheries are impacted by the poor conditions of rivers and seas;
- Land grabbing, that is, the large-scale farming of agricultural land in developing countries.

In Expo 2015 there were 141 official participants (including China). Specifically, 137 countries and four international organizations confirmed the presence of the UN, the European Commission, the Caribbean Community and the Pacific Islands Forum.

As is customary, Expo 2015 also received contributions from companies.

Some companies have also built and organized self-built pavilions, pavilions designed and built autonomously by companies. In total, there were 23 companies considered unofficial participants to the event, which they then contributed by presenting a pavilion. To these companies, partner companies are added to sell official products in pavilions or corner shops.

Cibus Connect 2017

CIBUS
CONNECT 2017
conferences • workshops • expo
12-13 APRILE



It took place in Parma, Italy on 12 and 13 April 2017. It was a unique opportunity to discover and enjoy the products of the best Italian agri-food companies.

It was attended by 400 exhibiting companies, 1000 foreign buyers, and 10,000 total operators on the first and second days alone.

It offered an opportunity to meet national and international top buyers to enhance their products with customized showcases and to attend workshops and large plenary sessions aimed at deepening issues related to the internationalization of Italian food.

Anuga food fair 2015



TASTE THE FUTURE
COLOGNE 10. – 14.10.2015

10 TRADE SHOWS
IN ONE



It is the world's leading Food and Beverage Trade Fair. About 160,000 visitors from 192 countries attended the event held in Cologne from 10 to 14 October 2015. It is an opportunity not to be missed for those who intend to establish or maintain contacts with industry companies.

Anufood China 2017



Anufood China, organized by Anuga-Koelnmesse, CIBUS-Fairs of Parma and Federalimentare, was held in Beijing on 31 August -1 September 2017.

It focuses explicitly on the region of northern China. For the food & beverage industry, Beijing Capital and the surrounding area are an ever-growing consumer market with around 200 million people. Anufood China offers direct access to both retailers and wholesalers of this area as well as importers, distributors, hotels and restaurants.

Currently, nearly half of food imports reach China through the northeast; this region has become increasingly attractive to the international food sector for access to the Chinese market and represents a further potential for international companies, even for those which have already consolidated their business in Shanghai.

China is not a homogeneous market and regionalization has become a constant trend. Access to the aforementioned regional markets requires contacts with local partners, particularly in the food & beverage sector that has complex distribution facilities. In addition, Chinese consumers show marked differences in taste on every regional level.

These factors highlight the importance of a regional fair with a growing number of visitors from this area. Anufood China is an important event for food and beverage manufacturers in order to exploit the benefits of the immense potential of the North China market.

SIAL



SIAL Shanghai 2017

The 4th biggest food innovation exhibition in the world and Asia's largest, SIAL China 2017 concluded at Shanghai New International Expo Center on May 19th with a record number of visitors, exhibitors and exhibition squares. Altogether, 3,200 exhibitors (+10% vs 2016) presented their latest products and food trends from 67 countries all over the world, attracting 101,134 professionals (+31% vs 2016). This year's SIAL China took place at 13 halls with 149,500 square meters (+18% vs 2016)⁵¹. SIAL China has further improved its dedication toward professionalism, internationality and commerce.

⁵¹ Source: <http://www.sialchina.com/>

CHAPTER 4

PASTA INDUSTRY IN CHINA: THE DEL VERDE EXPERIENCE

Pasta is a food made from semolina or flour of different extraction, divided into small regular forms for cooking in salted boiling water.

The term pasta (from Latin *pāstam*), intended as an abbreviation of Italian *pastasciutta*, can also indicate a dish where pasta is the main ingredient accompanied by a sauce, a sauce or other seasoning of various kinds.

As far as pasta is concerned on a global scale, it can historically be considered the fruit of two long gastronomic cultures which have developed and given origin to this food over the course of many centuries in a parallel and independent way, one eventually converging with the other: the Italian version in the West and the Mediterranean basin, and the Chinese version in the East and in the various Asian contexts. Both use different ingredients and completely different techniques for preparing and producing this food.

The tradition of Chinese pasta has long contradicted the Italian market. In fact, it uses a large number of pasta types, 麵 or simplified 面 (miàn). 面 are grain powders while 粉 (fēn) are those of rice. Chinese spaghetti (noodles) are an essential ingredient of Chinese cuisine.

4.1 The origin of pasta

The legend says that when Marco Polo came back from China in 1295, he introduced pasta in the West. But in fact, this legend was born in the United States of America, and it was the result of a Macaroni Journal publication made by an industrial association with the aim of making pasta familiar to American consumers and favored by government circles committed to supporting durum wheat cultivation. In support of the thesis, in the wonders of the world described in “Il milione”⁵², Marco Polo wrote that "Here is a great marvel, that there is a flour from a plant, which is large and sweet, whit thin skin, full of flour, and of that flour there is good pasta, and I have eaten it several times"⁵³ and to which, in the notes of the first Italian version, Giovan Battista Ramusio added that "purified flour that is left, suffers, and from it, lasagna is made, and different pasta meals, which he ate several times on the said Marco Polo, and brought some of it to Venice, which is like bread of ' barley, and that flavor..."⁵⁴". Therefore, the Americans did not hesitate to take these phrases into account and have made it the proof of China's import of spaghetti.

The history of pasta began when man abandoned nomadic life and became a farmer and learned to sow and harvest. It is at that time that the story of man crosses with that of wheat and with wheat begins the history of pasta. From harvest to harvest, from generation to generation, man has learned to work the grain better by grinding it, kneading it with water, spilling it into thin slurries and cooking it on hot stone.

Many centuries before the birth of Jesus, the Greeks and the Etruscans were already accustomed to producing and consuming the first types of pasta. The first indication of the existence of something similar to pasta dates back to the first millennium BC, to Greek civilization.

The Greek word “*laganon*” was used to denote a large and flat sheet of doughy striped paste. From *laganon* comes the Latin *laganum*, which Cicero quotes in his writings. Lightweight and pasta-shaped pearls conquered the empire and, as is often the case, every people adapted the novelty to their own experiences.

⁵² is the account of Marco Polo's trip to Asia, his father and his uncle, merchants and Venetian travelers.

⁵³ In Italian: “Qui à una grande maraviglia, che ci à farina d'àlbori, che sono àlbori grossi e ànno la buccia sottile, e sono tutti pieni dentro di farina; e di quella farina si fa molti mangiar di pasta e buoni, ed io piú volte ne mangiai”

⁵⁴ In Italian: “la farina purgata et mondata, che rimane, s'adopra, et si fanno di quella lasagne, et diverse vivande di pasta, delle quali ne ha mangiato piú volte il detto Marco Polo, et ne portò seco alcune a Venezia, qual è come il pane d'orzo, et di quel sapore...”

The first two dates in the history of pasta in Italy are: 1154, when in a sort of tourist guide *ante litteram*, the Arab geographer Al-Idrin mentions "a meal of flour in the form of wires", called *triyah* (from Azerbaijan, which survives in modern language and comes from the root *tari* = damp, fresh), which was packaged in Palermo and exported to barrels throughout the peninsula (in Sicily today there are still the "*tria bastarda* and *vermiceddi di tria*").

And 1279, when the Genovese notary Ugolino Scarpa draws up the inventory of objects left by a deceased sailor, including a "*bariscela plena de macaronis*". We know that Marco Polo returned from China in 1295: the legend that he introduced the pasta in Italy, (the one known in China, which had little to do with the hard wheat typical of our country), is thus discarded.

4.2 The pasta industry in China

China is getting closer and the progressive diversification of goods exported to the Middle Kingdom has produced interesting changes in the habits and consumption of the inhabitants of this immense country. The sectors most affected by this change are the wine and the agro-food products (cheese, pasta, chocolate, coffee), which represent a potential strength, as well as one of the most dynamic sectors of Made in Italy in China.

The pasta market in China is in its nascent stage, evident by the lack of product and format diversity.

Most pasta consumed in China is in the dried pasta format, with a lack of canned/preserved pasta or chilled/fresh pasta being sold in other pasta consumption regions. It is good to know that Chinese use soft wheat to make pasta, which is why it scratches very easily.

China pasta market sales volume and value grew at 11% CAGR⁵⁵ from 2010-2014 to 2300 tons and 11.3 million US dollars respectively⁵⁶.

⁵⁵ Compound annual growth rate (CAGR) is a business and investing specific term for the geometric progression ratio that provides a constant rate of return over the time period.

⁵⁶ Source: http://www.fhwchina.com/en/Info_News/Market_Info/20151204/2183.html

Growth in demand is mainly attributed to growing acceptance by younger Chinese and growing popularity of Western dine-out (foodservice) options with well-received cuisines like pizza and pasta.

In China, there is currently no producer who makes hard wheat pasta (Italian style), but there are many producers, even foreigners, of Chinese noodles.

Pasta imports amounted to 12.3 million euros in 2006. Italy is ranked first in the ranking of supplier countries, with more than 2.5 million euros. Considering the fact that the Chinese population is very large, the potential demand for the product is extremely high, although the current per capita consumption is well below the international average and is limited to middle-sized companies.

Several factors contribute to the spread of pasta in China: in addition to the fame of Italian cuisine at international level, there is the relatively low cost of the product, which allows a widespread consumption and easy access to the ingredients needed for preparation, such as vegetables, available in any market.

At present, in large urban centers, Italian pasta is found everywhere, from the large mall to the small grocery store under the house. There is also a growing presence of small grocery stores that sell only imported food stuffs, mainly in urban centers in China's main cities. Generally, pasta is displayed in the area of import products inside supermarkets such as Carrefour, Lotus or Tesco. However, in smaller malls, *penne*, *fusilli* or *spaghetti* are sometimes displayed in the same Chinese traditional pasta shelf, a significant indication of the Chinese consumer's acceptance of the Italian product. The main export companies in China are Barilla, Agnesi, De Cecco, Pasta Zara, Valdigrano, Monte Regale and Delverde.

4.3 The Delverde pasta factory



La Delverde S.p.A.⁵⁷ is an Italian food company specializing in the production of pasta, olive oil and sauces. It was founded in 1967 in Fara San Martino, in the Province of Chieti, Abruzzo.

Over the next few decades, the company experienced a period of expansion, even at an international level, coming in the early 2000s with a turnover of over 50 million euros, mainly due to overseas sales.

In 2002 the company experienced the beginning of a long period of crisis due to dubious financial choices.

But subsequently, in the last quarter of 2008, the company launched a capital increase of 8 million euros. This increase in capital was also due to the entry into the shareholding of approximately 35% of Argentine multinational *Molinos Río de la Plata*, one of the largest food companies in South America.

In 2009, the Argentine multinational *Molinos Río de la Plata* through its Spanish subsidiary, *Molinos Delplata*, increased its stake in the company by holding 100% of its share capital.

The Delverde Food Industries S.p.A. is widespread in Italy and the international markets in which it exports most of its products and from which it makes the most revenue.

⁵⁷ is a capital company, with its legal personality and perfect equity, in which shareholdings of shareholders are represented by transferable securities: the shares.

The Delverde pasta factory is still located at Fara San Martino, cradle of the ancient Abruzzo pasta tradition, in the spectacular environmental oasis of the Majella National Park. This country is in the valley of the Green River which has been flowing for millions of years.

Delverde has 118 employees and produces 130 different pasta sizes: fresh pasta (marketed only in Italy where the company realizes 45% of its turnover) and semolina pasta, egg noodles, organic pasta and wholewheat organic pasta.

Delverde's pasta factory production philosophy is reflected in the name's choice, inspired by the waters of the Green River, which flows past the Majella slopes in front of the factory. It originates from the heart of the mountain and is filtered by unspoilt rocks dating back to the Pleistocene (7 million years ago). This water is not only pure, but also naturally cold at 8° C. The water of the Green river, pure and with neutral flavor, is perfect for protecting and enhancing grain quality and its inimitable flavor.

This is the added value of Delverde pasta: just spring water and the best grain durum wheat, to give life to a dough that is worked with bronze and slow drying methods - from 8 to 10 hours for short pasta sizes at 16-18 hours for larger ones - at low temperatures. A method that preserves nutritional values and delicate taste but from the "hearty heart" so appreciated by connoisseurs and chefs around the world.

Presented in 65 countries, Delverde is now a premium brand of Made in Italy known all over the world.

We can find Delverde pasta in almost all Italian supermarkets (Esselunga, Coop, Conad, Iper etc.), in some international markets (Auchan, Metro etc.) or online through the e-commerce website www.shop.delverde.com from which, however, for now we can only ship it to Italy.

Delverde has several certifications that attest to the brand's authenticity and safety, such as a global standard for food safety, a certificate of organic product, a workplace conditions assessment, vegan certification and so on.

In 2017 Delverde celebrates its first 50 years with some novelties.

Five new references for the wholewheat organic line and a new line of 250 gr. mini packs. The commitment of the Abruzzo pasta factory to research is not stopped, confirming the vocation of health and the will to bring innovation in the industry.

In fact, the history of Delverde has been characterized by continuous innovations, especially in the last decade. They were precursors with the biological integrity line as well as with the latest launch of the wellness line.

Luca Ruffini, Managing Director of Delverde, believes that bringing innovation into a mature industry such as pasta, responding to new market demands and when possible anticipating them, is a duty for a premium brand.



Wholewheat organic

Among the flagships of Delverde's offer is the wholewheat organic line, made with grain groats cultivated according to the organic farming dictates and produced under the control of the ICEA (Institute for Ethical and Environmental Certification). It starts with an excellent raw material, which is then enhanced by drying at low temperatures, which is essential for the perfect surface fermentation of hard wheat, but also to preserve the organoleptic and nutritional properties of the raw material. A line that has never stopped growing, and this year comes to thirteen references. From this month, five new formats - *farfalle*, *elicoidali*, *pennette lunghe rigate*, *tortiglioni* and *spaghettoni quadrato* – will hit the shelves that together with the eight already present in the catalog (*penne rigate*, *caserecce*, *fusilli*, *rigatoni*, *spaghetti*, *linguine*, *fettuccine* and *tagliatelle a nido*) constitute a truly complete range.

The launch of new references is contemplated in Italy and abroad, where Delverde, strong in distribution in around 50 countries, achieves 60% of its turnover. If you also consider the four references of organic semolina pasta (*spaghetti, penne, ondine, tagliatelle*) and the four of the enriched pasta in the Wellness catalog (with special flours of chickpeas and flax seed), the brand's dedication to producing healthy products is increasingly evident.



Mini packs

The new line in 250 gr. packs will be transversal to the various Delverde lines. The first references to be launched will be those of the semolina line (*farfalle, rigatoni, fusilli, penne zita rigate, mezzi rigatoni*) that are added to the *spaghetti a nido* launched last year (in the standard 250 gr. format) and those of the wholewheat organic (*penne rigate e mezzi rigatoni*). Then we also have the launches of the mini packs for the two Wellness formats (*penne rigate ai ceci e ai semi di lino*) and a wholewheat organic format (*penne rigate*).

"The new line meets the need to have a good assortment in the pantry without the clutter of half-open packets", says Alessia de Angelis, brand manager of Delverde.

Delverde aims to export 20,000 tons of pasta in the coming years to reach 50 million euros in total revenue. It invested 4.5 million euros for automating the logistics process, improving warehouse management, technological adaptation of the production and packaging lines of the Fara San Martino plant. In the plant, in particular, a modern vacuum system has been introduced to allow the best grain of durum wheat to mix with spring water, thus preserving the organoleptic quality of the main raw materials.

Along with the good results on export, and in contrast to the strong market trends that see the growth of branded products, the distributor has forged private labels in favor of enhancing its brand.

Double figures are growing in Italy, both in market share in the retail channel, as well as in distribution in the catering channel and abroad. Significant rates of + 18% in volume have been recorded in Europe, + 50% in the US and +25 % in the rest of the world, a sign of the strategy that aims at brand enhancement, quality constancy, and product innovation.

The goal is to reach 50 million euros in revenue in the premium pasta segment, pushing especially on international markets. Hence, the need to work on product innovation: the five versions of instant lasagna, which require less baking time compared to the competition, have had excellent market outcomes especially abroad and the same success is expected by the new giant sizes of fresh pasta 100% hard wheat.

4.4 Delverde's senior export manager interview

INTERVIEW

Interviewer: Silvia D'Ambrosio

Institute: Ca' Foscari University of Venice

Interviewee: Luca D'Amico

Nationality: Italian

Position: SENIOR EXPORT MANAGER in charge of UK - Middle EAST- ASIA - FAR EAST and OCEANIA markets

Place of Interview: Delverde Pasta Factory (Fara San Martino, CH, ITALY)

Date of Interview: 08/28/17

Method of Interview: Personal interview

Research questions:

Q1: Which strategies has Delverde adopted to enter into the Chinese market and how have these strategies worked out?

LD: The first starting block is the analysis of the market's segment in which we place our brand. China has a complex retail market and since 2014 it has become the world's second largest retail and consumer market after the U.S. Total retail sales have increased in the last 2 years reaching 33.2 trillion Yuan in 2016. Consumer confidence has gradually picked up in the last 10 years and now we can say that the general attitude towards consumption in China is very positive. Our target in China is middle-class consumers and as a consequence I have selected the following distribution channels:

Premium supermarkets - Membership stores such as Metro Cash & Carry – on line trading – grocery stores (small format) and fresh food stores (small format) and finally convenience stores (corner stores, very small format).

Based on these distribution channels I have selected my distribution partners and the way of doing business such as: direct selling to supermarkets - working with importers and wholesales and working directly with on line trading companies.

Q2: What are the successful factors of food companies to enter the Chinese market?

LD: Success is made up of a combination of many factors that cannot be summed up in a few sentences. Constant attention to detail is very important and also in-depth research of the target client which is our end user. This formula is applied to all markets in which I work. Specifically, in China we require a strong cooperation with distribution partners that results in a win/win strategy: in Chinese, this is called *Guanxi* 关系. China has a centralized and very bureaucratic State system therefore it is important to have a good personal contact and a good relationship with all partners. It is very important to build a relationship and, if it becomes successful, commercial transactions will follow. In the Western way (including the Italian way) of doing business, less time is spent on building the relationship. This difference underlies many problems that Italian brands have had trying to do business in China.

A good understanding of the Chinese way of doing business is important: China has a long and very interesting history and has developed a unique business culture. Sometimes Italian companies underestimate the role that the State continues to play in Chinese business. In the last 20 years or so there has been a rapid expansion of the private sector but many large Chinese businesses in strategic sectors remain state-owned and probably many private companies have an element of state control. It is very important to be aware of the wide implication of the State in China and the influence it has on doing business.

Q3: Do you have fierce competitors? What are the advantages that the Delverde Pasta Factory has over others?

LD: We have competitors in all markets where Delverde is present, which today are approximately seventy. We define our competitors as being Italian imported brands in the premium segment so this narrows the competition down to a handful of Italian brands. Delverde does not compete with local / domestic producers or Italian sounding brands (not made in Italy) or economical brands produced in Italy. The Delverde philosophy or DNA is the unique advantage we offer to our clients: our unique location is fundamental as Delverde produces inside the Majella National Park in the Abruzzo Region.

Delverde uses natural mineral water taken directly from the spring at a constant temperature of 7°C. Also, our production method is based on using high protein wheat, bronze molding tools and a low-temperature slow drying which all contribute to giving our product its distinct taste and character.

Q4: According to the history of the company, Delverde started to appear in China in 2000. Do you know how this came about?

LD: Yes, the reason is because I had met an importer at a food fair in 2000 and after one year we started doing business in Shanghai. The importer was involved in HORECA (Hotellerie, restaurant, café or catering) business, importing Italian premium products and selling them to restaurants and catering markets. We have been selling the Delverde brand for many years in China via an importer based in Hong Kong. There is a lot of cross border business from Hong Kong and this business practice still continues. In addition to the pasta we export directly to China, approximately 15% of the pasta we export to Hong Kong today is re-exported to mainland China and Macao.

Q5: Does Delverde have any agencies or subsidiaries over there? Do you know more about other entry strategies they used?

LD: Delverde does not use agencies or third parties for the Chinese market. In the past, we had two attempts with Italian based agencies that sold in China. On both occasions, the agency agreement was closed off as results were unsatisfactory. It is the Delverde policy that the best way to do business in China is to deal directly with Chinese partners and not Italian based agencies.

Q6: Most large companies choose to build a subsidiary in entering new markets, but some other firms choose to enter step by step. In other words, first set up the agency in the new market and then build a joint venture with the local company, and later on building a wholly owned subsidiary. What's your opinion about this phenomenon? Which one do you prefer?

LD: It depends totally on the business sector and distribution segment. For complex businesses and products such as machinery or high level of service it is a good strategy to build a subsidiary. Today the traditional business models are changing really quickly. E-commerce is rapidly gaining market share; extra costs of a subsidiary are sometimes not economical and it is preferable to work with local Chinese partners that have set up a strong network of sales and distributions. Delverde has adopted a different model: in several markets that have established a historically strong performance we have

appointed a Country manager that oversees businesses. This is a formula that is very cost-efficient and effective as we have close control of the market and a fast decision-making process. The pasta factory has relatively low margins therefore it is not always possible to set up subsidiaries or local offices so the selection of new business partners for China is done by conducting trade fairs such as Cibus / Anuga / SIAL and by participating in several Chinese trade fairs such as Anufood and SIAL China. It is also important to use local government agencies such as ICE / Chamber of Commerce. Expo 2015 was a very good event to meet with new and potential operators not only from China but from all the markets. I personally rely on networking and use information gathered by colleagues and other Export Managers not only from the Food sector.

Q7: Can you describe the procedure of entering the Chinese market that the Delverde Pasta Factory underwent?

LD: Once the correct partner has been identified and all financial checks have been passed, the Chinese partner and I meet in China and together work on the business plan. We meet with all staff, several potential clients, distribution partners and trade partners and determine the correct mix so that the Delverde brand will be successful. The correct mix is not only about price but the most important thing is “the complete package” such as after sales support with promotions and chef support. We follow up with a second visit and then a third visit with Chinese partners coming to visit Delverde. We establish a sales target and a three-year plan based on volume and necessary investments to achieve the target. Positive results should be seen in 9 to 12 months, if not we revise the business plan or in the worst scenario, we abandon the project altogether.

Q8: Is it risky to enter a new market, especially a market with big cultural differences? What kind of risks has Delverde Pasta Factory encountered? How could possible risks be avoided?

LD: We don't see high levels of risk or cultural barriers with pasta. Italian food is gaining popularity in all parts of the world and when most consumers when choose to eat out of their homes the first choice is Italian food. In China, we see a similar high level of interest for Italian food. As in all markets, Italian food in China such as pasta and pizza is considered exotic and reserved for special occasions so the first trial or approach comes with eating at Western style restaurants or fast food outlets. We are seeing a significant growth now in retail so this confirms that Italian food is changing eating habits and cultural / historical Chinese traditions. Pasta displayed in the retail segment confirms that consumers are more and more curious and demand is on the rise.

Q9: When the company decides to enter a new foreign market, what is first thing that you consider?

LD: Many issues are considered: the growth trend of imported food, pro capita pasta consumption, local production and imported pasta as well as political and financial stability and several other macro trends.

Q10: When a company first enters China, which factors do you think are important, and which factors do you think are negligible?

LD: Delverde is a premium pasta producer. Our strategy is to produce and distribute only premium quality so we must have local partners that share the same philosophy and think long term. It's impossible to ignore the implications of local government regulations and political / financial stability. This can be a determining factor: we may choose to postpone the project or put our resources in other markets if the risks are higher than the possible returns.

Q11: On entering the new market, did the company encounter any difficulties? If so, how did you solve them? Can you give us some examples? For instance, *vis-à-vis* government communication, tax, culture or economy?

LD: We've never had any major issues with China. We make sure everything is 100% OK before shipping out containers. The main issues are with local customs authorities. Each single pack must have stickers with all necessary Chinese data and we make sure this is done before the containers are shipped.

Q12: Can you tell us anything about entering other new markets? Is it comparable to entering the Chinese market?

LD: The most recent market we have entered is Iran. In 2014, I received the contact via a colleague Export Manager that started an Extra Virgin Olive oil business with a local importer. We met with the owner in Italy and then we established a business plan together and worked on all the paper work and necessary authorizations. I visited the market and we met again in Italy and decided to embark upon this business venture. We have now been working regularly since 2015 and I visit the market twice a year.

Q13: Do you have any evidence that there is a growing demand of your product in China?

LD: Sales of Delverde are growing very rapidly in China compared to other markets. With some clients, we have a double-digit figure growth which is very rare for European markets for example. The biggest growth is in e-commerce. In China, we are noticing an important trend shifting from traditional stores such as supermarkets and hypermarkets towards e-commerce.

Q14: How much do you know about your competitors in China?

LD: I receive regular updates from my clients on what the competition is doing. Secondly, I personally visit the market at least once a year but usually twice a year. Thirdly, I receive market information from publications and trade papers. Also during trade shows and events we exchange information with Export Managers and colleagues from other food sectors (not only pasta).

Q15: How did you know in which cities you should be selling your product?

LD: To be successful and build a brand it is fundamental to have a clear distribution map. We know where our product is sold and currently 40% / 50% of sales are generated in Shanghai, but we also have one client with 90 stores with National distribution. 30% of sales are generated in Guandong province and approximately 10% of sales are generated in Beijing. Today we also have e-commerce sales so at this stage is difficult to determine this percentage of sales, but for sure we know that it is rapidly growing.

Q16: How did you know which distribution channels to use?

LD: Knowing the distribution channels is the utmost importance to be successful. Delverde is a premium brand so the distribution channel must be correctly identified in order to be successful.

Q17: How did you get to know your customers?

LD: I meet my customers when I visit places all around the world and at all major trade shows or various events in Italy.

Q18: What confirmation do you have that your product is suitable for the Chinese market?

LD: The figures speak for themselves: the demand is rapidly growing.

Q19: How did you know about searching for and finding the legal/technical requirements for your product?

LD: Delverde has many years' experience in the Export Department. Secondly local importers / partners assist us with all document requirements.

Q20: What is your strategy to protect your intellectual property in China?

LD: The Delverde brand is registered with SIB (Società Italiana Brevetti) and we have International trademark patents and registrations that are renewed periodically. We have our legal department which is active in depending trade market infringements.

Q21: How much is your sales volume in China?

LD: China (excluding Hong Kong) sales represent circa 2% of the total Delverde export sales.

Q22: How different is the packaging from the one we see in our supermarkets in Italy? If there are any differences, what are they attributable to? Is the language upon it strictly Chinese and is the green color used for the logo/packaging maintained?

LD: We have only one type of production for the entire world, so the packaging style is the same everywhere. We are currently using six different languages on our product packaging but Chinese is not there yet. It will definitely be added in the future for our Chinese consumers.

Q23: What do you think about the future of the Delverde Pasta Factory? What is your next marketing plan? Are you willing to enter some other new markets?

LD: The Delverde brand is part of a multinational group called *Molinos de la Plata* based in Argentina. This is a very big food company with US\$ 4 BILL Sales. Delverde is the premium pasta brand sold in about seventy markets. The Delverde brand is unique because of the production method and location

and these key factors have created a strong premium brand. Our marketing strategy is based not only on a strong offer that is our price but also the Delverde DNA. We offer support in terms of chef events, training and customer events and we increase sales for supermarkets in the premium pasta category. We work with hundreds of chefs in the world and we have hundreds upon thousands of loyal clients. We expand our business based on the important points I have already outlined. We aim at not only financial gains but most importantly we look for premium clients that can build brands in new markets. My objective is to build the Delverde brand in existing and new markets.

CONCLUSION

The food market is among the few that has managed to respond positively to the difficult world economic situation and is one of the strongest points of the Italian economy, since it has always been considered a guarantee of quality throughout the world.

In recent years, efforts by Italian food companies have focused on foreign markets and China is certainly a very attractive outlet market, so much so as to become the primary target of major western players. According to Coldiretti's analysis of 2011, China's food imports from Italy had risen by 30 percentage points over the previous year, and estimates for the years to come were very encouraging. In fact, Italy is not yet fully exploiting its Made in Italy excellence, especially in the food sector. The latter is considered to be the sector with largest potential growth areas for Italy, based on the analysis of exports to China from other European countries. For example, France exports food for a value of 1,086 million dollars, almost eight times more than Italy.

The economic importance of China is due to the presence of a market that is not saturated and the steady growth of a so-called "new wealthy" population with a per capita income and a consequent purchasing power comparable to western ones.

However, being able to understand the needs of Asian consumers is a major challenge for foreign companies, as the characteristics of these people make communication and interpretation at times difficult to decipher. There are two factors that have a great impact on this aspect: one is surely the unequal distribution of wealth and diversity within a vast territory. The greatness and internal diversity of this huge market means that a thorough study is needed before entering the market, since it is almost impossible for a medium sized company (like most Italian companies) to serve the whole of China.

Secondly, there is another key issue for success in the Chinese market that should not be underestimated by Italian companies especially those producing food goods and which has been discussed herein: managing entry processes in the Chinese market. This is an aspect that companies

need to look into in depth since a wrong choice could compromise the whole approach to market penetration. Opting for a partnership with a Chinese partner or deciding whether to start out through large distribution represents important and decisive choices for the enterprise, which in turn should know all the advantages and disadvantages of the opportunities that are there and the various declinations that these options present.

Moreover, the importance of regulations for the export of goods to the People's Republic of China should not be forgotten. Especially when considering foodstuffs, there are many rules and limitations on the part of governmental authorities that make the entry of these kinds of goods into the territory very complicated.

The study of literature shows that distribution is a critical element in the entry into the Chinese market, both because of its structural weakness and for strong managerial and cultural/behavioral differences between the West and the East.

Indeed, there are several factors that differentiate the Chinese distribution system from the Western system, which must be taken into account when their products are placed on the Asian market. In addition to the presence of very successful forms of distribution crucial to the sale of foodstuffs in China, which are non-existent in Europe, there are also other great differences in the management of traditional sales channels (first on the list are supermarkets and hypermarkets) in the West and in Asia and such differences are reflected in consumer choices. This means that foreign supermarkets will have a very different clientele from that of local insignia, and therefore if a company is looking to expand its range of activity, it becomes necessary to observe and learn from the domestic businesses which have a thorough knowledge of the Chinese market.

The analysis of these issues was then complemented by an interview with Mr. D'Amico, senior export manager of the Delverde pasta factory, and the study of his business case since it seemed appropriate to support the theses herein with the testimony of a company that is indirectly and successfully present in the market.

Despite the limits that a qualitative research carried out on a single company involves, the interview led to some important considerations. In fact, from the analysis of the interview it was possible to observe how there are elements of similarity, but also of contrast between the company's vision and what transpires from this literature.

China is a great opportunity for companies like Delverde that offer *niche* products for which the domestic market is no longer sufficient. In the eyes of western companies, its continued growth is seen as an opportunity to penetrate an immense market closer to Western mindset. At first, a way to try to approach such a market without risking too much is through trade fairs. Thanks to this strategy, Delverde has been able to see an interest on the part of Chinese consumers with respect to the products it offers, such as the pasta we are considering. Comparing what can be inferred from the literature to what emerged from operational analysis, it is very interesting to observe the managing entry processes in the market. In fact, with regard to this subject, we can find elements of similarity and contrast between the two visions. The first step to be taken by the company that wishes to penetrate this market is to know the context with which it intends to approach. Indeed, as quoted in the literature, Delverde asserts that the first thing to do is to analyze the market segmentation in order to understand which part of it is best to operate. Another important decision is the choice between maintaining a wholly Italian production or whether it is preferable to consider the possibility of de-localization, which may not necessarily be destined for the production process itself but for the non-critical phases of it. China is an important target for western companies, especially with regard to the ability to produce goods with far lower costs than those that would be incurred if production took place in Europe. It is well known that the short-sightedness of many Italian companies leads them to consider the Chinese market only with a view to save on the costs of production. This implies that many companies implement a de-location without actually considering the pros and cons of that decision. The Delverde pasta company, like many other Italian food companies, has never considered the option of de-localizing production in Chinese territory, not even when it was purchased by the Argentine group *Molinos Rio de la Plata* in 2008 because it is well-known that , as with almost all food companies, their main strength lies in the presence of a product made up of typical raw materials from Italy (in our specific case we are talking about raw materials such as the water that flows from a spring located in the same place the pasta is produced) and this is why the Chinese consumer is willing to pay a premium price for their purchase. It is therefore very difficult to think of a de-localization of production by companies in this particular sector. However, there are factors that need to be modified and tailored to the needs of Chinese consumers, otherwise the foreign company would risk total failure in its Asian market penetration strategy. Chinese taste buds are very different from those of the western world and it is not always feasible to offer a product that is identical to what is offered on European markets. With this in mind, the literature and the case study considered are controversial as Delverde has not adapted the formula of its product to the Chinese palate, but produces only one type of product that is exported to about seventy different markets. Another aspect that differs from the literature concerns the packaging of the product, since a smaller package is preferred to the typical

500gr pack since the Chinese do not customarily preserve their food but prefer to buy it fresh every day, so the pasta not consumed in the 500 gr. format would be thrown away. Currently, Delverde exports with the same and unique package all over the world, however this year, to celebrate its 50th anniversary, it has created a smaller 250 gr. package of pasta in order to favor its Chinese consumers. All this leads to the consideration of how to adapt the product to the specific needs of the market to which it relates, otherwise the risk of failure remains high. These are small changes that can however determine whether or not the market penetration is successful.

When a foreign company decides to enter the Chinese market, it must first be aware of the complex and multiple regulations that must be taken into consideration for the penetration to be successful.

As far as the food sector is concerned, the issue is very articulated as food products have characteristics that make their access to China even more difficult. Suffice it to say that for certain particular types of products (i.e. fruit and vegetables, dairy products and various types of meat), to this day market entry is banned due to health restrictions.

Having considered the prohibitions and restrictions on the import of goods, also the issue of labeling must be resolved due to the fact that regulations concerning labeling is a detailed and very delicate matter and even a minor error could lead to the absolute ban of the product.

The conclusion that has led to the analysis of export regulations in the food sector is very important and concerns the necessary presence of the figure of the Chinese importer.

From this reflection we can infer that a question to consider when analyzing the distribution of Italian food products in China is undoubtedly managing the complex relationship between the importers / distributors themselves. As we learned from our interview with Delverde's senior export manager, we cannot proceed with the export unless there has been a long negotiation with the Chinese importer and only after we have established a true relationship (in Chinese *guanxi* 关系) with the Chinese partner. For collaboration to be truly successful, a close and lasting relationship with the key references in the business must be established. In China, having the right relationships increases the chances of successful business operations and minimizes the risks that are faced when entering the Chinese market. Maintaining relationships with distributors in order to create a trusted relationship with them is necessary to maximize involvement and motivation.

Considering the business point of view, it is evident that this is a matter of paramount importance, and it is absolutely necessary to establish lasting and stable relations with the subjects you need to

meet. Delverde itself states the existence of a true friendship between the interviewee himself, senior export manager, and the two importers who operate from Shanghai and Beijing. The multi-annual friendship between the two is necessary for a proper management of the distribution of the products by the importer.

Getting to the heart of the matter and considering the distributive formats that are being used in China, there is some contrast between what the literature suggests and what the case study demonstrates.

Firstly, if we consider the literature, it would seem that a totally positive response from Chinese consumers is through e-commerce. Delverde is currently present on online trading platforms, however when browsing the company's website, we see it only allows shipping within Italy; by typing in Delverde pasta on Taobao, for example, which is one of the main e-commerce sites in China, the results it gives is maximum four packs of pasta that a Chinese consumer would be able to purchase.

As regards non-domestic distribution chains (such as Carrefour, Tesco, etc.), it is necessary to consider and accept the natural distrust of the Chinese consumer towards them; their tendency to distrust foreign chains has been surpassed by younger consumers but is still deeply rooted in the mindset of older and conservative Chinese. This is one of the reasons that has pushed western insignia to acquire its own management as well as a wholly Chinese management of the sales outlet so as to approach a Chinese viewpoint a little more and to attract a more diverse clientele in the future.

Most imported products are currently purchased from European chains located in China (in our case by Metro) and therefore cannot be considered essential for the success of foreign distribution chains.

In conclusion, it is necessary to emphasize that while it is true that Italian food products are gaining ground in the Asian market, it is equally true that this growth is being curbed by many important factors that are difficult to completely overcome.

In this context, it is crucial to go beyond simply making the Italian products known and not to make the mistake of thinking that the sole fact that they are made in Italy is sufficient for them to be successful with the Chinese consumer. It should not be forgotten that the Chinese tradition of food is very deep-rooted. The price tags on many Italian products are sometimes too high for the pockets of the Chinese and the products themselves are not sufficiently well known to encourage the Chinese consumer to buy it.

As far as the food sector is concerned, one cannot speak of a genuine luxury market in China; indeed, consumers prefer purchasing Italian products as a means of showing off a well-defined social status. When it comes to food, the Chinese demand the right balance between the effect the product will have on them, the taste of the food product and its health benefits. This means that as much as a product is well known and successful in its country of origin, it will never succeed unless it meets the taste of the Asian consumer. This leads to an important finding which also emerged during the interview: the need for training in order to market the Italian product. In the Asian market, it is essential that the product be explained to the consumer who does not yet know the characteristics that make it unique and appreciable. In order to do this, activities need to be set up inside the shops that sell it, such as sample tastings, brief courses on product preparation and the like; in addition to the samples set out for tasting, the presence of trained and qualified personnel who can clarify the doubts that may arise at the time of purchase is very important, such as the chef himself. Once this need is met, we will come back to an issue that has already been dealt with and linked to some of the strategic and management choices that companies are called upon to make concerning the figure of the importer. In fact, when the decision is made to entrust the management of the Asian market to an importer, the importer is also entrusted with the management of marketing and promotion of sales and product.

The criticality stemming from this situation is in the passive way the Chinese distributor handles these activities, in other words, totally unreceptive of company directives. The literature stresses the need to establish a lasting relationship with the reference distributor but this does not necessarily mean that once a good partnership has been achieved, the producer/exporter can immediately have what he/she wants from the relationship itself. In fact, if the parent company is not directly present in the foreign country of trade (as is the case of our Delverde pasta factory), it becomes difficult to oversee the distributor's work on a steady basis. In many cases the relationship between the importer and the company is not extremely transparent and this requires greater effort on the latter's part in terms of market surveillance and control. This means that the company is forced to make an important decision about how to supervise the distributor.

At this point we might consider a possibility that has been given little thought to in this literature, however after a careful analysis of the subject, and thanks to the interview with the senior export manager of the Delverde pasta company, it could be the best solution to combine different business needs: sending a trained person from the company who is competent and knowledgeable about company choices and policies. In the Delverde case, it is the export manager himself who travels to China once or twice a year to oversee the situation.

Even better would be to send a small business team that can combine the different needs of each company which is fundamental for a proper relationship with the distributor: knowledge of the language, namely Mandarin Chinese, and the company training needed to be able to implement certain policies that otherwise would be difficult to implement.

Another aspect touched upon in this paper is the various possibilities of segmentation of the Chinese market and based on the analysis of the literature integrated with that of the company testimony, we can deduce that it is necessary to consider all the different ways to find the specific target reference for the company. By integrating the different segmentations, the consumer pool of the company under review fell to 2% of total sales. The strong preference for traditional foods and the lack of willingness on the part of these consumers to purchase products such as those offered by Delverde greatly reduce this pool of users: for these reasons, the company's goal is to reach 10% of this potential market.

From this data, it is understood that at first the Chinese market appears unlimited, but after a preliminary and in-depth analysis it is drastically reduced; Nevertheless, China continues to be a major outlet for Italian companies in terms of size and growth.

To conclude, there are different considerations that have arisen from the analysis carried out in this paper but all lead to the finding that success for an Italian food company is the goal of a long and complex path from many points of view. The issues to consider are numerous and concern strategic aspects, such as the proper management of personal relations with the right figures in China, and operational aspects such as the right choice of target and the different laws and regulations. Even once one understands all the key aspects that need to be considered, he/she does not reach the end of the process.

Indeed, unmanageable factors of the companies come into play and could jeopardize the company's successful penetration of the Chinese market.

Deep-rooted millennial tradition and the little propensity to change which is typical of the Chinese mentality are important obstacles to be reckoned with for food-producing companies who want to enter China.

For this reason, a quality that the company needs to succeed in the Chinese market is certainly flexibility. Adaptation and change capabilities become crucial and only companies that understand the importance of these features will be able to bring their products to the market and make them appreciated by the Chinese consumer.

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