Università
Ca'Foscari
Venezia

Master's Degree programme in

Languages, Economics and Institutions of Asia and North Africa

"Second Cycle (D.M. 270/2004)"

Final Thesis

DRAGONS DRINKING COFFEE
South Korean and Chinese coffee cultures

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Matriculation Number
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Academic Year
2016/2017

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论文提要

这篇论文将就咖啡馆市场在两个国家传播文化的情况展开讨论。其中，韩国和中国的咖啡市场处在不同的文化阶段。这篇论文讲研究两个问题：

一. 比较这两个国家咖啡文化的异同；

二. 意大利连锁咖啡公司是否可以把其在韩国的商业模式直接应用于中国市场。

韩国咖啡文化已经有三十多年了：自 1989 年开始，韩国经济日益发展，中产阶级日益增多，它在国内市场起到了越来越多的重要性。咖啡产品成为韩国中产阶级发展的标志，喝咖啡的人越多，咖啡馆的数量越大。学生和年轻白领常常去咖啡馆学习，休息和工作。咖啡馆对于他们而言，是一个除去家和办公室以外的地方，即“第三位”。

中国还没有一个具体的咖啡文化，因为对中国消费者而言，咖啡不是一个必要的产品，并且大部分的人还没有习惯咖啡的味道。原因很多：首先，因为中国茶的文化比韩国茶的文化深刻，所以咖啡还没有代替了喝茶的习惯。另外，中国中产阶级的发展不统一：我们不可能确定一个全国生活水平。最后，大部分的中国消费者对咖啡没有了解。因此他们不会判别咖啡的质量：由于咖啡的价格一般比较高，所以有人认为咖啡毫无价值。

第一章将介绍韩国市场其包括五个方面：

一. 韩国咖啡文化的历史：1896 年，唐高宗是第一位喝咖啡的韩国人。据说喝咖啡他喜欢得甚至于他马上习惯咖了啡的味道。这个部分将描述韩国咖啡概念的演变至今天的情况。咖啡成功的历史原因是一个必不可少的因素来了解这个产品在韩国社会的意义；

二. 韩国连锁咖啡公司：1999 年，星巴克咖啡以身作则。韩国公司以星巴克为榜样做生意，他们开始发展自己咖啡馆的模式，因此在国际影响下形成了一种喝咖啡的韩国方式。比如：咖啡陪你（2008）和依帝娅咖啡（2001）；

三. 咖啡馆成功的主要的基点：质量，服务，培养忠诚度，咖啡以外的附属商品；

四. 韩国咖啡市场和消费者的需求：我们首先分析韩国中产阶级的发展，然后分析它在咖啡文化中传播的作用，最后分析中产阶级的消费水平和平均收入。

五. 韩国中产的平均消费者：他们的心理和文化特征，他们的需求和他们对产品的哪些方面重视。

第二章是这篇论文的核心。在这个部分，我们会分析中国的咖啡市场。其中包括 5 个方面：

一. 中国咖啡生产和咖啡历史：国内的消费和咖啡的出口货；

二. 在国内运营的国际公司：星巴克（1999）和雀巢（1988）；

三. 中国市场：由于没有一个全国统一的生活水平分化，所以我们会按照中国城市等级划分。这种划分包括四种等级：一线城市，二线城市，三线城市，四线城市。这种分析给读者提供一个清晰的描述来了解中国城市之间的 GDP，人口和政治影响的差异；

四. 中国消费者:这种分析由很多部分组成，目的是具体地介绍中国复杂的实际情况。首先，我们在第一部分会分析在一线城市，二线城市，三线城市和四线城市的消费者之间的差异。这种研究的目的是了解国际连锁咖啡公司在哪些城市要集中精力，并且施行哪个营销计划。然后，我们会描述中国消费者的文化价值。不过，中国社会在大变化的过程中：由于独生子女一代的社会和文化价值观跟上一代的传统价值观念不一样，所以分析要考虑到公司不能进行单一的营销计划。最后，论文考虑到中国中产阶级的发展：按哪些方面我们可以确定每个城市的中产阶级；

五. 中国咖啡生产区和中国咖啡种类：阿拉比卡豆在云南的生产占百分之 95 的总数，而福建和海南的罗布斯塔豆生产只占百分之5的总数。中国咖啡的生产率是和韩国主要区别之一。

这个比较分析显示了这两个国家的相同和不同之外。该研究对比许多方面来比较韩国三十多年的咖啡文化和中国极为缓慢的咖啡市场的发展。不过，虽然茶在中国传统文化中一直占据垄断地位（尤其是在50岁以上的人之中），但是根据中国消费者现代化的需求可以看出，越来越多的人开始喝咖啡。去咖啡厅的行为成为

了一种流行趋势，并且喝咖啡的40岁以下喝咖啡的人（包括学生，年轻白领）越来越多。该研究的目的是为了证明韩国咖啡文化和市场的历史可以作为一个准备阶段来进入中国市场做生意。

第三章提供一个意大利和全球咖啡的历史，为的是了解历史上咖啡馆的变化。一开始，咖啡馆是社交场所，可是在21世纪，美国社会学家Ray Oldenburg的“第三位”概念发生了很大的变化:如今，咖啡馆的客户需求有免费 Wi-Fi 使用，宽敞空间，高品质的可持续产品。

第三章里，我们会了解是否意大利咖啡公司是否可以以韩国为榜样来预测中国严谨的咖啡文化。

在本论文的最后部分，为了提供一个具体的例子，我们以意大利·帕斯库奇·咖啡作为案例分析。帕斯库奇在韩国和中国的商业行为会显示出该研究的重点。

1

THE SOUTH KOREAN COFFEE MARKET

1.1 CHAPTER OVERVIEW

The first chapter of this thesis paper aims to analyze the evolution of coffee culture in South Korea and how it became a part of people's work and life style, creating a culture able to replace in some way the historical tea culture of the country. The success of this beverage derived from several factors concerning the social, economic and health aspects of people's life. This trend became a habit related to a new lifestyle and created a wide consumers base, which formed a market characterized by a differentiated offer and a high demand for new products and customer experiences.

Historically, Korea was a tea-culture country. For this reason, tea-culture manners affected the way of drinking a cup of coffee and the rhythm needed to do it. It influenced the place where Koreans drink and the kind of product they demand from the market.

In a certain way, coffee took on tea: according to USDA 2015 Korea coffee market brief update[1], the black beverage is preferred to tea as a hot drink and consumers prefer to go to specialty coffee shops. According to Korea Contents Media, the amount of chain and stand-alone coffee shops in the country was about 49,600 in 2015, at least three times more than the 12,400 of 2011[2]. Moreover, coffee consumption by average Korean adult increased 23.1 percent between 2009 and 2014 reaching 341 cups a year. The growth was led by products such as espresso and other drinks directly brewed from the roasted beans and the most concrete example of it is the fact that nowadays Seoul is the city with the highest concentration of coffee shops in the world.

The success of coffee derives from the fact that the concept of consumption itself has been shaped by the culture and needs of the Korean market. Consumption is strongly related not only to the product itself, but also to the multiple identities individuals have,

[1] USDA is the U.S. Department of Agriculture. The report was made in 2015, prepared by the marketing specialist Youngsook Oh and approved by Kevin Sage-EL, ATO Director and Foreign Service Officer at USDA.

[2] https://www.reuters.com/article/us-southkorea-coffee/coffee-wars-south-koreas-cafe-boom-nears-saturation-point-idUSKCN0X12GF

are willing to have or want to communicate to the other members of the group and the society in which they live.

1.2 HISTORY OF COFFEE IN SOUTH KOREA

1.2.1 The introduction of Coffee in Korea

According to Food Historian Hoyoung Lee of Sookmyung University, the popularity and the recognition of coffee come from a mix of different influences.

In Korea, coffee was introduced more than 100 years ago under King Gojong (later emperor), who ruled Korea from 1873 to 1907.

In the second half of the 19th century, Korea went through a very unstable period due to the foreign influence: the Emperor's wife, Empress Myeongseong, was murdered and King Gojong and the Crown Prince Sunjong asked for protection at the Russian Embassy in Seoul. Here, in 1896, King Gojong met Antoinette Sontag, the German sister-in-law of the Russian consul general, who offered the emperor a cup of coffee. King Gojong became the first Korean to ever drink coffee, to actually acquire its taste and start drinking it regularly.

He liked the black-bean drink so much that after six years he helped Sontag opening the first coffee shop (다방 *dabang*) for foreign diplomats in Seoul. Hence, at the beginning, coffee houses were places where politicians used to gather together.

During Japanese occupation of Korea (1910-1945), Japanese opened more *dabangs* as tea houses. While the Emperor Gojong was kept confined in his royal palace at Changdeokgung, *dabangs* spread across the city and soon the shops became very famous among Korean upper classes: for royals, politicians, business people, artists and intellectuals, coffee symbolized Western culture and high status. It was also appreciated for its property to "energize" people thanks to caffeine.

Coffee role in Korean society changed during the years of Korean War (1950-1953), with the arrival of instant coffee, brought into the country by the American soldiers. However, this kind of coffee hardly spread across the country for several reasons: first of all, it was a product directly imported from the USA and it required foreign currency exchange; the taste of instant coffee was still different from the habits of those Koreans who could

buy it. *Dabangs* kept multiplying across the country, but coffee was harder and harder to get until 1960, when instant coffee became available in the whole country. Dongsuh Food, a local company, got the license from Maxwell Housse to produce instant coffee. The black water was not a high-class beverage anymore, and it began making its way through the middle class of the period. With this change, the social role of *dabang* also reshaped from being a place for politicians and aristocrats to being a shop for dating couples and students. Young people of the new adult generation were looking for a place to study, to meet and freely express themselves, to gather together and talk or just listening to live music. It was the period of the rise of Korean middle class, which completely changed the face of national coffee and tea houses market. A new class of people, consumers asking for new products, new experiences and aiming to a new lifestyle was rising. All this was also allowed by a Korean Government tired of fighting against the illegal commerce of foreign goods and the golden opportunity for the business world to cash from the new trend brought in by coffee.

Instant coffee was rapidly diffused across the country and Korea began to look like a nation of coffee drinkers, even because of the introduction of vending machines selling coffee in the offices and universities. The business enlarged, new value was created. In the meanwhile, during 80s and 90s, coffee houses began to change again, trying to offer a more complex and customized experience to their customers and to build their own identity in a market characterized by an increasing competition. Themed cafés and roaster cafés were opened, the menus began to offer a wider range of products: not only coffee and tea, but also soda beverages, in order to attract those who did not like or were not used to the taste of coffee. However, although the opening of shops able to provide quality coffee and the availability of espresso machine coffee, their full-scale diffusion only started in 1989, with Korea going through a high-growth economy period: middle class became richer, people started travelling and experiencing new flavors of coffee, going more often to coffee houses gathering with friends and asking for good quality, with a higher interest in healthy products.

Instant coffee continued its success, due to its convenience: people didn't need much time to prepare a cup and pouring the powder into the hot water or directly buying it

from vending machines were easy and fast methods to have a drink. Main users of instant coffee and vending machines were working people who had not much time to spend at home or just have short breaks and needed a drink to have enough energy to stay focused on their daily tasks. For these reasons, the stimulating effect of coffee made the black water the right drink for the right period, a period characterized by a rapid economic development which required people to work harder and faster. Korean people, both workers and students, found in coffee the "magic drink" to help themselves staying awake during working time.

After 1988 and the Seoul Olympic games, people preferring freshly brewed coffee increased and in 1999 the American chain Starbucks Coffee opened its first shop in Seoul. The 90s started with a bigger diversification of coffee houses: consumers were more informed about the coffee products and they demanded something newer than before. In this period, "American coffee", a watered-down version of espresso, became very popular. People's interest in coffee quality and varieties was growing, but simple espresso was still not so popular, being too dark and bitter for Korean consumers. Thus, the market demanded for espresso-based beverages able to meet the taste of Korean people. Starbucks was able to understand these needs by selling espresso-based coffee made from fully roasted arabica beans[3], introducing higher prices for higher quality and creating a qualitative customer experience for students and workers belonging to middle and upper-middle classes who could afford higher prices to drink better coffee in a more comfortable environment. However, the speed for preparing espresso-based beverages was still a problem: despite the new technologies and an easier process to make a cup, waiting time was acceptable if consuming it in the shop, but too long for take-away. Espresso still had some factors slowing down its diffusion, but success was on sight and ready to come, being consumers more and more used to the taste of coffee. Coffee shop number was growing at full speed and specialty coffee chains began to open

[3] Arabica differentiates itself from Robusta coffee due to a sweeter taste, higher acidity with pleasant notes of fruits, florals, chocolate and nuts. It has a lower caffeine content and a more complex chemical structure. Arabica covers 75% of world's coffee production and it is more expensive than Robusta, also because of its low resistance to weather and disease, which leads to more specific cultivation requirements

after Starbucks cleared the path to Korean specialty coffee chains, such as Angel-in-us, Caffè Bene and Ediya coffee.

In coffee history, there were some social campaign aiming to stop the diffusion of coffee in the country or just try to slow it down. Coffee was a foreign product dangerous for tea farms and agriculture, but especially for the consumption of green tea, probably the main beverage Korea is famous for. Despite the Government's attempts to help increasing the consumption of ginger and tea-based drinks, the results were not successful and sales remained minimal if compared to coffee. Recently, thanks to the "health trend", green tea consumption is rising especially for its healthful benefits. However, scientific researches are showing how a regular use of the black water has healthful effects and can provide through caffeine the amount of energy needed to wake up and face every day with a positive attitude.

1.2.2 The role of Starbucks Coffee in giving a new shape to the Korean Coffee market

Starbucks is an American specialty coffee chain, founded in 1971 in Seattle by three university professors: Jerry Baldwin, Zev Sieger e Gordon Bowker. The secret of its success has a name and a surname, Howard Shultz, former CEO and today's Executive Chairman, who bought the company in 1987 and decided to make a complete restyling of it after his travel in Italy in 1983. Italy played an important role in helping Shultz defining what Starbucks is today. He was fascinated by the Italian *bar* formula: in these places, coffee was sold in cups and ready to be drunk, but the main characteristic of the houses was the environment. In the *bar* he could see a close connection between customers and *baristas*, people meeting and knowing each other creating interpersonal relations while waiting for the drink and standing at the desk. In few words, he liked the Italian-style warm sense of community created in coffee houses.

Shultz decided to translate this peculiarity of the Italian market in terms of the USA culture. Thanks to the influence of the USA soft power on the whole world, adapting the Starbucks formula of coffee houses helped the brand in penetrating markets beyond the national borders.

Korea's largest Starbucks store in Central Seoul, located in Jongro Tower, near Jonggak Station and opened in December 2017

Source: https://news.starbucks.com/press-releases/starbucks-opens-largest-store-in-south-korea

Starbucks-style warm environment fitted very well the tastes of Korean people and served as a model to be followed for Korean new specialty coffee chains. After opening in 1999 its first shop in Seoul, Starbucks began to rapidly familiarize with the local market, in particular with young middle and upper-middle social classes, through the sale of espresso-based beverages and take away cups, typical of the USA culture. Young generations began to accept American culture and were attracted by an exotic third world providing the seeds for preparing coffee beverages.

Today, the image of Starbucks coffee is associated with middle class people, especially referring to young people grown in more prosperous conditions than the previous generation, who could afford the new trend of having a cup of coffee at averagely high price, due to the environment and the services offered by new coffee houses.

1.3 THE RISE OF KOREAN COFFEE HOUSES

1.3.1 Korean consumers prefer Specialty coffee chains

Coffee products available in South Korea are mainly of three kinds: instant coffee and instant coffee mixes, ready-to-drink (RTD) coffee, roasted bean coffee.

Each of them had its own peak sales period till today and has been part of lifestyle trends to satisfy needs and preferences of the Korean market. This evolution of the culture brought to the success of roasted bean coffee, especially among younger people (20-38 years old), due to changes in the kind of daily life people have in 2000s. As reported before, instant coffee entered Korea during the Korean War (1950-1953). In the 70s and 80s, its strength was convenience: convenience in preparing it and in buying it, because it was not that expensive. During those years South Korea started increasing its economic power and enlarging its market; people's only way to have a cup of coffee was using the black powder. However, in recent years the use of instant coffee decreased more and more for several reasons: instant coffee is seen as not so good for health, its taste is bitter and still watered down if compared to other kinds of coffee.

The second type of coffee is RTD (ready-to-drink) coffee. This expression refers to coffee sold in bottles or cans. RTD products are usually sold in supermarkets and convenience stores and constitute a "cheap version" of coffee, which does not need any action to be made by the consumer. According to the Republic of Korea Coffee Market Brief Update of the USDA Foreign Agricultural Service[4], RTD drinks' growth registered a positive sign in the last several years, despite having a low rhythm of increase. RTD market is wide and extremely competitive. For this reason, companies adopted a Premiumization marketing strategy. *Premiumization* refers to "*the action or process of attempting to make a brand or product appeal to consumers by emphasizing its superior quality and exclusivity*"[5]

[4] https://www.fas.usda.gov/data/coffee-world-markets-and-trade Youngsook Oh, Kevin Sage-EL, Republic of Korea Coffee Market Brief Update, USDA Foreign Agricultural Service

[5] https://en.oxforddictionaries.com/definition/premiumization

Premiumization consists of five main steps[6]:

1. building desire: the product needs to have an appeal, in order to attract consumers' attention;
2. creating new occasions, new meaning and a new value which can be perceived by people as something "premium", of higher quality and worth to buy;
3. reaching different audiences: RTD bottles and cans' main advantage is their possibility of being consumed on-the-go.
4. building long-term relations: the product essence has to come from the heart of the brand, it has to embody its real soul and communicate truthfulness and trust.
5. surprise: to create surprise, companies have to find a way to create happiness and pleasure through uniqueness.

Therefore, Korean people prefer to drink RTD coffee while they are going to or leaving from their offices, lessons or whatever they have to do during the day. However, as reported in figure 1*),* RTD drinks trend is inevitably slowing down, due to the increasing preference for brewed coffee by young generations.

Figure 1: Korea Coffee Retail Sales by Year and by Categories

	INSTANT COFFEE		INSTANT COFFEE & MIX		RTD COFFEE		ROASTED BEAN COFFEE		INSTANT ROASTED BEAN COFFEE	
	Million $	**Growth**	**Million$**	**Growth**	**Million$**	**Growth**	**Million$**	**Growth**	**Million$**	**Growth**
2012	135.1	-10.1%	1,223.4	4.3%	896.4	14.6%	40.3	7.9%	53.9	709.9%
2013	118.8	-12.1%	1,148.5	-6.1%	952.8	7.1%	38.4	-4.8%	92.8	72.3%
2014	105.0	-11.6%	1,037.8	-9.6%	970.6	1,9%	37.9	-1.1%	114.4	23.3%

Source: Korea Food Distribution Year Book 2015, Nelson (Bean coffee data from Link Aztec Retail Shops)

[6] http://www.pearlfisher.com/live/perspectives/what-is-premiumisation/

The last kind of coffee product in the market is roasted bean coffee, which refers to the coffee directly coming from the roasted coffee beans.

Between 2009 and 2014, coffee consumption in South Korea increased 23.1%, mainly due to the growth of regular coffee sales. However, the success was not proportionally distributed among coffee chains and independent cafés. Each year from 2009, independent specialty coffee shops performed negative value growth, both with bars, pubs, juice & smoothie bars. The main reason of this minus-sign trend is the fact that consumers' preferences are shifting towards the products and services offered by chained specialty coffee shops. Big chained shops' advantage consists in having enough resources to create a customized and characteristic atmosphere in wide spaces, building a comfortable customer experience closely connected to the environment of the shop. People need a shop providing a social excuse to spend their time, working, studying, gathering with friends; these activities cannot be done in the small places usually rented by independent coffee shops, whose potential is always limited by the high rent fees and their lower financial resources. Consequently, independent coffee houses are focusing on providing a unique quality coffee, especially for consumers' niches, trying to survive in a market which is more and more competitive and every day closer to its saturation point[7].

Figure 2: Market of Chained Specialty Coffee shops

	2013	2014	Percentage of Growth
Units of franchisee	8,456	12,022	+42.2%
Number of employees (persons)	36,673	54,616	+48.9%
Value sales per franchisee	$157.8 Million	$168,2 Million	+6.6%
Value sales per employee	$36.4 Million	$37 Million	+1.7%

Source: Hankook Daily Newspaper – December 25, 2015

[7] https://www.reuters.com/article/us-jc-penney-results/j-c-penney-same-store-sales-rose-double-what-wall-street-expected-idUSKBN1DA1MT

1.4 KOREAN MAIN COFFEE CHAINS: CAFFE' BENE, EDIYA COFFEE

As reported above, Starbucks had a major role in educating a market in which few years later several Korean specialty coffee chains began to do business.

In this paper, I will report a description of two of the main Korean coffee franchises, in order to have a deeper understanding of what is the kind of offer provided by brand owners and the culture they need to feed.

1.4.1 CAFFE' BENE

The first specialty coffee chain I am studying is Caffé Bene. The company was founded in May 2008 by Sun-Kwon Kim.

According to the number of its stores, Caffé Bene is the largest coffee chain in South Korea, and a concrete Korean-made alternative to the American Starbucks.

As Howard Shultz did, Sun-Kwon Kim found his idea of starting a coffeehouse business while travelling abroad, in particular travelling around Canada: he remained very impressed by Canadian coffee shops. Therefore, Caffé Bene ideal has international roots: the coffee shop format took inspiration from the American Starbucks retail store formula, rather than the European one: the store is a social place to stay and sit down, not to pass by, a place to gather together with other people and spend a whole morning or an afternoon.

The name of the brand has an Italian meaning: Caffé means "coffee" and Bene means "good". As reported in Chapter 1, Italy is historically the country where Espresso was invented and the Italian culture played an important role in communicating the idea of specialty coffee and trustworthiness of Italian and European coffee houses tradition.

In the beginning, Kim had some difficulties in making its brand popular, because of the dominance of a giant like Starbucks in the Korean market since 1999, having the competitive advantage of being the first-mover.

However, year 2009 represented the turning point for the brand: Kim signed a deal with iHQ, an entertainment South Korean company, which started to shoot Korean dramas and entertainment shows at his locations, with a return of 3% of Caffé Bene's profits. The strategy revealed itself to be extremely successful especially among young

generations, people looking for new trends and experiences, following iHQ TV programs. By 2010, Caffé Bene opened 300 shops only in Korea and today they are over one thousand, expanding overseas, especially into China and the USA.

Caffé Bene Chief Executive Officer Sun-Kwon Kim main objective is reaching a number of 10,000 shops across the world by 2020, adopting a well-meditated expansion strategy, which consists in playing as a second-mover, entering countries which already have the presence of big coffee chains, without the need to be educated[8].

Caffé Bene menu offers brewed coffee, espresso drinks, hot and cold beverages, dessert, sandwiches, ice-cream depending on the seasons and periods of the year. However, the major strength of the brand relies in its environment and atmosphere. Caffé Bene has been able to create a social ambient, which reminds the guest to be in someone's living room, offering a cozy and comfortable area, attracting people to stay and not just grab and go. The vintage interior design perfectly communicates the essence of the brand found in traditional European coffee houses and the presence of plants and green spots communicates its eco-friendly vocation[9].

Today, Caffé Bene represents the main national alternative to Starbucks coffee. Since the Korean market is closer and closer to its saturation point, its expansion moved overseas, especially China, helped by the influence of Korean dramas on Chinese young generations, whose idea of coffee house is extremely similar to the one of their neighbors.

1.4.2 EDIYA COFFEE

A second example of Korean specialty coffee franchise is represented by Ediya Coffee, whose CEO is Moon Chang-ki.

The brand was founded in 2001 and today it has more than 1000 shops.

The word "Ediya" derives from the name of a tribe in Ethiopia, country considered as the birthplace of coffee. Ediya word also owns a second meaning, which in Ethiopian

[8] https://www.forbes.com/sites/yunitaong/2014/09/24/can-south-korean-coffee-chain-caffebene-achieve-world-domination/#71e6f5a7574e

[9] https://www.forbes.com/sites/rosatrieu/2014/06/05/korean-coffee-chain-caffe-bene-plans-aggressive-growth-as-starbucks-alternative/#7e0664e877b7

language refers to “the only emperor of the continent”, a sort of symbolic and literal representation of the brand’s main purpose: reaching the highest brand value in the franchise coffee business.

Ediya Coffee represented a different kind of player in the coffee market, confirming through the years its decision of not directly competing against the American Starbucks and the Korean Caffé Bene. The strength of these two coffee “giants” consisted in investing huge resources in large-scale spaces located in high human-flow spots, to keep people inside the store for as much time as possible. Ediya coffee strategy is fundamentally different, consisting in opening small shops in subprime locations. Saving money on location cost, Ediya is able to offer premium quality coffee at lower prices, attracting those who just want to grab a cup and go. The combination of these two strategies is at the base of one of the main concepts of the brand: honesty in treating customers[10]. The strategy was also effective because of the high number of franchisees interested in opening a small coffee shop at a cost definitely below the average[11]. Moreover, the company is also in charge of all marketing expenditures for the franchisees. This differentiated strategy helped Ediya having a high number of stores and coffee lovers buying cups on their way to go home, school or office. So, the Korean coffee franchise found its success in entering a niche market, the one of coffee take-out, encouraging this trend through cheaper prices and minimized spaces.

Another strength of the brand is the relationship that it was capable to create with its member stores: Ediya offers a win-win opportunity, giving them the chance to open a small café through a long-lasting partnership based on a very competitive price and a friendly customer service. In fact, according to Korea consumer agency[12], consumers agree on the fact that among all coffee chains doing business in South Korea, Ediya coffee is the one with the most reasonable price and stood among the top five best coffee brands in 2014 as shown in Figure 3:

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[10] Korean coffee consumers are strongly aware of the fact that coffee cups are overpriced, because they include services, such as a cozy environment and Wi-fi connection

[11] Ediya’s fixed brand loyalty fee is around 250,000 won per month (220$)

[12] https://www.fas.usda.gov/data/coffee-world-markets-and-trade , Youngsook Oh, Kevin Sage-EL, Republic of Korea Coffee Market Brief Update, USDA Foreign Agricultural Service

Figure 3: Global Brand Cafés – Brand shares in chained Cafes/Bars in Korea (Unit: % of Foodservice Value Sales)

Brand	Global brand owner	2011	2012	2013	2014
Starbucks	Starbucks Corp	5.1	5.8	7.5	9.0
Ediya Espresso	Ediya Co Ltd	2.2	3.1	4.5	6.4
Caffe Bene	Caffe Bene Co	4.4	4.9	5.1	5.2
Angel-in-us Coffee	Lotte Group	3.2	3.8	4.3	4.5
Twosome place	CJ Foodville Corp	1.8	2.5	3.2	3.7
Tom N Toms	Tom N Toms Co	1.8	2.1	2.2	2.4

Source: Euromonitor International from official statistics, trade associations, trade press, company research trade interview, trade sources

However, Korean consumers' preferences and needs are changing over time, shifting towards a lower rhythm in drinking coffee. Ediya Coffee CEO Moon plans to enlarge the size of future new stores, because customers prefer staying rather than just taking away. Coffee is becoming more and more a "social excuse", a fixed habit to have a place to gather together with people, interacting with the others while having a drink[13].

1.5 SPECIALTY COFFEE SHOPS RANGE OF PRODUCTS AND SERVICES

Specialty chained coffee shops offer a wide range of services and products not always related to coffee itself, in order to attract people with different tastes and needs. Despite this, coffee is still the core of the menu, a core around which every kind of good can be sold: snacks, tea, cups, clothes, accessorizes, to help the customer feeling part of the family of the brand.

While planning the offer range, coffee houses need to consider several factors, which highly influence the customers in making their choices:

[13]https://web.archive.org/web/20141214012055/http://www.koreatimes.co.kr/www/news/biz/2014/03/328_146361.html

a. The role of coffee itself: despite the fact that customers could continue to go to a certain coffee house because of needs which are not related to being thirsty of hungry, coffee still matters, especially for the first time. A coffee cup remains the core of the experience and the most direct link with the inner emotions and feelings of people. It is something you drink, something that has a concrete taste, flavor and color: coffee reaches all people's senses and gives the first mental shape of the brand identity. Consequently, it is very important to consistently serve the best espresso, trying to reach the highest quality possible and find the highest quality raw beans, machineries and skilled *baristas* in the workplace. Nowadays, coffee quality is definitely more important than a visible and expensive location, because coffee houses usually are not places people just pass by, but places where people decide to go to stay.

b. Good quality does not only refer to coffee, but also to the service. Good service is provided not only having high-skilled staff people, but also helping them working in a comfortable and functional environment. Thus, ergonomics is a vital aspect of the store design integrated with the perception of quality communicated to the customers. The coffee workstation is usually studied *ad hoc* for baristas: underneath bins need to be easily accessible, both with bean storage and the fridge for cold drinks and milk. The benchtop also needs to be settle at a height ensuring both baristas and customers an easy access to cups, grinder, accessories and other kind of supplies. A small inbuilt sink to allow quick and easy ongoing cleanings is also very appreciated by working people: the workplace needs to remain clean and ordered for them to be more focused on their job and for people to count on a clean and healthy kitchen environment. In many coffee houses, the cash register is placed in proximity of the baristas' workstation, for two main reasons. First, they can directly hear the different orders in the moment they are settled, without waiting for the people to directly tell them, providing a faster service in busy moments of the working day. The second, in order not to create two separated workstations that require space ad

could create noise for people sitting in the coffee house looking for a relaxing and balanced atmosphere.

c. Despite the fact that coffee is still the prime motivator for people to go to coffeehouses, coffee alone cannot ensure the loyalty of customers or enough sales to keep the business going on. Brands promote multiple sales, through goods which are related to their identity, aiming to fulfill people's needs and help them having a long-timing comfortable experience in the store. The offer needs to include both hot and cold food: cakes, cookies, muffins, drinks, because it is important to provide an equal customer experience to those who do not like coffee or who are not used to it yet. The main purpose is to keep every kind of person inside the store, adapting the range of products to different preferences. However, it is important not to create a menu offer which is too wide: high-extension offers could create anguish, indecision and could lead to the loss of brand identity. The strategy in choosing what to sell is very accurate and it needs to consider the costs of adding new products or services, which do not necessarily increase sales. In today's coffee houses, "three" is often the main rule to be followed: three cup sizes (small-medium-big), three variable flavors of food and drinks. Having a measured strategy helps owners not to have extra costs and help people to better understand the brand identity, without creating confusion every time they enter the coffee house: too many products would lead them to always choose the same ones.

d. Merchandising as the variety of products sold in the store. The merchandise in the store also includes items such as cups, bottles, accessorizes, clothes, with the intention of better help the brand enter the daily life of customers and have "free" channels of promotion through the people wearing or using those items outside of the store. This process is very similar to "word-of-mouth", because based on trust. According to businessdictionary.com, word-of-mouth is defined as the "*oral or written recommendation by a satisfied customer to the prospective*

customers of a good or service". It usually refers to the suggestion given from a person to his friends and it builds its strength on trust. For this reason, wearing a cloth or using a cup of a specific brand by a customer could be perceived as a recommendation of that brand to the people around her or him, a source of alternative promotion without any cost and very trustworthy, because coming from someone they know. We can define it as a visible and material form of word-of-mouth, which does not need to be heard[14].

e. Building loyalty: loyalty can be built through multiple methods. One example is represented by loyalty cards given to regular customers, in order to reward them in different ways: a buy *n*, get the *n*+1 for free, credit points which can be collected to win presents or to buy store accessorizes and items at a cheaper price[15].

Loyalty cards are also very appreciated in collectivistic-culture countries like South Korea, where people need to feel part of the group and to live in a harmonious society, where everyone tends to share where he or she goes with others.

1.6 KOREAN COFFEE MARKET OVERVIEW

1.6.1 Korean middle class analysis

As reported in the historical background at the beginning of this chapter, Korean middle class played an important and active role in the diffusion of coffee among Korean population, from being a beverage for high and political classes to a commonly spread drink. During 60s and 70s, middle-class workers found in its caffeine a source of energy for high-intensity and high-rhythm working days. Years later, middle-class youngsters, sons and daughters of the previous generation, identified in *dabang* a place to express

[14] https://www.forbes.com/sites/kimberlywhitler/2014/07/17/why-word-of-mouth-marketing-is-the-most-important-social-media/#6bacf3eb54a8

[15] https://www.forbes.com/sites/quora/2012/12/20/whats-the-secret-to-a-successful-coffee-shop/#26d6de7213c3

their new lifestyle and culture, having somewhere to go to listen to live music and to gather together or to have couple meetings.

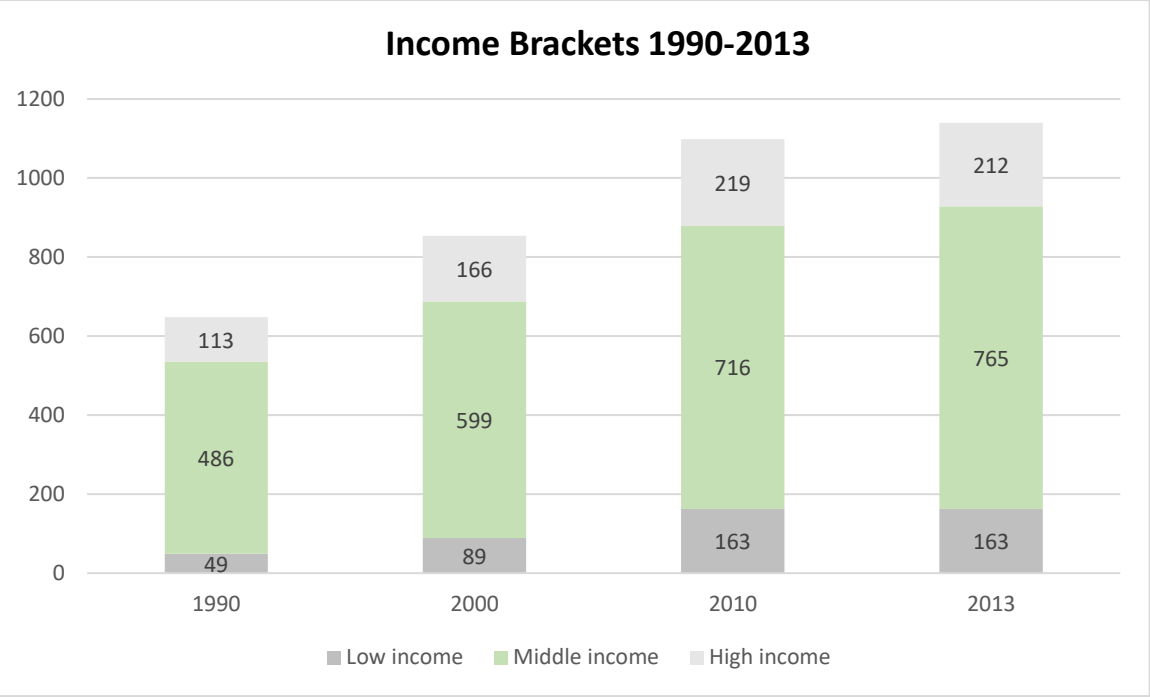
Basing on data reported by the Hyundai Research Institute, it is possible to identify three main changes which can be connected to the more and more frequent tendency of visiting coffee shops: the first is related to the growth of middle-class households and their income, the second to their living spaces and house dimension and finally the third is related to their new habits and preferences in leisure.

Korean middle class[16] growth largely contributed to the success of coffeehouses, despite the averagely high price to buy a cup.

Focusing on the years between 1990 and 2013, it is evident how middle-income households' life quality grew at an extremely high rhythm. The reason for this trend lies in the fact that in the last ten years of the 20th century the average Korean middle-class household had four members usually relying on a high school-educated, single-income couple around thirty years old. In the new millennium, this household format began to change: the representative family was composed by a college-educated, double-income couple around its 40s having one child. Children education was higher than previous generations' one and so the quality of their life: a double income household was definitely richer than the typical household of the 90s and it could afford a new lifestyle and more expensive products and services in leisure, especially if belonging to the main trends of the historical period.

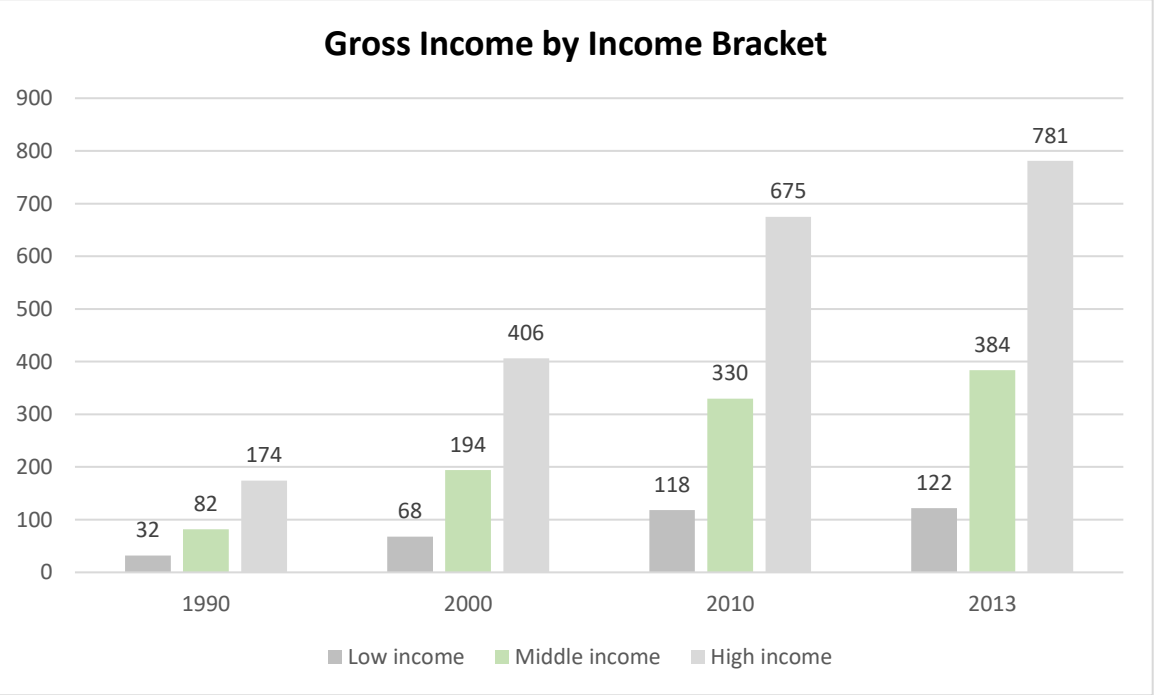
[16] This study applies the OECD definition of middle class: people who earn between 50 percent and 150 percent of the median income in terms of equalized disposable income, which takes into account the number of household members

Figure 4: Income brackets between 1990 and 2013



Source: Hyundai Research Institute, Changes in the Quality of Life of Korea's Middle Class

Figure 5: Gross income by income brackets between 1990 and 2013

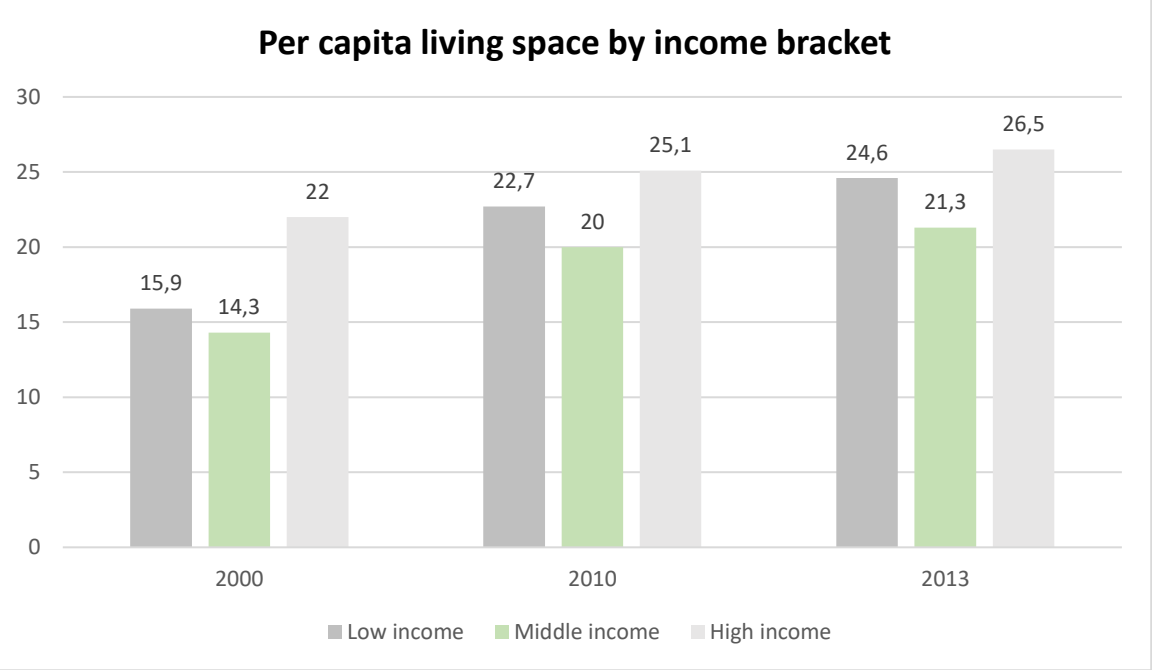


Source: Hyundai Research Institute, Changes in the Quality of Life of Korea's Middle Class

Having a look at Figure 4, if we compare the three main income brackets, middle-income households had the highest growth rate in average growth income on a nominal basis. Its annual average rate was 7.0 percent, passing from a 820,000 Korean won during the 90s to a 3.84 million Korean won a month. In fact, other two income brackets, low-income and high-income, respectively grew at a 6.1 percent and 6.8 percent. This shows how the middle class became richer and completely changed the trends of the beverage market, becoming the main social class targeted both by big foreign and local specialty coffee brands, such as Starbucks, Caffé Bene, Ediya Coffee, Angel-in-us, Costa coffee, etc.

The second reason for coffee-house format success is related to households' living space. A shown in Figure 6, the per capita living space of middle-income households is smaller than the one of low and high-income ones. Despite the increasing trend from 1990 (57 square meters) to 2013 (72 square meters), the per capita living space of 2013 (21.3 square meters) was still smaller than low-income households' and high-income households' one. A smaller per capita living space than low-income households can be explained by the fact that usually bottom brackets are composed by elderly people, while the middle-class households have more members, including parents and children.

Figure 6: Per capita living space by income bracket

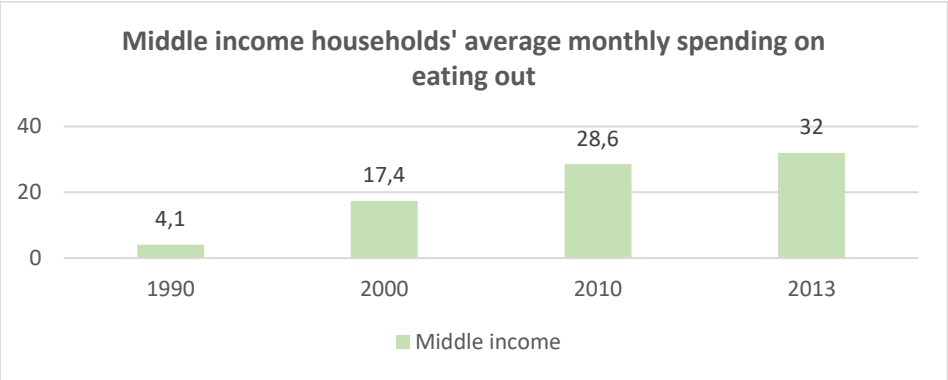


Source: Hyundai Research Institute, Changes in the Quality of Life of Korea's Middle Class

Having a relatively small per capita space for exclusive use can explain why people often go to coffee houses. In fact, chained stores represent an alternative to their house under several aspects: these spaces provide fast Wi-fi access, a relaxing environment, food and drinks, large spaces with tables and chairs, disposed to still preserve the privacy of customers. Furthermore, they are usually located nearby most frequented places, such as shopping streets, universities and office districts, constituting a halfway spot between work and home, which allows them not to go back and forth through the traffic of the city.

Finally, the last reason for coffee success is in the new habits of Korean people when it comes to leisure. According to Hyundai Research Institute and Statistics Korea's household surveys (Figure 7), middle-income households' expenditure on eating out rapidly increased in recent years, at expense of the spending in cultural activities.

Figure 7: Middle income households' average monthly spending on eating out



Source: Hyundai Research Institute and Statistics Korea's household surveys

Consequently, the whole sector of accommodation and food service activities benefited from this increasing trend, with an annual sale amount of 200 million won per franchisee. Coffee franchisees annual sales in 2014 and 2015 were over 160 million won: respectively 168,2 million won and 161,2 million won[17]. The small decline derived from the fact that coffee market became more and more competitive, going towards its saturation point. The increasing spending in eating out was strongly related to the rise in dual-career couples, too.

[17] http://kostat.go.kr/portal/eng/index.action

In conclusion, we can see how Korean middle class played and is still playing an essential role in coffee industry, slowly changing its habits and preferences through time and from one generation to another. Today, coffee houses are mainly visited by people who just began their professional career or students looking for a place to work or relax. In the past, students' families already developed the habit of drinking coffee and young generations inherited it from their parents and from watching Korean TV dramas, which had a strong influence on them, reshaping the concept of having a cup.

1.6.2 South Korean Middle-class consumer analysis

For historical and cultural reasons, Korean consumers are highly educated about coffee: the *black water* entered the country at the end of the 19th century and very soon found its place in Korean culture, starting from being an elite-class product till being a symbol of 90s and 2000's middle class.

Korean culture has its roots in Confucianism and this philosophy still influences the way people think, act and treat each other.

The Confucian value that mainly characterizes Korean society is communitarianism, intended as giving major importance to the connection between the individual and community. Individual achievement and improvement is always seen as a part of a whole, in this case the community itself. Therefore, the importance of universally accepted values such interpersonal cooperation and the will of maintaining group harmony are at the base of everyday life. In Korean culture, building personal ties is essential to create and maintain a harmonious society, starting from family, friends, surrounding people, and to preserve a balanced environment to live in. Hence, in all forms of relationship other than family, people tend to share their own experiences with others, shaping and guaranteeing the subsistence of the Confucian interpersonal communication.

At the same time, Korean people look for social recognition. With this expression, we do not refer to the individualistic need of distinguishing the self from the others or to a narcissistic necessity, but to the inner wish of feeling themselves part of a group (the in-group), being recognized by members through what they do, buy or the places they go. It clearly explains the bound between society and the degree of interdependence it

reigns among its individuals. Korean people are also highly collectivistic. It follows that loyalty is a commonly spread characteristic among consumers. Loyalty is created by long-term and solid relationships, which are essential for the existence of harmony[18].

In this context, people use brands and products as symbolic means to communicate their inner self to others. These symbols[19] must obtain social recognition to be effective communicative devices and they must be clear and easy to understand, without extra efforts[20].

Self-concepts have a key-role in Korean consumers' mind.

Before discussing how Korean consumers choose their favorite coffee house, I will recall the theory of Mack Joseph Sirgy, a Virginia Tech Real Estate Professor of Marketing, about consumer's self-image congruence and behavior phenomena, to create a solid background of definitions serving as a base on which building my analysis.

In his studies, Sirgy (1979) hypothesized and demonstrated the relation between product/brand image and consumer's self-perspectives and how it leads to product/brand preference and purchase intention. Sirgy took Rosenberg's definition of self-concept as the *"totality of the individual thoughts and feelings having reference to himself as an object"*[21].

The first one stating the existence of a person's many "selves" was the American philosopher and psychologist William James in 1890. According to James, a person has four main selves:

a. the Basic-self, or Actual-self: what a person really thinks to be;
   Ideal-self: what a person would like or dreams to be;

b. Social-self: what a person thinks others believe he is or the way he thinks others see him;

c. Ideal-social-self: how a person would like to be seen by others.

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[18] https://www.hofstede-insights.com/country-comparison/south-korea/

[19] The word "symbol" here is intended as something that stands for or represents something else

[20] Grubb & Grathwohl, 1967, in Morgan A. Ilaw, "WHO YOU ARE AFFECTS WHAT YOU BUY", The Elon Journal of Undergraduate Research in Communications, Vol. 5, No. 2, Fall 2014

[21] Dr. Rosenberg Morris in "Self-concept in consumer behavior", by M. Joseph Sirgy, University of Massachusetts Amherst, September 1979

Sirgy based its assumptions on the hypothesis that consumers are willing to buy products, which are congruent with their self-image according to what Grubb and Grathwohl[22] proposed in 1967, saying that the consuming behavior tends to enhance the self-concepts an individual has of himself, what we call "self-congruity". In Asian countries with collectivistic culture, this behavior is also strongly influenced by "social-congruity" and "ideal-social-congruity, which are respectively related to the social-self and the ideal-social-self.

"Congruity" is a "*psychological state in which the product-image is perceived to match, or to be consistent (congruous) with any of the self-perspectives*"[23]. Hence, there are four kinds of congruity, depending on which self-concept it is associated with:

a. Self-congruity: the match between the actual-self-image and the product image;
b. Social-congruity: the match between the social-image and the product image
c. Ideal-congruity: the match between the ideal-self-image and the product image;
d. Ideal-social-congruity: the match between the ideal-social-image and the product image.

Sirgy assumes that when expressing a product preference, consumers' decisions are more related to ideal-congruity and ideal-social-congruity, than to the two actual selves and social congruities. This happens because of their desire of creating an idea of themselves based on what they want, on the possibility of being an active part of how others perceive them. It is what is called Self-enhancement, the movement of building an ideal image of one's self or a socially desirable image.

In collectivistic cultures where pursuing a harmonious environment is a fundamental value of co-existence, this purpose derives from the wish of belonging to a social group. This definitional background is essential to understand how Korean people act and make decisions in the highly competitive market of coffee houses.

[22] Grubb & Grathwohl, 1967, in Morgan A. Ilaw, "WHO YOU ARE AFFECTS WHAT YOU BUY", The Elon Journal of Undergraduate Research in Communications, Vol. 5, No. 2, Fall 2014
[23] Sirgy M. Joseph, "Self-concept in consumer behavior" University of Massachusetts Amherst, p. 19

First of all, we need to state that coffee culture is deeply rooted in the country. South Koreans are highly experienced about coffee, which lost its exotic and Western exotic image[24], becoming a part of their everyday life, especially for young Korean generations, which constitute the majority of customers of specialty coffee chains. Older people (>40 years old) are still mostly loyal to instant coffee mix, a product whose usage is slowing down among young men and declining among young women.

The consequence of these trends has been the success of brewed coffee and specialty coffee franchises. However, despite coffee still represents the essential core for visiting the stores, it is not what makes the difference in the choice of highly experienced consumers. Coffee and other kinds of products still have an important role in the purchase decision phase: in fact, for high-experience customers functional attributes, such as store location, Wi-fi, prices, waiting time, employee performance and food quality are the essential characteristics for a coffee house to exist. Nevertheless, the very competitive market pushed brands to offer products whose quality must be above average, giving more importance to the atmosphere the brand is able to create in customers' minds. Hence, environment is coffee shops' main aspect in order to distinguish themselves from competitors and to be unique.

For Koreans, functional congruity, which is the customers' general attitude toward functional attributes, is an addition to the more important self-congruity, because of the pursuit by customers of an atmosphere which fits them. Therefore, at the core of Korean consumers' purchasing decision lies the principle of self-congruity: to feel comfortable, Koreans need a connection between their personality and the one of the brand, between brand's soul and their actual or ideal-self. At the same time, this connection has to be part of a wider social net, showing off their belonging to a social harmonious group[25], sharing the same atmosphere, rather than pursuing the purpose of being different from other people.

Through functional attributes, Self-congruity influences customers' choice of going to a certain place to have a cup of coffee. South Korea is a collectivistic country: the

[24] : In the 90s, going to coffeehouses was part of the westerner trend, it was a way to show good wealth and to feel part of the new developing South Korea

[25] Referred as matching with social-self or ideal-social-self

importance of coffee houses consists in the fact that these places are a place to gather with the group, to study and work and Koreans look for value related to an image which is consistent with what they are (actual-self), what they want to be (ideal-self) and what they want others think they are (ideal-social-self).

Customer experience has a moderating effect on the connection between functional congruity and the customers' feeling toward the brand coffee store. These high-experience groups seek for a place which can help them building their own identity, express themselves and develop a sense of belonging to the in-group, based on a stereotypical image. It all derives from the need of a social recognition, which is a deeply rooted component of their collectivistic culture.

Today, another quality of coffee houses emerged: their being "*coffices*"[26]. Considering that many store customers are people between 20 and 34 years old (Park et al., 2008) and that are mostly students or entry-level employees, shops represent a halfway spot to spend their time without the need of crossing the whole city to go home. While RTD coffee is mainly consumed in the morning, Korean coffee houses see their busy hours in the afternoon and during the evening, with an average preference for American coffee[27]. Customers need an alternative place to their house, filled with food, beverages, a good atmosphere, quiet music and wide spaces to have their own privacy and work. This is a unique pattern of Korean coffee consumers, mainly depending on functional attributes of the store. As we previously said, the perfect example for this sort of "alternative house" is represented by Caffé Bene, whose interior design and service is completely based on the idea of recreating a home atmosphere.

The last peculiar characteristic of Korean customers is their being highly health-conscious. South Korea is a country whose coffee tradition born through the roots of tea culture. Tea cultures of countries like South Korea, China and Japan are deeply centered on tea health benefits and this value slipped on coffee culture. As reported in the 2015

[26] The term is a combination of the words "coffee" and "office"

[27] : this preference derives from the similarity in taste between American coffee and Sungyung, a traditional sweet Korean drink made with hot water poured in a pot with roasted rice; Giuli M., Pascucci F., "Il ritorno alla competitività dell'espresso italiano", Franco Angeli s.r.l., Milano, Italy, 2014

Coffee Market Brief Update by USDA foreign agricultural service**,** despite coffee is preferred to tea as a hot drink, in Koreans' minds the black water has a negative connotation in terms of health: high consumption of black coffee could lead to insomnia, high blood pressure and losing the boost-effect of caffeine. In fact, caffeine is scientifically defined as one of the most psychoactive substances in the world: it is an antagonist of the so-called Adenosine, which is an endogenous inhibitory neuromodulator that brings a sense of sleepiness to people. Caffeine counter-acts by occupying adenosine receptors, whose dimension is similar to the caffeine molecules, enhancing its energetic-effect. However, if caffeine quantity introduced in the human body is too much, it would develop new Adenosine Receptors, in order to compensate the effect of caffeine. This explains why high consumption could lead to the loss of one of the main properties Korean people drink coffee for.

During South Korea's economic boom of Sixties, people started to consume instant coffee, mainly because of the boost-effect of its caffeine and its convenience in price and preparation. Koreans are famous to be a work-hard people and during those years working hours quantity was very high. Hence, people needed an "energy drink" to stay awake and keep the new rhythm of economic development. After Starbucks entered the country in 1999 and new coffee chains began to start their own business, coffee consumption became part of a new lifestyle under the influence of USA on young generations. In recent years coffee has become a true element of Korean culture, with the increase of brewed coffee consumption. The reason for this change, especially among young people, is still mainly related to health issues. The use of instant coffee is decreasing for many reasons: first of all, prima, the substance that is used to soften the taste of coffee, is bad for health, and secondly, instant coffee and instant coffee mix contain high levels of additives and have been accused of driving people to consume too much sugar.

Although coffee directly brewed from the beans is sold at a higher price, its consumption is on an increasing trend. Korean consumers do not want to renounce to their primary source of caffeine and at the same time, scientific resources are showing how coffee moderated consumption has multiple positive effects on health. Coffee acts against

some neurodegenerative diseases such as Parkinson's disease and Alzheimer's disease. It is also the main source of antioxidants in a diet and in sports it improves athlete's endurance in long-duration physical activities.

For these reasons, when entering this market, brand should know that Korean consumers recently pay a lot of attention to coffee properties and are more aware of its risks, rather than its benefits.

1.7 CONCLUSION

To sum up, in this Chapter I provided an analysis of the South Korean coffee market, starting from its history, followed by a description of the main companies which shaped this culture in the country. After a period being an elite product consumed by upper classes, coffee was re-dimensioned first by the higher diffusion of *dabang*, then by the entry of Starbucks Coffee in the South Korean market, which lead the way for the birth of Korean specialty coffee chains, able to find their own identity and to compete with the American giant. At the same time, as time passed, Korean consumers tastes evolved from a preference for instant coffee to a preference for brewed coffee provided by coffee chains, which had enough financial resources to rent wide spaces with a cozy atmosphere.

The middle class made coffee culture its own and gave shape to a new lifestyle, under the influence of a Confucian society characterized by collectivism, where shared experience and gathering in coffee houses were ways to create and maintain everyone's social identity and social harmony. The analysis of Korean middle class provided a deeper understanding of the historical and economical reasons why people belonging to this class had such an impact on the business.

Finally, I provided a cultural and psychological description of the microcosm of Korean individual consumer, whose inner self is deeply affected by Confucianism and communitarianism. These values explain the average Korean consumer behavior and constitute a unique example of it.

These points provide a knowledge background to develop what I will discuss about in Chapter 3, serving as a comparative example for the study of Chinese coffee market and Chinese consumer behavior.

2

THE CHINESE COFFEE MARKET

2.1 CHAPTER OVERVIEW

The description of South Korean coffee market and consumers made in Chapter 2 provides an element of comparison to develop the central core of this thesis paper: the study of the Chinese coffee market and Chinese coffee consumer. As I reported in the previous pages, in 19th century, in South Korea coffee culture started as an upper-class trend among politicians and diplomats and completed its diffusion in Korean society with the introduction of instant coffee by the USA soldiers, especially after 1960 thanks to the collaboration between Dongsuh Food, a local company, and Maxwell Housse. Coffee houses (*dabang* in Korean language) began to increase in numbers and to be visited by a younger generation in search for places to express its identity. The entrance of Starbucks Coffee in 1999 revolutionized the whole market and served as a model to South Korean companies to start their businesses and to diffuse a new coffee culture across the whole country.

Chinese coffee history is structurally different from South Korean's one. Despite this beverage is still not part of Chinese lifestyle nor a trend widely spread among Chinese young generations as it happens in the South Korean market, coffee in China has deeper historical roots than in Korea. However, the strong Chinese tea culture and the late opening of the country to the different world's markets and cultures slowed down the diffusion of this beverage, whose connotation in average Chinese consumer's mind is still "*foreign*", although China is itself a country with coffee farms producing both Arabica (in Yunnan) and Robusta (in Fujian and Hainan) quality coffee.

Another factor of major difference between the two countries is society itself: South Korean middle class acted as the main driver for the large-scale diffusion of coffee after 1960, while Chinese middle class is still in its first development stages, especially in minor cities. Highly developed cities like Shanghai, Beijing, Shenzhen and Guangzhou are inhabited by consumers who already developed a taste for coffee. However, in these big

realities, coffee does not belong to Chinese citizens' lifestyle and it is not seen as a necessity yet, but as a product to show personal and professional success.

2.2 CHINESE COFFEE HISTORY

2.2.1 History of production

Chinese coffee history finds its roots in the 19th century, after China was forced to respect treaties made by the Western powers, which occupied many lands along the coastal areas. Nations like Britain, France, the United States, Russia, Austria, Germany, Italy, the Netherlands and Belgium and the Imperial Japan had different kind of rights on these so-called "concession zones".

In the South-western part of the country, the French created coffee farms, for the reason that the mild climate, soil and the topography, a mountainous landscape with an average altitude of around 2,000 m, were better for Arabica coffee rather than Robusta[28].

Specifically, in the second half of 19th century, a French missionary planted coffee seeds throughout Yunnan, a region specialized in the production of some of the highest-quality Chinese teas[29]. However, due to the local lack of knowledge about the product and the overall disinterest toward it, coffee production remained very low for the whole century. Concerning consumption, in 1901, a restaurant named Kiessling and located in Tianjin, a city close to Beijing along the East coast, already served coffee. This place was opened by a German chef. In a very similar way to the first stages of coffee in South Korea, coffee was mainly sold to upper-class people, such as foreign politicians and military officials, businessmen and very few wealthy ordinary Chinese. Among them, there were both young revolutionary intellectuals and writers, who studied overseas and who belonged

[28] Robusta was grown in Vietnam's central highlands, close to the border with China. Today, this peculiarity of the geographical region represents a paradox, since the most consumed coffee variety among Chinese people comes from Robusta beans, 95% of which is imported from Vietnam http://www.blackapollopress.com/coffee/chapt25.html 20/11/2017

[29] Yunnan has an historical tradition of growing tea; the most popular one is 'Pu'er' tea - International Coffee Council 115th Session 28 September, ICO – Milan, Italy, 2 October 2015

to the cultural elite of the country. Drinking coffee was seen as a fashion associated with the Western bourgeois world and a dark connotation.

During those years, important representatives of the Chinese culture of that historical period expressed themselves in favor or against the foreign product.

In 1932, Lu Xun[30] depicted a negative image of coffee houses, ironically describing them as places for genius and handsome revolutionary writers, belonging to an upper-class different from the one he belonged. It is evident how Lu Xun was animated by a strong nationalism in his description of coffeehouses[31].

Another testimony of coffeehouses at that time is found in the works of Zhang Ailing[32], who actually experienced a branch store of Kiessling Restaurant located in Shanghai, drinking coffee and describing the place in an opposite way to Lu Xun. Zhang Ailing belonged to an upper-class family and since she was a child, she was very close to foreign products and Western culture. She used to visit coffee houses to write, drink a cup of coffee and eat cakes, gathering with friends. However, coffeehouses were still places for wealthy people, whose majority was composed by foreigners.

After 1949, coffee shops disappeared from China. The Chinese Communist Party took the lead of the country and began a process of reforms and aggressive policies to delete any kind of Western and bourgeois trace and only after the rise of Deng Xiaoping (1978), foreign products reappeared on the Chinese market.

Only in 1988 the Chinese Government, with the support of the World Bank and the United Nations Development Programme, invested in the regeneration of the sector.

The Swiss company Nestlé had an primary role in the progress of the Yunnan production areas since 1988. Ten years later, the company established an agricultural assistance service program and a coffee farm for experimentation and demonstration.

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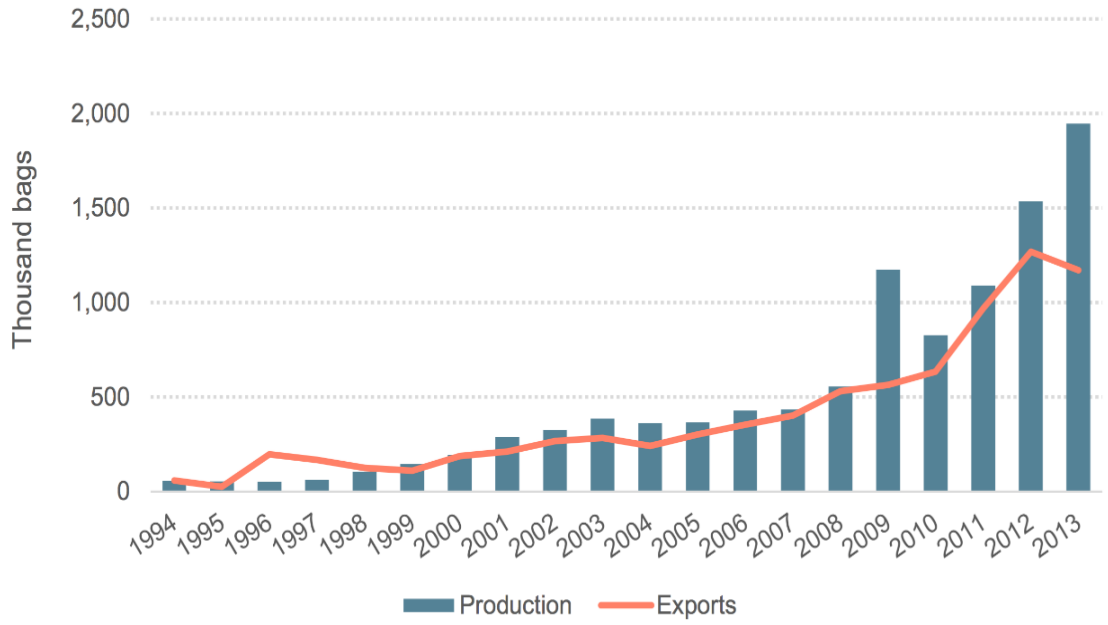
[30] Lu Xun (1881-1936) was one of the main exponents of Chinese modern literature. He was a critic, a story writer and a poet, and his works were very appreciated by the Chinese Government and Mao Zedong in person after 1949 for the socialist idea presented in its writings

[31] Lu Xun, "Geming de kafeidian (The Café of Revolution)". In "The Complete volumes of Lu Xun", vol. 4, Beijing, 1973, p. 116-119.

[32] Zhang Ailing (1920-1995) was one of the most popular modern Chinese writers. She is famous for her fiction writings, having as a theme the clashes between men and women

Fujian and the island of Hainan were the other two regions where Robusta coffee production was implemented, but till today their commercial reach is still very limited[33]. Chinese coffee production capability therefore represents one of the main differences with South Korea's evolution of coffee culture. In fact, according to the ICO, Chinese coffee production increased by 21% between 1994 and 2004, and then again 21% between 2004 and 2014. Year 2014 represented a turning point because of the production of 114,000 metric tons of coffee, pushing the country at the 14th spot of the list of largest producers in the world, above Costa Rica (Figure 1).

Figure 1: Production and exports in China (1994/95 to 2013/14)



As it has been reported above, since 1988 the private sector played a fundamental role in investing in the production, and its involvement grew through the time, especially in recent years. The two main companies investing in the field were Nestlé, which in 2013 signed a memorandum of understanding with the Pu'er (Yunnan) local government, in

[33] Today, 5% of national coffee production comes from Fujian and Hainan (Robusta), while the remaining 95% is grown in the Yunnan province (Arabica) - International Coffee Council 115th Session 28 September, ICO – Milan, Italy, 2 October 2015

order to make investments for the construction of a regional coffee centre. The second one was Starbucks coffee, which entered the Chinese market opening its first store in Beijing's China World Financial Center. In 2012, Starbucks extended its presence in Yunnan by opening a farmer support centre to guide the adaptation of alternative varietals, aiming to improve the overall quality of Chinese coffee produced in the province.

2.2.2 Coffee replacing Tea production in Yunnan

The production of the seeds was also encouraged by the decline tea prices had in recent years and the fact that, for farmers, the cultivation of coffee is more remunerative than the one of tea. According to the ICO, in the high-altitude areas of Yunnan province, they earn an income which is the double - in some cases the triple - if compared to the income obtained by cultivating tea in the same ground. A similar process is happening to maze and rice production, because farmers are expecting higher returns on their replacement with coffee seeds.

One of the main reasons for this major change in the Yunnan primary sector is represented by the intervention of foreign multinational producers, such as Starbucks Coffee and Nestlé, which constantly provide training service to local farmers, directly buying the seeds produced in these areas, in order to meet the increasing demand for coffee in the world[34].

In fact, as ICO reported in 2015 (Figure 1), between 1994 and 2012, Chinese coffee exports rapidly increased over time. Despite the large production of Arabica coffee and the high potential the country has to reach both in quality and quantity to definitely affirm its role on the world's stage, internal consumption does not cover the national offer and this forces the producers to export a big quantity of coffee on a worldwide scale. Exports passed from 58,000 bags in 1994/95 to almost 1.2 million bags in 2013/2014 (Figure 2).

[34] http://articles.latimes.com/2012/dec/29/business/la-fi-china-coffee-20121229

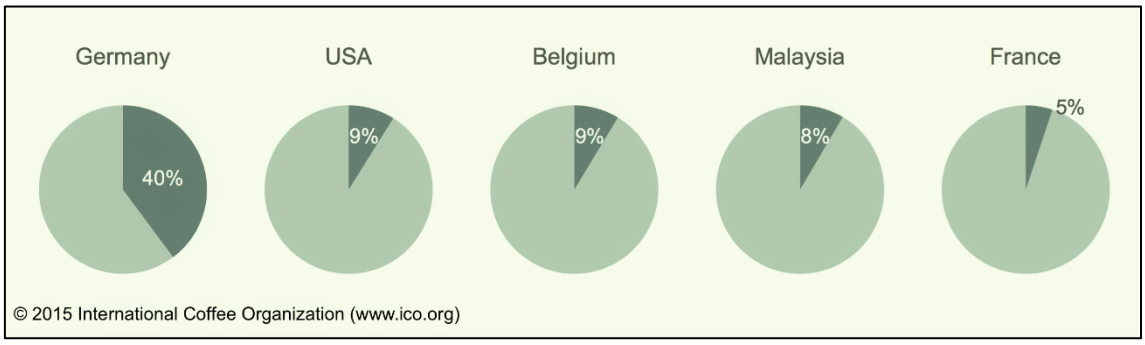
Figure 2: Coffee statistics for China

	Production	Consumption	Exports	Imports
1994/95	54	180	58	173
1995/96	53	255	24	313
1996/97	50	220	196	245
1997/98	60	109	166	225
1998/99	104	167	124	236
1999/00	146	245	109	238
2000/01	193	282	186	282
2001/02	287	337	212	309
2002/03	324	396	265	348
2003/04	386	448	283	387
2004/05	361	514	240	418
2005/06	365	544	301	485
2006/07	428	576	352	527
2007/08	433	606	401	577
2008/09	555	623	530	611
2009/10	1 173	994	563	742
2010/11	827	1 271	633	995
2011/12	1 090	1 312	969	1 314
2012/13	1 534	1 488	1 269	1 275
2013/14	1 947	1 891	1 170	1 463
Growth rates				
1994-2013	21%	13%	17%	12%
2004-2013	21%	16%	19%	15%

In thousand 60kg bags

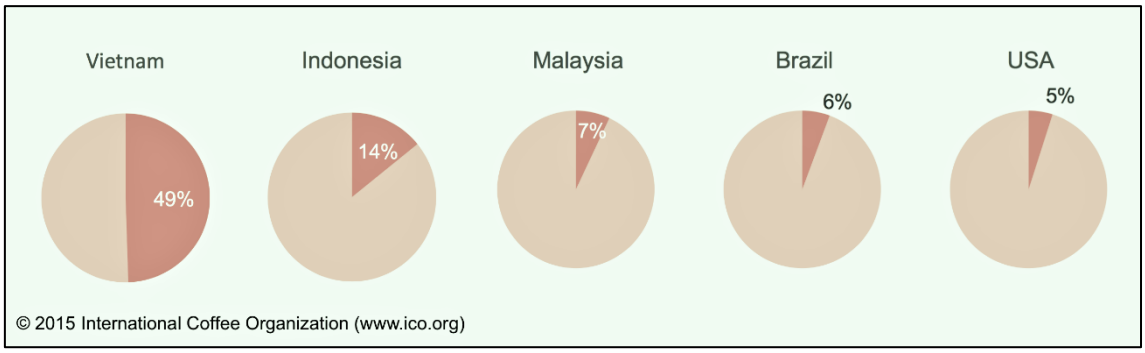
Of these exports, green and unprocessed seeds cover the 90% of it. Figure 3 shows how 71% of the international distribution is made towards just five countries: Germany is by far the largest Chinese coffee importer with a percentage of 40%, followed by the USA (9%), Belgium (9%), Malaysia (8%) and France (5%).

Figure 3: Destination of coffee exports by China (average 2009/10 to 2013/14)



On the one hand, Chinese people historical preference for Robusta coffee justifies the big quantity of coffee imported particularly from a Robusta coffee producer country like Vietnam, which in 2015 covered 49% of Chinese imports, as shown in Figure 4.

Figure 4: Origin of coffee imports by China (average 2009/2010 to 2013/2014)



Another reason for this change in production is given by the ongoing evolution of the tastes of Chinese people, especially young professionals, who see coffee as a drink projecting the image of a successful life. While older generations, despite being low-use consumers of the black water, still consider drinking it in its instant variation, 20 to 30 years old people are starting to appreciate brewed coffee for several reasons, from the social status that derives by holding an expensive branded cup to the fact that brewed coffee is healthier than instant coffee mixes.

As it happened in South Korea during the Seventies and the Eighties, the Chinese economic development is boosting people to work harder, making them earn more money, and this trend is creating new manners and new lifestyles. Professionals are

looking for places to socialize with other people outside of their offices and to have meetings with colleagues.

2.3 MULTINATIONAL GROUPS ENTERING THE CHINESE MARKET

2.3.1 Starbucks Coffee

Starbucks Coffee entered China in 1999, opening its first store in the China World Trade Building of Beijing. Today, Starbucks has more than 2,800 stores in 130 cities (figure 5), being able to create a local offer, based on Chinese consumers' preferences and culture.

Figure 5: Number of Starbucks stores in China from 2005 to 2017

Source: https://www.statista.com/statistics/277795/number-of-starbucks-stores-in-china/ © Statista 2017

Since its first years in the country, Starbucks has been able to deeply understand China: its success in a tea-dominated country is essentially based on five factors: not forcing Chinese people to love expensive coffee, building a premium image of the brand, offering tea options, selling accessories with a premium logo and providing office delivery service[35]. Furthermore, the company created stores with an interior design

[35] Tom Doctoroff, "What Chinese Want: Culture, Communism, and China's Modern Consumer", London: Palgrave Macmillan St. Martin's Griffin; Reprint edition (22 Oct. 2013), p.91

inspired to Chinese traditional tea houses and replicated the concept of "Third space": the store becomes a third dimension between home and office. This idea was successful for one reason: in a collectivistic country like China, coffee became an excuse for people to gather together and relax, chat, work. Consolidating this aspect, the multinational brand literally created the demand. In addition, in a nation where safety of food is not something taken for granted, Starbucks coffee constituted a warranty for a certain level of food quality and service, becoming a synonym of wealth, fashion and success in the collective Chinese imaginary.

For these reasons, Starbucks Coffee was able to fulfill the empty space of the lack of a "third space", a role previously played by multinational fast food brands like McDonald's and KFC, which could afford high rental fees for open and wide spaces where people could work, read and meet their friends. However, when people's income started to increase and more and more residents were visiting these Western-food places, the environment became noisy and too crowded, making it impossible to study or to read.

The company also entered the market with a deep sense of respect for the tradition and culture of the country, conforming its menu to customers' preferences with teas, local dishes, selecting an offer for consumers whose taste for coffee - the main product sold by the American group, was not formed to allow its regular consumption. In fact, though Chinese cover almost a quarter of the world's population, they consume 1% of coffee produced in the world. Despite this, coffee consumption has been increasing since 1998 at a yearly percentage of over 10%; according to ICO, coffee demand in China grows at a rate of 15% to 20% per year, much higher than the average consumption growth rate of the rest of the world, which is around 2%[36].

Another aspect of Starbucks' entry strategy is its positioning plan. Not to seem too aggressive toward Chinese culture, the company did not invest too much in advertising and promotion, to avoid that Chinese people could feel their culture threatened by the American lifestyle. Instead, to promote its brand image, Starbucks opened its stores in high-traffic and high-visibility locations, including historical buildings and business

[36] https://www.forbes.com/sites/helenwang/2012/08/10/five-things-starbucks-did-to-get-china-right/#7148dea053af

districts in the downtowns of various cities. Moreover, Starbucks took Chinese food culture and made it as its own, not only by selling different species of Chinese tea, but also by creating new products through the use of local ingredients: examples of this strategy can be found in the success of green tea Frappuccino, launched in year 2002[37], the inclusion in 2010 of tea drinks in the menu, both of Chinese and exotic kinds. This localized transformation of the offer was done carefully and through the analysis on Chinese consumers' taste, mixing it with Western flavors, in order to create a new sensorial experience for locals' palates.

Through the years, Starbucks has been able to connect coffee and tea culture in a single place, taking advantage of the capability of providing a unique staying for its customers. This process was also accomplished through other two important steps: the creation of an interior design of the stores recalling the main Chinese elements of traditional tea houses and a trusted net of local partners.

For the design, acting locally, the stores recreated a cultural atmosphere based on a deep attention at the customer experience. Behind the design vision of the stores there is the mind of Liz Muller, senior vice president, Creative, Global Design and Innovation. According to Starbucks Coffee official website[38], when Muller develops a new store idea, she always cooperates with local artists and craftsmen, to be locally genuine. In this way, Starbucks permanent characteristics such as the preponderant use of brown and green colors, the use of warm and walnut woods[39], merge with local ideas not to repeat the same aspect in every city and to maintain its unicity. These elements recall the environmental responsibility the brand has adopted and its closeness to the raw materials used to produce coffee. The importance of the Chinese market for the brand has been recently demonstrated on the 5th of December 2017 with the opening in Shanghai of the largest store in the world, a 30,000-square-foot space hosting the first Starbucks Reserve Roastery outside of the U.S.A. In fact, in the last quarter of 2017, the country has been the fastest in growth, a +8% if compared to the previous year (2016)[40].

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[37] https://www.starbucks.com.cn/en/about/history

[38] https://news.starbucks.com/contact/leadership/liz-muller

[39] Including the omnipresent paintings, decoration, elegant curtain, the delicate mugs and post cards, the staff dressed in Chinese style uniform

[40] http://money.cnn.com/2017/12/05/news/starbucks-china-shanghai-biggest-store/index.html

The Shanghai one represents a perfect example of flagship store with an emphasis on coffee, but also tea culture, due to the presence of a dedicated area for every kind of tea drinks (Figure 6).

Figure 6: The Starbucks Roastery opened in Shanghai on the 5th December 2017

Source: https://www.cnbc.com/2017/12/04/heres-what-starbucks-new-roastery-in-shanghai-looks-like.html

It is important to notice that the company's main target is the segment of city white collars and college students who can afford an expensive cup to spend their time working, studying and surfing on the internet in a quiet and cozy environment[41]. In the stores nearby business districts, private rooms with wide tables are provided, in order to host meetings of big groups of workers. Furthermore, take away and office delivery complete a service offer made on purpose to suit white collars' needs.

The second element that made Starbucks Coffee success possible was its ability to develop through the years a well-organized net of local partners. In fact, the company never approached the Chinese market as a homogeneous one and divided the country in three geographical areas. On the base of this partition, they set a Joint Venture with Meida Beijing Coffee Company in the North; in the middle, with the Uni-President

[41] YANG Qian, TU Xing, "Starbucks VS Chinese Tea: Starbucks Brand Management Strategy Analysis in China", CSCanada, International Business and Management, Vol. 12. No. 1, 2016, pp. 29-32

Enterprises Corporation, an international food conglomerate based in Tainan, Taiwan; in the South, they made a long-term partnership agreement with the Hong Kong Maxim's Caterers Limited Group. All these partners fully agree on Starbucks vision and direct-localized marketing strategy.

2.3.2 Nestlé

Nestlé S.A. is a Swiss transnational food and drink company, whose headquarter is located in Vevey, Vaud, Switzerland. Today, the group is the market leader for instant coffee with a market share of 72%[42]

The group was founded in 1866, as Anglo-Swiss Condensed Milk Company by Charles and George Page, two American brothers from Illinois. Henri Nestlé, a German-born Swiss, was also among the founders, being one of the main creators of condensed milk. As reported above, the company had an important role in the development of new technologies for the production of Arabica coffee in the Yunnan, with the support of the Chinese Government, which in 1988 asked big multinational groups to invest in those areas. Since then, Nestlé has been very committed to the effort of "creating shared value" in the region and in 2016 it opened a new Nescafé Coffee Center (NCC) in Pu'er (Yunnan). In the NCC there are two divisions: the first includes a training center, a technical support center and a laboratory to help farmers, agronomists and industry professionals improving their skills with the help of a highly qualified staff, while the second is for quality controls, serving as a modern warehouse, too.

Nestlé is also involved in the academic world of the country. In that same year, they signed a strategic cooperation agreement with the College of Tropical Crops of Yunnan Agriculture University, building a long-term collaboration with the public educational system, ensuring mutual benefits, in order to create a talent hub of shared knowledge, information and success. At the same time, Nestlé's partnership created the conditions for a solid theoretical base and a concrete experience, which in the next years will undoubtedly lead to the growth of Chinese coffee industry.

[42] https://www.marketingtochina.com/coffee-market-explodes-china/

Since its entry into the country, Nestlé's strategy was based on the concept of creating shared value, which translates in signing win-win agreements with locals. Local government support is essential and every action of the company must be firstly approved by the authorities. For example, in 1988 Nestlé sent to Pu'er six foreign coffee professionals to train 15,000 farmers in field management and processing technology [43]. On the one hand, with this cooperation, the group ensured for itself a higher quantitative and qualitative production of coffee and the long-term use of Chinese raw materials for locally making its products instead of importing foreign seeds[44], while on the other hand, China sees its coffee industry growing faster and becoming more and more competitive on the international markets, thanks to the technological and know-how transfer provided by foreign groups.

Nestlé surrounded itself of Chinese business partners depending on the kind of product to be produced. Hsu Fu Chi (2011) for confectionery, packaged cakes, cereal-based and traditional Chinese snacks, Yin Lu (2011) for ready-to-eat rice congee and ready-to-drink peanut milk, Dashan (2010) for bottled water are just some examples of the main partners of group. Moreover, on the 5th of June 2016, the company announced a partnership with Alibaba Group[45], to celebrate its 150 years and to open a six-month joint campaign with the Chinese giant. The theme of the promotional and distributional cooperation was titled "*Planet of Wonders*": through Alibaba's online and mobile marketplaces and media platform, Nestlé was finally able to make products which were sold in the rest of the world available for Chinese consumers. For Nestlé, coffee represents one of the main products and Nespresso is the division which is in charge of studying the market, formulating the offer and organize the marketing plan. Its coffee products range embraces coffee machines, RTD coffee, instant coffee, coffee capsules and snacks. Nespresso took advantage of the fact that the majority of Chinese people historically prefers drinking instant coffee rather than brewed coffee and it based its marketing strategy on developing a wide and various offer of instant coffee kinds, in

[43] Nescafé Coffee Center Inaugurated in Pu'er, Yunnan, in http://www.nestle.com/media/news/nescafe-coffee-centre-opens-in-yunnan-china

[44] 99% of Nestlé sales is produced in China

[45] http://www.nestle.com/media/news/e-commerce-nestle-china-alibaba-partnership

order to fulfill the consumers' requests ensuring a good-quality coffee powder at a relatively good price if compared to the brewed alternative. Although in recent years Chinese consumers living in main cities are more and more interested in trying new kinds of coffee and in visiting specialty coffee shops, consuming coffee at home remains the major trend. For this reason, Nespresso introduced coffee capsules and coffee machines in the Chinese market, selling them in Nespresso boutiques. These stores and the product-line are characterized by an extremely precise design, which perfectly gives the idea of how its products belong to a high-end category. Nespresso's strategy is based on an exclusive integrated digital strategy: on one side, the Chinese website constitutes a source of detailed information for those Chinese people who are not educated yet about the flavors of coffee capsules, instant coffee and ground coffee. On the other side, the so-called "Nespresso-club" gives its members the occasion to buy products which are not sold in department stores.

To conclude, Nespresso was able to create a parallel market to the one of specialty coffee chains. However, its success in future years will depend on which dimension Chinese people will associate coffee consumption to: whether the "inside dimension" or the "outside dimension".

2.4 THE CHINESE MARKET

2.4.1 A differentiated analysis: China city tier system

When approaching to China, it is important to fix as a starting point the fact that there is no average Chinese consumer and no single market. This is explained by the fact that China is a big country: according to the 2016 worldbank.org update[46], its surface area is 9,562,911 square meters, the number of cities reaches more than 600 units. However, the economic development of the urban areas was not homogeneous and the changes in income and quality of life were not equally spread across the nation. For this reason, in the 1980s, the Chinese Government introduced a ranking system for its cities, which was modified through the years by economists and businessmen, in order to create a model to understand the differences throughout China. The classification can be based

[46] https://data.worldbank.org/indicator/AG.SRF.TOTL.K2

on multiple criteria, such as Gross Domestic Product (GDP), political administration, population size, development of services, infrastructure, cosmopolitan nature, but economists agree on the fact that the main tiers are four and they represent a good basis to understand the different consumer behaviors, income levels and business opportunities. The three main categories to evaluate the tiers are designed according to GDP (Gross Domestic Product), Politics and Population in the metropolitan area.

a. GDP: in this economic classification, each city is ordered by the Gross Domestic Product, which measures "*the value of the overall output of goods and services (typically during one fiscal year) at market prices, excluding net income from abroad*"[47]. As shown in Figure 7, the four tiers are as it follows:

1) Tier 1: cities with a GDP over US$300 billion. In these cities, consumers are more used to the presence of foreign companies and brands, they are more educated about their products and their relatively high level of income allows them to spend more on leisure and services which are not linked to the physiological needs at the basis of the pyramid of Maslow, but more linked to the self-sphere.

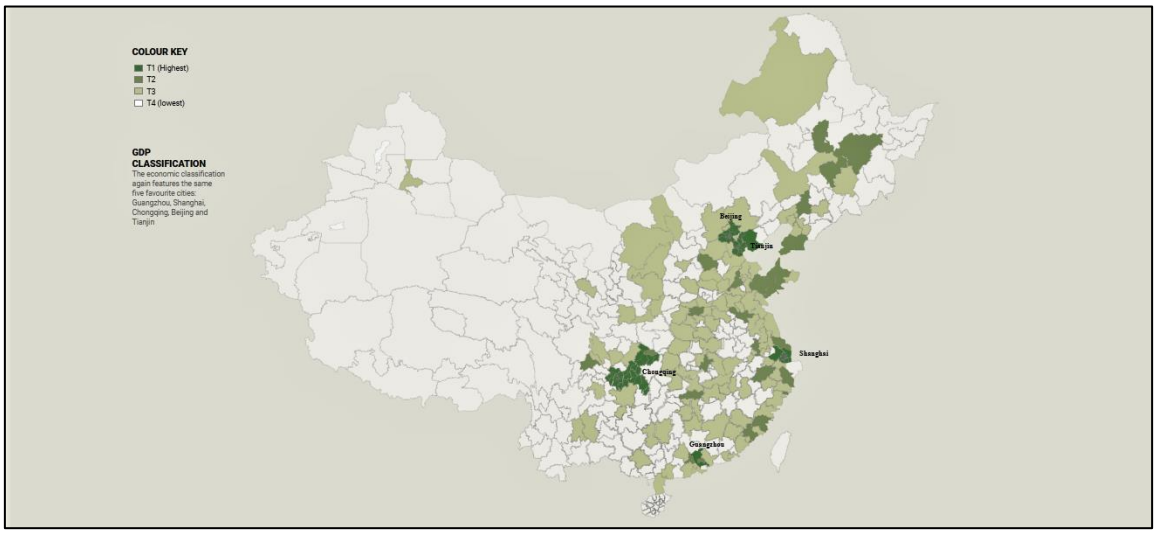
2) Tier 2: cities with a GDP between US$68 billion and US$299 billion. Tier 2 includes many Provincial capitals, sub-provincial cities, special economic zones.

3) Tier 3: cities with a GDP between US$18 billion and US$67 billion. The majority of them is made up by open coastal cities.

4) Tier 4: cities with a GDP below US$17 billion.

[47] http://www.businessdictionary.com/definition/gross-domestic-product-GDP.html

Figure 7: GDP tiers



Source: http://multimedia.scmp.com/2016/cities/, NBS, 2013 STATISTICAL YEARBOOK, SCMP GRAPHIC: MARCO HERNANDEZ, RESEARCH BY DAN BLAND

b. Politics: it refers to the degree of closeness between the city administration and the Central Government (Figure 8). There are four levels of political administration, plus Hong Kong and Macao, which are the two Chinese Special Administrative Regions (SAR).

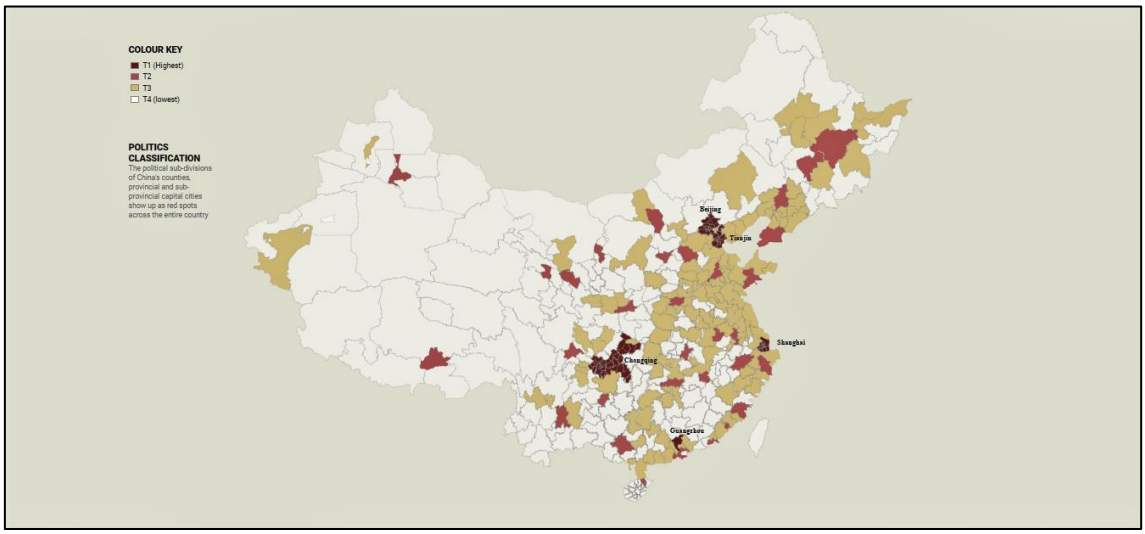
1) Tier 1: these cities are directly controlled by the Central Government;

2) Tier 2: provincial capital cities and sub-provincial capital cities;

3) Tier 3: prefecture capital cities

4) Tier 4: all the rest of county level cities

Figure 8: Politics tiers



Source: http://multimedia.scmp.com/2016/cities/, NBS, 2013 STATISTICAL YEARBOOK, SCMP GRAPHIC: MARCO HERNANDEZ, RESEARCH BY DAN BLAND

c. Population: the metropolitan area includes the city core and the urban areas surrounding it. This category is based on the number of people living in these places (Figure 9).

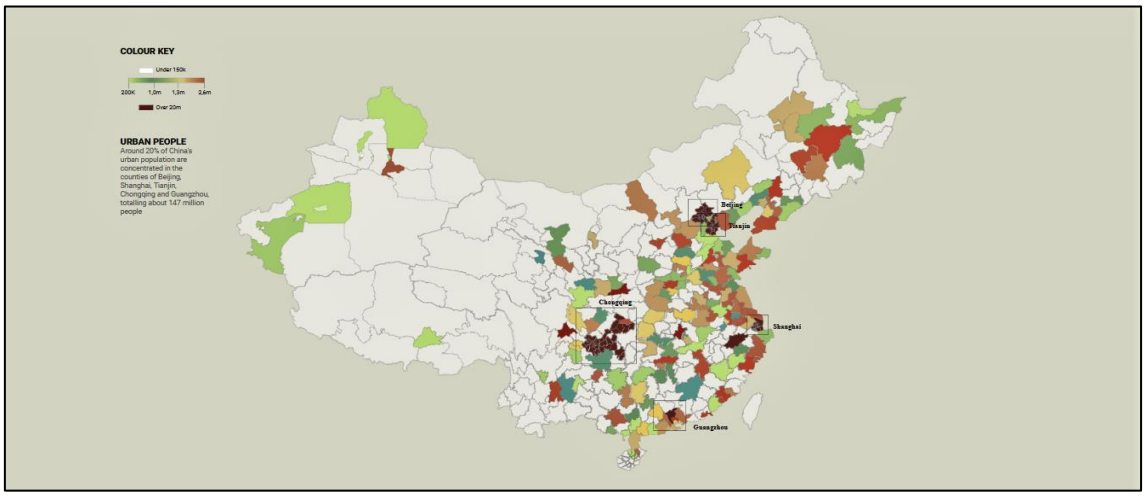
1) Tier 1: cities with more than 15 million people

2) Tier 2: cities with a population between 15 and 3 million people

3) Tier 3: cities with a population between 3 million and 150,000 people

4) Tier 4: cities with less than 150,000 people

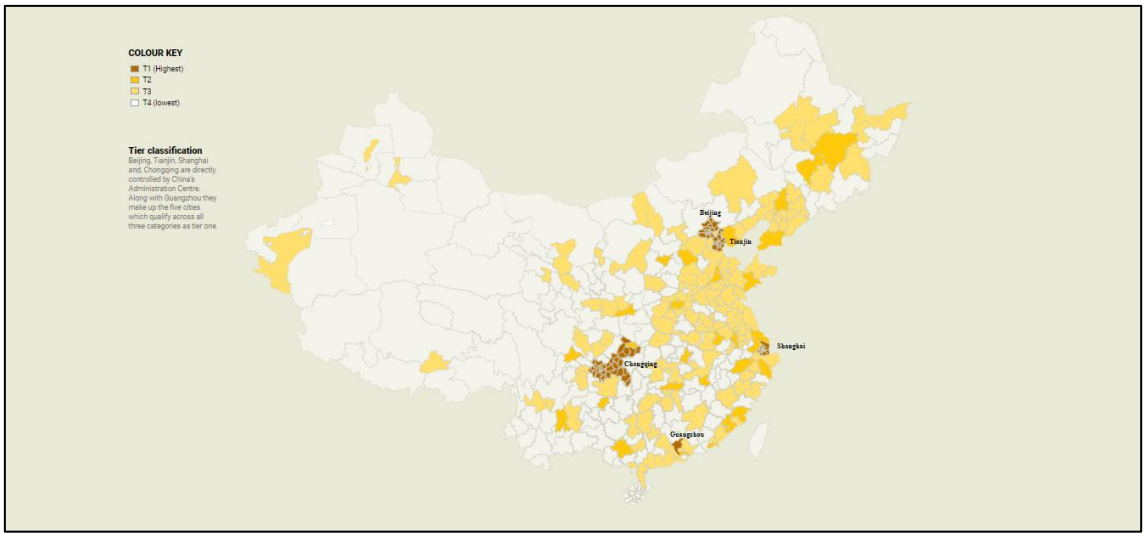
Figure 9: Population tiers



Source: http://multimedia.scmp.com/2016/cities/, NBS, 2013 STATISTICAL YEARBOOK, SCMP GRAPHIC: MARCO HERNANDEZ, RESEARCH BY DAN BLAND

From the combination of these three categories it is possible to create a new classification of the Chinese tier system, which provides an integrated overview of economic, political and social factors (Figure 10). This background constitutes a starting point for businesses to understand how to approach such a complex[48] market.

Figure 10: Tiers overview



Source: http://multimedia.scmp.com/2016/cities/, NBS, 2013 STATISTICAL YEARBOOK, SCMP GRAPHIC: MARCO HERNANDEZ, RESEARCH BY DAN BLAND

[48] Definition: "complex": "*consisting of many different and connected parts*" https://en.oxforddictionaries.com/definition/complex

From combining these three categories and their relative Tiers, it is possible to identify four general Tiers:

a. Tier 1: it includes cities directly controlled by the Government, with a GDP higher than US$300 billion and a population with more than 15 million. Shanghai, Beijing, Tianjin and Chongqing are the first-tier cities directly controlled by the Central Government. In addition, Guangzhou and some newcomers, which entered this tier in 2017: Hangzhou, Shenzhen, Shenyang, Dalian, Qingdao, Nanjing, Wuxi, Suzhou, Ningbo, Xiamen, Xi'an, Wuhan, Chengdu, Changsha[49] (Figure 11).

Figure 11: Chinese first-tier and emerging new first-tier cities

Source: http://www.cri.cn/ [File Photo: yicaiglobal.com]

These cities are the most developed areas of the country. They are densely populated and have a strong cultural, economic and political influence.

[49] http://www.china.org.cn/top10/2017-05/18/content_40818851.htm

Late-mover[50] coffee companies which enter these cities can find a distributional network which is more professional than in lower tiers', a more sophisticated consumer, an environment which is more stable, educated, less risky, because of the action of foreign big multinational groups.

b. Tier 2 includes provincial capital cities, sub-provincial capital cities, Special Economic Zones. These markets represent an attractive environment for foreign and domestic companies, because they are the fastest growing areas, with lower labor costs, less competition and lower operating costs for retailers. However, the market still needs to grow and acquire the price transparency typical of higher-tier cities. Moreover, it is the most inhomogeneous in population, consumers' habits and economy among the four.

c. Tier 3 cities are over 130 and the majority of them is located along coastal areas. Their economy and growth have a slower rhythm than higher tiers' ones, despite the cultural and historical importance of some of them. Store locations are still inexpensive, but prices are relatively low, due to the averagely low GDP[51].

d. Tier 4 is the last category and it embraces more than 400 cities of small dimensions and with the lowest GDP of the country. However, by combining numbers, they concretely represent more than 50% of China's population and income, showing how their potential development will completely redefine the country's economy in the next years.

To conclude this paragraph, it is essential to report that recently in lower-tier cities a new mass market is emerging[52]. Lower tier cities already represent 59% of the country's

[50] Definition of Late-mover advantage: "*the advantage that a company has when it is the last to introduce a new product, service, or technology, because it can learn from developments that have taken place, or from what others have done*", https://dictionary.cambridge.org/dictionary/english/last-mover-advantage

[51] Tier 3 cities GDP is between US$18 billion and US$67 billion

[52] Tom Doctoroff, "What Chinese Want: Culture, Communism, and China's Modern Consumer", Palgrave Macmillan; Reprint edition (22 Oct. 2013), p.104

GDP and 73% of its population, having the potential to become the bigger engine the overall economic growth of the country[53]. In these areas, the population is optimistic about its living condition than it was years ago, for several reasons: people's income is slowly increasing and so the probability of finding a decent job close to home without necessarily going to a high-tier city.

2.4.2 The Chinese consumers

As stated in paragraph 2.4.2, in China it is not possible to define an average consumer or see all country's consumers as a unique and homogeneous mass. The city tiers analyzed above are the key to understand the differences existing between high-tier cities and low-tier ones. Thus, this paragraph will be based on a double analysis of consumers' characteristics. The first part will propose a study of how belonging to a specific city tier changes the perceptions of goods and purchase intentions of people, while the second will analyze some common consumption and behavior traits, which are shared by most of Chinese people and linked to their cultural and historical identity.

PART I

City-tier 1 and 2 consumers are highly experienced about foreign and local brands, their needs are more sophisticated than other tiers' citizens'. While country's average consumption of coffee is around 5/6 cups per year[54], in cities belonging to the first two tiers, the average is around 20 cups per year, thus much higher than in cities for lower tiers[55].

For this segment of Chinese population, safety of the product preserves its essentiality for purchase, but the relatively high incomes allow people to spend more on leisure, to attach more importance at the latest trends and lifestyles, to base their purchase intentions on self-satisfaction. All this leads them to search not only for products related to their physiological needs, but also to feel comfortable and show the quality of their

[53] https://www.forbes.com/sites/morganstanley/2017/07/14/smaller-cities-to-drive-chinas-consumption-boom/#e619074174dc

[54] This average is one of the lowest of the world, especially if compared to countries like the US, where cups per year are 363 per person, or the UK (yearly 250 cups per person) *SOURCE*: Euromonitor International in http://www.bbc.com/capital/story/20160628-yuan-more-coffee-chinas-lucrative-caffeine-craze

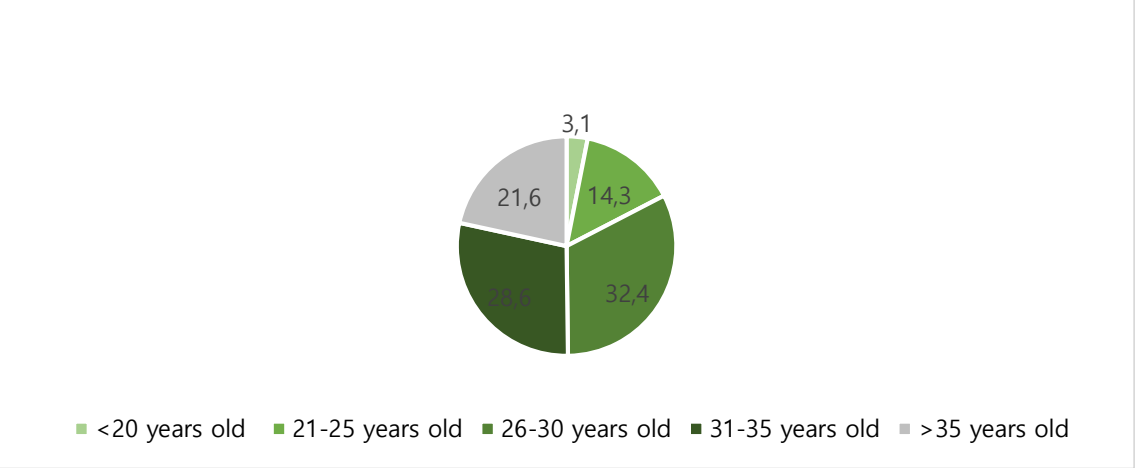
[55] https://www.marketingtochina.com/coffee-market-explodes-china/

life. Although some of them may not be used to the taste of coffee yet, they often visit coffee houses with the intention of finding a third space between their office and their home, a comfortable environment to relax, keep working or study. In fact, the economic and digital development of these cities created a social segment of workers who do not necessarily need to stay at their workstation to complete their tasks. These people often visit coffee shops because here they can find the functional attributes[56] they need and want, such as a high-speed Wi-fi and, in case of groups, big tables for co-working. The price of all this consists in consuming a cup sided by something to eat[57], such as cakes and snacks, if they are planning to have a long-term break in the shop. In this context, the interior design and decorations of a store acquire the purpose of positioning the brand in the mind of the consumer: the environment must be able to directly affect the customer experience in a positive way, in order to create an emotional link between the store and the individuals who visit it. Moreover, drinking coffee already went beyond young consumers or white-collar workers and some of them made it their habit, leading to a declining trend in tea consumption among young generations of these urban areas. Coffee is rapidly planting its roots in these cities which are under international influence: young people are the most attracted by coffee culture (Figure 12), especially women (Figure 13), and they visit exotic coffee houses, not because coffee is a necessity, but an expensive symbol of a modern and successful lifestyle, a fashion derived from the Western world. Franchised stores are the most frequented places because of their warranty of safe and good-quality products.

[56] "functional attributes": see Chapter 1, Sirgy

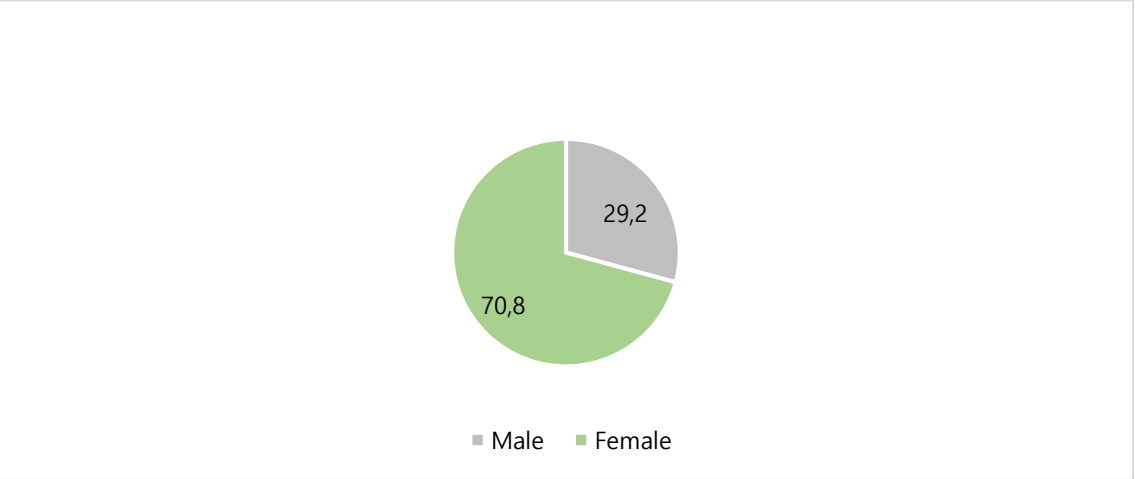
[57] Chinese coffee drinkers usually eat something when they drink. This is the main reason for the slow diffusion of the "coffee-to-go" habit, to which it is preferred the RTD products consumption.

Figure 12: The ratio of customer age



Source: http://www.ico.org/documents/cy2016-17/Presentations/pscb-china-coffee-consumption-e.pdf

Figure 13: The ratio of customer gender



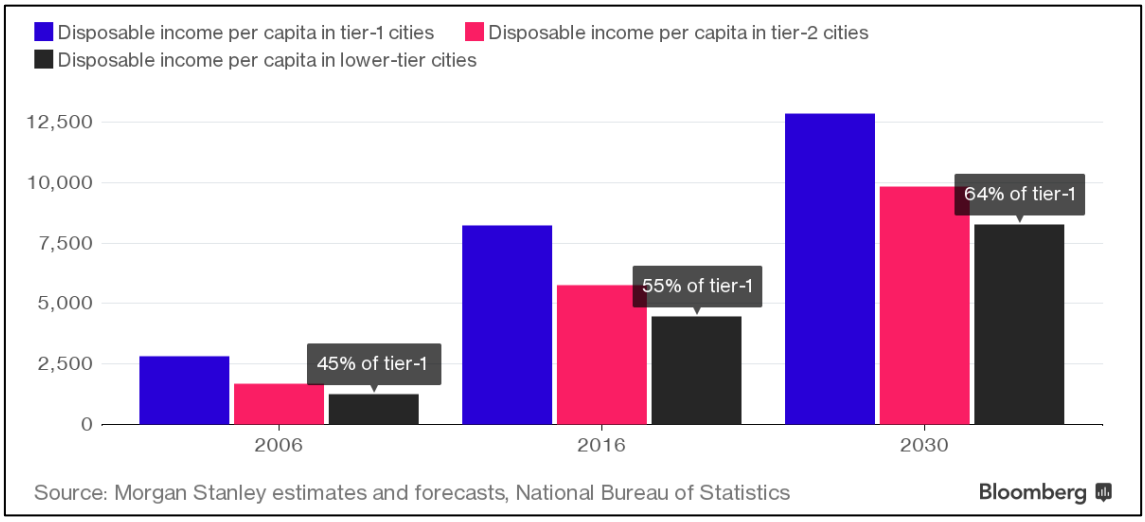
Source: http://www.ico.org/documents/cy2016-17/Presentations/pscb-china-coffee-consumption-e.pdf

Another group of potential customers are the so-called returnees, Chinese people - especially mainland students - who returned to China from Western countries. Studying and living abroad, these people got used to the taste of coffee, becoming more acknowledged about its varieties. They not only represent a target for coffee chains, but also a kind of influencers for the promotion of coffee: as showed in Chapter 1 about South Korea, word-of-mouth represents the most powerful source of information for a collectivistic society like China, too.

To sum up, Tier 1 cities have markets which constitute the best environment for foreign and multinational firms willing to expand into mainland China. At the same time, Tier 2 consumers' behavior and spending habits evolve even at a faster pace, people are very curious of trying newly imported products and the trends they follow are very similar to first-tier ones. The main reasons to invest in these cities are: relatively high incomes due to a living cost which is higher than in low-tier cities[58], a wider and still developing middle class of young people and white collars, a fast-pace rhythm of life, open-minded consumers who possess a good knowledge of products and who are often attracted by both local and international novelty.

Low-tier consumers are those people who live in cities categorized as third and fourth tier. In these urban areas, the GDP is lower than in high-tier cities (Figure 6), as well as population (Figure 8) and living cost. People who could afford an expensive cup of coffee as a habit are fewer than those living in cities like Shanghai, Beijing, Guangzhou. Companies should lower the price of their products, running the risk of not generating enough income to cover all the firm's costs. However, a Morgan Stanley research and forecast predicts that per capita income will rise by 2030 at a relative 64% higher percentage of tier 1 cities, as reported in figure 14:

Figure 14: Disposable income per capita evolution by 2030



[58] Standard costs for a cup of coffee are high: the average goes from 10CNY in case of a cheap cup to 20-25CNY for a Starbucks cup or even 40-50CNY for particular coffee varieties. The reason for these prices is that consumers privilege wide spaces, whose rental fees are very expensive.

Despite the lower economic development of these areas, the middle class is slowly growing and a sort of mass market is being born. People living in low-tier cities are motivated by a new optimism for the improvement of their living conditions in future years.

Their basic needs are fundamentally different from the ones of high-tier citizens: although saving face still remains important in Chinese society as a whole, for them, "protection" is more important than "projection" of individual success. Consequently, they mainly attach importance to the pragmatic characteristics of a product (safety and non-toxicity) rather than on its aesthetic expression.

Moreover, for low-tier consumers, the dimension of the product is a difference-maker in the decisional process (i.e. bigger is better), value goes beyond price and their attention is captured by simple and direct messaging. Differently from high-tier citizens, who desire to be acknowledged about what they consume, low-tier ones prefer a more concise communication able to convince them at first impact.

To conclude this first part, it is essential to state how low-tier citizens are much less subjected to foreign influence than high-tier ones. In fact, they aim to reach the standard of life typical of cities like Shanghai, Beijing, Guangzhou, which stand as a model to be followed and imitated in the future.

PART II

The second part of this analysis focuses on the main cultural values shared by Chinese consumers on a national-scale: this heritage is the only way to define the profile of a sort of average Chinese consumer. It is the reason why defining China as a continent is a false myth: traditional values unify the country and the different ethnic groups who live inside its borders.

As reported in Chapter 1, China and South Korea are two countries which have in common a Confucian culture. In its first years at the guide of the nation, the Chinese Communist Party tried to replace the historical and inner Confucian soul of China with the core of values that characterized the political lead. Only in recent years (2015), President Xi Jinping made a revolutionary re-evaluation of Chinese traditional values. As

reported on the Wall Street Journal on the 20th of September 2015 by Jeremy Page, a reporter in the Wall Street Journal's Beijing bureau:

> "*One Thursday morning in June, 200 senior officials crammed into an auditorium in the Communist Party's top training academy to study a revolutionary idea at the heart of President Xi Jinping's vision for China. They didn't come to brush up on Marx, Lenin or Mao, staple fodder at the Central Party School since the 1950s. Nor were they honing their grasp of the state-guided capitalism that defined the nation for the last 35 years. They came to hear Wang Jie, a professor of ancient Chinese philosophy and a figure in the country's next ideological wave: a renaissance of the traditional culture the Communist Party once sought to destroy*"[59]

Chinese traditional values never really disappeared and the formal and political recognition after years of anti-traditionalism educational policies had the purpose to create a Chinese original identity opposed to the increasing influence from Western cultures.

In the following lines, the main values will be analyzed and adapted to the context of Chinese coffee culture, in order to understand which are the mistakes to be avoided and the actions to be taken when approaching the Chinese market according to a cultural point of view. The six cultural dimensions elaborated by Geert Hofstede[60] will serve as a definitional background to better understand Chinese society.

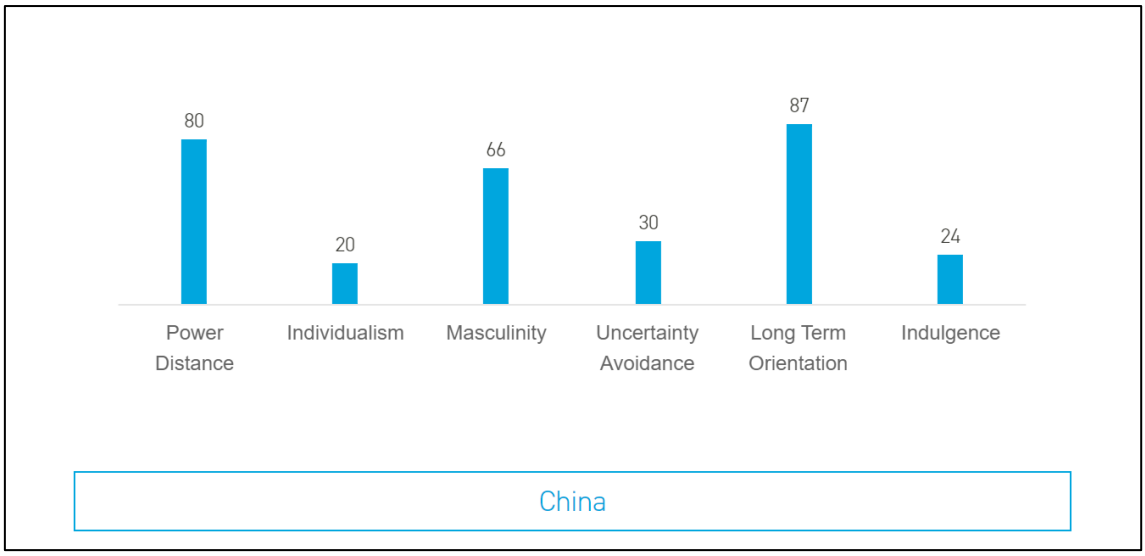
First of all, China shares with South Korea a collectivistic soul. The individual is strongly related with the group identity, which has a direct influence on the consumer's

[59] https://www.wsj.com/articles/why-china-is-turning-back-to-confucius-1442754000

[60] Geert Hofstede is a Dutch psychologist, professor and researcher, who was born in 1956. After a PhD in organizational behavior, he worked for the personnel research department of IBM international, a job which gave him the knowledge and experience to write the book "Culture's consequences". The volume was published in 1980: Hofstede formulated a model of five main cultural dimensions, found through the comparison of similarities and differences of the countries in which IBM had its business. Through the years, the model has undergone major extensions till including six different dimensions: individualism/collectivism, uncertainty avoidance, power distance, masculinity, long-term orientation and indulgence; *Source*: https://www.geert-hofstede.com/

purchasing process and final decision: Figure 15 shows the low score of individualism (20), serving as an evident demonstration of how people act in the interest of the group and personal relationships constitute the foundations of society[61]. Reference groups, which can be made up by friends, online communities or people brought together by influencers belonging to the world of music, cinema, art, are consulted to get information and evaluations about products and services. In this way, goods acquire a social desirability becoming means to gain social recognition within the group of reference.

Figure 15: Geert Hofstede Cultural Dimensions: China



Source: https://www.hofstede-insights.com/country-comparison/china/

If adapted to coffee culture, this dimension explains the relevance Chinese customers tend to give to the social atmosphere which a coffee house is required to have. The environment is associated with social behaviors which will be shared or adopted by a group of consumers. The product of coffee acts as a social lubricant, a social excuse for groups to meet and work together. Therefore, it is evident the predisposition to a relational orientation which characterizes Chinese society as a whole: spending time with other people, building and maintaining interpersonal relations, family bounds, are

[61] https://www.hofstede-insights.com/country-comparison/china/

all activities which are essential to preserve the social harmony within society. For these reasons, individuals do not define themselves as independents and the basic productive unit of society is identified in the clan, the family. It represents one of the main differences China has with the Western countries, where self-driven individualism is one of the major engines of society. It comes that for Chinese people ego-gratification must be achieved without breaking the social rules, success becomes a societal acknowledgement, in order to not to lose "face", but to show its solidity[62]. Face preservation brings to an inner instinct for the projection of status, a cultural trait which has a different nature in another collectivistic country like South Korea[63]. This kind of behavior has nothing to do with Western individualism: benefits must be externalized, not internalized, thus the public display of personal achievements becomes something ordinary. In fact, Face is the key for upward mobility and only by projecting it, people can generate public acknowledgement around themselves and scale the socioeconomic hierarchy. The system is based on two values: a relentless ambition born from the rapid economic development of the country and a stifling regimentation to prevent individualistic behaviors. In fact, Chinese society is formally anti-individualistic: ego-gratification and social display are allowed, but only if they do not turn into a self-driven individualism breaking the harmony and the core of traditional social values. The price for violating this rule is social alienation and loss of Face.

However, since December 2001, China made a further step in opening its doors to the rest of the world, entering the World Trade Organization (WTO). Chinese young generations living in high-tier cities became more aware of the outer world than their families and the Western influence played a key-role in the formation of their values. They are becoming increasingly modern, international and ambiguously attracted by the American individualism. The addition of this subtle influence to the desire of being noticed, to a more aggressive self-expression and a will of experimentation of new lifestyles created an inner conflict within consumers mind. This clash is perfectly

[62] the concept of Face, 面子 miànzi, is one of the fundaments of Chinese culture. It defines someone's reputation and prestige in multiple contexts: family, friends, society.

[63] As stated in Chapter 1, in South Korea, society is a point of reference to develop a sense of belonging to a group, to be integrated in the community and maintain harmony within it.

explained by the concept of "standing out by fitting in". Thus, young age consumers living in primary cities are willing to adopt an averagely less conservative expression of identity, to experience Western lifestyles, such as coffee drinking. When targeting them as the main market segment for the marketing strategy of the company, it is possible to slowly force the traditional constraints, to push them trying more audacious styles and flavors different from what they are used to. However, a fundamental idea must be enacted in all the characteristics of the product or service to be sold: its design must be elegantly grand, it has to show both its inner value and the social status of the person who is buying it or is using it, it has to preserve and at the same time improve their reputation.

When talking about young people, it is compulsory to consider a category which today covers the majority of them: the one-child generation (OCG). The policy of "one couple, one child" was implemented for the first time in 1979 and this means that in 2004 the first batch of the one-child generation turned 25 years old, entering its peak consumption period. Today, this batch has been replaced by the one developed in the early 2000s, made up by people with higher living standards than the first ones. These people are called "little emperors and empresses" and in business they are defined as *Xin Xinrenlei* (新新人类)[64]: being the only child in the family, they grew up with six "parents" (father, mother and their respective grandmothers and grandfathers) who spend between the 50% and 70% of their household's income to satisfy their needs (education) and desires (branded clothes, food, etc.)[65]. Today, the OCG replaced the previous generation, leading to a consumer revolution, because of its radical inhomogeneity with its antecedent. The main characteristics of these new consumers are:

a. being informed: the OCG is an active member of the digital era of the 21st century, where computers, mobile phones, internet access and TVs are sources of easy daily information;

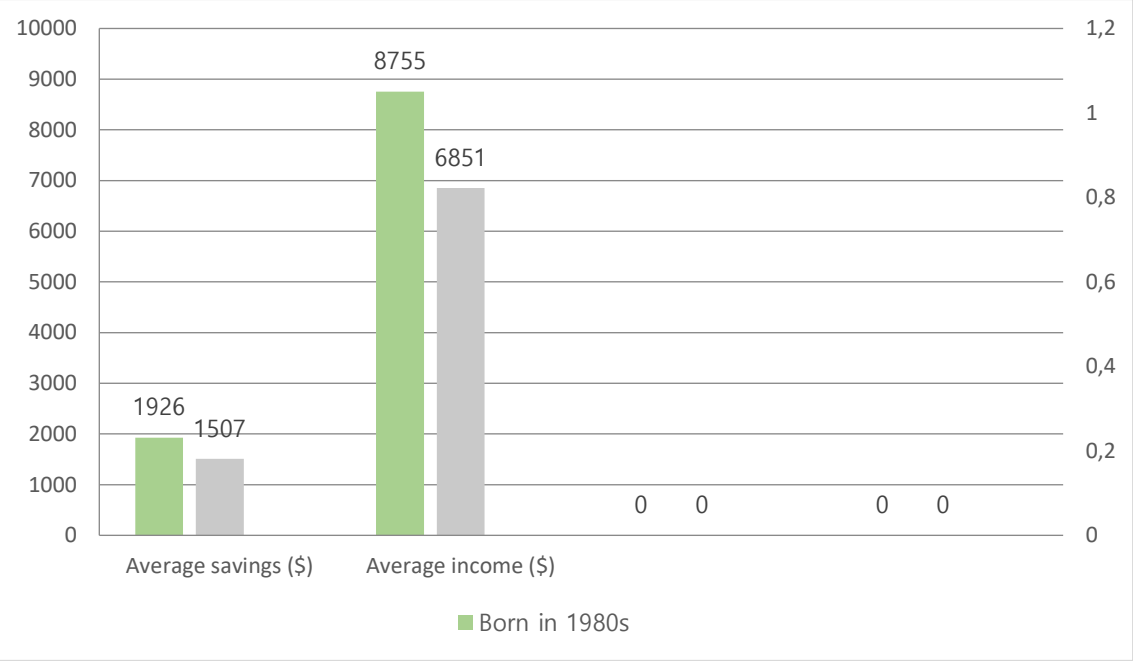
[64] Jing Wang, "Brand New China: Advertising, Media, and Commercial Culture", Harvard Univ Pr, 2006.
[65] Taihong Lu, 2005, in Jing Wang, "Brand New China: Advertising, Media, and Commercial Culture", Harvard Univ Pr., 2006

b. being self-centered: the OCG is more individualistic, egoistical and the reason for this behavior can be found in the attention and over-care received during their young age. While being used to be taken care for, they are averagely not able to take care of others, preferring to do things in their way. However, their individualism is not as self-driven as the American counterpart's, but still contained and regimented within the bonds of the Chinese societal harmony;

c. being hedonistic in life: people of the OCG are used to be always spoiled by their families, developing a never-satiable desire for every product or service they are attracted from;

d. being compulsive consumers: their standard of consumption is intensive, excessive. Price sensitivity is lower than for previous generations. They usually spend all they earn in a short lapse of time, because of their need to fulfill their instant desires, to feel excitement, to enjoy every day at the maximum level and to show off their financial stability. Consequently, differently from the previous generations, they are known for not being money-savers: although their income is averagely high, they rarely keep savings (22%), as illustrated in Figure 16.

Figure 16: The average savings and income of Chinese millennials in 2016



Source: data from CBRE and Fudan University (复旦大学) in http://daxueconsulting.com/chinese-millennials-spending-behaviors/

e. adoration for brands: OCG people trust brands and give a strong value to brand equity[66]. Branded products and services provide them an assurance of quality, of social visibility and recognition when the brand is well known by the people of their group. In fact, for them, brands are tools of success, indicators of fashion and lifestyle, which necessarily need to be followed.

Therefore, in order to be successful on a larger scale, when entering the Chinese market, a company should find a balance between the traditional values of the Confucian collectivism and the new OCG values of individualism, without underestimating the importance of these two components of people's life.

A second traditional value of Chinese society is conformity: people attach a strong importance to past experience, due to a fear-based conformism. As a matter of fact,

[66] Definition: "Brand equity refers to a value premium that a company generates from a product with a recognizable name, when compared to a generic equivalent"; *Source*: https://www.investopedia.com/terms/b/brandequity.asp

consumers who appreciated a product in the past tend to become loyal and to repeat their purchase. Traditionally, Chinese people are conservative consumers and do not expose themselves to risks, especially if they can be avoided. For this reason, comparing South Korea and China, changes in taste and consumption in the latter are much slower than in its cultural twin. Figure 15 showed the low score (30) of Uncertainty avoidance: chaos, absence of certainty and instability are the main enemies of society as a whole and of the individual as connected to the community. Moreover, the consumers identify the most popular brands as trustworthy. The more the people who like that brand, the better the brand is.

The repetition of the purchasing behavior must be ensured through strategies aimed at guaranteeing exclusivity to customers: gift cards, loyal cards, special prices and VIP offers for loyal customers, creating affiliation groups (like Taobao maniacs and Xiaomi Mi-fan) are essential to maintain relationship on the long-term and to distinguish the brand from its competitors.

A third value that consumers always consider when purchasing a product is its utility. Utility can be a material aspect of the product, such as health or functional benefits, but also an abstract source of display like the power to elevate the social status of the individual at the eyes of his or her social group. Regarding coffee as a drink, its main material quality consists in the energizing effect of caffeine, while the coffee chain logo usually put on the cup and the averagely high price for buying it can both be considered as indicators of a good financial condition of the customer. As stated before, all these benefits must be externalized: everything must bring people together, reinforce trust and ensure mutual gain and coffee houses' large rooms, Wi-fi and comfortable environment is the main insurance for it.

Nowadays, brands are more active in highlighting other benefits of coffee and at the same time in providing information about the history and the places of origin of the seeds to the customers.

The need described above has to do with the fact that Chinese people inherited centuries-old traditions of oral storytelling, which today finds its main mean of communication on the web and TV commercials.

China has a long history of tale writing, which also reflects in the language itself through expressions called *chengyu* (*成语*) and made up by four characters. During the period of the Cultural Revolution (1966-1976), this art was elevated to a higher level with the purpose of serving as a mean of propaganda of the Communist values, also erasing all modern entertainment genres with the exception of the eight model revolutionary plays and operas. At the same time, in rural areas, where "sent-down youth" was sent to be re-educated working in the fields, storytelling became a popular activity, in order to entertain each other and to feel less the fatigue of the manual work.

For these reasons, coffee companies and international brands like Caffè Pascucci, Starbucks, Costa Coffee, implemented marketing strategies and based part of the design of the store with the aim of recalling the green and natural vocation of the brand, but also of providing information about the places of origin, the varieties of coffee seeds, the production processes and their different steps, the history of the brand, through paintings, professional citations and written descriptions. Going to a coffee house must be both a sensorial and a knowledge-based experience.

The last cultural trait considered in this section includes food and gift-giving in festivities. Chinese festivities are based on specific mythical and historical events; every festival has a selection of food and beverages which people respect and consume with their friends and families. The three main examples are:

a. the Spring Festival: it is the most important festival in Chinese culture and it covers January and February of each new year;

b. the Dragon Boat Festival: it falls on the fifth day of the fifth lunar month and its typical foods are Zongzi, rice dumplings filled with bean paste, chestnut, jujube paste, fresh meat or preserved fruit, depending on the regions and tastes of people;

c. Mid-Autumn Festival: it falls on the fifteenth day of the eighth lunar month and the dish consumed during this occasion is the Moon Cake. The cakes are round-shaped like a full moon, with patterns on their surface.

Although the typical foods of these Festivals are usually consumed in family reunions, some people also give them as a present when visiting friends and relatives or offer them when gathering together. Big international coffee chains have been able to adapt their menus to the different periods of the year, by developing a food offer which included not only moon cakes and zongzi, but also branded themed accessories like cups, bottles, t-shirts, cards, etc., which can be given as a gift. As stated above, these ad-hoc changes derive from the need of guaranteeing exclusivity to the Chinese market, respecting its values, without imposing something "too foreign", which never belonged to the tradition of the country. Moreover, gift-giving constitutes a cultural trait that must not be underestimated, because of its strong connection with Chinese culture: buying gifts for others is an ordinary way to show care and maintain personal relationships (*guanxi*). These social connections are the core of the whole Chinese social system.

To conclude, Chinese people are often accused of "copying" the behaviors and trends of Europe and mainly the USA, but this is partially not true.
When entering China, companies must consider the fact that although the country is becoming modern and internationalized, tradition is still deeply rooted in people's mind and it clearly manifests in everyday life. The difficulty in introducing foreign food customs in this country derives from the fact that Chinese long cuisine tradition is much more than just the action of eating. It is filled with history, symbols, spiritual balances, which need to be understood, accepted and preserved, in order to reach success. China strongly remains Chinese.

2.4.3 The Chinese Middle class

Historically, the middle class, considered as a wide general consumer segment, has been the driving force for the expansion of the coffee market in countries like Italy, the USA,

Japan, etc. As showed in Chapter 1, after years of elitarian consumption among the upper classes, South Korean middle-class population rapidly began to increase in number and income levels and it created a coffee culture built on a pre-existing tea culture. As a matter of fact, coffee became the symbol of the economic boom and a synonym of hard work and energy.

From a social aspect, the main difference existing between South Korea and China can be found in the role of their respective middle classes in society and in their respective middle-class percentage on the total population[67]. While South Korean middle class has already affirmed its key-role in the coffee market, Chinese middle class is still in becoming for many reasons: its lower levels of income, the existence of a deeper tea culture, its more conservative and cautious approach to novelty, its instability and high uncertainty avoidance to preserve the new social status.

This paragraph provides a description of Chinese Middle Class and its potential for the growth of coffee market.

First of all, we need to categorize the middle class by four indicators: profession, income, consumption pattern and lifestyle, subjective cognition[68]**.**

a. Middle class by profession: it mainly includes five professional sectors: party and political officials, the business managerial class, private entrepreneurs, technical skilled laborers, office workers. All this people belong to the urban middle class, they are white collars. Half of them is on the public payroll.

   They represent an emerging nucleus of the population made up by a relatively young portion of the Chinese population. According to Goldman Sachs, in numbers they are 146 million with an average annual income per capita of U$D 11,733[69].

[67] Compared to South Korea, China has a bigger percentage of low-income population, due to its large rural population

[68] Jing Wang, "Brand New China: Advertising, Media, and Commercial Culture", Harvard Univ Pr., 2006

[69] http://www.goldmansachs.com/our-thinking/macroeconomic-insights/growth-of-china/chinese-consumer/index.html

b. Middle class by income: paragraph 2.4.1 described the Chinese city-tier system according to different indicators, included income. Analogously, Chinese middle class still has to be analyzed on a regional basis, because of the differences in incomes, living costs and prices throughout the country and its four different city tiers;

c. Middle class by consumption patterns and lifestyle: similarly to the previous point, it is not possible to present a universal standard of middle class for the whole country. Every city tier has its own "kind" of middle class, depending on how much they can afford with their income levels in that specific city;

d. Middle class by subjective cognition: it refers to people who consider themselves members of the Middle class.

Therefore, while there is no standard definition of Middle class in China, some metrics used bands to distinguish the different income groups. For the Chinese government, Middle class includes incomes between 60,000 and 500,000 RMB per year: in U$D 7,250 to 62,500. The global management consulting firm McKinsey&Company set it between 75,000 to 280,000 yuan ($11,500 to $43,000) per year. Finally, the World Bank used a dollar-per-day amount expressed in purchasing-power-parity (PPP) dollars.

Despite the difficulties in setting a standard to identify it, since early 2000s, China's middle class has been one of the fastest in growing in the world: according to South China Morning Post, a Pew Research Centre report showed that in the decade after 2001, the mainland's middle-income class grew by 203 million people[70]. In 2002 China's middle class was just 4% percent of the total population, but after ten years of economic growth and intensive reforms, it reached 31% (over 420 million people)[71].

These major changes were caused by the continuous migration flux of people moving from rural areas to urban centers, whose population increased from 19% of the total in

[70] http://www.scmp.com/news/china/article/1835527/chinas-middle-class-grew-203-million-10-years-report

[71] http://www.globaltrademag.com/global-trade-daily/commentary/well-off-chinas-middle-class

1980 to 56% in 2015. The most attractive cities were the ones along the Eastern coast, where demand for labor and income levels were higher than in inland provinces. Almost all these cities belong to Tier 1 and Tier 2, where the income levels allowed people to change their consuming behaviors not only through the purchase of non-essential items, but also by attaching more importance to leisure activities and healthcare. As a matter of fact, Chinese middle-class consumers are also changing their purchasing philosophy: consumption is seen as a source of value, where status projection importance is slowly being replaced by substance and emotional satisfaction.

For these reasons, coffee houses success among middle-class consumers largely depends on two factors: the quality of the products they sell, how healthy they are, and the emotions they are capable to create through the ambience of the store. These emotions constitute the link between the brand and the consumer: while coffee enacts a sensorial connection with the tastes of customers, the price, the service, the design, the music and the environment where products are consumed need to communicate the image of the brand, in order to be distinguished among the several competitors within the market. There is no doubt that with its new role in society and the awareness of it, people who can afford visiting coffee houses are led by psychological emotions, based more on desires rather than vital needs They want to enjoy a product or a service and are more attracted by novelties which now they can afford.

However, Chinese middle class is still an unstable segment of population: despite the ongoing changes in their purchase decision methods, they are still more conservative than other countries' middle classes: although the omnipresence of information sources in the streets, on TV, on the web, their lower experience about products leads them to occasional contradictions in buying habits and choices.

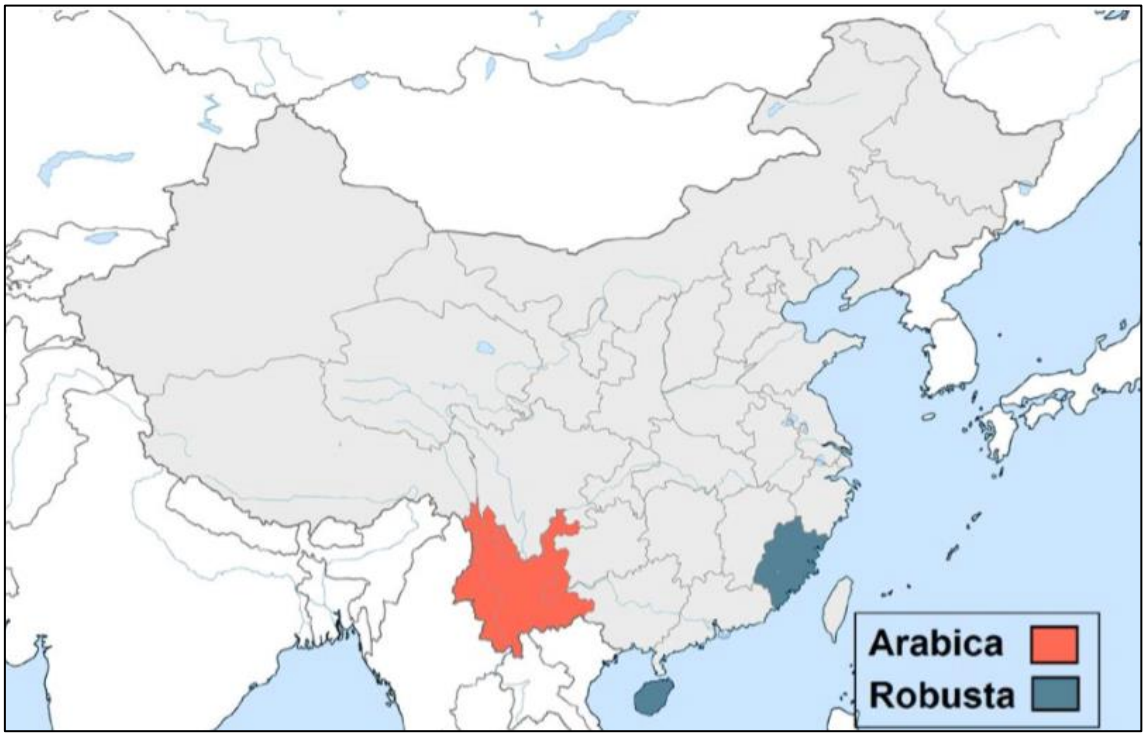
2.5 CHINESE COFFEE PRODUCTION AREAS

The second main difference between South Korea and China consists in the large investments made by the Chinese Government and some foreign private groups for the development of coffee production areas. Geography also played a key role: the

proximity of the Southern Chinese regions to the tropical areas and their climate conditions were essential for the growth of coffee seeds.

As showed in Figure 17, Chinese coffee production concentrates in three places: Yunnan, Fujian and Hainan.

Figure 17: China's coffee production areas



Source: International Coffee Council 115th Session 28 September Report – 2 October 2015 Milan, Italy

2.5.1 Yunnan: Arabica

The region of Yunnan is in the extreme South of China and it covers an area of over 390,000 square kilometers. The climate is a humid monsoon climate typical of subtropical and tropical zones, with drastic climatic changes and dry and rainy seasons. The area is mild all year, with an average annual temperature of 4-24°C[72].

The region is famous for the production of medical herbs, tea, fruits, rice, but in recent years coffee production replaced some of these cultivations, because of its higher profitability and the decline of tea prices through time. Because of the idea of coffee still

[72] http://www.chinatoday.com/city/yunnan.htm

as an “exotic product”, the current price is still relatively high, but consumption has not boomed yet. Millions of farmers are hopeful that more and more mainland coffee shops will use Yunnan coffee, instead of the large quantity of imported Robusta, mainly coming from Vietnam. In fact, with more people drinking the black water, the operating costs would be lower and so the price of each cup.

The intervention of the Government in the region gave a pulse to the technological progress of techniques and the territorial surface for coffee production: in 2010, the Yunnan Provincial Development and Reform Commission and the Yunnan Provincial Department of Agriculture enacted a plan for the development of coffee industry in the area (2010-2020). By 2015, the province's territorial surface adhibited for coffee has grown to 67,000hm_2, the production area of 5.3hm_2, leading to an annual output of 96000 tons of coffee beans. By 2020, the Yunnan plantation area will be stable at around 100,000hm_2, with an annual output of 200,000 tons of coffee beans.

Yunnan small grain coffee has a long tradition of planting, with a good quality, strong, fragrant flavor, which is slightly fruity sour, in line with the taste of domestic coffee consumers. The black gold is mainly produced in the Western part of the region, close to the border with Myanmar, where areas’ altitudes reach the 1600 meters, with an average of 1100-1200 meters. Here, coffee farms’ dimensions are different: there are small producers, but also state-run and privately-owned plantations of large dimensions (2000 ha)[73].

If more people drink coffee, the operating costs will be lower, the price of each cup of coffee will naturally reduce a lot. After years of hard work and struggle, Yunnan Coffee has gained a lot of popularity and the quality of its coffee has been recognized by many countries, first among all Germany. However, Yunnan's coffee quality control is still to be improved to see itself accepted in the countries which represent the highest consumers of this product: the USA, South Korea, Japan, Italy, etc.

Despite the evident existence of some difficulties and problems to be solved, the future development of the industry is proceeding at a high pace, also thanks to the investment made by foreign private firms, like Starbucks Coffee and the Nestlé Group.

[73] http://www.coffeehabitat.com/2010/02/coffee-growing-in-china/

2.5.2 Fujian and Hainan: Robusta

The other two provinces where coffee is produced are Fujian and Hainan.

Fujian is a province along the Eastern coast of the country. Fujian covers an area of 139,000 square kilometers. The climate is mild and humid. Temperature range goes from the 5°C of its coldest month (January) in the Northwest to the average 25°C-30°C of July.

Fujian is also characterized by abundant rainfalls and typhoons in Summer.

The province hosts different kinds of cultivation areas for fruits (lichen, orange, banana, pineapple, etc.) and flowers. It is also a major tea producer: the most famous teas include Chongan Wuyiyan tea, Anxi Tieguanyin, Fuzhou jasmine tea and Fu'an black tea. Coffee is also an important industry for Fijian because of the production of Robusta coffee, a variety often used for the making of instant coffee and RTD drinks.

Hainan is an island in the South of the country and it covers an area of 34,000 square kilometers. Its average temperature is between 22.5 ºC and 25.6 ºC. It has tropical monsoon climate, with summer being the longest season characterized by extremely high temperatures and abundant rainfall and typhoons. During the year, temperature does not have serious changes. Hainan is China's tropical crop base. For this reason, it is a large producer of rubber, Robusta coffee, coconut, pineapple, tea, etc.

While the production of Arabica in Yunnan covers the 95% of the national total, the sum of Robusta coffee cultivated in these two areas (Fujian and Hainan) is just 5% of the whole national production. Investments in Fujian and Hainan have been lower than in Yunnan, although Chinese people still prefer Robusta coffee to Arabica. Robusta is often used for instant coffee, a product which is still largely consumed in the country, especially by those who are not used to the sweeter flavor of Arabica brewed coffee. However, despite the still very high numbers in imports of Robusta coffee especially from the close neighbor Vietnam, the consumption of this variety is expected to decrease with people becoming more experienced about the black water and with Yunnanese Arabica coffee quality increasing in the next years. As a matter of fact, coffee houses tend to use Arabica seeds to brew coffee, due to their higher quality than Robusta.

2.6 CONCLUSIONS

This Chapter shows how complex the Chinese market is and how difficult is to enter a coffee market like China, where coffee consumption still represents an "exotic" lifestyle and not a necessity. In China, Coffee consumption has a yearly average of 4-5 cups per capita and it is still very low, especially if compared to the quantity of coffee consumed in countries like Japan, South Korea and the USA. However, this also shows the high potential the market has in its becoming one of the largest consumers of coffee in the world. The special opportunity China represents is given by the presence of areas with the climate conditions and the altitudes for the cultivation of both Arabica and Robusta coffee seeds. Moreover, Chinese overseas students drinking coffee and developing their own drinking habit show that, despite its bitter taste not easy to get used to, coffee is a "possible challenge" for coffee roasters and coffee houses. It is evident how managing in loco production in a country which could form its own coffee culture is a unique coincidence for this business.

3

FROM ITALIAN TO GLOBAL: THE EVOLUTION OF COFFEEHOUSES IN THE 21ST CENTURY

3.1 CHAPTER OVERVIEW

The third Chapter of this thesis paper starts with a short description of the historical evolution of the Italian coffee tradition, which provided the inspiration to Howard Shultz for setting up the Starbucks model. As showed in Chapters 1 and 2, this coffeehouses' format was later adopted by different brands, in order to create a social coffee culture on a larger scale, but at the same time very different from the antecedent microcosm of Italian coffee culture.

Espresso was still at the core of the store, but both the technological innovations and the necessity of adapting the beverage to different cultures and habits changed the Italian idea of how, where and when drinking coffee.

Coffee culture went through three main "waves", each with its own characteristics, which will be described in this Chapter. Moreover, location, space, place and atmosphere became difference-making factors deserving the attention and study of many sociologist, psychologists and geographers.

However, although the Third Wave led to the emersion of independent specialty coffee stores, which were able to change the idea of consuming coffee into a more sophisticated consumption, characterized by the use of organic products under the flag of sustainability, many big chains of the coffee industry adapted their policies to this new trend, being strong of the resources to rent wide rooms for long stays. With the advent of free Wi-fi connection inside the stores, the idea of coffeehouses as social places began to vanish, due to a lack of sociality. A problem that is today an important topic of discussion for those who operate in the sector.

In the last part of the Chapter, Caffè Pascucci, an Italian brand of specialty coffee, will be analyzed and studied for its ability to change, to adapt the Italian culture of drinking coffee in different countries of the world. The emphasis will be put on the two nations

object of this paper, South Korea and China, through the information mainly obtained by the company itself.

3.2 HISTORY OF COFFEE

3.2.1 The evolution of coffee culture in Italy

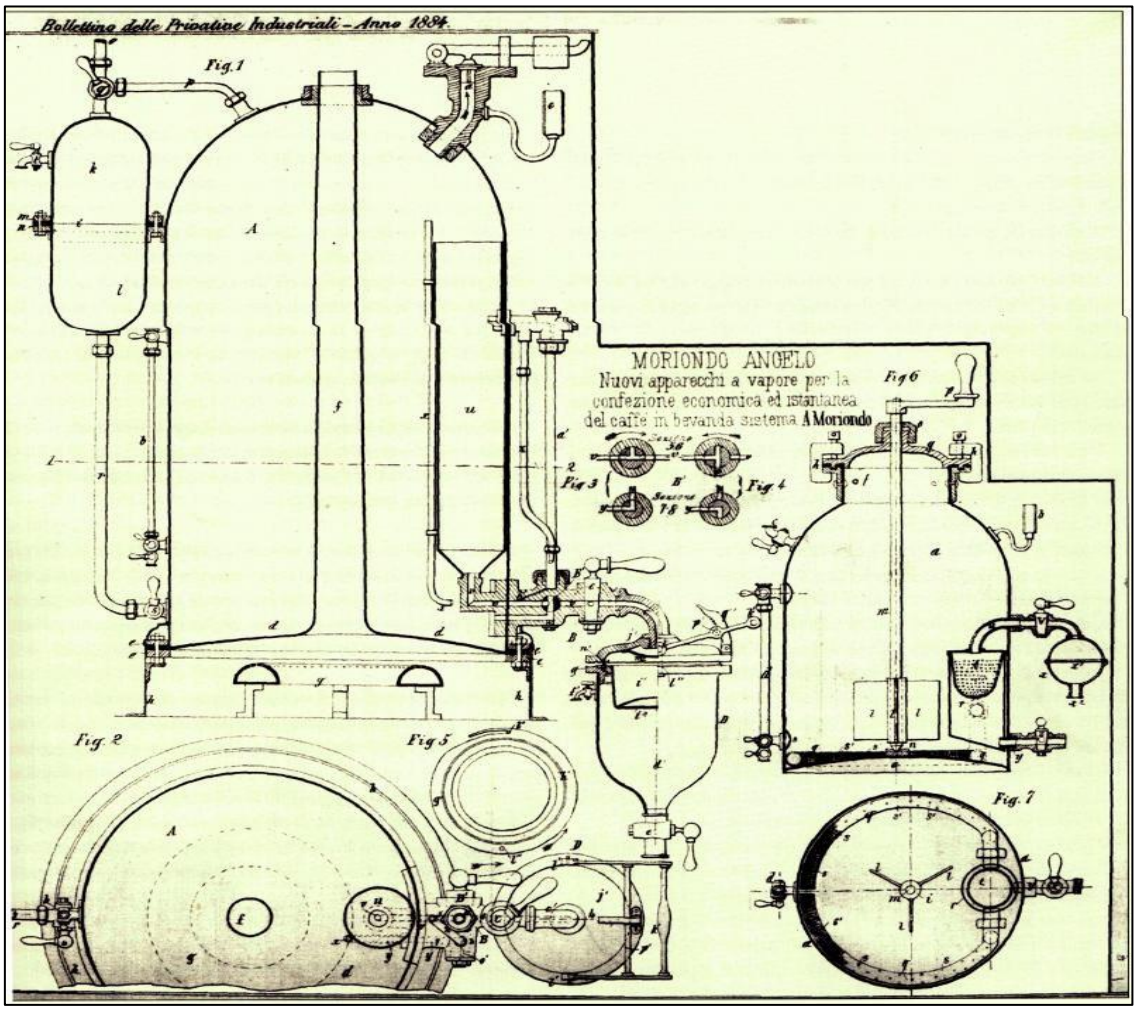
The Italian coffee history has its roots in Venice, when in 1570 the first coffee beans landed in the city. At that time, the city was one of the most important harbors of the world, acting as a link between the East to the West. Coffeehouses were opened in the city and in later years they spread across the whole European continent, gaining more and more success and popularity.

The Italian word for this beverage and for the places selling it was “caffé”. These little stores were often visited by upper-class people who could afford the new exotic product. Here, they used to meet, socialize, discuss about politics, art, everyday life. However, the coffee served in this period was made through the same infusion-based techniques used in Europe. As a matter of fact, the original birth of Italian coffee coincides with the invention of Espresso coffee machines, able to make a “short version” of the drink with a concentrated dose of coffee usually consumed in a short time.

The first Espresso coffee machine (Figure 1) was invented by Angelo Moriondo (1851-1914), owner of multiple coffeehouses. The reason why Moriondo is less considered by coffee historians among people who contributed to the Italian style is given by the fact that he never invested in a large-scale production, while only using the machines in his stores and registering his invention in countries such as Italy and France. The merit for the industrialization of the coffee machines went to Desiderio Pavoni, a Milanese owner of coffeehouses and other public exercises, who, animated by an entrepreneur spirit, recognized their high potential.

In 1905, the first Espresso machine ideated by the Milanese engineer Luigi Bezzera was put into commerce under the name of La Pavoni Ideale. The coffee consumed in this period was still different from the Espresso as that we know today: it was a black drink with a bitter and “burnt-like” taste, without the cream that nowadays distinguishes Espresso.

Figure 1: The project of Angelo Moriondo's coffee machine



Source: http://www.alamy.com/stock-photo-first-patent-for-the-espresso-machine-angelo-moriondo-1884-150616761.html

In the first ten years of the XX century, the consumption methods also changed: thanks to the faster service guaranteed by the new machines, coffee was usually drunk standing on one's feet at the desk, without sitting down, in the so-called American bars, which became places for people belonging to the working urban bourgeoisie to socialize while discussing about business. Gaining popularity among the upper-middle class, coffee per capita consumption increased of the 60%, reaching a per year quote of 80 cups per person[74].

[74] Morris, 2010, in Maurizio Giuli, Federica Pascucci, "Il ritorno alla competitività dell'espresso italiano", Milano: Franco Angeli s.r.l., Italy, 2014

With the beginning of World War I, coffee spread across soldiers at the front, who could get their daily ration of the black water: if in 1918 coffee imports were about 51,000 tons and 40% of them was consumed by the army. However, during the years between the two Wars, coffee consumption decreased by a lot for several factors, especially for some measures taken by Governments to fight the economic crisis, such as limiting the coffee imports and putting taxes on the machines. After 1939, coffee houses still began to increase in number and a new habit of drinking coffee outside of one's home raised, slowly replacing the one of drinking wine and leading to the opening of more *bars*. Moreover, despite the several difficulties of the World Wars' years, some innovations were made: packages able to more efficiently retain the flavor of the product, machines making a higher quality espresso, the introduction on the market of the Moka by the Bialetti brand. However, only between 1946 and 1970, coffee boomed: pro capite consumption doubled. At the same time, Italian people changed their preferences, starting to consume roasted coffee of bars, leading to the opening of more coffee roasters.

The revolution in habits was also boosted by the invention of the lever system applied on coffee machines, through which coffee was served with the brown cream on the surface as we know it today, with a sweeter and more intense taste. This improved version of espresso helped to further push the large-scale diffusion of bars.

This phenomenon found in coffee the core product for its existence, but the social nature of these places also had an important role for the evolution of Italian coffee culture, as coffee was strictly connected to the social needs of consumers.

The average coffee consumer visiting cafés was a male individual belonging to the upper-middle class, usually living in urban areas of the North and Center of the country. Women were usually consuming coffee within the house walls, but as coffee quality and consumers' tastes improved, the trend transformed into a preference for outside consumption. As a matter of fact, during the 80s, the new needs changed the offer of bars, which started to implement functional menus, enlarging them till including food to be eaten while having a break from work: the lunch bar was born with its fast service and its relatively cheap prices.

In the 90s, bars began to offer entertainment services, too, but still remaining fewer than traditional coffeehouses, due to the espresso mentality which characterized the Italian coffee habit.

Therefore, the meaning of drinking a cup of coffee in Italian culture is not just limited to the action itself, but it refers to meeting other people, socializing, sharing time, resting and recovering energy[75].

This social nature of coffee houses is the philosophy at the base of the success of coffee in countries like South Korea and Japan. China is slowly following the same path, with the ongoing growth of a middle class searching for places to work together, socialize and meet with others in a relaxing and comfortable environment. The main difference existing between Italy and these two Asian countries, South Korea and China, is coffee rhythm: in the first, coffee is much cheaper, usually consumed in smaller cups and without sitting down at a table, while in the other two counterparts, it is accompanied by higher prices and a long-stay philosophy, which creates the need for wider spaces and a more entertaining environment.

3.2.2 The evolution of international coffee culture: Second Wave and Third Wave

As argued by Robert Charles Bolles[76], coffee is a hard taste to be accepted at first try. It is so bitter that only those who are used to drink it quite frequently like it. In few words, coffee is an acquired taste, not an innate one. For this reason, coffee cultures evolved accordingly to the different local contexts, following their own coffee blends, roasting, preparations and consumption methods.

As stated in Chapter 1, Italian espresso and the social nature of Italian bars served as a key-characteristic for the success of the American chain Starbucks coffee, after Howard Shultz, travelling in Italy in January 1983, remained very fascinated by the Italian style. Some experts recognize Starbucks as the initiator of the so-called "Second Wave"[77], an

[75] Cambi, C., 2005, in Maurizio Giuli, Federica Pascucci, "Il ritorno alla competitività dell'espresso italiano", Milano: Franco Angeli s.r.l., Italy, 2014

[76] Maurizio Giuli, Federica Pascucci, 2014, "Il ritorno alla competitività dell'espresso italiano", Milano: Franco Angeli s.r.l., Italy

[77] The term derives from the studies of Alvin Toffler (1980), whose model identifies three phases, "waves" of economic development: the First Wave, which refers to the period before the industrial revolution, the Second Wave as the period between the 18th century and the 80s, and finally the Third

expression which refers to the first historical change in the field of coffee: in the USA, during the 80s, traditional coffee roasters of the "First Wave" were progressively decreasing the quality of their product.

The Second Wave found in specialty coffee stores a driver which literally changed the nature of coffee consumption: from being just a beverage, this product became a commodity to be consumed in a comfortable environment and requiring a certain atmosphere, suitable for a longer stay than in previous habits. At the same time, people's interest for coffee increased, the demand evolved and included specific origin preferences, specific roasting methods, services and preparations. The six main novelties which characterized the Second Wave were:

a. an accurate selection of Arabica mono-origins;
b. a "darker" roasting degree: a more roasted coffee bean had the effect of creating a more intense taste of the product;
c. freshness: coffee was roasted in the store and directly served customers, who could enjoy the product in its highest quality momentum;
d. instant grinding;
e. education: customers had the occasion of learning about coffee in the store, which provided information about the origins, the varieties and the different processes adopted to roast coffee. A higher experience let people understand what they were drinking and if the value of that product was worth the money spent;

However, the major shift of this era was represented by the so-called "Latte Revolution", a fundamental change the in the preparation method whose main five characteristics were:

a. the use of the Italian "espresso" system for the preparation of coffee;

Wave as the post-industrial phase Maurizio Giuli, Federica Pascucci, "Il ritorno alla competitività dell'espresso italiano", Milano: Franco Angeli s.r.l., Italy, 2014

b. the use of coffee made through the dark roasting process typical of the Second Wave;

c. a menu including a large variety of EBB with the addition of milk: that is where the name "Latte Revolution derives from;

d. the Third place: the consumption of the product in a cozy, comfortable, relaxing environment projected for a long-stay, sitting down;

e. the core role of coffee in the customer experience, to preserve the identity of the brand.

In recent years, coffee historians identified a new Third Wave of coffee consumption, which raised as a sort of answer by independents to the wide success of big companies. This new phase puts the emphasis on the customer, with the purpose of making it feel special.

The main traits of the Third Wave can be reassumed as follows:

a. the quality of coffee is increased;

b. the trade becomes more direct: producer and consumer are closer to each other, for the fact that coffee houses allow an interaction between the two. As a matter of fact, the customer can trace his beans and get all the information about the product he bought;

c. the importance of sustainability: a documentation of all the processes of the specialty coffee supply chain helps recording all the inputs and outputs on the journey from seed to cup. Through this detailed analysis, it is possible to understand the impact that the supply chain has on the environment, identifying in an easier way the issues to be solved: data collection and analysis is essential to have a scientific knowledge about the effects of the coffee industry on human health, global warming, land use;

d. the variety of roasting profiles, which are not just limited to the traditional division in "light-dark-medium", but also depend on the adopted temperature level and its duration during the roasting process;

e. the pursuit of sweetness, complexity and variety as distinctive characteristics of the brews.

As written above, the focus on customer experience is the core of this third wave, in order to make him feel as unique as the coffee he has in front of himself. Information, service, product quality are all key features, in order to share the story behind the cup. "*This story is one created by producers, importers, roasters, and baristas. It explains why a coffee is distinctive, why a consumer can taste certain notes, and why high-quality coffee takes so much work*"[78].

However, as reported in Chapter 1 and Chapter 2, many coffee chains operating in South Korea and China decided to invest more on some of the aspects typical of the Third wave, such as sustainability and organic products, customer-producer connection, coffee blends variety and sweetness. The reasons for this renewal are different, depending on which country is considered in the discussion, given the fact that coffee culture in these two nations is living two completely different phases.

3.3 SUSTAINABILITY, GREEN PURCHASE BEHAVIOR AND MANAGERIAL IMPLICATIONS

3.3.1 Sustainability in production

One of the main values that emerges from the previous Paragraph is sustainability. This word refers to the "*avoidance of the depletion of natural resources in order to maintain an ecological balance*"[79]

Thus, talking about sustainable development means "*meeting the needs of the present without compromising the ability of future generations to meet their own needs*"[80].

Coffee is not an essential product for human kind and its production has an inevitable impact on environment, whose relevance varies depending on the methods and products used in the coffee industry during the different phases of the process. Today, sustainability is a theme to which many are very sensitive, concern about sustainable

[78] https://www.perfectdailygrind.com/2017/04/third-wave-coffee-different-specialty/
[79] https://en.oxforddictionaries.com/definition/sustainability
[80] Brindtland Commission, 1987, in TUCKER CATHERINE M. "Coffee culture: Local experiences, Global connections", in The Routledge Series for Creative Teaching and Learning in Anthropology, UK: Taylor and Francis, 2011

practices is on the rise, especially in two countries like South Korea and China, each going through different environmental issues, which have direct consequences on the daily life of their citizens.

As showed in Chapter 2, China, compared to its cultural twin, due to its massive geographical extension which covers tropical areas, is affirming its role in the international coffee market through large-scale investments, both private and public, in the region of Yunnan, located in the extreme South of the country. However, coffee sustainability still remains an unsolved issue for several reasons, which will be listed below.

In 2012, Yunnan was affected by a four-year drought which showed the fragility of the region in the production of the black gold[81]. Yunnan coffee boom led to a sort of revolution in the geographical area: rice fields were replaced by plantations, deforestation was implemented with the purpose of increasing the available hectares for production, soil erosion is occurring and the use of chemicals to speed up productivity brought to water contamination: pesticides and other kind of chemicals flow into the streams and mix with ground water worsening pollution.

Another issue is caused by the production method: in Yunnan, the majority of coffee is sun-grown[82]. Sun-grown Arabica is a relatively recent innovation: during the 1970s, scientists developed coffee hybrids able to survive to full sun and to have a higher yield than shaded-grown coffee, if planted as monocultures. The high productivity of this technique led to its rapid adoption throughout the world, making it a standard, but in subsequent years it revealed itself to have serious limits in sustainability: sun exposure caused soil erosion, sun-grown coffee suffered during dry seasons, requiring an intensive use of chemicals, because of its fragility and tendency to be easily affected by diseases and pests.

For these reasons, in recent years, sustainability has become a topic of discussion among producers and experienced consumers: people are gradually more sensitive toward the environment and more interested in the sustainable policies enacted not only by big

[81] Coffee production is water intensive

[82] https://www.newsecuritybeat.org/2013/04/coffee-yunnan-model-chinese-agricultural-reform/

companies, but also by independents, which were the first ones promoting this trend. A relevant example of this change in sourcing is represented by one of the two major international investors in Yunnan, Starbucks Coffee, which purchases shade-grown coffee. In fact, the company promoted a program for sustainable coffee farming in the province.

Shade-growth is a more sustainable alternative than sun-grown coffee. The seeds are cultivated under the trees, forming shaded plantations which also serve as reservoirs for biodiversity: these trees can be domesticated or native and in both cases their presence ensures the preservation and diversity of animal species living in the area. Moreover, soil erosion is reduced as well as the growth of weeds.

Finally, shade-grown coffee quality is higher and richer in flavor than sun-grown one, but its productivity is lower.

3.3.2 Green purchase behavior among Chinese and South Korean consumers

When talking about the Third wave of coffee culture in section 3.3.2, we pointed out the importance of sustainability both for consumers and independent cafés. However, big companies quickly adapted to some of the new trends, leading to its inclusion among the main values of brands operating in international markets. Sustainability has a direct impact on consumers' purchasing intentions for several reasons: concern about environment is growing as issues like air, water and ground pollution become more and more severe as time passes, but sustainability is also associated to healthy and safe food. Recently, researches[83] showed how green purchase behaviors are spreading across Chinese and South Korean markets, but the reasons behind this change reveal themselves to be different from one country to the other.

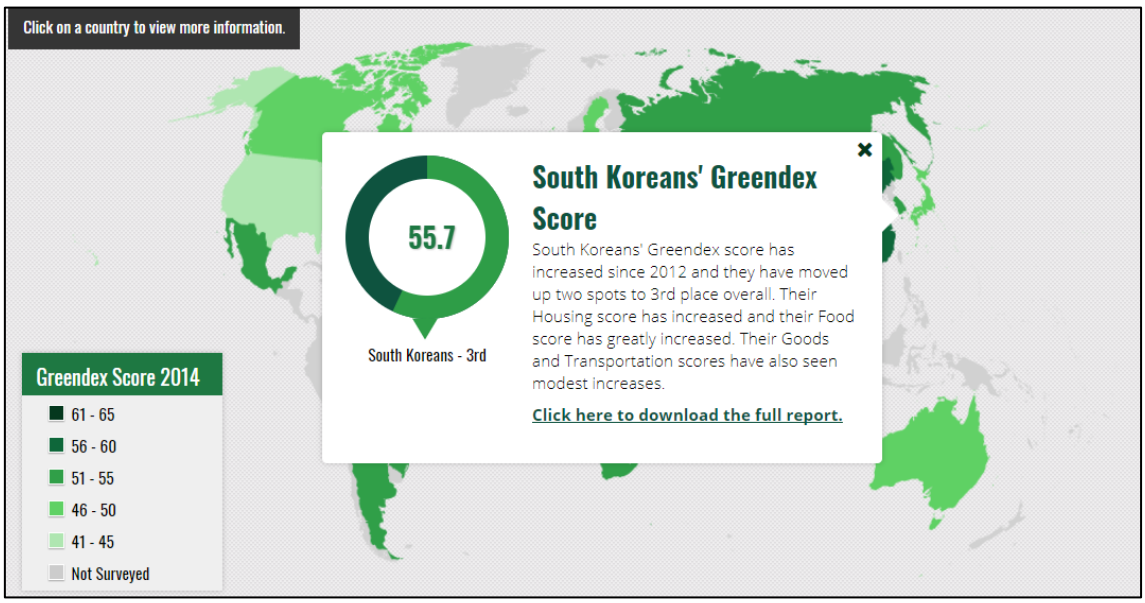
In South Korea, environmental knowledge, intended as "*the amount of information individuals have concerning environmental issues and their ability to understand and evaluate its impact on society and the environment"*[84], plays a key-role in green purchasing intentions. In fact, in consumers' mind, environment and health are directly

[83] You Kyung Lee, "A comparative study of green purchase intention between Korean and Chinese consumers: the moderating role of collectivism", 2017

[84] https://www.igi-global.com/dictionary/environmental-knowledge/40808

connected to each other; the latter one, as we saw in Chapter 1, is a point of concern for South Korean consumers: as the country declared a national emergency due to the increasing pollution, sustainable behaviors are raising in every aspect of daily life (see Figure 2).

Figure 2: South Koreans' Greendex score



Source: http://images.nationalgeographic.com/wpf/media-content/richmedia/0/652/project/index-7.html

Moreover, in people's mind, nature is culturally connected to humans and collectivity: green purchase behaviors symbolize a collective effort in improving everyone's lives. However, although collectivism remains one of the pillars of this society, it does not directly influence Koreans' will as environmental knowledge does; for this reason, companies should base their green marketing strategies on an individual approach, in order to raise customers' knowledge and interest towards sustainability, the company's green policies and processes and the safety of its products.

As far as it concerns the Chinese consumers, in one of his studies, Professor Ricky Y.K. Chan of the Hong Kong Polytechnic University pointed out how both collectivism and environmental knowledge are direct precursors of green purchase behavior. Chan showed how collectivism is positively related with environmental awareness: nature is where society lives and its protection is essential for everyone's well-being, because in

a collectivistic society like China, group always comes over personal values. Furthermore, as reported in his research:

> "[…] *Chinese consumers would like to see both the Chinese government and enterprises assume more responsibility for protecting the environment, it is desirable for them to work more closely together to establish a comprehensive ecocertification scheme and a set of clear environmental advertising guidelines"*[85].

However, in China, green purchase intentions do not necessarily bring to their concrete implementation.

In a survey of the Hong Kong Trade Development Council, data show how most of Chinese middle-class people (71% of respondents) during the last year decided to spend more on green products. The reasons behind this increase in their consumption are mainly two (Figure 3): because of health concerns (73%) and because of the greater convenience and disposability in supply of eco-friendly products in recent years (59%). People who can afford it prefer to spend a little more for food whose production respects the environment and uses renewable resources. Data also show that this trend is proportionally related to household income: the higher it is, the bigger is the consumption[86].

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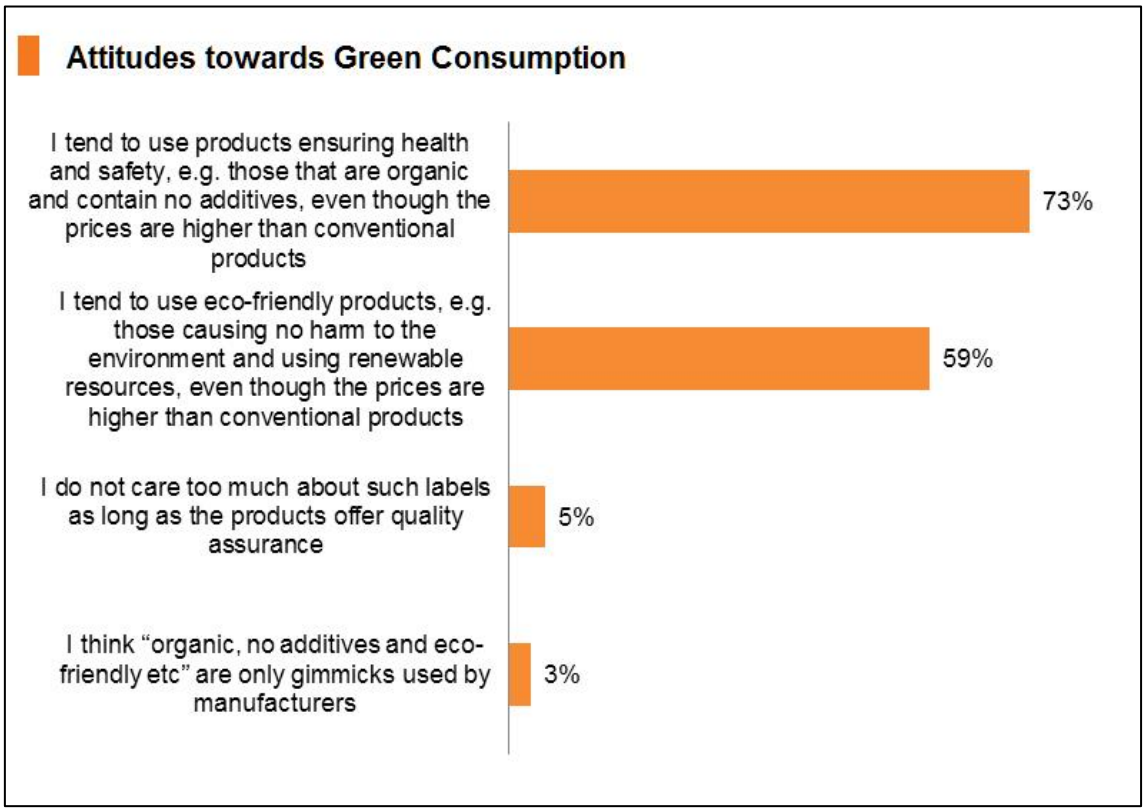
[85] R.Y.K. Chan, "Determinants of Chinese consumers' green purchase behavior. Psychol. Mark.", Psychology & Marketing, John Wiley & Sons, Inc., 2001, page 406

[86] http://economists-pick-research.hktdc.com/business-news/article/%E7%A0%94%E7%A9%B6%E6%96%87%E7%AB%A0/%E4%B8%AD%E5%9B%BD%E5%86%85%E5%9C%B0%E4%B8%AD%E4%BA%A7%E7%BB%BF%E8%89%B2%E6%B6%88%E8%B4%B9%E6%80%81%E5%BA%A6/rp/sc/1/1X000000/1X0AB4QY.htm

Figure 3: The survey conducted by the Hong Kong Trade Development Council



Source: http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/China-s-Middle-Class-Consumers-Attitudes-towards-Green-Consumption/rp/en/1/1X000000/1X0AB4QY.htm

Managerial implications for this trend can be reassumed as it follows: in China, coffee companies should highlight the origins of their products, what kind of green processes were adopted during their production and which are the efforts of the brand towards the environment; green marketing strategies need to be improved, in order to increase consumers' environmental knowledge and to consolidate the importance of collectivism for in their perception and ecological awareness: environment is the place of home, community, country and its health and protection is at the basis of Chinese culture.

3.4 SPACE AND PLACE: THE IMPORTANCE OF CAFES IN CONTEMPORARY CITIES

3.4.1 Yi Fu Tuan: space and place

Before concretely understanding the role of coffeehouses in nowadays big cities, it is necessary to provide a short theoretical and definitional background about the concepts of space and place. The theory of Yi Fu Tuan[87] will serve as a basis for understanding the difference between the two.

In humanistic geography, "place" is a location which has a special meaning for people, depending on the experience they had, often referring to a prolonged experience. Places can be many inside a determined "space", which can be described as a net whose nodes are represented by the places themselves. These reference points, inside a city-space, have their own and unique personality, born through subjective individual repeated attendance of these geographical units by people, who see in them a sort of physical embodiment of their feelings and identities. Therefore, these nodes are functional to the needs and aspirations of individuals: example of places can be home, the work office, the pub, the hospital, all spots characterized by repetition in visiting them.

However, this vision of places is not only limited to the personal and subjective experience of the individual. In fact, "sharing" is a key element for these units and it is made possible through "intersubjectivity: group experimentation, an interconnected relation between the place, the persons inside it and the individual itself.

The theory of Yi Fu Tuan can be easily readapted the role that coffee houses have inside the urban fabric, through the idea of "Third Place" formulated by Ray Oldenburg in 1989[88], as it will be described in the next section.

[87] Yi Fu Tuan is an Chinese-American geographer born on the 5th of March 1930 in Tianjin, China. He is considered as the main initiator of Humanistic Geography

[88] Ray Oldenburg, "The Great Good Place: Cafes, Coffee Shops, Community Centers, Beauty Parlors, General Stores, Bars, Hangouts, and How They Get You Through the Day", New York: Paragon House, 1989

3.4.2 Ray Oldenburg's Third Place through time and the impact of Wi-fi on sociality

Ray Oldenburg is an American urban sociologist born in 1932.

Initially referring to tea houses, then expanded to different activities including coffeehouses, he formulated the theory of the Third place as a halfway spot between the First Place (home) and the Second Place (work).

As he reported in an article on the Planning Commissioner Journal in 1996-1997: "*Third places are nothing more than informal public gathering places. The phrase third places derives from considering our homes to be the first places in our lives, and our work places the second*"[89].

Figure 4: A scheme of the three main urban Places' functions

Source: https://www.thirdplacebooks.com/sites/thirdplacebooks.com/files/1st2nd3rd.png

According to Oldenburg, these Third places can acquire multiple functions: unifying the neighborhoods they are located in, acting as gathering points for people living in the area, becoming fixed and reliable points of orientation for newcomers to the area, or serving as points of association and entertainment for adults, children, helping them to enjoy their living environment, to meet old and new friends or just to relax.

The existence of this kind of places derives from the fact that humans are social beings: people need a social place where they can stay with others. At the same time, they want it to be comfortable, alienated from the external environment without isolating them, able to communicate a sense of belonging linked to the area they are living in or their personal identity. In few words, Third places need to have a meaning and an social function for people who frequent them and this purpose is not wholly inherent the

[89] Ray Oldenburg, "Our vanishing "Third places", PLANNING COMMISSIONERS JOURNAL / NUMBER 25 / WINTER 1996-97

location itself. As a matter of fact, the category that makes coffee houses and third places in general "social" are regular customers: for them, the place is a sort of second home and their attitude is essential to develop conviviality and a welcoming atmosphere. For Oldenburg, the arrival and creation of regulars is a vital aspect for the life of a Third place, in order to create an identity and image based on respect and sense of belonging both for old customers and new ones. As the sociologist wrote in 1989: "*What urban life increasingly fails to provide, and what is so much missed, is convenient and open-ended socializing--places where individuals can go without aim or arrangement and be greeted by people who know them*"[90].

However, the idea of Ray Oldenburg about coffee houses has to be revised and updated according to the new trends and needs of the 21st century, first among all the presence of a free Wi-fi access inside the stores, which became an essential source of value, directly associated to the concept of coffeehouse itself. As we said before, the internet connection is a necessary requirement for people to stay inside the store, studying, working, eating and drinking, but, in some cases, it can also attract customers who can paradoxically become a threat for the business.

[90] Ray Oldenburg, "The Great Good Place: Cafes, Coffee Shops, Community Centers, Beauty Parlors, General Stores, Bars, Hangouts, and How They Get You Through the Day", New York: Paragon House, 1989, p.61-62

Figure 5: People go to coffeehouses to be alone together

Source: https://kopifolks.com/guide/5-cafes-free-wifi-get-work-done/

In an article titled "*Wi-fi 'lingerers' in coffee shops are causing territorial disputes, academic research finds*" written by James Hall on The Telegraph[91], these people are called "*coffee shop conquerors*". This expression describes those individuals who adopt an anti-social behavior by using the whole table of the coffee house as a workstation: opening their laptop, their smartphone or iPad and bag, just ordering a cup of tea or coffee, in order to pay a price as a sort of seat-rent to be justified to spend the entire afternoon in the location. The consequence of this kind of behavior is a concrete damage not only to other customers, but also to the company itself, which sees its seats occupied by the same people for most of its opening time, losing part of potential newcomers, who find themselves in front of a non-welcoming environment with barricades of computers divided in small islands. As Asaf Bar-Tura describes them:

[91] http://www.telegraph.co.uk/news/uknews/9254698/Wi-fi-lingerers-in-coffee-shops-are-causing-territorial-disputes-academic-research-finds.html

"[…] many cafes have become pseudo-libraries, taken over by the laptop generation, it makes you feel as you should be quiet […].
Vocal discussion itself is implicitly discouraged, let alone a discussion involving multiple parties. People in coffee houses nowadays create a private space within the public space"[92].

Free Wi-fi access led to the partial loss of the social function of the stores: many people visit the stores with the only purpose of using their high-speed Wi-fi, staying alone in places which are supposed to be gathering points. In fact, nowadays, people mainly want to work or study in coffee houses and socializing covers a secondary importance. People sitting at a couch in a café with wireless internet connected to their devices can feel almost the same comfort they feel staying at their home or at work, and the relevance Wi-fi has for these places created a kind of virtual unlimited space, whose entrance door is represented by cafés offering this kind of service. In few words, Third places role is to give people the possibility of having a halfway spot between home and work, in order to enter an alternative third virtual reality through the internet. It goes without saying that the original social function reduced proportionally to the rise of this trend.

In recent years, some experts debated about this problem, this loss by Third places of one of the characteristic they were born for: sociality. Some owners, also motivated by a small demand among consumers, decided to create no Wi-fi areas, in order to stimulate intellectual discussion and social interaction inside their stores[93]. According to them, creating an environment without the internet access would bring back informal public gathering places as they were before, but this kind of initiative is still very limited and it does not concretely solve the problem, especially through a sort of self-imposition. These needs and social issues are at the centre of managerial concern about creating gathering points able to fulfill the needs of different people inside the targeted segment

[92] Asaf Bar-Tura, Part 2: Grounds for debate: coffee culture", section 7 "The Coffeehouse as a Public Sphere: Brewing Social Change" in Allhoff F., Parker S.F., Austin M.W., Schoenholt D., 2011, "Coffee - Philosophy for Everyone: Grounds for Debate"
[93] http://www.bbc.com/capital/story/20170224-some-cafes-are-banning-wi-fi-to-encourage-conversation

of consumers. Right now, removing Wi-fi does not appear to be the effective solution to the loss of sociality: in South Korea and China, having an internet access is nowadays essential for the survival of a coffee house, independently from what people have to do when frequenting that place in a determined time of the day. Furthermore, Wi-fi connection presence does not necessary imply its abuse or an inevitable lack of sociality. For this reason, management has to focus on atmosphere and environment as sensitive aspects to provide a universal suitability for needs: colors, music, lights, furniture's design and disposition in space are all fundamental variables which can be manipulated following an exact strategy, in order to create areas for discussion and sociality (round tables, couches, armchairs, stools) or for work (square tables, comfortable chairs, sideline power outlets), separated from each other, without renouncing to any kind of service.

3.5 CAFFE PASCUCCI: INTERNATIONALIZING THE ITALIAN STYLE OF DRINKING COFFEE

Figure 6: Logo of Caffè Pascucci

Source: https://www.pascucci.it/

3.5.1 History of the Brand in Italy

In 1883, Antonio Pascucci, decided to change his family tradition of weavers by dedicating himself to food trade and commerce. His decision was also influenced by the agreement of Freedom of trade and navigation which Italy stipulated with England on July 15th in 1983, which allowed him to acquire colonial products, such as raw coffee, which soon captured his attention. Antonio's passion was inherited by his son Mario Pascucci, who in 1935 opened the first family shop in Monte Cerignone, a small

municipality in the region of Marche, in central Italy. However, coffee officially became a family business only when Dino, Mario's brother, decided to open his own cafè in Monte Cerignone: his specialties were sorbets and coffee, thanks to the presence of the first espresso machine in the store.

The success of the business convinced Alberto Pascucci to enlarge the business range by industrializing the roasting tradition, under the guide of a new mission perfectly explained by the expression "Just quality coffee", which consisted in a focus on coffee production and new coffee blends, leaving apart commerce of food.

During the Nineties, the family decided to create the brand Pascucci, through a replication of the traditional model of cafeteria, in order to promote the research and development of the business, through a constant innovation.

2016 was a year of success: Pascucci coffee beans were exported to more than 1,500 outlets in 60 countries and over 400 home stores in the world.

3.5.2 Key factors of Pascucci business model

PARTNERS

To enter markets such as China, South Korea, India and other Middle East countries, Caffè Pascucci adopts the formula of *master franchising* agreements. In this kind of contracts, the franchisor exclusively gives to the master franchisee the right to make contracts with third parties, the sub-franchisees, depending on the geographical area they want to open a new store. In this way, the knowledge of the local market is ensured on different levels. In Pascucci's case, the master franchisee has the exclusivity on the control and commercialization of coffee in the ho.re.ca. distribution. At the same time, it is in charge of the development and promotion of the brand Pascucci[94].

PRODUCTS

Pascucci menu offers coffee series, espresso series, EBB beverages, handmade coffee series, iced beverages, dessert series, bottle juice series, tea series, roasted coffee beans

[94] Maurizio Giuli, Federica Pascucci, "Il ritorno alla competitività dell'espresso italiano", Milano: Franco Angeli s.r.l., Italy, 2014, p. 271

but also a wide range of merchandising products such as Moka, branded mugs, t-shirts, caps, bags and other kind of accessories.

PRODUCTION

Production is only made in Monte Cerignone, where the headquarter of the brand is located. The reasons behind this choice are related to the environmental characteristics of an area with low humidity and regular temperature throughout the whole year, which helps the preservation of the seeds.

CHANNELS and DISTRIBUTION

Ho.re.ca.: Pascucci provides quality beans only to hotels, restaurants and cafes. The brand does not supply beans to supermarkets and other kinds of channels.

KEY RESOURCES

The original Pascucci blend ratio is called Golden Sack (85% Arabic + 15% Robusta). The decision of including a percentage of Robusta directly derives from the Italian tradition of making espresso coffee. For a long time, the know-how of mixing Robusta and Arabica varieties was preferred to obtain a coffee with a heavier body and a deep bitter taste.

VALUE PROPOSITION

Pascucci uses the world's best quality coffee beans. Plantations are not always property of the brand, but the selection is made around the whole world with precision and professionality.

Another peculiarity is the slow baking process adopted to obtain high quality coffee beans.

Water is a fundamental component of a cup of coffee. The use of high-quality water is an essential ingredient to obtain a good product.

Variety in systems of extraction: alternative extraction systems are mainly provided out of Italy, because of a less traditional and often more innovative culture in drinking coffee.

They include the following methods: the Siphon, the French Press, the use of paper filters and Chemex pot, the Aeropress and the Cold Brew.
The *Confuso* is the most famous recipe of the brand because of the success it received in many different countries, especially South Korea. It is composed by a base of Chantilly vanilla-like cream instantly prepared in a siphon.

3.5.3 Sustainability: Pascucci Bio

As showed in the first part of this Chapter, with the advent of the Third Wave in coffee culture, sustainability became a hot topic when discussing about coffeehouses. After independent stores started to give relevance to environmental policies of producers for their own supply of coffee beans, specialty coffee chains decided to readapt their production and supply policies to this green wave.
Caffè Pascucci decided to become an organic producer for three reasons:

a. profit: it is a growing market and it embodies the future opportunities of the business;

b. fear of losing market: independent stores and other big chains started to become "green" and the market is appreciating this shift of coffee culture for a better attention toward environmental issues;

c. philosophical-ethical choice: the environment is the basis of life, it provides people food and food is strictly connected to humans' health.

Whether doing it for business or for ethical reasons has importance or not, what data and the market evolution show is that being organic and respectful toward the environment is an inevitable path that companies will follow in any case.

Caffè Pascucci is slowly converting its production into an organic one. As a matter of fact, 10% of the company's turnover comes from certified organic production and 15% from fair trade products[95].

The speed of this conversion process depends on several factors, which are not necessarily under the direct control of the company: raw materials are still few, Pascucci espresso blend is complex and the different origins of the seeds need to be in balance, consumers are on a world-scale and their preferences are not standardized, the slower yields in "organic agriculture", due to the total absence of OGMs and chemical soil fertilizers.

Finally, Caffè Pascucci stands against the use of coffee capsules, a recent trend which is rapidly spreading across the globe[96]. The reasons behind this success rely in convenience, which is without any doubt something positive for immediate satisfaction, but not without consequences. Today's convenience will be tomorrow's inconvenience and the use of capsules made of plastic combined with aluminum on the one hand damages the human body (plastic and aluminum release phthalates and aluminum ions when in contact with hot water), on the other hand its disposal process is complex and far from being green.

3.5.4 Caffè Pascucci 파스쿠치：the expansion in South Korea

South Korea is the biggest market for the brand, nowadays counting a total of 446 Pascucci stores.

As we showed in Chapter 1, South Korea is a country with a coffee culture of more than 30 years, which experienced the First and Second Waves, entering a hybrid Third Wave still characterized by the dominance of specialty coffee chains, which adapted their offer to the new needs, preferences and interests of consumers.

The brand entered South Korea in 2001, having as a target the macro-segment of young people with a maximum age of 35 (students, employees). To enter this market, Caffè

[95] Mario Pascucci, Giovanni Cioria, "Pascucci: Visual stories of art, culture, taste and other thinks", Number 4, 2017, p. 31

[96] Latest statistics show how it will reach 80% of the global volume market share. In a world of 7 billion people, it would lead to serious environmental problems

Pascucci made a Master franchising agreement with a partner, SPC Co., Ltd, a South Korean global general food company, which allowed them to combine tradition, know-how and craftsmanship[97]. The agreement disposes that SPC has the exclusivity of the use of the brand Pascucci and on the use of its products (e.g. graphics, logo, list). The partner plans and operates its commercial development in complete autonomy. The reasons behind this choice lie in the fact that SPC Group has considerable financial and investment resources. Moreover, it has a solid structure and a long-time experience in the field and in operating as master franchisor, given its efforts in collaborating with other brands still working in the food industry. These competencies were crucial to penetrate the Korean market.

SPC started in 1945 as a small bakery. Through history, its role in the development of Korean food industry was of key-importance. The choice of this group as a partner derived from its general character, its concrete knowledge of the market and its advanced technology especially for the creation of desserts and bakery products. All this was combined with the Pascucci family's original art of making coffee and it generated a good synergy since their first steps together.

One of the main reasons for Pascucci's success in a such competitive market as South Korea consisted in the appreciation by consumers of the unique blend of the family, the so-called Golden Pascucci, a dark golden colored coffee composed with 85% Arabic + 15% Robusta. This blend was independently developed for the market and small adaptations were needed to meet people's taste, enough to be distinguished among the many fierce competitors such as Starbucks Coffee, Angel-in-us Coffee, Costa Coffee, Caffè Bene, Ediya Coffee.

SWOT ANALYSIS

a. *Strenghts*: the Country of Origin effect was determinant[98]. In the first stages of their entrance in the market, two difference-maker factors were product and design as synonyms of Italian style.

[97] http://www.spc.co.kr/spc/eng/main.spc

[98] Definition of Country of Origin effect: it refers to a psychological effect. The country of origin of the Brand has a direct influence on the perceptions, attitudes and purchasing decisions of consumers

b. *Weaknesses*: in the beginning, the brand was lacking knowledge of the market, especially for the fact that in early 2000s South Korean coffee consumption was still low.

c. *Opportunities*: the considerable increase in turnover has allowed the company to have enough resources to grow from an organizational, structural and R&D point of view. It also acquired more experience in internationalization processes.

d. *Threats*: today there is no doubt that the Korean market is quite saturated, therefore, as in all coffee oriented countries, the number of stores which toast coffee on the spot has increased and retail coffee is sold. Consequently, different activities were integrated into one concept bringing to an increasing in the quality of the coffee served in these places.

STORE AND MERCHANDISING

In Korean people's mind, store and merchandising were keys to success, thanks to a continuous adaptation to the evolution of consumers' preferences: starting with an offer mainly focused on a combination of coffee with products such as cream, syrups and ice cream to an offer, which attached major importance to the quality of coffee and the different methods of extraction, as consumers' knowledge and requests were getting more and more sophisticated.

In a market "overcrowded" by brands, the truly Italian and not delocalized production helped Caffè Pascucci distinguishing itself among its competitors. The interior design was genuinely Italian too. The "Italian factor" is promoted even through innovative elements able to communicate the Italian tradition abroad with an educational purpose, such as the introduction of Moka in the stores.

As far as it concerns the location, two requirements are needed: flexibility in terms of square footage and a high foot hall.

Figure 7: a Caffè Pascucci Korean store in Dangsandong 5(o)-ga, Yeongdeungpo-gu, Seoul

Source: https://www.google.it/maps/

3.5.5 Caffè Pascucci 帕斯庫奇咖啡: the expansion in China

2014 represented a historical year for the Brand: Caffè Pascucci entered more than 50 countries, reaching 1500 stores around the world. That same year, the first store in Beijing was opened.

Today, the total amount of the Pascucci stores in the country is 25, The targeted segment is the macro-segment of young people with a maximum age of 35 (students, employees), exactly like in South Korea. As we illustrated in Chapter 2, it includes a large part of the emerging Chinese young middle class.

To enter the Chinese market, the company signed a classical master franchising agreement with Difu Holding Group Co., Ltd., a firm based in Beijing and specialized in

Chinese market and consumer strategic research, which operates through investments and franchising helping brands entering China.[99]

The partner has the exclusivity on the opening of Caffè Pascucci not only in a direct way, but also through third franchisees. The reasons behind this choice lie in the fact that Difu Holding Group lie in the fact that it has considerable financial and investment resources. Moreover, its knowledge of the Chinese market is witnessed by the solid structure and experience in the field, which previously allowed it to operate as master franchisor for other brands involved in the business of ice-creams, particularly the soft ice. These competencies were crucial in order to penetrate the Chinese market. The idea is to transfer the Pascucci Italy experience to Difu, which adapts it to the Chinese market, in order to have a double channel.

In 2015, Caffè Pascucci opened in the Beijing Bao Yuan International Hotel, followed in 2016 by the openings of stores in Beijing Kunlun Hui Branch, Tianjin Ocean Plaza Hotel, Suzhou Link Store Plaza and Guangzhou Tianhui Plaza Store.

SWOT ANALYSIS

a. *Strenghts*: the Country of Origin effect was determinant. In the first stages of their entrance in the market, two difference-maker factors were product and design as synonyms of Italian style.

b. *Weaknesses*: in the beginning, the brand was lacking knowledge of the market, especially for the fact that nowadays Chinese coffee consumption is still low and drinking coffee is not seen as a necessity or a regular habit;

c. *Opportunities*: the considerable increase in turnover has allowed the company to have enough resources to grow from an organizational, structural and R&D point of view. It also acquired more experience in internationalization processes. China will also represent a unique occasion for the brand in order to invest

[99] http://www.dfkonggu.com/aboutus/introduction/

resources for the development of new areas for the production of Chinese coffee varieties;

d. *Threats*: although consumption is still low, especially if compared to the potential of the country, Chinese market is already filled with multiple global brands of coffeehouses.

THE STORE

Similarly to South Koreans, in Chinese people's mind, store and merchandising are keys to success.

The stores have different areas, based on the needs of customers visiting the place: rooms for group meetings, small tables for conversation, couches and comfortable armchairs for longer stays.

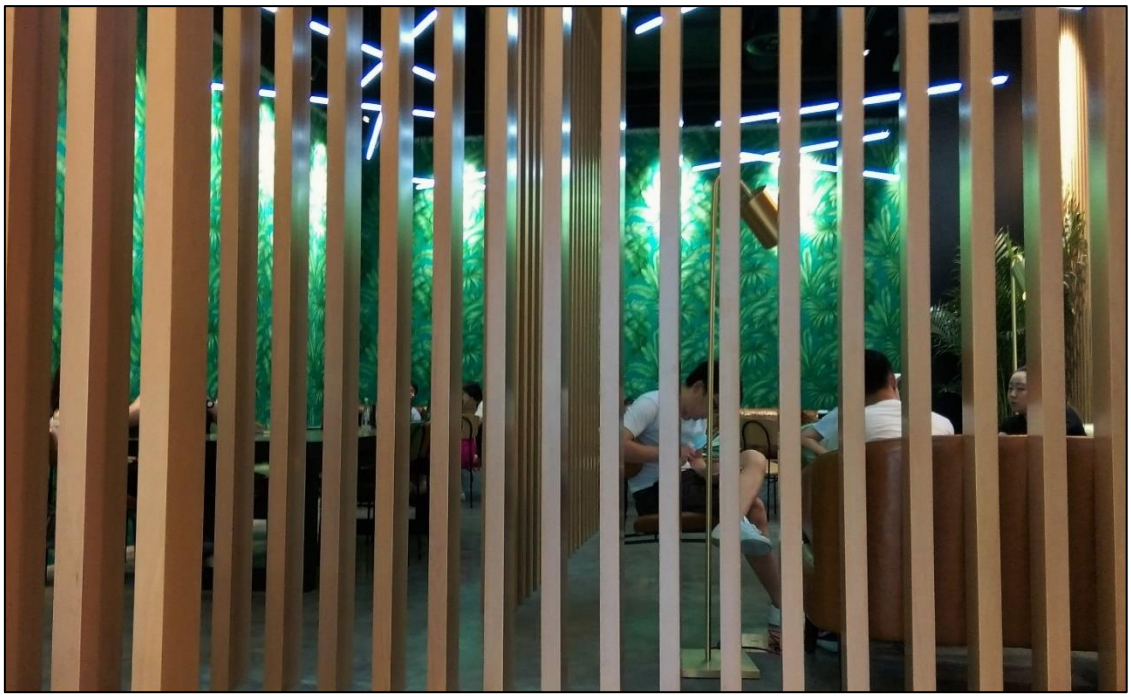
The main details adopted in the projecting of the stores consist in a design and communication aimed at attracting young people, using materials such as wood, iron, copper. As far as it concerns the location, two requirements are needed: flexibility in terms of square footage and a high foot fall. The purpose is to help them feeling comfortable in the atmosphere of the store, avoiding elements which recall a luxurious environment that could scare young customers.

In a market that still needs to show its high potential in consumption, but already populated by many brands, the truly Italian and not delocalized production helped Caffè Pascucci distinguishing itself among its competitors.

However, due to the different partner working in China, the interior design of the stores is different, but still was genuinely Italian. The "Italian factor" is promoted even through innovative elements able to communicate the Italian tradition abroad. In fact, educating Chinese customers about blends, origins, production and techniques of doing coffee is essential to help the understand the value they get in choosing Caffè Pascucci.

As far as it concerns the location, two requirements are needed: flexibility in terms of square footage and a high foot fall.

Figure 8: a Caffè Pascucci Chinese store in Xinyuan South Road, Chaoyang District, Beijing



CONCLUSIONS

The object of this paper was to provide a cross-cultural analysis of the two different coffee markets in South Korea and China, in order to understand if South Korean coffee history and development can be taken by specialty coffee chain companies as a propaedeutic example to enter the Chinese market.

From the analysis made in Chapter 1 and Chapter 2, it is possible to assert that although the two countries are in two different phases of their own coffee culture – China is still at the first stage of its diffusion – similarities in culture and consuming trends constitute a solid ground to answer in a complete way to the research question that inspired to the reflection made above.

First of all, coffee culture started in both countries as an upper-class trend under the foreign influence of the USA and other foreign countries, whose lifestyle model was brought into the two Asian nations by militaries, diplomats and politicians. After this initial phase, coffee became more "popular" and one of the symbols of the rising middle class. However, while South Korea created its own coffee culture through the years, replacing a historical tea culture, Chinese tea roots appear to be stronger and much more deeply rooted in society, despite the new trends spreading among young people belonging to the OCG, who see tea as an "old beverage" consumed by previous generations.

Secondly, the two countries share a similar collectivistic perspective that reflects into two aspects of coffee culture: the Chinese idea of coffeehouses as a symbol of success and well-being position – projection – at the eyes of society can be compared to what these places represented for Korean people looking for social recognition and a sense of belonging to the group during the 80s and 90s. Moreover, the initial methods of consuming coffee are similar in both countries: in South Korea, after the entrance of Starbucks coffee into the local market, the function of coffeehouses changed from the previous concept of *dabang*. These places were seen as a Third Place – in a Ray Oldenburg's theoretical sense – for young professionals and white collars able to earn enough money to afford the averagely high price of a cup: the café became a midway

spot between home and work, a gathering node in the urban fabric, where citizens could spend some time relaxing or still working and meeting with colleagues, before going back to their First (home) or Second Place (work). Nowadays, many young Chinese professionals use to visit the stores for the same purposes, looking for a place alienated in time and space from the external environment. For these reasons, chained companies began to rent wider rooms, in order to create not only large-scale halls, but also private spaces where working groups could hold business meetings, separated from other customers. Chapter 1 also showed how the relatively small per capita living space of middle-income households can be included among the reasons why people prefer to work outside of their houses, feeling part of a distinct circle of persons. This is very similar to the concept of "Standing out by fitting in" expressed in Chapter 2 about Chinese consumers: in collectivistic societies, showing to be an active part of the group, of community, preserving social harmony without an excess of individualism, is the same behavior, described in Chapter 1 about Korean consumers, people use to keep, in order to preserve the social-image others have of them or to communicate to the external world an ideal-social-self-image of themselves (Sirgy). However, companies still need to consider the incoming revolution in values that China will soon live: the One Child Generation already became the dominant segment among nowadays consumers, leading to slightly more individualistic behaviors and a higher propension in spending more to live a better everyday life.

Another shared characteristic is the historical role that middle-class had in South Korea (60s) and is having in China during the years of their respective economic boom. Upper-middle and Middle classes were the major drivers for the expansion of coffee consumption: the black gold was taken as a symbol of the new society of those years of economic development and opening to the international world. In South Korea, the new middle class started spending more in leisure and higher quality products, frequenting coffeehouses as gathering places to enjoy life and meet people who shared the same lifestyle. As this social segment grew in dimensions, so the number of cafés did, leading to the formation and consolidation of a real culture. Chapter 2 showed how drinking coffee is a trend which is becoming more and more popular among young people who

live in higher tiers' cities like Shanghai, Beijing, Guangzhou, Shenzhen, Tianjin and so on. The new Chinese generations belonging to the rising middle class prefer going to branded coffeehouses, where after paying a relatively high price for a beverage, they can take advantage of the use of free Wi-fi and wide rooms with a precise atmosphere created through a strategic interior design and a selection of music which generate a relaxing environment for those who need to take a break from external urban entropy. Although middle class has a key-role in influencing the mass market of a country, its evolution in South Korea was completely different from the one in China. In fact, while Korean middle class living conditions uniformly improved across the whole country between 1960 and 2000's, China is still far from reaching a unitary development. The reasons behind this discrepancy are many, but we can definitely state that from a country structure point of view, there is no doubt that the dimensions of the Chinese territory made it inevitable to have a homogeneous economic development in every city. Companies which are likely to invest in this country should follow the description of the City tier system reported in Chapter 2: due to their higher income levels and a stronger international influence on lifestyles, cities belonging to Tier 1 and Tier 2 reveal themselves to be the best markets where coffee companies could expand their business. In these areas, economy is more stable, cost of living is higher and so per capita income. This means that brands can sell products at a high price, in order to provide all services customers are demanding for and to cover all companies' costs, renting wide rooms in central zones of the urban area which are characterized by high levels of human flows. Moreover, consumption of these areas is more mature, people are very interested in novelty and more informed about habits and trends coming from other countries: educating the collectivity about the company's value of products and its policies is still essential, but at the same time customers are far more receptive than lower tier cities' ones, obviously due to the completely different mentality, environment and economic development of these macro-areas. As a matter of fact, while the country's average consumption of coffee is around 5/6 cups per year, in cities belonging to the first two tiers, the average is around 20 cups per year and destined to grow. In these cities, although in lower numbers, the characteristics of demand are already very similar to the

ones of South Korean cities: quality, value explanation, sustainability, environment, sociality are all relevant aspects that cannot be separated from the idea of coffeehouses.

Finally, in order to have a practical feedback on the research hypothesis of this paper, in the last section of Chapter 3 we analyzed the case of an Italian specialty coffee company operating both in South Korea and in China: Caffè Pascucci. The current company's Responsible for Franchising relations between foreign countries and Italy confirmed the answer to the research question and hypothesis of this work: South Korea can be taken as a propaedeutic case before entering China. In fact, although the brand Pascucci already has a long-time experience in South Korea, while in China it is still at the beginning stage of its diffusion, the SWOT analysis made for the two countries by Caffè Pascucci is almost identical. Signing an agreement of Master Franchising with a local experienced company as Caffè Pascucci did in these two markets can be a solution to better understand which marketing strategies should be implemented. The two countries lived the rise of coffee culture to the detriment of tea culture: through coffee, people search for social affirmation and projection of a new social status. In fact, in both South Korea and China, specialty coffeehouses are depicted as "cool" places and a better alternative to the local independent store. Thus, they become places for the affirmation of a new common identity, which is often expressed through the use of "social" tools in order to share personal experiences. Finally, Caffè Pascucci case showed how for an Italian company at the beginning stages, putting emphasis on Italianness and country of origin is definitely a solid technique to raise interest in customers looking for something new, at the same time developing a flexible offer which has to be free from the presumption of rigidly preserving the standard nature of Italian tradition and able to adapt to a different culture and consumers' requests.

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