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**Different perception and uses of a  
product in different cultural contexts:  
the Chinese coffee market and Illy case study**

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## INDEX

序言.....	4
<b>Introduction.....</b>	<b>7</b>
<b>Chapter 1 - An introduction to a cross-cultural study</b>	
1.1 – Defining the perception of a product.....	10
1.2 – The cultural distance.....	16
1.2.1 – Lewis model.....	17
1.2.2 – Hall's theory.....	21
1.2.3 – Hofstede's cultural dimension.....	22
1.2.4 – Schwartz model.....	25
1.2.5 – Trompensars model.....	27
1.3 – The cross cultural consumer behaviour.....	29
1.3.1 – Sociocultural influences.....	31
1.4. - The cross-cultural categorization.....	35
1.4.1. - Ethnocentrism and ethnocentric consumer.....	37
1.5. - Corporate approach to face the cultural distance.....	39
<b>Chapter 2 - The Italian coffee market: a renewed tradition</b>	
2.1 – A story about coffee.....	44
2.2 – The importance of a cultural tradition.....	48
2.3 – The Italian coffee consumer behaviour.....	51
2.3.1 – Uncertainty and conservatism.....	52
2.3.2 – Evolution.....	55
2.4 – The Italian coffee market.....	57
2.4.1 - ITC coffee categories.....	59
2.4.2 – Statistics.....	61
2.4.3 – Distribution channels.....	63
2.4.4 – Foreign competitors.....	66
2.5 – International competitiveness of Italian coffee.....	69
2.5.1 – A global perspective.....	70
2.5.2 – Performance of Italian companies.....	71
2.5.3 – Strengths and weaknesses.....	74
<b>Chapter 3 – Coffee in the teapot: the cultural comparison</b>	
3.1 – Tea and coffee: two different traditions.....	79
3.1.1 – The importance of tea in the Chinese culture.....	80
3.1.2 – The coffee history in China.....	82
3.2 – Two different cultures: Hofstede's comparative model.....	85
3.2.1 – The cultural comparison.....	85
3.3 – The uniqueness of the Chinese consumer.....	89
3.2.1 – The influence of Confucianism.....	91
3.2.2 – Coffee perception.....	93
3.2.3 – Coffee as a social status symbol.....	96
3.2.4 – Coffee habits and trends in China.....	98

3.4 – The perception of the brand.....	99
3.4.1 – Translating the brand name.....	101
3.5 – Italian coffee in China.....	103

#### **Chapter 4 – The Chinese coffee market**

4.1 – Approaching a recently emerged market.....	105
4.1.1 – A non-acquainted market.....	109
4.1.2 – The first mover strategy.....	110
4.1.3 – The second mover strategy.....	113
4.2 – The coffee market analysis.....	115
4.2.1 – Insights.....	116
4.2.2 - Market segmentation.....	119
4.2.3 – Distribution.....	122
4.3 – Marketing strategy.....	127
4.3.1 – Packaging.....	129
4.3.2 – Price.....	133
4.4 – The market leaders.....	135
4.4.1 – The first mover: Starbucks' experience.....	137
4.4.2 – Luckin coffee.....	141
4.4.3 – Local brands.....	143
4.5. - Italian firms and the China experience.....	144
4.5.1 – The niche market.....	146
4.5.2 – Lavazza.....	148
4.5.3 – Caffè Pascucci.....	150

#### **Chapter 5 – Case Study: Illy Experience**

5.1 – History.....	153
5.2 – The strategy.....	156
5.2.1 – Brand identity, image and equity.....	158
5.2.2 – SWOT analysis.....	160
5.2.3 – Internationalization.....	162
5.3 – Illy experience in China.....	164
5.3.1 – Entry mode.....	164
5.3.2 – Successful key factors.....	167
5.3.3 – The University of coffee.....	173
5.3.4 – Strategic e-commerce.....	175
5.4 – Future plans for Chinese market.....	177
5.5. - An interview with Giuseppe Taccari, international markets director at Illycaffè.....	180

<b>Conclusions.....</b>	<b>191</b>
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<b>Bibliography.....</b>	<b>195</b>
--------------------------	------------

<b>Sitography.....</b>	<b>204</b>
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## 序言

本论文的目的在于两种不同的文化背景下分析对同一产品的观念和使用，并关注市场和消费者的态度与其历史和文化的紧密关系。

在这个日益全球化的世界中，可以买到或卖出各种不同类型的产品，我们被不同的品牌和革新所包围，以至于我们的多样性正在逐渐消失。

尽管如此，全球化使绕开物理距离成为可能，并使任何消费者可以购买，评估和使用外国的产品，同时也加剧了各个领域的竞争，因此，保护各个国家和文化的特性变得越来越重要。

实际上，对于许多公司来说，物理上的距离是可以克服的，文化上的距离才是无法克服的真正障碍，这对于那些想要在国外开辟新业务的公司来说，是一个真正的挑战。

在国际化的进程中，公司必须详细制定众多战略，拥有对不同文化的敏感度和依靠对跨文化的研究，这是市场经理们最常用的方法，以避免对当地文化的误解。

因此，本论文的第一章就是对跨文化研究的介绍，在本章中定义了观念在市场营销中的作用和对消费者的作用及其影响，文化距离的作用以及为了了解不同的文化用以交流的最重要的理论。

我的研究的出发点是我的个人经历，始于意大利房屋的墙壁，那里的咖啡香味是世代都拥有的日常。这种日常习惯体现了意大利人的文化特征，他们仍然忠于保留自己最宝贵的传统之一：一杯咖啡。

事实上，尽管有着不同的市场和产品，但意大利文化仍然与某些传统紧密的连接在一起，尤其是在咖啡方面，替代品通常是不被接受的。

许多意大利的公司试图将这一传统出口到国外市场，却面临着各种文化障碍，即使有一些成功的例子，但其他的则因为缺乏对当地文化的了解，使这一出口尝试最终失败。

第二章将从咖啡的历史，意大利消费者的习惯，意大利主要的咖啡公司及其他他们想要进入国外市场的愿景出发，着重探讨这种传统对意大利文化的重要性。

现今，许多公司看到了新兴的市场，这些新兴市场同时代表着新的挑战和机遇，其中尤其是中国代表着更大潜力的市场，许多品牌都看到了其发展前景。

与过去相比，如今的中国市场变得更加复杂，竞争更加激烈，生产成本增长，本土竞争却依旧强烈。

进入这个如此复杂的市场，如何在一个以茶叶消耗闻名世界的国家销售咖啡就是意大利公司所要接受的挑战。

中国代表着一种独特的文化距离，它具有上千年的文化和令人难以置信的历史，因此，制定的营销策略必须特别有效地跨越这种文化距离。本论文的第三章将探讨文化比较的主题，分析中国和意大利市场之间的主要差异以及这些差异是如何改变消费者的观念的。咖啡被中国和意大利消费者以不同的方式认识和感知，而营销工作就是需要改变这些认知并采取行动。

与那些大型跨国公司相反，意大利咖啡公司大多是中小型公司，没有很多资源，资本和能力进入诸如中国这样的大市场。此外，很少有国家像意大利那样经常喝浓缩咖啡，而在国外，通常更加喜爱速溶或美式咖啡。基于这种原因，直到 90 年代星巴克进入中国市场，才将咖啡带入中国，并让中国消费者了解到咖啡。中国是一个拥有漫长饮茶传统的国家，时至今日茶仍然是中国人最喜欢的饮料，这是很难被取代的，但是中国消费者的好奇心以及他们对西方世界日益开放的认知，使咖啡也开始受到人们的欢迎。

第四章分析了中国的咖啡市场，咖啡是如何到中国的，是如何在中国发展的，以及最重要的是公司采取了哪些使中国消费者喜欢上咖啡的策略。跨国公司作为先驱者进入中国市场，这对于确保意大利公司以更准确的价格进入中国市场有着重要意义，进而使浓缩咖啡成为一种时尚的新产品和一种高档产品。了解中国消费者对咖啡的看法是非常重要的，因为只有通过了解中国文化并了解消费者的观念，才有可能制定合适的营销策略。

第五章也是最后一章是对一个案例的研究分析，我选择该案例作为示例来证明适当的营销活动是可以使外国消费者对与本国文化相距甚远的产品的观念发生转变的。在进入中国市场的各种意大利公司中，在全球约 140 个国家均有销售的咖啡公司意大利征服了中国市场。

尽管很难在像中国这样的市场中复制本土的市场策略，但意大利一直受到中国人的喜爱，并在始终保持高水准产品的同时，对咖啡的价格进行了部分调整。无论是在意大利还是中国，意大利都始终销售高品质的咖啡，为中国消费者提供非常新式和美味的优质产品，甚至可以通过咖啡大学学习如何制作浓缩咖啡，并学习如何区分咖啡的不同口味和调制咖啡。

通过分析这家公司在中国的战略，可以体现如何正确应用跨文化研究，如何

克服文化距离以及如何融合世界经济，这不仅需要可靠的产品，同时还要尊重不同的文化。

而本论文的实践部分，我采访了朱塞佩·塔卡里 (Giuseppe Taccari)，他在 I11y 公司工作了很长时间，担任国外市场总监。通过采访，不仅可以深入了解这家公司的价值，而且还了解到了 I11y 对咖啡和外国市场的付出，这几乎相当于大部分利润，特别是该公司在成功进入中国市场方面拥有独特的经验。在这个日益全球化的世界中，人，产品和信息可以在国界之间自由流动，一个在保留自身特性和尊重外国文化的同时开拓机遇的品牌是值得保留和发扬的。

## INTRODUCTION

The main goal of this thesis is the analysis of the perception of the same product across two different cultures, paying attention to how the market and the consumer behaviour are strictly related to their own cultural history and identity.

In an increasingly globalized world, today it is possible to find a wide range of opportunities to come into contact with different kind of products: we are surrounded by many brands and innovations, so that border boundaries and diversities are slowly disappearing.

On the other hand, today's global market has also given rise to a growing number of competitors in every sector, but considering that the physical distance is not able anymore to prevent a consumer from living the experience of buying foreign products - and taste them, eat them, judge them - the protection of one country owns identity is everyday more significant.

If the physical distance may be overtaken, the cultural distance is the real stumbling block that most of these enterprises and companies are not able to overcome, but become a challenge for those who want to create a new business and export their own culture abroad.

In order to being successful in internationalization, companies must elaborate several strategies, must be sensitive to different cultures and rely on the cross-cultural studies, which most often are the instrument applied by marketing managers to avoid miscommunication with different cultural contexts.

In order to figure out these corporate strategies, it is appropriate to start from the general context of a cross-cultural study and the main topics concerning the analysis taken into account and, only after, getting closer to the specific.

My cultural roots lie in those of my country, which is is remarkably linked to the story of coffee that is recognized as the Italian national beverage.

The starting point of my analysis is my own experience which starts within the walls of my home, where the smell of coffee is the smell of a daily habit for whole generations.

This single habit embodies the cultural identity of the Italian people, that still remain

faithful in protecting one of the most conservative tradition they have.

Indeed, despite the opening towards different kind of products and realities worldwide, the Italian culture is still very attached to a single cup of coffee, that often do not accept other kind of variables.

Several Italian companies have tried to bring this “cup of coffee” tradition to foreign markets, facing different cultural components and if, in some cases, they have been successful, in other cases the lack of understanding of the local culture has turned the attempt into a serious failure and disappointment.

The majority of these companies have been stimulated by the new emerging markets, a fertile ground to build a new business: the Chinese market is definitely the mirror in which a significant number of enterprises see several growth opportunities.

If compared to the past, today Chinese market is more complex and competitive, production costs have grown and the local competition grows day after day.

Entering such huge, complex and controversial market is a challenge that Italian companies have accepted, deciding to market coffee in one of the most traditionally consuming-tea country in the world.

The corporate strategies that have been implemented, in many cases, have not been enough effective to overcome the cultural distance. In fact, China is almost a unique market case, which follow its own rules and patterns.

The comparison between the two markets, the Italian and the Chinese, highlights two cultural contexts so different that the perception of a same product results to be modified by the cultural, social and economic matrix of the two countries.

As a predictable consequence, coffee may be perceived and idealized in a different way, and this perception is able to influence the consumer behaviour and the marketing strategies that are hidden behind the corporate approach to a foreign market.

Only by analysing such different perceptions and exploiting the cultural distance as an advantage, is possible to market the product successfully.

Among the several Italian companies' cases that have entered the Chinese market, Illycaffè S.p.a, as a large coffee roasting company that sells its product in approximately 140 countries, has been able to conquer the Chinese coffee market.



Since the strategies applied in the local market are impossible to replicate in the Chinese one, Illy has been able to catch the Chinese consumer's perceptions and adapt its offerings, keeping the value of its product always at high standard.

Focusing on the factors involved and the strategies implemented by this company, it is possible to highlight how the cross-cultural studies may be applied appropriately, how the cultural distance may be overtaken and how it is possible to integrate the world economy respecting also the value of a product and its authentic roots.

In a global market that allows people, products and informations to freely move across borders, a firm that exploits these modern opportunities to move their own culture abroad respecting the other identity, is something to value and preserve.

## CHAPTER I

### AN INTRODUCTION TO A CROSS-CULTURAL STUDY

#### 1.1 - Defining “the perception” of a product

When talking about perception, we always have to keep in mind that the way we perceive something is not how it actually is, but is more or less related to how we think it is.

This statement is based on the fact that every human beings relates the observed world according to its past experience, its values and its cultural identity.

As people are identified as consumers and make up a market, their role is so dynamic that marketing is necessarily dynamic: the real challenge for marketers is precisely identify and understand how the consumers perceive the world around and modify these perceptions if its needed.

The consumer perceptions are fundamental in the purchase decision: the consumer behaviour may be defined as a set of activities and processes that the consumers perform when purchasing a product that would satisfy their needs (Belch & Belch, 2007).

This decision and purchase process happens everyday, people in every moment make a decision and when they make it, they are thinking about solving a need, that may be driven by a significant number of factors.

Despite the several studies concerning this matter, such behaviours are as far as easy to be predictable and the main reason lies in their link with different feelings, experiences and knowledge that the consumer lives in contact with external world.

Our modern world is very complex, so that different kinds of stimuli may affect this decision, and furthermore even the way someone perceives, processes and interprets these stimuli.

Philip Kotler, an American marketing author and professor, developed the *Black Box Model* (1965), which is a theory that investigates different behavioural models for analysing buyers and the effects of specific stimulus on the human brain and its response. Kotler declared that when an individual is given an input, this input is able to affect the

individual's action.

The consumer's mind, whose within is a mystery and therefore is a *black box*, each incentive is represented by the combination of the four elements which make up the marketing mix (4ps) and that play the main roles in marketing activities: product, price, promotion and place.

Kotler's theory stated that the response of the consumer to such inputs and stimuli, and the related differences in behaviours, mainly depends on the contents of the black box.

The black box is shaped by the buyer's inner characteristics such as his attitudes, motivation, perceptions, personality and also the decision-making process, as consumers come to recognize they have a need to satisfy.

The black box, is therefore a result of the singular individual's perception of the world that may be manipulated by the marketing strategies, in favour of discovering new inputs and produce new desires to push further purchase decisions.

Like a chain of repeated actions, the black box determines the way consumer responds to external stimuli and whether purchase or not a certain product (Kotler et al. 2014).

Kotler's theory is also the first one of several studies concerning the role of perception in the purchase decision process, which is fundamental as consumers make decisions according to what they perceive.

As a perception is something related to the human psyche, it is evident that the psychological influences represent the main forces able to affect the purchase decision process.

In order to better understand how the concept of *perception* is defined and what are its implications on the consumer behaviour, it is important to firstly analyse the psychological context to which it belongs.

In the marketing literature, the psychological influences, able to modify the purchase decision process of an individual, are commonly classified and divided into six main categories:

- Motivation: is the inner drive or force that stimulates behaviour to satisfy a need. Whether goals are positive or negative, people tend to have different levels of

motivation in different aspects of their lives. The *Maslow hierarchy of needs* (1943) is a theory based on the idea that motivation comes from a need, that if satisfied, it is no longer a motivator and, therefore, high level needs begin to stimulate the motivation. For any consumer purchasing decision to happen, the need must be at high level that become a motive.

- **Personality:** may be defined as a set of cognitions and emotional patterns that shape a person's behaviour to recurring situation. There is no generally definition of personality, most theories focus on interactions with one's environment.
- **Learning:** refers to those behaviours that result from repeated experience that generate an automatic response. It reflects a psychological variable through which acquiring new or modifying existing knowledge, skills or behaviours. The ability to learn is conveyed by all the human beings and is significantly important to marketing activities because it becomes a habit in consumer activities.
- **Attitude:** is a learned predisposition to an object that can be favourable or unfavourable, a positive or negative evaluation of people, objects, events, ideas or any kind of element belonging to the environment. They are very difficult to measure as it is a construct that cannot be observed directly, but involve a gamma of psychological uses such as facial expressions, vocal changes and other body rate measures. The favourable or unfavourable attitudes derives from the values and beliefs that shape it. Values reflect someone's core values or personal values, meanwhile beliefs are also learned or based on the personal experiences.
- **Lifestyle:** it may be broadly defined as the way an individual lives, the mode of living that identifies people by how they spend time. In sociology, lifestyle typically reflects an individual's attitudes, values or world view, therefore what consider important and what an individual think about himself.
- **Perception:** is the process by which an individual selects, organizes and interprets informations to create meaning and an image of what is around. This process is shaped by external factors (dimensions, movements) or internal (curiosity, interests).

Therefore perception is a way of gathering informations through senses - which are

seeing, hearing, touching, tasting, smelling and sensing – as through these senses we may perceive things, events or relations. It is a highly subjective matter and people unconsciously use it to make sense of what they are surrounded.

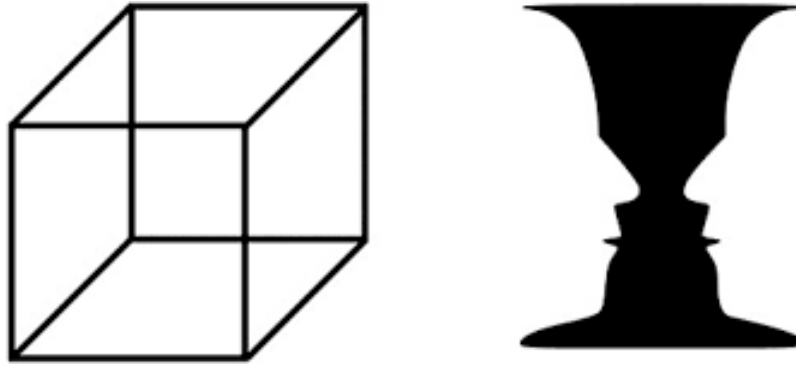


Exhibit 1.1 – *Necker Cube and Rubin Vase*. Source: researchgate.net

The *Necker Cube* and *Rubin Vase* are the main examples that is commonly made to show a visual effect on the human brain. These two optical illusions are able to show how perception may differ from reality or may be manipulated by external factors. In other words, we may state that it actually what a marketing action does.

Looking on the left side, we may see a cube when it is just a flat image on the screen, that has nothing to do with any dimensional feature, meanwhile on looking on the right side, the *Rubin Vase* may be seen as a simple vase or actually resembles two faces looking at each others. The image that comes up in our eyes is just a perception that is filtered by our mind: it is up to us decide whether see something rather than something else.

In conclusion, it is possible to state that consumers use their physical senses to develop an opinion regarding objects, places, people before actually experiencing these ones.

To better understand the role of perception in the consumer behaviours, it is important to understand how an individual is pushed to select and organize these informations.

The environment that surrounds an individual is quite complicated and elaborated, therefore people organize the information by a selective perception.

Seymour Smith, an advertising researcher, was the first one that gave birth to the concept of selective perception during and advertising research in the 1960s.

He described this concept as:

« a procedure by which people let in, or screen out, advertising material they have an opportunity to see or hear. The way they do is influenced by their attitudes, beliefs, usage, preferences, habits and conditioning»  
(Seymour et al., 1970).

This “selection” is truly beneficial to marketers that may formulate strategies around selective perception, using these informations as an advantage.

Given these considerations, we may argue that marketing is not concerning so much the product or service, but its perception, and its positioning in the consumer's mind that, shaped by favourable considerations, push the purchase and desire to reach it.

In fact, as it represents the way a consumer sees a product or service, marketers could influence the current perception of it and make changes so that the product is recognized differently.

The selection is something that happens due to the complex environment: due to the fact that consumers are the target of several messages, advertisements, noises about a product, the selective perception is what allow consumers to filter them, selecting only some of them, screening out the informations we are uncomfortable with or that contradicts our beliefs (Griffin, 2016).

As a predictable consequence, an individual when it comes to handle or deal with informations that are in agreement with his/her attitude, he/her tends to reinterpret these informations according his existing attitudes and beliefs.

Indeed, people are constantly bombarded with too much stimuli everyday to pay equal attention to everything, and therefore they pick and choose according their own needs. Psychologists believe that this process occurs automatically, due to the fact that the selective perception makes use of three main unconscious factors:

1. *exposure*: putting attention on some stimuli and ignore others. This means that people pay attention to topic or to the things in which they are interested, to media and messages that have a personal relevance to them, or which they already agree, ignoring others (Rob Donovan, 2010).

2. *comprehension*: people comprehend and distort information that are consistent with their beliefs.
3. *retention*: people remember only informations consistent with them and forget the others. When information are not in agreement with their attitudes is committed to memory (Rob Donovan, 2010).

Perception is therefore *selective* (because we only take some messages and stimuli applying a choice and excluding others), *learned* (because we are not born perceiving the world in a particular way, but they we do it is something related to our experiences), *culturally determined* (we perceive the world in a certain way due to our cultural background) and remains *constant* (once we see something in a particular way, we tend to remain constant in this consideration).

Perception is something that may differ from reality and is shaped by the individual subjective state of mind. In this way, it plays plays also a main role in the so called *Perceived risk*.

The *perceived risk* occurs when an individual faces a situation/ the purchase of a product or service and the result of his decision may be only known in the future. The consumer is therefore obliged to deal with uncertainty of a certain purchase that could not eventually satisfy his/her expectations.

This *perceived risk* , as something that is perceived, is often different from the actual risk, that occurs after an action is materialised. On the opposite, the perceived one occurs when making an action, an individual feels threat or opportunity and not to exact knowledge of it (Fragnière et al. 2006).

Indeed, the degree of uncertainty perceived by consumers for the purchasing of a product, is revealed according to different kinds of doubts or insecurities felt by the buyer:

The marketing literature mainly distinguishes five different emotional states related to it:

- functional: the product will work properly and will perform its function?
- social: what people will think about it? will like it? My friend already bought it.
- financial: can I afford this purchase? Will my income be damaged?

- physical: will it hurt to me or people that surround me?
- psychological: How much time I have before it finishes? Do I have time to buy it or eventually repair it?

Company usually develop strategies to encourage purchases against the perceived risk, that is often weakened by some factors such as warranty, hidden extra costs, the reputation that has the brand or selling style of the product.

Indeed, since marketing is aimed at satisfying the varying needs or wants of customers, persuasive messages should be adapted to the audience and its perceptions – including the risky ones - in order to be effective.

In addition to the role of perception and its component, an international marketer should also pay much attention on the role of cultural values: as we have previously stated the perception is culturally determined.

The perception of consumers belonging to different cultures and countries is quite different as, not only the psychological factors, but also the cultural ones have a huge impact on the purchase decision process: according to different cultural values, an individual elaborates a different perception on products and responds differently to marketing communication.

## 1.2 - The cultural distance

Geert Hofstede has defined culture as “the collective programming of the mind that distinguishes the members of one category of people from another” (Hofstede, 1991).

Indeed, the word *culture* encompasses several different meanings and definitions, mostly referred to the behaviours, attitudes, ideas and customs shared by a group of people.

This set of attitudes are shaped by morals, codes, customs and tradition of a specific place and area which is reflected in the respective literature and art.

In the today's globalized world, despite the globalization has created several opportunities, relationships and a technology's spread, has also brought a standardization in customer's taste and a diversity reduction. As a consequence, the disintegration of the traditional



identity of a country has become an effective risk and the protection of its own culture and traditions is a battle handled by many.

Despite the fact that global companies make a lot of environmental scans for elaborating appropriate strategies, culture is defined as an “uncontrollable variable”: marketers should be sensitive to different cultures and face them applying and relying on appropriate cross-cultural studies to avoid the miscommunication with the foreign culture.

Indeed, the cultural studies play a main role in the international business, as all the marketing strategies rely on their theories and constructs and make the basis very cross-cultural marketing action: it is the strategic marketing applied by companies in marketing consumers whose culture is different from that of the marketer's own culture (Rugimbana et al, 2002).

The cultural factors are widely accepted as crucial drivers of consumer behaviour and consumption choice. Of course it depends on the evidence that culture has a deep influence on many aspects of human values, cognitions, attitudes and behaviour: it can be seen in a variety of human interactions, including language, non verbal communications, religion, time, space, colours, manners and customs, food preferences and so on (Kaynak et al., 2014).

Therefore, for understanding consumer behaviour and responses, the cultural values provide a powerful theoretical basis.

When entering new markets, especially the emerging ones, the most common mistake made in implementing marketing strategies is underestimate the importance of the cultural distance and its restrictions.

In order to avoid them, the cross cultural studies offer a gamma of theoretical constructs and theories aiming at understanding several aspects of comparisons among different cultures, that needs to be investigated to be successful in the marketing action.

### **1.2.1 - Lewis' Model**

Among the most recognized and popular theories in the cross-cultural literature, Richard Lewis' (1930), a writer and social theorist, is mainly known for his *Model of cross-*

*cultural Communication.*

Lewis' theory has gained success thanks to its analysis and classification method: each consumer in each country belongs to a different culture that result in a different consumer behaviour, following specific trends, sequences and traditions.

The objective of the whole analysis lies in the communication: how is possible to understand and interact with people from different countries, which is, from a marketer's point of view, a problem to solve.

«By focusing on the cultural roots of national behaviour, both in society and business, we can foresee and calculate with a surprising degree of accuracy how others will react to our plans for them, and we can make certain assumptions as to how they will approach us»  
(Lewis, *When cultures collide: leading across cultures*, 2006).

According to Lewis' theory and individual's mind already at an early age is culturally conditioned and create in each of us a set of values, very different from those held and believed in other parts of the world.

Despite these differences, there are no actually good or bad values, as well as logical or illogical, that may be considered as erroneous, and therefore the role of the cross-cultural training is just considering these from a different perspective, accepting the diversity.

According to Lewis, all the world's cultures are classified in three categories:

- **Linear active cultures:** are those who plan, schedule, organize, pursue action and do one thing at a time. These cultures are described as patient or punctual, where individuals plan things methodically, using timetables and schedules. They are job-oriented, follow procedures correctly, gain information from statistics. When behaving are defined as almost "unemotional", because rarely interrupt and separate social and professional life in a rigorous way (for instance: German, Swiss, Norwegian, Irish, Australians)
- **Multi-active cultures:** are described as very lively and loquacious cultures, that mainly plan their priorities according to their relative importance rather than time schedule or duties. People usually do many things at once, not following any kind

of timetables but changing rapidly plans. They are not punctual but very impatient, talkative and extrovert. Indeed, are very emotional, thread social and professional life together, have ready excuses and express body language (for instance: Italians, Spanish, Arabs, Mexicans, Indians).

- Reactive cultures: these cultures are described as very respectful, indeed, they mainly rely on courtesy and ceremonials. Especially for this attention to rituals, are very introvert, good listeners that never interrupt and that most often avoid confrontation.

They are very people-orientated, pay much attention on not losing face in public, make slight changes and plan slowly, taking their time (for instance: Chinese, Japanese, Koreans).

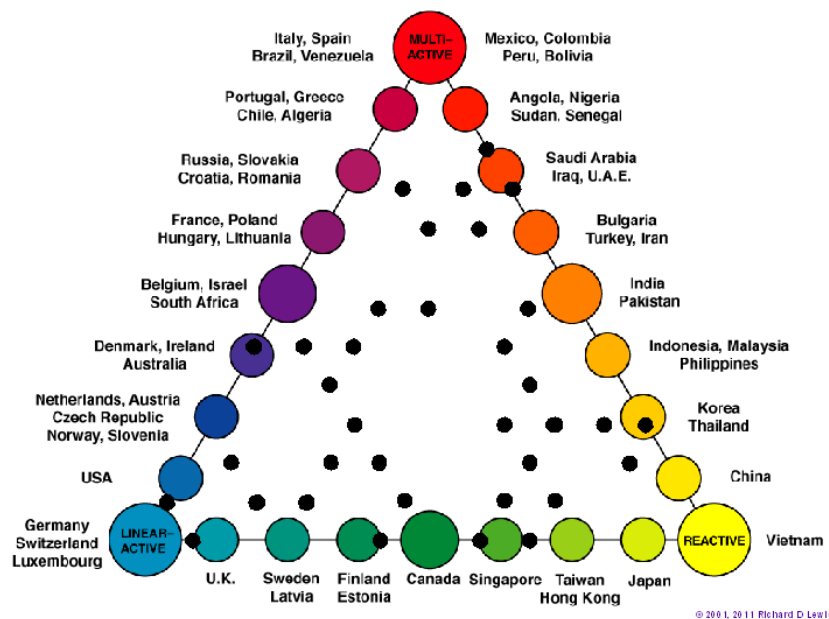


Exhibit 1.2 – Lewis' cultures classification. Source: crossculture.com

As the previous classification suggests, cultures across the world have several different behavioural modes and attitudes. If this multiplicity of concepts can be fragmented among different groups, society and nations, other concepts that are central to human experience, are not fragmented, as they are universal.

Time and space are two dimensions that are recognized and shared by every human beings, but despite their universal application, there is also a bigger distinction among two

bigger areas: West and East.

Time, particularly, has a different and specific meaning to people belonging to the Eastern or Western cultures, and therefore according to Lewis is subject to a second classification:

- **Linear time:** is a concept that is mainly shared by the western societies. In the West the concept of time is related to money: time is economic, as it is measured in terms of how people may use it and earn it. For western profit-orientated societies, time is money, is something precious that cannot be wasted by, is something to keep up to get success. It is not surprising that Americans talk about *wasting time*, *spending time* or *saving time*. This is also the main reason why they prefer to do things one at a time, scheduling and avoiding time passing without actions being performed. The harder you work, the more hours, the more successful you will be and the more money you will make.
- **Multi-active time:** these cultures, like western societies see the time as a line, but not in economic terms, because they consider time in terms of exploiting a feeling-purpose. Indeed the concept is: the more things you can do the same time, the more fulfilled you may feel. When they need to manage priority or organize time, the present reality is much more important and relevant if managed according to personal convenience rather than for appointments.
- **Cyclic time:** in the reactive cultures, that belong to the Eastern societies, time is considered neither as a linear nor related to personal events, but as a circle. Everyday the sun rises and sets, the seasons follow each other, people grow and die, so that everything is part of a continuous cycle. In the same way, future is coming around in a circle, so that the same opportunities, risks or danger may even re-represent, but thanks to the past experience people is wiser than before to face them.

Therefore the past is something to be taken into account for the future decisions, is something to learn of in order to avoid the same mistakes. It is not surprising that the business decisions also are taken in different time: Asians think long-term, do not consider time as wasted nor exploited in personal reflection, but an advantage that may improve someone else or an external situation.

Assessing these concepts, we may argue that they flow into different kind of approaches, that need to be studied and analysed: a marketing approach has take into consideration these elements and these cultural peculiarities before implementing a plan.

### 1.2.2. - Hall's Theory

In addition to Lewis' classifications of cultures and concept of timing, Edward T. Hall (1914-2009), an American anthropologist, gave also an important contribute to the cross-cultural studies, paying much more attention on the rules of communication across cultures.

According to Hall, the communication between individuals follows a specific set of rules, in which messages are transmitted through the use or the absence of specific contextual elements, which are not explicitly stated, such as such as body language, tone of voice, person's status (T. Hall, 1989).

In his studies across cultural communication, the context is described as the background that build and influence the attitude and the “place” in which the communication process occurs, according to structured actions.

In order to better understand, it is needed to make a main distinction between two different cultural contexts that may characterized some society rather than another: a low-context culture and an high-context culture

They are both a measure of how explicit is the message exchanged in a culture:

- high-context culture: this concept describes all those cultures which rely on relationships and collectivism, that push for intrapersonal relationships and in which the well-being of the group and the community is privileged over individualism.

Asian countries, which mainly promote a group reliance and the collectivism is a driven force, feel very deeply this idea of communication.

Indeed, the influence of the tradition (such as Confucianism in China) and social

norms have an impact on each aspect of the daily lives.

In this kind of context, the communication is mainly less verbal and makes use of small communication gestures into less direct messages with more meaning (Thompson, 2014). In this way, it is almost impossible to understand a message without a great deal of background information, but more often, to explain a situation people simply rely on the common background.

- low-context culture: as opposite of the previous one, a low-context culture is defined as a culture in which the communication is quite explicit, direct and elaborate. This happens mainly due to the fact that individuals are not expected to have knowledge of each other's background.

The direct messages that are used carry a meaning that is more dependent on the words spoken, rather than the interpretation of a situation.

However, the cultural contexts are not absolutely high or low, therefore not all the individuals in a culture may be defined by these stereotypes. Some variable or exception is always presenting within a society, and variations within a national culture in different settings.

### **1.2.3. - Hofstede's Cultural dimension theory**

Geert Hofstede (1928 – 2020), a social psychologist and anthropologist, has contributed to several management studies and cultural organizations, especially thanks to his study about the cultural attitude and behaviour towards different societies worldwide.

Today, the global economy is the driven force for more and more enterprises that aim at internationalization, so that understanding the cultural differences is becoming always more relevant.

Hofstede's theory has established not only a consistent tradition in cross-cultural psychology, but also has been applied by many researches in fields relating to international business and communication.

Based on a data collection of work-related behaviours and values of employees in a large

multinational company (i.e. IBM) between 1967 and 1973 in 66 countries, his “Cultural Dimension Theory” demonstrates the effects of culture on the society and the values of its members, and the way these values are related to the individual's behaviour. In order to do this, the theory makes use of a structure derived from factor analysis, and thus, has been widely use as a paradigm for research (Hofstede, 1991).

The cultural values may be analysed according to four main dimensions:

- power distance index (PDI): is described as the range to which individuals that are less powerful accept that this power in unequally distributed, and for this reason it is perceived as high-power distance or low-power distance.

All those cultures that are marked out by high-power distance, individuals tend to perceive power as a realistic element of their society, which is organized in structural hierarchy, in which everyone occupies a specific place and role. The power inequality is widely accepted and as a consequence people are more prone to accept also autocracy and paternalistic power relationships: indeed, the leader is always the one that is recognized for his social position in family as in society or government as well.

As opposite, cultures that are portrayed by low-power distance, people mainly expect all the power relationships to be democratic and consultative. Indeed, the distribution of power is not accepted as unequally and although his position, the leader is considered as an equal because his role is to guide the others and not to order them. As a consequence people is not afraid of the State, because they feel the right to participate in every decisions regarding their lives.

The high-power distance is mainly observed in those culture that pay much attention on the collectivism and group predominance (such as the Chinese one in which the power inequality among people is justified and view as acceptable), meanwhile in the Western societies, mainly concentrated on individualism and the reaching of personal targets, this theory is more difficult to apply (Hofstede, 2015).

- Individualism vs collectivism (IDV): this index describes the degree to which people belonging to a society are integrated into groups. The western

individualistic societies put more emphasis on the individual and its relationships with the family and institutions rather than Eastern societies do. In fact the collectivist societies there put much more attention on the individual only as a part of a community and its relationships with the group and extended families.

- uncertainty avoidance (UAI): is described as the degree of tolerance for ambiguity or diversity of a specific society, or, in other words is the range to which people are used to handle with the unexpected or the unknown. A low score in uncertainty avoidance means that the society taken into account is more open to different thought or ideas.
- masculinity vs femininity (MAS): this index shows the society's attitude that may extend to masculinity or femininity. Masculinity is the preference for the heroism, material success or achievement of personal goals, meanwhile as opposite femininity stands for the preference for cooperation, shared decisions, modesty and quality of life. Of course, this index is inevitably related to the question of the gender roles, which refers to the position of the women as equal to man, or presenting a gap among the gender position.

Despite the original theory provides four dimensional categories, after some independent research carried out in Hong Kong, has led Hofstede to add a fifth dimension and later a sixth:

- long-term orientation vs short term orientation (LTO): this index refers to the degree of influence of the past present within a society and how it is able to influence the current or future decisions of people. A lower degree (short-term) shows that the cultural tradition is still very present and this short-term orientation suggests that the country is not so much developed. As opposite, societies that shows a high degree (long-term) mainly concern those countries in which adaption and evolution are considered as fundamental for problem-solving (Hofstede, 1991).
- indulgence vs restraint (IND): this index describes the degree of freedom that the social norms allow to citizens and give to people to satisfy their human desires. High level of indulgence demonstrates that the social norms allow the fulfil these



human desires related to enjoying life, meanwhile the restraint, as a counterpart, highlights that the society controls and regulate every king of gratification using strict social norms.

The final comparison is achieved putting together all the national scores, in which the lowest is 1 and 100 is the highest, and in this way the cultural dimensions allow an international comparison between cultures.

#### **1.2.4. - Schwartz's culture model**

Although the cultural factors are widely accepted as crucial drivers of consumer behaviour, determining their influence on consumer behaviour is not easy at all, because culture is a very complicated and broad concept.

Shalom Schwartz, a cross cultural researcher, has developed his “Theory of Basic Values” which is comparative study mainly focusing on the role played by the cultural values across different societies.

Cultural values may be described as all those elements which are shared by individuals within a group and are collectively held beliefs that mainly gather people belonging to the same country. Due to the fact that these values are acquired through a socialization process and the personal experience of individuals, they end up being used as a standard for judging and as well as for justifying actions and behaviours (Schwartz, 1994).

The “Theory of Basic Human values” shows that specific universal values are recognized in people throughout all the major cultures, chiefly because values are structured and organized in similar ways by all the human beings, but the difference lies in the importance given by individuals and groups to them. Indeed, individuals are ruled by different priorities, so that Schwartz's theory has identified ten basic values which are included in four main higher groups. Each of these values is held by a personal goal that functions as its motivator (Schwartz, 2012):

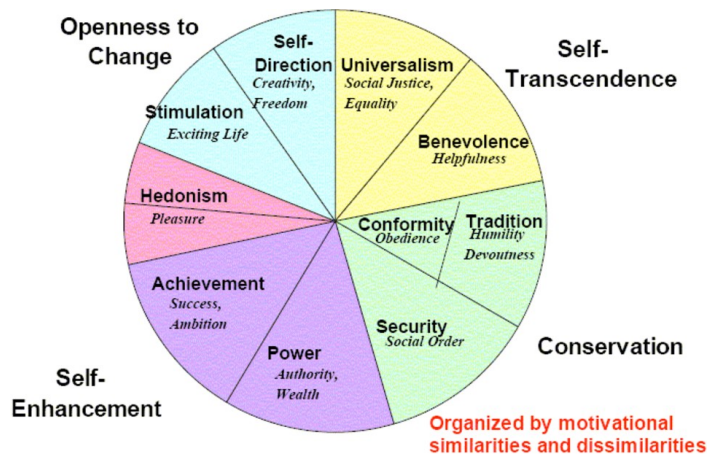


Exhibit 1.3 – Schwartz's Theory model. Source: researchgate.net

1. Openness to change → self-direction: independent though  
stimulation: excitement and life as a challenge
2. Self-enhancement → hedonism: personal pleasure  
achievement: personal success  
power: social status and prestige
3. Conservation → security: social safety and stability  
conformity: respect of social norms  
tradition: acceptance of traditional customs
4. Self-transcendence → benevolence: protecting people in the same group  
universalism: protecting the welfare of all people

After the identification of these ten values universally recognised, are therefore defined as “basic values”, Schwartz has described the way these values are connected each other or are able to influence each other resulting in accordance (i.e. conformity and security) or conflict (i.e. benevolence and power). The total pattern of relations among them give rise to a circular continuum of conflict and congruity in which there are always more related motivations.

The method of measurement provides two different ways:

1. Schwartz value survey (SVS): it is an explicit method. It provides the participants

score according to their personal-assessment: this survey is made up of 57 questions with two lists of value items (nouns and adjectives), whose important is measured on an asymmetrical scale.

2. Portrait value questionnaire: it is an implicit method. The participants are asked to compare themselves in short consideration of each other to state how similar they are. In this way is possible to state how individuals actually act and which values are more relevant to them.

Schwartz's model, such as Hofstede's theory, has also been applied in the economic research, declaring a new field of study mainly focused on understanding why some countries, in spite of the fact that own the same possibilities, are condemned of staying one step behind others.

### **1.2.5. - Trompenaars' model of national cultures**

The last theory that deserve to be mentioned is the one carried out by Alfonsus Trompenaars (1953), which is a theorist of the cross cultural communication, chiefly known for his "Model of national culture differences".

This model is commonly, which provides relevant insights in the cross cultural communication, is commonly applied to general business and management.

According to Trompenaars, national cultures are distinguished one from another on the basis of their preference and the degree to which respond on seven dimensions, each of them is also dealing with a concept of time and environment (Trompenaars et al, 1997):

1. Universalism vs Particularism: universalism describes the concept of believing that specific ideas may be applied everywhere without any adaption (identified in country such as USA, Canada, UK, Germany), while particularism lies in the conviction that the subjectivity states how practices are applied (identified in countries such as South Korea, China, Indonesia, Venezuela).
2. Individualism vs Communitarianism: this index describes the degree to which a culture consider an individual as a single identity or consider him as a part of

community.

3. Neutral vs Emotional: the dimension of neutral refers to those cultures that commonly are not so much introverted but prefer do not show their emotions publicly. As opposite an emotional culture is the one in which people are mainly extroverted and also in body languages and way of talking are very loudly without any concern for the public thought.
4. Specific vs Diffuse: this index describes the range to which people belonging to a culture share private and public space. The dimension of specific mainly refers to culture in which people tend to have more public space and share the private one only with few persons considered closed. The Diffuse culture is made by individuals whose private and public space share the same dimension and importance.
5. Achievement vs Ascription: is the degree to which people belonging to a culture put more attention on personal achievement (and therefore the material success and social status on the basis of their functionality) or ascription (which stands for the consideration of an individual for what he/her is without need of showing off it)
6. Sequential vs Synchronic: this index describes the degree to which people belonging to a specific culture mainly organize their time according to a chronological order, plans, schedule times and deadlines (sequential) or time is viewed as more flexible and divided among different things and priorities and schedules and timetable are used only for reaching some target.
7. Internal vs External control: this index describes the degree of control that people has on the environment that surround them. The internal control is typical of those cultures which needs to control and have a dominant attitude toward the environment, meanwhile the external control describes an attitude of people of rely on letting things on their course and of accepting the compromise of uncertainty.

In order to get the final scores, is always needed to keep in mind that individuals belonging to different countries may present also variation, as there are cultural

differences may vary also across regions.

Given these previous assumptions and different application across cultures, it is not surprising that in the international business the single peculiarity needs to be evaluated as bigger because it has a significant influence in each step of the business relationships.

Whether a company would like entering new market, whose culture is very far from the company, its concept of timing, its cultural context, its different dimensions needs to be understood. Here is where the cross cultural studies find their mainly and their most useful application to avoid the miscommunication.

In negotiating, collaborating or marketing a product to some consumers, the cultural distance and the several aspects in which come out, deserves a long reflection and observation before making actions.

### **1.3 - The cross-cultural consumer behaviour**

In the today globalized world, multicultural marketplaces represent the current challenges that companies have to face when crafting international strategies.

In the first paragraph I have already mentioned that the consumer behaviour is a process in which the psychological factors play a relevant role pushing in a certain direction, but in addition to them, several aspect of the decision process is culture-bound.

As culture is able to modify the perspective of an individual, researches mainly distinguish a *global perspective*, that is assumed to be universally applicable as many aspects of consumer behaviours are universal, and the *imported perspective* that is something more reasonable when offerings are tailored to local markets and may discover significant differences in consumer behaviours that require marketing adjustments (Usunier et al., 2006).

Several attempts have been made for understanding on how culture influences consumer behaviour, as it is crucial for both managers and researchers.

Luna D. and Gupta, two researchers focused on the study of the cross cultural differences in managerial decisions, have developed a model which integrates the cultural values, consumer behaviour and marketing communication.

As the framework suggests that culture is able to influence the consumer behaviour, as well as the consumer behaviour provides a manifestation of the culture itself. The role of marketing in this integration is the role of vehicle which enable meanings and value to shift from the cultural world into the consumer world. In other words, it functions as a kind of moderator of the effect of the culture on the consumer purchase decision. At the same time, marketing communication is also able to have an impact on the manifestations of culture using advertisements and consumer behaviour (Luna et al.,2001).

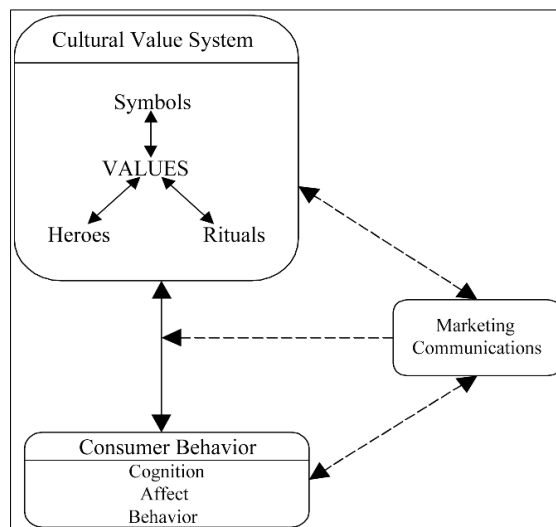


Exhibit 1.4: a model of interaction of culture and consumer behaviour. Source: researchgate.net

In addition, Hofstede have already stated that cultures manifest themselves in symbols, heroes and rituals, with values constituting the heart of the system:

- symbols: are words, pictures and object that often carry complicated meanings recognized by those who share the culture. For this reason, a society's symbols may not exist in different cultures or the meaning can be different (Hofstede, 2001).
- heroes: are persons, alive or dead, real or imaginary, who own characteristics that are highly appreciated in a culture, and serve as models for behaviour. Heroes can influence consumer behaviour through their association with certain products and

brands.

- rituals: are collective activities which are highly considered within society, such as social/religious ceremonies, greeting, paying respect (Hofstede, 2001). They are important for consumer behaviour because they involve the consumption of good and services.

Symbols generally express cultural values, heroes are embodiment of cultural values and rituals are for the most an affirmation of cultural values.

### 1.3.1 - Socio-cultural influences in the consumer behaviour

Given the assumption that culture has a great impact on the consumer behaviour, as it regards most aspects of an individual's life, society is an inner body of culture that reflects its values. Indeed, as at a global dimension, culture influences the consumers across different countries, the social influences are the smaller dimension in which the same process takes place in smaller environments.

Starting from the consideration that between culture and society there is a tight link, at a first level, there is a *personal influence*, which mainly involves two social sides: opinion leaders and words of mouth:

- opinion leaders: are defined opinions belonging to individuals that has a strong influence over others, and usually are the most knowledgeable about a product.
- words of mouth: are opinions capable of influencing people during an informal conversation between two or more people.

The personal influence is the first of some socio-cultural influences that are involved in the consumer behaviour decision making process, but enlarging the social dimension, from the personal influence there is a shift into a much stronger one: *the group influence*. Each consumer in society is a member of different groups depending on their culture, that rely on certain norms and beliefs: a group becomes a reference group when an individual

recognizes the group's values, attitude or standards and use it as a base of his behaviour. In this case the group relevance is much more significant than an individual's evolution of the consumer and it becomes a matter of self-appraisal.

The group's ability to influence the behaviours of its members is called “social power” that push to buy certain products rather than others and therefore are very important for marketers. This group influence can, sometimes, turn into a *brand community* that is the definition for a group of customers particularly involved with a specific brand.

Indeed, consumers can be *loyal* making regular purchases of the same brand or product, mostly because they want to be sure of what they buy even if this reduce their opportunities to evaluate other brands, other stores.

Usually *loyalty* is typical of collective cultures where the product is expression of the shelf. For this reason, in many Asian markets there is the predominance of a single brand: consumers have been shown to be more loyal because they tend to rely more informations found in their reference group rather than other source information. Furthermore, they tend to follow the group consensus and switching to another brand means time in developing a relationship with a new provider and extra time in researching alternatives. (Robison et al, 1996).

As opposite in the Western societies, the standard attitude is to be *disloyal*: consumers are likely to switch brands to test different kinds of products and how they differ in different kind of aspects. This desire to change and the need of variety has been linked to the need of uniqueness prevalent in such cultures (Hermann et al, 2006).

As a predictable consequence, marketing strategies need to differ whatever consumers are loyal nor not: when consumer is loyal it is more difficult for a company push them shift into them and gain their loyalty, but on the other hand, when consumers are disloyal, the company need to be more effective to prevent them from shifting.

Also the perceived risk falls into different perceptions at different degrees.

In Eastern cultures, consumers are more sensitive to the social risk, due to the fact that the “losing-face” concept is felt very strong among people. Financial or functional risks are less considered on the light of the social expectations, and the physical risk is also underestimated. In fact, in many developing countries, where the safety measures are not



well defined, it is very common seeing people sitting everywhere regardless of the dangers, walking regardless of the safety issues, and the morality rate is high so that death is accepted as a common happening. This diminished the importance of physical risk that influence the purchase of insurances, healthcare, food and transportations (Usunier et al., 2013).

In the Western societies, the functional risk is very much considered, whether the product will perform as expected, and secondly, the financial risk related to the product's price is the very influential in the purchasing process.

The consumer involvement is subject to a different cultural logic as well: in Eastern societies the extent of the consumer involvement is higher for publicly consumed or shared products, sometimes as a kind of “showing off”. Therefore the product has a social significance that expresses the consumer's social status. In contrast, involvement is lower for products that are used for private consumption.

Family can also be considered as a kind of group too, as it represents the dimension in which a consumer develop his attitudes and tastes, is educated and is formed as individual.

In the consumer behaviour literature, the family is often see as an interacting group of individuals, who influence each others in their decisions (Usunier et al., 2013).

Family structures also vary across cultures and are related not only to the individualism – collectivism kind of society, but also masculinity-femmininity concept: as we have seen in Hofstede's theory, masculine society is characterised by having a strong distinction in the gender roles, focusing on money and achievements. A feminine society has an overlap of the gender roles and it is focusing on the quality of life and relationships.

Despite the family is a group of individuals, researches usually focus on the main two members – husband and wife – in the purchasing decision process: in a masculine society most of decisions are made by the husband that is responsible for the majority of purchases. Moreover, consumers that belong to this kind of society, prefer buying goods that represents a status symbol or achievement.

Feminine cultures, as opposite, are marked by shared decisions between man and woman, consumers are more sensitive to products for home and family, and this due to the fact

that these cultures are more people-orientated: they aim at reaching consensus, not becoming winners, giving value to what is simple and modest.

Another influence from collectivism is the role of extended family. Especially in Eastern societies, the extended model has survived through the time and has a strong influence on purchase decision. For instance Chinese people, that have always related to this kind of structure, when outside their national context remain strongly bound by their family ties.

If mainly of the previous mentioned consumer behaviour aspects regard the pre-purchase and purchase stages of the main process, also the post-purchase moment is filtered through cross-cultural lenses.

In terms of consumer dissatisfaction about a product, this kind of matter is also expressed in different way from people belonging to different cultures: first of all, terms of returns and exchanges of a product are differently marketed around the world and in some cases are not even possible.

Western consumers are more likely to express their discontent, may discuss the problem with a manager, ask for the firm to fix it, speaking out loud their dissatisfaction about it. Eastern consumers, on the other hand, are less likely to speak their complaint out loud and directly and more likely to engage in negative word-of-mouth. More often they act privately or avoiding the firm's products in future (Moij et al, 2011).

In conclusion, we may also state that culture influences also consumption patterns, but this influence differs according to the type of product, service or reasons for purchase. Despite this micro-dimension, the macro is mainly influenced by the emergence of a global market in which global competitors would seek to standardize their offerings everywhere, casting a shadow over traditionalism.

This concept is also related to the different concept of *modernity* and *traditionalism* shared across cultures: in Western society, traditionalism is more often linked to something belonging to past, that can be an impediment to a future action and development. Therefore tradition and modernity are a contradiction, since that the tradition is the precondition for the modernity to be effective.

In Eastern societies, tradition and modernization share a high value both, in many cases

they are very modern in the technological sense, but their cultural assumptions are not so “forward” or based on the assumption that modernity is more legitimate. Moreover, the word *modern culture* is often confused with “American”, leading to an incorrect description of globalization (Usunier et al., 2013).

More firms worldwide are looking for growth opportunities in the emerging countries, which differ dramatically in terms of their cultural and economic environments, this led to the emergence of understanding these new markets and their consumers, analysing these societies' distribution of power, consumers' behaviour tendency and the aspects manipulated by the cultural distance.

#### **1.4 - The cross- cultural categorization**

International business always involves communication and the exchanging of informations and ideas, negotiating and decision making in a global environment, so that achieving a good communication is a challenge for marketers belonging to one culture that deal with a foreign one.

Since we are constantly surrounded by several stimuli, that are inevitably absorbed, and we perceive only those ideas and images that are meaningful to us, we tend to group perceived ideas and images into categories that help to simplify our environment.

Thus, if the perception stands for the process through which individuals identify, organize and interpret informations of the world around to create a meaning, the categorization stands for the activity of an individual of putting these informations into categories (classes, types, index). It allows individuals to organize things, object and ideas that exist around them and simplify their understanding of the world (McGarty et al.,2015).

The perception and categorization processes relate each others: individuals organize informations, interpret them and categorize them, so that the interpretation process is the right in the middle, occurring when when an individual gives meaning and makes sense out of perceptions.

The categorization process is also responsible for the demonstration of some cultural assumptions that most often may be considered as negative or disputable: the stereotypes.

A stereotype is defined as an expression of the social psychology, that mainly refers to an over-generalized belief about a particular category of people.

Stereotypes involve a form of categorization which organize the individual experience and guide people's behaviour toward ethnic and national groups: they never describe an individual behaviour but the behavioural norm of a particular group (Adler, 2003).

Some stereotypes are definitely very well-known worldwide due to some social reasons or historical event that have shaped these kind of considerations among people of a specific country.

In international business, managers should pay attention and monitor these kind of stereotypes because are easily forecasted in crafting some strategies and furthermore, breaking stereotypes is also important for cross-cultural studies, especially in creating business relationships that are going to be profitable with a new country's partner.

For instance, racial stereotypes are used frequently in advertising and it is not always negative, but may be harmful because the repetition of the advertisement is also the repetition of the stereotype that may end up becoming “normal”.

As a consequence, they may be positive for the advertiser as well as the viewer may perceive them negatively and where they cause offence, marketers should be aware of the eventuality of some damage.

Indeed, while our cultural knowledge help us to make sense of the world, stereotypes serve as simplified representations of other people, and they also tend to promote our differences, which can make them dangerous (Usunier et al., 2013).

Culture strongly influences, and in many cases determines, our personal interpretation and categorization, because both categories and meanings are based on the cultural background. Wrong assumptions and stereotypes are just one the consequences that the social categorization develops along with the perception and interpretation, but they are also responsible for other kind of consequences in cross-cultural communication:

- lack of cultural self-awareness: Despite we may think that the major obstacle in international business is the understanding of the foreigner, the greater difficulty is being aware of our own cultural conditioning. As Edward Hall already stated we are generally least aware of our own cultural characteristics and are quite surprised

when foreigners describe us (Adler, 2003).

- Projected similarity: is defined as the assumption of an individual that people are more similar to him/her than they actually are, or that the others share the same values and perceptions that we may have. Typically it tends to be higher when information is relatively lacking, as in first impressions, and tend to be lower when perceivers have more informations (Stroessner, 2015).
- Parochialism: at the base of projected similarity there is a subconscious parochialism, which is a narrow mental attitude, which is based on the assumption that “there is only a way to be and one way to see the world: my way”(Adler, 2003). People may fall into an illusion of mutual understanding while being unaware of their misunderstandings.
- Especially managers are not easy to define themselves as parochial because they believe that are always able to understand the foreign 's point of view (for instance parochialism is a mindset which is very common in China where the political, cultural and economic traditions have been based on rural authoritarianism).
- Ethnocentrism: is defined as the act of judging another culture and believing that the values and standards of one's own culture – language, behaviour, customs, religion - are superior. In opposition to the previous ones, this phenomenon in the cross-cultural communication has a quite stronger impact.

#### **1.4.1 - Ethnocentrism and the ethnocentric consumer**

The concept of ethnocentrism was firstly applied by the American sociologist Graham Sumner (1840 – 1910) to describe the view regarding one culture that may be considered as central and superior by its participants, rather the others are though to play a less prominent role. This tendency for people to perceive their own group as the centre led to scale and rate the others with reference to their own culture (Usunier et al., 2013).

Ethnocentrism have always been influential in how different cultures and groups relate to each other: for instance, historically foreigners would be characterized as “barbarians” or one of the most prominent examples of ethnocentrism was the sino-centric “Mandate of

Heaven” in China.

Developed by Confucius, this concept describes the ethnocentric idea that China is the country that has received the divine power that entitle its emperor to implement heavy rules over the Chinese citizens and the rest of the “uncivilized” world.

This kind of Sinocentric vision is the opposite variable to the Eurocentrism that mainly has affected the western societies.

Actually, several theories about this phenomenon find their roots in the colonialism: Edward Said 's orientalist concept shows how the Western reactions to non-Western societies are based on unequal power relationship that Western people developed during the colonization period (Bagchi et al.,2016).

Indeed, colonialism has promoted a Western world-view and in many cases it brought to replace local languages, social systems and customs (this is the main reasons why examples of ethnocentrism could be observed in almost every colony ruled by Europeans) due to the “cultural superiority” that was affirmed by the Europeans to justify their dominance in other countries.

The concept of “race” was a predictable consequence of considering locals as inferior, so that the ethnocentrism is very easy to flow into the racism or cultural hostility toward other cultures and societies (one of the consequences of Western ethnocentrism is still visible today in the celebration of whiteness as synonymous of beauty and superiority in many South Asia countries).

As far as marketing concerns, the ethnocentric attitude is also able to influence the consumer behaviour: the CET-SCALE represents the consumer ethnocentrism scale, able to identify consumers that are highly ethnocentric.

Specifically, consumer ethnocentrism refers to ethnocentric views held by consumers in one country towards product from another country. It is almost considered “unpatriotic” because some of them may believe that it is not appropriate or even immoral to buy products from foreign countries or it is improper because it costs domestic jobs and hurts the economy (Klein, 2002).

Italian culture is a clear example of ethnocentrism so that in most of the cases, Italians consider “wrong” purchase foreign products for some reasons: an ethnocentric market constantly stresses nationalistic themes, such as they do with the Made In Italy, that

expresses the authentic Italian quality of products and push Italian consumers to mistrust foreign ones. Secondly, many Italians believe that purchasing imported products may represent a damage to the national economy. In order to foster Italian economy, they perceive a sense of patriotism, identity and belongingness in buying their local products (Shiffman et al.,2008).

As opposite, the Chinese culture in particular, as other Asian cultures as well, is marked by an historical nationalism that, in many cases, push Chinese consumers in preferring local products if it is possible, and the rapid economic growth, in which the rising consumer demand for branded and luxury products cannot be fully met domestically.

## **1.5 - Corporate approaches to face the Distance**

As marketing and management are two sides of the same coin, companies engaging in international business are obliged to deal with the *liability of foreignness* (LOFs) concept. This concept reassumes the “costs of doing business abroad” that embody different kind of risks due to the unfamiliarity with a foreign environment (Zaheer, 1995).

According to Zaheer, dean of the Carlson School of Management at the University of Minnesota, the *liability of foreignness* is driven by five main “costs”:

1. the disadvantages for foreign firms for their non-native status
2. differences according to which the governmental institutions rule the markets
3. foreign firms are often discriminated by the domestic ones
4. foreign firms deploy overwhelming resources and capabilities to offset the liabilities of foreignness.
5. The liability of foreignness measures the cost of doing business abroad.

In order to take on these liabilities, international business scholars have introduced the concept of *distance* and have applied it to a wide range of topics that cross-cultural studies are aimed to solve.

If the cultural distance is definitely the most widely faced type in international business,

as far as it may concern many difficulties and problems , is not only the relevant one.

Different kind of *distance* have been found to influence several organizational processes in MNCs concerning location, entry modes, performance and knowledge transfer.

A professor at the University of Navarra, Pankaj Ghemawat, developed a model very well known by the management and business world enterprises that face new foreign markets during their internationalization: *The CAGE Distance Framework*.

Exhibit 1.5 – *The CAGE Distance framework*. Source: Collinson (2017), International business

	<b>C</b> Cultural Distance	<b>A</b> Administrative and Political Distance	<b>G</b> Geographic Distance	<b>E</b> Economic Distance
Distance between two countries increases with . . .	<ul style="list-style-type: none"> <li>• Different languages, ethnicities, religions, social norms, and dispositions</li> <li>• Lack of connective ethnic or social networks</li> <li>• Lack of trust and mutual respect</li> </ul>	<ul style="list-style-type: none"> <li>• Absence of trading bloc</li> <li>• Absence of shared currency, monetary or political association</li> <li>• Absence of colonial ties</li> <li>• Political hostilities</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of common border, waterway access, adequate transportation, or communication links</li> <li>• Physical remoteness</li> <li>• Different climates and time zones</li> </ul>	<ul style="list-style-type: none"> <li>• Different consumer incomes</li> <li>• Different costs and quality of natural, financial, and human resources</li> <li>• Different information or knowledge</li> </ul>

Ghemawat's framework describes four different kind of distance that companies should address when crafting international strategies, and may also use it to understand patterns of trade, capital, information and people flows (Ghemawat, 2011).

Distance among countries or between two countries can manifest itself along four basic dimensions, that are consequently able to affect products, industries and relative strategies to implement. The CAGE framework identifies cultural, administrative, geographical and economic differences (or distances) to face.

Ghemawat not only offered advices on how the CAGE Framework may help managers considering international strategies, but also emphasizes that different types of distance matter to different extents depending on the industry and products.

Industries and products are affected by:

- cultural distance: for instance products that have high linguistic content (TV),



products related to national or religious identity (food), products carrying country specific quality associations (wine)

- Administrative distance: products that a foreign government views as principle (electricity), as national reputations (aerospace) or as vital to national security (telecommunications).
- Geographic: products that have a low value-to-weight ratio (cement), products that are fragile or perishable (glass, meat), products in which communications are vital (financial services).
- Economic: products for which demand varies by income (cars), products in which labour and other cost differences matter (textiles).

The CAGE Distance Framework developed by Ghemawat is still considered in crafting strategies, but, of course, end up concerning other choices, in which enterprises have to choose whether giving priority to a global strategy or to local one and relative products. Surely, a crucial trade-off for companies approaching international markets are between: the global integration (the degree to which the company is able to use the same products in other countries) and local responsiveness (the degree to which a company must customize products to meet conditions in other countries).

The localization is defined as “the willingness of a firm to make adjustments to their products, services and ways meeting the specific need of buyers in individual countries” (Collison et al., 2017).

The cultural distance ruled by cultural factors are surely elements that work in favour of local responsiveness: differences in consumer tastes and preferences across countries emerge and endure due to the cultural predisposition.

Given this assumption, several enterprises are prone to engage in a multi-domestic strategy (customizing products according the specific conditions of a country) or a transnational strategy (combining standardization and multi-domestic strategy trying to balance global and local efficiency).

These two strategies present a significant high pressure for local responsiveness, rather than an export or a standardization strategy through which there is a much more emphasis on the global integration.

For Instance, Starbucks company, mostly due to the fact that face significant cost pressure from international competitors but also offer products that meet local customer needs, is implementing a transnational strategy. The multinational have tried to manage the cultural distance with China: when Starbucks entered the Chinese market in 2000, tried to reduce the cultural distance by handing out key chains to help new customers learn how to order. Layered cylinders on the mini coffee cup represent drink options – caffeinated or not, number of espresso shots, type of syrup and so on. The customers spin the choices into the desired position and hand the key chains to the barista (Collison et al., 2017).

Companies that engage in international business once that have chosen to enter a new market, can choose among different entry-modes, briefly summarized as follow:

- Exporting: producing products in one country and sell them in another one. It can be divided into indirect (firm sells its domestically produced products in a foreign country through an intermediary) and direct (without any third party).
- Licensing: a company offers the right to a trademark, patent, trade secret, property and other item to another party to conduct business under its name in exchange for a royalty or fee.
- Joint ventures: a foreign company and a local firm create a local business and invest together.
- Direct investment: a company is able to do business in foreign country thanks the owing of a foreign subsidiary or division.

After the choosing of the entry-mode which is related to the evaluation of different factors and needs of the company, the successful step is the implementation of a marketing program that concern products. As we have seen before, when a product is sold worldwide, a company can choose whether customize or standardize.

A product is mainly managed in three ways:

- product extension: the strategy of extending, and therefore adding, new features and varieties to an existing product for the sake of reaching more different customers.

- product adaption: changing the product in some features or different ways so that is adopted to a specific country needs.
- product invention: the invention of a totally new product designed to satisfy common needs across countries.

Product extension, and product adaption as well, makes use of the same identical promotion message around the world, but in some cases, even the promotional message can be adopted according the differences among countries:

- Communication adaption strategy: same products are advertised differently across countries.
- Dual adaption strategy: companies modify both products and promotional messages (for instance, Nespresso, which is the newest coffee capsules product introduced by Nestlè, is marketed using different coffee blends and promotional campaigns to match consumer preferences in different countries).

Given the previous statements and focusing on the necessity to overcome the liabilities of foreignness, the different cross-cultural frameworks, choices of acting in foreign markets and the difficulty to overcome the cultural distance, the next chapter is going to make the first contextual analysis within a specific market, the Italian one.

## CHAPTER II

### THE ITALIAN COFFEE MARKET: A RENEWED TRADITION

#### 2.1 - A story about coffee

Coffee has always been a remarkable part of different cultures around the world, that have found in this beverage a symbol of a daily routine, sharing, socialization and connection among people.

The heart of coffee history lies in its cultural phenomenon that has been built in different countries' societies that in drinking, preparing and offering the beverage has fixed a specific set of rules that now we recognize as a “tradition”.

The history of coffee begins in Ethiopia, where in several Yemen monasteries the monks have discovered the beverage, its preparation and appreciated its properties, so that only later coffee have been spread worldwide reaching Europe, America and the Middle East. Despite these origins, Italy is definitely one of the culture that mostly feels this tradition: indeed, Venice was one of the first European harbours where coffee beans were imported in the 16<sup>th</sup> century. During this time, due to the presence of the port, the city was a crucial point for the trade and commercial exchanges between locals and Arabs, so that a large variety of commodities and goods being imported almost everyday.

After the landing of the first coffee beans in Venice, the opening of the first coffee houses gained a lot of success among people belonging to the upper-classes, so that coffee became the drink of the intellectuals, of social gatherings, even of lovers among which the usage of small dishes of chocolate and coffee were considered a romantic gift.

The main reason for the popularity of *the black water* lies in the attraction and curiosity that raised in people: it was an exotic product coming from faraway countries and the coffee houses new social environments where to gather and discuss.

In 1763 Venice accounted for almost 200 shops, but not without any opposition: Catholic Church strongly condemned the consumption of coffee and its introduction, calling it “the devil's drink”. Indeed, Arabs Merchants are used to consume coffee in religious practices during the Muslim celebration of the Ramadan, because the beverage allowed them to

stay awake at night but active at the day (Ukers et al., 2012).



Exhibit 2.1: *Florian Cafè, oldest cafè in the world in Venice, since 1720.*

Although the opposition of many Catholic representatives, Pope Clement VIII gave his approval to the beverage after drinking himself, encouraging further its commercial success and diffusion.

Among the most important characters in the coffee history, Angelo Moricondo (1851 – 1914) is always remembered, not only as the owner of several coffee houses in Turin, but especially for the invention of the first coffee machine.

Moricondo has been inspired by the need to satisfy the consumer requests of his coffee houses in the centre of Turin in shorter time than the practices of preparation used at the time.

Despite his invention had marked coffee history worldwide, he never invested in a large-scale production but only used this new coffee machine in his stores, and therefore did not contribute to the spread of an Italian coffee-style abroad but his fame soon vanished in his own coffee houses (Chiarle, 2013).

Among coffee historians Moricondo has always been less considered, but he gave an incentive to put into commerce and industrialise the coffee machines for espresso, whose potential was recognised by a significant number of coffee houses' owners that began to idealize their own.

As a predictable consequence, the consumption methods changed as well: thanks to the

faster service guaranteed by these new machines, coffee started to be drunk standing on one's feet at the desk, without sitting down meanwhile coffee houses became places for people belonging to the working bourgeoisie to socialize.

Gaining popularity among the upper-middle class, coffee per capita consumption increased of the 60%, reaching a per year quote of 80 cups for person (Giuli et al. 2010).

The outbreak of the First World War (1914 – 1918) had a strong impact on the national economy which was reflect by several precautionary measures taken by the Government to struggle the economical crisis: coffee imports were limited and coffee machines taxed, therefore coffee consumption decreased.

Despite the several difficulties, after the end of the War, a period of great innovations began: coffee houses still began to increase in number, coffee machines were improved in their functions, the packages more efficiently retain the flavour of the product and in 1933 the engineer Alfonso Bialetti gave to the world the first moka, that replaced the traditional coffee making machine.

If nowadays almost everyone recognizes Bialetti brand as a flag for coffee industry is mostly for the important contribution that made: after the introduction of the moka making coffee became a simple action- if compared to the previous coffee machines preparation – that became an essential rite in every Italian home for generations.



Exhibit 2.2: *traditional coffee pot*



Exhibit 2.3: *traditional Neapolitan coffee machine*

Before moka was introduced in people daily lives, the preparation of a cup of coffee had a specific making-process: this process was indeed a bit long, in which water had to reach boiling temperature and only after coffee powder lied on the ground of the pot was ready to be drink (actually this kind of method is still used in Turkey and is the reason why today we can call it “Turkish coffee style”).

Among other things, through this process of boiling the amount of caffeine present in these previous cups was very significant and there was not any kind of filter, so that the final taste was definitely strong and bitter.

The idea to build a coffee pot inspired Alfonso Bialetti by watching his wife doing the laundry. At that time, women usually used a “lessiveuse” to wash the clothes, which was actually an appliance made up by a metal bucket at the basis, which was connected to hollow tube reaching the top.

Firstly, water mixed with the soap was needed to be poured in the bucket, where a small flame appliance at the bottom boiled the liquid. Through the boiling, water was pushed upwards within the central hollowed tube, passing out of a small slotted outlets at the top back over the laundry and rotating the washing clothes with the detergent (Navarini, 2008).

The boiler appliance and the funnel inspired Bialetti's design for creating the moka: a machine that makes coffee by passing boiling water pressurized by steam through ground coffee.

Some historians have also theorized that coffee has been earlier consumed in Naples, as the story of the city and the Neapolitan literature, culture and customs have always celebrated the beverage. Coffee has always been a folkloristic element of the Neapolitan tradition, where it was accurately prepared with the *cuccumella*, which is the traditional Neapolitan coffee pot inspired by the invention of Morize in 1819.

Due to the increasingly popularity and consumption, from the 1940 until to 1970, coffee was the main character of a social and commercial trend: the consumption doubled, Italian people changed their preferences, habits were revolutionised.

The reasons hidden behind this revolution have been analysed by several scholars, and among the journalist Jeffrey Schnapp have developed a theory which relates modernity

and coffee. According to Schnapp, in the early 20<sup>th</sup> century, Italian people strongly desired a revolution in a modern key and the advent of a new era, and this desire was expressed through the union of two very different elements.

The first one was caffeine, which stood for the commercial and social trend, and the second one was aluminium, which was the national metal in Italy in 1930s. They both carried a common symbolism of modernity and a new lifestyle (Schnapp, 2001).

Indeed, Bialetti designed the first aluminium coffee pot machine that will end up taking place in all the Italian homes and he changed not only the coffee brewing technique, but also the Italian people attitude towards it.

Coffee was generally consumed publicly and coffee houses dominated the coffee trade offering an environment in which many ideological movements developed and where women started to associate coffee consumption with a symbol of their own female emancipation.

The new developments in technology led to several experiments and more new coffee machines to satisfy the increasing number of consumers, so that in the previous 1980s, bars and coffee houses changed their offerings: they began including food to be eaten in the menus, entertainment services, different kind of espresso “with milk cream on the surface”, different kind of little innovations always maintaining cheap prices.

These changes definitely turned coffee houses and bars in environments in which people can easily socialize among their own groups and often with strangers, and this is also reflected in language when people say “meet for a coffee”, but also places where people gather, chat, work, read and relax passing the time.

## **2.2 – The importance of a cultural tradition**

«Whether someone worldwide says espresso, says Italy». Indeed, this famous common saying reveals how is difficult to separate these two themes, since they have inextricably linked together from the 16<sup>th</sup> century.

Today, coffee in Italy is handled as an art work of unequal value: it must not be swallowed, but savoured slowly and serenely. Born as taverns, as the English philosopher



Francis Bacon defined them in his treatise on natural history *Sylva Sylvarum*, the cafes always maintained a double soul. On one hand, they were places of aggregation and disengaged conviviality, on the other hand they often became places of debate. Indeed, these places have also been called “schools of wisdom” for a period, as they were mainly attended by cultural personalities and men of letters, who frequently met and talked drinking coffee until late at night. Over time, this habit turned cafes also into places where the political contestation was fuelled, so much that in 1676 the London attorney general, fearing that they would become heaven of potential insurrections, decided to close all the coffee houses.

If coffee had been able to have a political repercussion, it certainly had also a literary one: in our country coffee has always been a national symbol, celebrated by several renowned writers. The Venetian playwright Carlo Goldoni already in 1750 dedicated to coffee a successful comedy *La bottega del caffè* and 11 years after, the Jesuit abbot and writer Pietro Chiari replied with a playful drama *Il caffè di campagna*.

In the same period the dialectal sentence “*na tazzulella 'e caffè*” began to be famous among several Neapolitan songs. Indeed, a variant of Turkish coffee was developed in Naples in the 18<sup>th</sup> century: instead of cooking the powder the ground beans, as still it is done today, the Neapolitan cooking became a new famous method of filtering the boiling water and making it poured from above through the coffee powder.

In short, coffee in our country has represented an historical tradition: from Goldoni to Giuseppe Verdi, for whom “coffee is the balm of the heart and spirit”, passing from Edoardo de Filippo to Pino Daniele and Fabrizio De Andrè, and many other artists, this drink has been perfectly integrated with the Italian culture. This integration reached such scale that each region has developed different consumption and preparation methods, differentiated according to local customs and consumption.

Going back to the historical events of coffee history, Italy was in the middle of an industrial and technological ferment: the minds of investors thought and created, the hands of employees and workers worked faster and faster. This almost suggest that everyone needed a support to be even more faster: so that coffee, with its load of caffeine, became the instrument to support the proletariat (Eureka, 2018).

A new era begun for coffee, until then seen as a soft drink or for wealthy middle class. In

just a few decades, it became the fuel of an increasingly united and industrialized country. As already pointed out, in the 19<sup>th</sup> cafes became turned from quiet places for conversation into bars with ever faster rhythms for workers looking for a refill of caffeine. This also went hand in hand with a new language: the new vocabulary of coffee houses which “Italianized” foreign words, such as the terms *bartender* which was a translation of the American barman already spread in the early years of the century.

As history explained, difficult years for coffee came with the drop in consumption, as a consequence of restrictive import policies. Contrary to some folkloristic belief, in Italy is not possible to grow coffee and the availability of beans became almost smuggled.

Only after the 1961, with the spread of the new automatic coffee machines, the first to be happy were the barists, as their work became physically easier and they started having time to talk and entertain their customers.

In this way, coffee became *pop*: in every single neighbourhood of every city, even small towns, there were bars and cafes which quickly became meeting places with a light character, with endless discussions about Sanremo Festival and Mike Buongiorno's gaffe. This has been the birth of the coffee culture: created in the first half of the century, in the recent years it has consolidated, becoming strong and massive and does not move despite the increasing levels of globalization (De Crescenzo, 2008).

Habitual Italians mainly go to their favourite bar close to home, ordering an espresso is a part of the routine, as well as a status symbol, even unwritten laws on bar ethics are defined: it is “forbidden” to order a cappuccino after lunch and the price must follow the cost of the daily newspaper, habits that add to the great history of espresso coffee.

In the Italian cups of coffee, Brazilian natural coffees have always dominated, roasters always mix Arabica and Robusta, working more and more on balance between quality and relationships with the owners of the coffee bar, unfortunately not always in favour of the aromatic taste of the product.

Lastly, we may say that the global coffee culture has always been strongly influenced by the Italian one: the Italian style in the world had a great success especially during the 1970s. Migration flows and the birth of the Italian communities have exported not only the pizza but also the espresso and espresso machines, which in a short time became the basis of the majority of coffee drinks.

## 2.3 - The Italian coffee consumer behaviour

The strong heritage of traditional coffee drinking culture has shaped the Italian people habits, which have long appreciated the consumption of coffee in public places as well as at home.

The success of coffee as a national beverage is strictly related to several social and economic aspects of the consumer's life, which has followed a clear evolution in the light of modern era, end up involving also healthy features, new customs, opening toward new products and the elaboration of new concepts.

Nowadays, when it comes to order at the cafès, the Espresso is just one among the different choices that coffee houses may offer: cappuccino, caffè latte, latte macchiato or caffè freddo represent the alternatives which everyday satisfy thousands of Italians.

Although the evolution of the beverage itself that now enable to find different kind of selections, what remains and it is significantly hard to change is the attachment of Italian people to its own tradition: indeed, all the foreign attempts to adapt, embellish or revolutionize coffee with milkshakes or frappuccinos are treated as a form of sacrilege. As fare as foreigners may say, coffee remains fiercely traditional and a well-defined cultural practice.

This cultural practice has been well defined by the British journalist Corby Kummer:

«Italians love coffee made a certain way – a way that gets the very most out of beans. The difference is the brewing method: forcing hot water at high pressure through finely ground beans» (Corby Kummer, 1995).

This makes clear, beyond stereotypes and constant changes, that in Italy the great love of coffee strongly reflects its clear preparation, defined as a ritual following fixed rules that may slightly changed depending on personal tastes, but all of them accurate in preparing and aiming at delectation.

This coffee ritual encompasses several stages and aspects: this preparations is clearly

based on the personal cultural experience that makes familiar what a Moka is, the understanding of its components, how to use it, how to evaluate coffee beans and how to make the preparation.

In Italy this ritual is well learned by heart and shape the habitual routine and cultural habits of the Italian society at home and in public places as well.

### **2.3.1 - Uncertainty and conservatism**

Despite Italians are still deeply protective and jealous of Italy's reputation as the coffee motherland, today the globalization process has allowed to find the same kind of environments, the same kind of products and offerings almost everywhere according to the strategies of more and more multinationals that are building their empire.

In 1959 the Italian novelist Italo Calvino collected his impressions and notions concerning his travel in the United States, in a diary which was later published. During his voyage, Calvino was particularly struck by the American trends about coffee:

«The trend of espresso-places has been thriving for a few years in New York and is expanding to the rest of the country» he wrote in his diary. «Sure I am happy when I can drink a coffee Italian-style, but I struggle to explain to Americans the feeling of uneasiness that this kind of places provoke in me» (Calvino, 1959).

This uncertainty, which we may say has been well defined in the Hofstede's model, derived by the way coffee was marketed in the USA, with their big glasses filled to the brim very far from the Italian tradition. This uncertainty and feeling of disorientation is still today felt and experienced by several Italians entering some coffee shop abroad. Indeed, more than 60 years later, they are still watching suspicious the foreign attempts of replicating Espresso or their offerings in which coffee is not properly treated, therefore it seems that in most cases the today's globalized coffee culture is not accepted as valorous.

The *International Coffee Organization* (ICO), which is responsible for the coffee matters,

production and business worldwide, has declared that global consumption has increased by nearly 42% since the beginning of the century and this explains the advent of several coffee chains hold by many multinationals that invest in the sector.

For instance, the opening of the first Starbucks store in the centre of Milan in 2018 has been a truly scorn for several Italians that aim at preserving their cultural identity.

According to the popular morality, the coffee served by Starbucks, as well as by other coffee houses chains of the same type, is as far away as possible from the Italian coffee, despite the Italian sounding of their offerings in the menus.

The main idea shared by Starbucks, other coffee chains and also some customers as well, is that coffee is already a cosmopolitan product that has been adopted by more and more cultures worldwide, and therefore it deserves to go beyond the classic Espresso.

The Starbucks Emea President, Martin Broke, has declared: “We did not come to Milan to demonstrate how good we are or teach Italians how to drink coffee our way, but to share our love of coffee”.

However, despite the multinational offers a wide range of services, such as the free wifi connection, a comfortable location, symbols of modernity, Italians reveal to have a truly strong bond with their cultural habits.

Exhibit 2.4 – *Starbucks Reserve Roastery in Milan.*



From an Italian point of view, the Starbucks offerings differ significantly from their

common experience and expectations of what a coffee experience is, so that on the other hand several variables, such as the bean used, the size of drinks, the speed of service or the nature of the cups have been represented a great challenge for Starbucks.

The criticism of local consumers derives also from the thought that the multinational is just a symbol of the American imperialism in opposition to their tradition, so that the Italian market is often considered unattractive from an expected profitability perspective. The strategy implemented by Starbucks is focused more on the experience rather than the product: the choice of Milan lies in its modernity, a city of fashion and opening towards the rest of the world, that attract a lot of foreign tourists everyday.

For Milan people it has been also another symbol of the dynamism of their city and a new environment where is possible to take a break and make a different experience.

In other words, the experience justifies the brand, which justifies the price, which justifies the attitude of Italian consumers to accept it.

On the other hand, there are just some aspects of Italian culture that are very difficult to be placed in other cultural ways or practices, for the Naples-born tradition of a *caffè sospeso* or “suspended coffee”.

The trend of the “suspended coffee” has been raised in Naples during the Second World War, when people very much damaged and pressed down by the war, used to pay two cups of coffee as a symbol of kindness in hard times: one cup was for themselves and other for the benefit of someone that, without knowing it, will be able to drink it for free. In few words, is the advance purchase of a cup of coffee for someone who needs it, no matter why (Luciano De Crescenzo, 2008).

This traditional practice emphasizes two aspects: a human aspect of kindness in which coffee is the symbol of the common feeling shared by people and also an economic aspect that shows the need of coffee to be something for everyone, a purchase that everyone may afford.

Probably, Starbucks as other multinationals would not be able to spread a trend like this one to its consumers. The first reason is the lack of personal interaction between the bar, the employees and customers, which is something that for Italians is on the basis of the experience, and the second reason is the price which is officially higher.

Indeed, in terms of pricing, Italians often complain about foreign prices, where a cup of

coffee may also be paid 1.80 or 2.00 euros, which is almost twice the normal market price.

The higher prices founded in the several foreign coffee chains more often push Italian customers to select other options, avoiding to drink a coffee judged as expensive and even of low quality according to their point of view.

### **2.3.2 - Evolution**

Although the Italian coffee culture is mainly considered static and plenty of traditionalism, in the recent years Italians have become more tolerant, accepting further more coffee's offerings adaptation.

Due to the travelling experience and the increasingly globalization that, despite the initial suspicious, more Italians having got closer to appreciate some foreign offerings or the American coffee.

Despite the Italian coffee is usually taken like a shot, and whether is strong or more delicate is always something to be drunk immediately (express, indeed), the American version is very far from this concept.

The American coffee is something to slip slowly or to drink with a meal, something to consume while reading or chatting or, quite the opposite something “to take and go” walking toward the office.

Italian people are very from the habit of walking and drinking or eating at the same time, but have a strong concept of doing something shared with other people, more often considering it as a break from the stressing routine or a moment of socialization.

Although this, the trend of American coffee is catching on, especially among young Italian people, which recognize it also a symbol of modernity and evolution, that bring them closer to the American and richest world painted by several movies and songs.

The American coffee is not a common beverage in Italy, but it is mainly an experience abroad, and moreover the competition with the traditional Espresso is too strong, especially being victim of several word of mouths that describe it as a coffee too much diluted, losing its strong taste and its amount of caffeine may be too much low for its

“function”.

Indeed, from a healthy perspective, the health impact of the coffee “function” has long been a controversial topic which has followed different steps.

Companies that sell addictive substances, such as tobacco or alcohol, are required to advise consumers but in this case there is never any kind of caffeine advertisements nor companies that sell caffeinated products get bad press media for creating caffeine addicts. The rumours mainly concern of promoting caffeine antioxidant activities and brain boosting or the detractors often underline its downside such as insomnia, increasing heart rate or blood pressure, stomachache.

Despite most of these studies are truly controversial and there is not a unique accepted version, at the beginning the presence of caffeine has pushed Italian society in consuming the beverage especially in the morning and in the first part of the day, rather than in the evening.

This attitude has been also revolutionised since nowadays it is not surprising find people consuming coffee at anytime, maybe following the path of the tea-consuming societies, where, despite theine has the same energy-boosting abilities, it may be drunk during the whole day, including the evening.

In the past, where in 1820 caffeine has been isolated, the increased knowledge about its effects also served as an input: it started to be associated with creativity and activity.

The French novelist and poet Honore de Balzac during the 19<sup>th</sup> century described the effect of the coffee on himself as catalyst of human creativity:

«Ideas surge forth like the battalions of a great army, memories attack with their banners unfurled, victims appear as sharpshooters. Figures begin to take shape. The paper covers itself with ink for the mighty labour begins and ends with torrent of black water» (Balzac, 1996).

Decades later the Italian founder of the Futurist movement decided to call his movement the “caffeine of Europe”.

These developments gave birth to the concept of the Espresso as strong and powerfully intense cup, that without these characteristics is not recognized by its consumers to



perform its “energizing” function.

Consumption is therefore strongly related to the product but especially to the individual perception of it that shape the consumer's behaviour and is fundamental for corporate strategies that need to take this concepts and formulate a new idea able to satisfy the market.

The Starbucks Italian experience is a great example of the importance of how much understanding customers is crucial in order to offer an efficient and successful product. Where the cultural distance cannot be overtaken, the perception may replace the product itself, giving a new position in the consumer's mind, which stands for the most important instrument that the marketing has.

## **2.4 - The Italian coffee market**

The Italian coffee market is the ground where a significant number of organizations and associations establish pattern of rules and standards and statistics to preserve and protect the coffee interests and all those businesses related to it.

The Italian coffee sector is wholly represented by the *Comitato del Caffè Italiano*, which is the main body which includes 68 member companies and the equivalent to the 80% of the market in terms of value. The role of this organization is also to deal with the national, and international as well, authorities to increase the interests of the different coffee sub-sectors such as the coffee roasting industry, the instant coffee companies, the warehouse keepers until the decaffeinated products business.

The educational and instructive programme is committed to the *Consorzio Promozione Caffè* which is responsible for the promotion of the healthy features of the caffeine, based on published scientific evidence. Moreover, other coffee associations have a regional presence (e.g. Associazione Caffè Trieste).

As already widely reported in the previous paragraphs, the coffee consumption is part of the daily routine of Italians for generations.

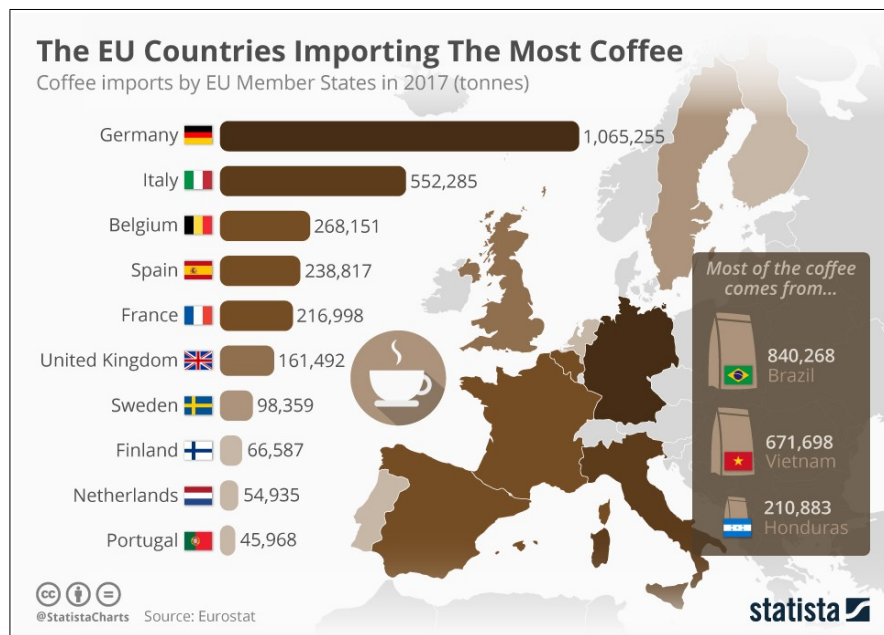


Exhibit 2.5 : EU's major importers in 2017. source: Eurostart

Indeed, in terms of volume across the all European countries, Italy is the second largest coffee importer after Germany and France, meanwhile in a global scale is the third largest importer after USA and Germany.

In 2000 only, the total amount of coffee imports reached almost the 6 million bags and since then, the imports have increasingly grown reaching the 10 million bags in 2017 (one bag is the equivalent of 60 kg).

During the time, the consumption per capita has grown, so that in 1940 it was stated as the equivalent of under 1 kg every year, reaching the 2 kg in 1960 and became steady at almost 4 kg between the 1980 and 1990 (Daviron, 2005).

About two-thirds of the coffee consumption in terms of volume ends up taking place in the household, mostly in form of roast and ground blends made ready for the moka.

As the previous exhibit shows, every coffee form has undergone an increasing growth, which started in 2000, when Italy largely imported green coffee, until 2016 where this value achieved the 90% of the total imports.

Indeed, the market is very mature and the demand always gets to a considerable level, making intense competition between firms: the local market is seriously concerned about the national advertising, price competition and shelf space of national brands, which

mostly have found the key to successful sales.

6 077 961	72 482	256 479	2 744	128 936	6 055
6 039 664	99 060	240 215	3 940	137 008	7 314
6 382 094	115 854	281 308	5 762	142 358	5 881
6 457 506	120 661	284 892	6 168	159 182	7 121
6 665 051	137 959	294 288	6 695	159 954	9 330
6 935 479	122 776	285 264	10 015	180 871	11 684
7 402 573	129 001	284 924	8 722	195 581	14 001
7 474 879	132 829	332 595	13 919	209 804	16 157
7 481 743	134 631	245 963	12 491	190 703	23 028
7 686 257	143 610	211 671	16 067	171 217	26 513
7 754 512	141 061	236 869	20 516	189 689	27 361
8 074 969	212 606	186 255	27 864	163 361	27 583
8 255 170	172 689	196 540	20 218	164 527	30 930
8 782 481	131 915	222 018	22 312	174 457	33 323
8 798 229	92 412	239 425	23 314	159 217	31 238

Exhibit 2.6 : *Italian coffee imports by form*. Source: Comitato Italiano del Caffè / ISTAT

### 2.4.1 – ITC coffee categories

Given the foreign native origins of coffee, Italian coffee is obviously not Italian for what concerns the raw materials, but there are two main types of beans, which respectively come from the African continent: Arabica and Robusta.

Arabica is originated from the Ethiopia and is commonly considered to be the best quality: its beans are distinguished by the green copper and for marking a coffee which has a rich aroma and flavour.

Rubusta is originated from Congo and although its quality is considered a little lower in rank than Arabica, is less expensive to produce and particularly resistant to disease, so that in little time has become even more preferred than the first type.

The coffee blends which are promoted and commercialized by the famous brands or coffee roasters are always the result of secret selections of different types of coffee, often Rubusta and Arabica together or only one of them. Despite the coffee blends are always secret, the respective percentages used are always quoted, but never clearly mention the variety of one or another, which is very important.

The ITC, which stands for the International Trade Center, has declared that the coffee industry is established according to the quality of the beans and evaluated by the coffee consumers experience. Throughout the qualitative research, the ITC has been able to identify three main classes:

1. a main-stream quality: is definitely a medium-low one, which may be found by a consumer in some instant or roasted coffee.
2. a premium-quality: reflects products that have a medium-high quality that most of the times are commercialised by multinational such as Starbucks or Costa Cafè.
3. exemplary quality: the best quality product within coffee market. In this case, coffee turns into something perceived as something related to the world of luxury. There is an accurate research for the best type of beans, roasted in certain way that may guarantee a high level taste and final product.

Despite quality is always subjected to the cultural context and the market that may perceive the product differently, it is not surprising that when talking about quality, Italian companies and brands always reclaim ground.

For instance the Italian Espresso National Institute or INEI is an organization set up specifically to protect the Italian coffee quality. The organization's chairman Zecchini has also declared the international coffee chains, that are widely reaching popularity, often call Italian Espresso the coffee that they serve to their clients, and this is quite impossible, due to the fact that behind the Espresso there is a traditional and unique culture.

The organization has also organized courses offering certificates to those that want to learn how to do the true Italian coffee, respecting its taste, classification and brewing. On the other side, most Italian cafès do not charge more than one euro per cup of coffee, and sometimes it may be wrongly related to an eventual low quality of the product or the lack of option to purchase more high quality.

The ITC has not only investigated quality, but also the existence of four categories of coffee:

1. Instant coffee: enable people to quickly prepare hot coffee by adding water to the

powder. The spread of preparation, lower shipping weight and volume than beans or ground coffee, long shelf life. It is commercialized worldwide (80% of coffee global consumers drink soluble coffee).

2. Ready-to-drink coffee: best-known as cans with extracted or concentrated coffee to be consumed cold or purchasable for the nearest shop or vending machine. The coffee content in these cans varies, but it is often covered with other flavours. Given the great success of this product in different markets, it has become a serious opportunities to exploit to many Italian firms.
3. Roasted coffee: is the type of coffee that rules in the Italian market and that Italians recognize and are accustomed to. It is the ideal one for preparing espresso or mocha. The main quality of this category is persistence, that is, the ability of coffee to maintain its taste even after years of roasting. In addition to this natural characteristic of roasted coffee, through increasingly high-performance packaging that maintains the aroma and taste over time for longer.
4. Decaffeinated coffee: the production process of this particular type of coffee is applicable, both to roasted and soluble ones. The caffeine is extracted from blend.

#### **2.4.2 – Statistics**

In terms of consumption, the space occupied by instant coffee and ready-to drink coffee is quite little in Italy, especially if compared to the powerful roasted coffee.

Indeed, the data have reported that (Alberti et al., 2008):

- the 83.7% of Italian consumers prefer ground coffee
- the 8% of Italian consumers purchase pods and capsules
- the 7% of Italian consumers prefer the instant coffee
- the 70% of Italian consumers

Almost the 70% of Italian consumers drink the Espresso, the 80% of coffee consumption happens at home, but approximately the 74% of consumers also drink coffee out of home.

Overall, coffee bars stands for the preferred places for the out of home consumption for the 70% of customers, followed by offices and workplaces which stands for the 40%. In spite of international coffee chains which are reclaiming ground, the traditional Italian coffee houses still make the majority of the market share.

The Italian coffee market is also experiencing an increasing evolution such as the introduction of the single-serving pod: these machines use pre-packaged coffee like pods and capsules.

Due to its unexpected popularity, single-serving coffee has revolutionised the perception of its Italian consumers, pushing also more and more national firms to keep up with the new trend. This single-coffee system was first pioneered by Illycaffè in the 90s, but today is marketed by many other brands as well.

Among the recent introductions, in 2016 Lavazza has entered the instant coffee market launching its new *Prontissimo* which stands for a high-quality instant coffee, reinventing an international trend with Italian characteristics.

The large multinationals and international coffee chains are also the antagonistic of specialised coffee shops and specialty-coffee location. Of course, they mainly belong to a niche market, with a very tiny consumers which are interested in tasting the best quality of special origins (for instance, Nero Scuro or Pierre Caffè are all examples of specialty-coffee roasters).

In addition to the high level of consumption, the Italian coffee market is also relevant in its roasting and exportation activities: indeed, the coffee production stands for about 300 thousands tons per year, counting an industrial turnover of almost 3 billions of euros, of which the majority is addressed to the export activities (Alberti et al., 2008).

Several countries around the world truly appreciate the Italian brands and the Espresso blends which are very famous worldwide, so that Italy is also an important supplier of roasted coffee.

Like the majority of the Italian industrial sectors, coffee is also subjected to the local system of small-medium enterprises: it is made up of 700 producing companies which account for almost 8.000 employees, that are the mean responsible for an annual turnover of almost 3 billions of euros (Comitato Italiano Caffè, 2014).

Several of these companies run their businesses through a district placed in Trieste, that has always been an important commercial point in the coffee history as its harbour releases the 30% of the overall Italian exporting activities.

Among the several companies, for the majority all family owned and based, there are four major players that hold the market share:

- Lavazza: represents the Italian coffee company whose products are mainly used domestically, holding the 40% of the Italian coffee market.
- Segafredo Zanetti is the Italian brands which is mainly recognized abroad so that this company almost gain more revenues in the foreign markets rather than at home. Indeed, in the local market Zanetti represents the 6% of the market share, with a prevalent position in the retail sector.
- Illycaffè is the Italian roasting company which is highly appreciated for the high quality coffee. The company holds the 3% of the market share and is the most differentiated among Italian companies, the one that promotes its coffee through its dedication to high quality production (Biotto et al. , 2012).
- Kimbo, is the second biggest company that gains more and more market share, despite it was set up relatively late in 1963. Due to its Neapolitan origin, it has made the southern regions as the main customers of the brand.

The 90% of the coffee imported by those companies comes from Brazil, India, Indonesia, Uganda or India. Indeed, while in the northern regions consumers mainly prefer the Arabica solution, in the southern regions, where a bitter taste is more appreciated, Robusta is the preferred blend (Nora, 2013).

### **2.4.3 – Distribution channels**

The performance of these Italian coffee companies in the distribution channels, at home and for what concerns the outside production, is not equally distributed.

Within the supermarkets, Lavazza, Illy, Kimbo and Segafredo Zanetti represent the major

brands placed on the shelves, capturing almost the 75% of the retailing sector. Meanwhile, they also constitute the 25% of the HO.RE.CA channels, showing how much the market is fragmented (Lavazza, 2015).

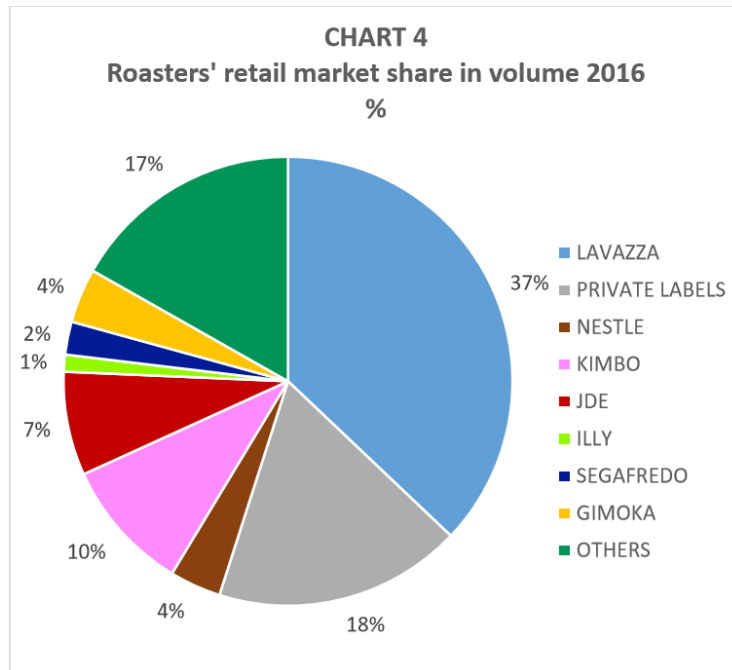


Exhibit 2.7 – Roasters' retail market share in 2016. Source: Nielsen data

Generally, the Italian coffee market may be fragmented into three main marketing channels, according to the difference in terms of purchasing and consumption:

- the retail channels (supermarkets or hypermarkets): are the marketing channels referring to the domestic consumption. The distribution is mainly entrusted to supermarkets and hypermarkets and only after the following independent groceries or discount stores. The high preference for supermarkets is surely related to the wide range of products available at competitive prices. Also the e-commerce channels are gaining success among consumers, especially for the coffee capsules and pod that may arrive comfortably direct at home.
- HO.RE.CA (hotel, restaurant and catering): represent one of the channels belonging to the out of home consumption. It is made of the 53% of hotels and restaurants, 46% of coffee bars and 1% of catering. According to the competitive



data, the amount of roasted coffee in terms of volume that has been provided by HO.RE.CA stores and locations in 2015 is about 5 million kg, which means almost 6 billions of cups of coffee every year. According to the Coffitalia report, the annual turnover almost reached the 6 billions of euros.

- Vending machines and OCS (office coffee systems): also belonging to the outside consumption system.

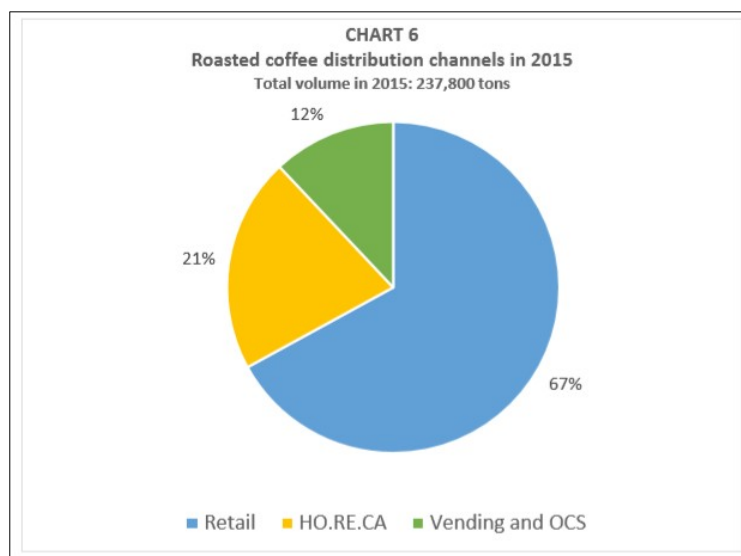


Exhibit 2.8 – *Roasted coffee distribution in 2015*. Source: Nielsen data

The HO.RE.CA sector is commonly associated with its coffee prices, that are justified by a high service level which is offered to the customers. This service embodies frequently visits to customers by roasters to be sure of the quality of products, the training, the sales assistance and the technical assistance, both regularly provided.

Roasters are especially concentrated on the after sale service to HO.RE.CA, so that always provide the making equipment through a loan, as part of the total service package. It has recently become a standard practice for roasters: maintaining and repairing the equipment. This is mainly because they know that the quality of a coffee does not only depend on the quality selection itself, but also on the maintenance of the equipment. However, the majority of them are increasingly preparing more and more new diversified blends to satisfy the current customers demand.

As far as Vending and OCS concerns, there are two major types of hot drink machines which are both very popular:

- Free-standing machines: they are mostly very large and self-standing. In Italy they have been accounted for almost 220.000.
- Tabletop machines: they are located to any supporting surface. In Italy they have been accounted for almost 140.000 ( *Coffitalia* report).

#### **2.4.4 - Foreign competitors**

Although the fact that the majority of local companies are domestic firms, the Italian coffee market is rather competitive and provide also some foreign competitors, even if in a tiny number.

This limited presence has been justified by two main factors which are strictly related to the political and the economical system of our country: the Made in Italy label and the government protectionism.

Given that the economic system in Italy is ruled by the SMEs which do not have the competencies nor the economical resources to compete with the foreign larger Multinational, there is also a factor which has not to be underestimated: they represent also the heritage of the Italian cultural tradition, which is expressed in the Made in Italy label of their products. Government is also bailing them out and the entry barriers costs are particularly high, so that, as a consequence, only few foreign companies are able to compete in the Made in Italy markets (Becattini, 1989).

As already emphasized in the previous paragraphs, Italians are consumers which mainly look for high quality, and, especially concerning coffee they do not tolerate any kind of mistake or adjustment, that could damage the value of the product.

Due to these reasons, the majority of Italian consumers perceive the domestic coffee as high-quality coffee if compared to the coffee offerings in the foreign countries, or in other words, the foreign brands may suffer from a negative COO effect.

Generally speaking, the COO or “country of origin effect” refers to the idea that the country of the origin of a certain product, where this product have been manufactured,

designed or assembled or a brand with which is associated, may affect the consumer behaviour (Rezvani, 2012).

In order to avoid a negative COO effect perceived by the Italian consumers, whose majority judge the non-Italian offerings as lower, the foreign companies have implemented two strategies which have revealed both successful. Firstly, entering the market as first players or with a joint venture.

Secondly, being first movers in two underrated coffee sectors: pod capsules and decaffeinated products.

Indeed, they end up being particularly appreciated within the Italian market, which is not so surprising if we think that are two biggest coffee multinational operating worldwide: Nestlé and Mondelez International.

- Nestlé: is already recognized as a global leader in the food and beverage sector, reaching 9 billion of euros of sales revenues, to which the coffee products have contributed for more than the 10% (Nestlé, 2014). The Swiss company has been able to be appreciated by Italians, becoming also an important presence in the market. They have mainly operated through subsidiaries and have gained success with the launching of two main products that today are sold in the whole Italian market: Nescafé, which is the company instant coffee, and Nespresso, which is the company's capsule coffee. Although for Nescafé has been more difficult to emerge, due to the low popularity of the soluble coffee among the Italian public, Nespresso is actually very successful. The reason lies in the surprise that Nestlé has aroused in the consumers, offering an innovative product which is very simple to use, but at the same time, preserves the quality and taste of the flavours. Indeed, Nespresso has been the symbol of the previous mentioned evolution of the Italian market, which is currently opening to many innovations. Today, almost 1,4 million of Italian families purchase capsules (a number that is increasing year after year), and this has pushed the company to put always more attention on new practical and compact machines, which are appreciated for the quick service of preparing an espresso in few seconds.

This system was designed in the 1970s for the first time, pioneering two main

revolutions at that time: the first was putting coffee into capsules that have been inserted into specifically designed machines and the second was the offering of a wide range of tailored made services which was enriched by the choice of different tastes and flavours. Nespresso, only 40 years later, has become a global product, which only in Italy holds the 30% of the market share (Slywotzky, 2011).

- Mondelez International, which is previously known as Kraft, is the second main foreign competitors within the Italian market. Following the example of the Nestlè experience, it has entered the Italian market in 1920 gaining success especially thanks to its television spots, which were very popular at that time.

The strategy implemented by this company has been focused on the launching of decaffeinated coffee branded Hag in the food and beverage sector.

Today, decaffeinated Hug products and the Nespresso's coffee capsules represent respectively the 7% and 3% of the coffee market and it is surprising that when it comes to coffee capsules or decaffeinated coffee, the majority of Italians soon think about the foreign brands (Scarci, 2014).

Also some local companies, such as Illy and Lavazza, have decided to extend their production in the capsules and decaffeinated market, that are becoming more and more market trends, especially due to healthy features. In addition, the local companies are pointing out also to the introduction of these products within the niche markets, where they hope that competitors, as not representing the Made in Italy, would find more difficulty to gain popularity.

Nestlè and Mondelez International have been recently reached also by Starbucks company, which has made its first appearance in Milan with the high-end Starbucks Reserve Roastery.

Starbucks strategy has been quite different: primarily the company has established a partnership with the Percassi group, which is an Italian brand management and real estate organization, being appointed by the American multinational to help in the understanding of the local market. In this way, Starbucks has tried to make level with the local economy and local consumers: for example offering locally roasted small lot of Arabica beans or in the distinction of the outlet which is not designed as the others. In fact, this Italian store

has been idealised in conscientious details, adorned with marble and hand chiseled Palladian floor.

Whether all of this will be enough to capture the Italian market remains to be seen.

## **2.5 – International competitiveness of Italian coffee**

In the international business study, a relevant question concerns the determinants of failure or success of Italian companies in international markets: this relates directly to the theme of the international competitiveness of companies, which is particularly critical especially with reference to SMEs, as they are the main productive structure of the Italian economy.

Many of them are even micro-enterprises of artisan origin which operate in mature sectors, which often represent for them a challenge for an evolution in international markets that become a threat: this is the case of Italian roasting companies.

Roasted coffee is one of the main products representing the Made In Italy label, such as other typical Italian food products, and it has turned from a local drink into a global drink. Indeed, after water, tea and carbonated drinks, it is the most consumed beverage in the world (Euromonitor, 2014).

Especially thanks to the Starbucks, which has revolutionised the coffee and the espresso worldwide, coffee has become almost an ethnic product, whose consumption always delimited within the Italian communities throughout the world has turned into a global and fashion product, with highly experiential connotations.

Thus, a significant expansion phase has been opened and Italian roasters seem to struggle to seize the opportunity. This constitutes an obvious paradox: the Italian companies, which are universally recognized as the depositaries of coffee know-how, are not the ones that are mainly exploiting the expansion of coffee demand at international level, moreover the country of origin effect of the product, which have always played in favour of Italian coffee roasters has lightly diminished in the recent years.

### 2.5.1 – A global coffee perspective

As shown in the following exhibit, the global coffee consumption, measured in terms of bags (1 bag stands for 60kg) has significantly grown in the recent years, from 109,5 thousand bags to 149 thousand bags for an increase of 36%.

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
109.5	111.1	113.7	119.7	120.5	124.6	129.6	132.7	132.2	136.9	139	143.1	147.4	149.1

Exhibit 2.9 – *global coffee consumption*. Source:ICO Monthly Coffee Market Report

This increase has not been homogeneous in all the areas of the world: indeed, new coffee markets are emerging in developing countries, such as in the case of Asia and South-America, while in traditionally coffee-consuming countries the market has now reached the stage of maturity, such as in the case of European and USA countries.

The demand is rather static, but the geography of coffee consumption is changing substantially, recording a great contribution from Asian countries.

In more mature markets there is an increase in quality expectations and in the demand for varieties of espresso coffee drinks by consumers: demand is moving from a low value product to a high value product, creating market niches, which may be extremely profitable for Italian businesses. Accordingly with this trend, there is also an increase in the demand for high quality coffee, with a defined history and origin, also known as “specialty coffee”. Moreover, the ability of foreign consumers to evaluate the quality of coffee has also significantly improved. In other words, we are witnessing an evolution of the coffee product from a commodity beverage to an experiential one, with a strong sensorial and cultural value.

Coffee has now taken according to a dual connotation: on one hand, it may be considered an hedonic drink when its consumption is linked to the multi-sensorial experience, and on the other hand as a utilitarian product, when its consumption is linked to the utility it may makes as stimulation (Labbe, 2015).

In fact, in several foreign countries espresso, or its coffee based drinks, is considered as a

luxury item, so much that it is sold at significantly higher prices rather than in Italy. Especially in the emerging markets of Asia, coffee is one of the symbols of the Western lifestyle and drinking a coffee in a coffee shop represents a status like owning a luxury item or belonging to a certain social class. Indeed, having a cup of coffee in one of the several Starbucks stores is a vehicle for proving someone's status and a form of self-expression. The success gained by Starbucks has deeply triggered an imitative process, which resulted in the multiplication of chains and chain stores all over the world, such as Costa Coffee or Caffè Nero. In addition to influencing consumption patterns, the diffusion of chains also has substantially changed the structure of the international demand for Italian companies, which have always accustomed to deal with an extremely fragmented HO.RE.CA sector.

The expectations and the purchasing behaviour of the typical Italian consumer at the bar is profoundly different from those of a chain of coffee shops, especially for what concerns the purchasing procedures, the products and services (Giuli et al., 2014).

A coffee chain represents a market segment with a high degree of attractiveness, as each of them may guarantee high purchase volumes. In addition, the presence of its product in the premises of a chain, whose brand enjoys a high reputation, also contributes to strengthen its brand, which is often associated with the image and reputation of the local brand.

However, it is equally true that if a roasting activity does not care about the destiny of the product and its brand, it becomes particularly vulnerable, effectively linking its international performance to the chain's decisions.

From the previous considerations, it is necessary to analyse the competitive situation of Italian companies in the global market and understand their determinants. More specifically, it is relevant to identify which are the factors underlying the current economic competitive performance of Italian coffee roasters abroad, also in order to trace some possible guidelines for the future strategies.

### **2.5.2 – The international performance of Italian coffee companies**

As already pointed out, the Italian coffee firms have been described as “victims” of a

paradox: despite they have been the first movers in the development of coffee-related skills, they lately have not been able to take advantage of this benefit at international level, exploiting and stimulating the expansion of foreign demand. Often this paradox is defined also as the loss of competitiveness of the Italian enterprises.

Many of these companies started the export activities between the end of the 1980s and the beginning of the 2000s, primarily stimulated by the onset of maturity of the Italian market, already saturated and marked by intense competitiveness.

The choices have been different: some of them have chosen to operate in all three business areas of coffee market, i.e HO.RE.CA, retail and vending/serving, and others only focused all the strategies in the HO.RE.CA sector , which in any case is the gateway to foreign markets. In other words, the strategy has always been: firstly penetrate the domestic consumption, and, only after gaining some notoriety, try to penetrate the retail sector which leads to the domestic consumption.

Due to the SME systems, the majority of these companies are small-medium sized enterprises, as the majority of company in the sector. Among the approximately 700 Italian coffee roasters, only three of them may be defined as large companies according to the criteria of the EU, and are: Lavazza, Illy and Segafredo Zanetti (Coffitalia, 2015).

The main destination area for the products is the Western Europe and North America, and also after the advent of emerging countries, Middle East and Asia, which stands for the major markets.

The territorial expansion of these companies have followed a gradual process: they firstly focused their resources on the development of the domestic market, and after appeared on the foreign ones. Their presence abroad was, at the beginning, sporadic (mainly stimulated by foreign customers' orders) and subsequently in a more organized and aware way. We may argue that the majority of them have reached the export stage in their internationalization process, but no one of them came through direct investments, even if the level of commitment increased.

Thus, the export activities through importers/distributors of food products or specialized in the coffee sector, is the prevailing entry strategy among roasting companies. These economic entities lately place the product on the foreign market through its own network of distributors or directly. Often, they are granted exclusivity for the sale of the product in



a certain geographical area, in order to increase the ability to influence their decisions and behaviours, and as a consequence, recover part of the control on the foreign market at marketing level.

However, no one of them has set up a foreign production site: as they are small and medium sized roasters, there are several difficulties from an economic and organizational point of view for the construction of a production site. Furthermore, also the role of the country of origin effect should not to be underestimated.

In fact, coffee is one of the product belonging to the Made in Italy, characterized by a strong cultural value and whose prestige is expressed by imposing typically Italian terms related to the product and its process. The fear of negatively influencing the perception of foreign consumers about the Italianness of a product has discourages investment abroad (De Luca et al.,2013).

Product quality is the main competitive factor on which the Italian companies rely which the Italian companies: they always start from the assumption that the qualitative characteristics of the Italian coffee are the best at an international level, and capable of satisfying the requests of foreign customers.

As already reported, all of these companies are family business, which have a long tradition and have accumulated significant know-how in the mixing, roasting and packaging of the product over time.

The belief in creating high quality products, which may satisfy all tastes, induces companies to offer the same products abroad, created and sold in the Italian market.

Thus, Italian companies do not develop ad hoc blends, offerings customized according to foreign customers or any kind of product adaption, excepting to meet specific regulations regarding packaging.

The Italian companies enter the foreign markets with the same products sold in the Italian one, with little or nor adaption, following a strongly ethnocentric approach. Nevertheless, the evolution of coffee demand globally, has led these firms to study its new consumers, investigating their preferences and customs requiring a greater oversight of foreign markets, and the opening of operating units or agreements with foreign partners.

In this way, they may cover part of that control which have lost, and also to activate a learning process on the characteristics of the foreign market, which is useful to deepen

their knowledge and increase their familiarity with it (Bertoli et al, 2013).

The long tradition of Espresso and the high technical expertise on the product of Italian companies if, on one hand constitute a differentiating element compared to foreign competitors, on the other, have discouraged renewal and innovation.

Italian roasters have always based their competitiveness on the product, presenting themselves as the international competitive scenario as the main holders of the “knowledge” about coffee, often convinced that coffee is, and will always be, a prerogative of Italian companies. Actually, this no longer reflects the reality, and for this reason several companies have slowly moved away from some of these rigid conventions. Indeed, the international scenario in which Italian companies are moving has undergone a significant evolution in the recent years, introducing significant element of dynamism.

### **2.5.3 – Strengths and weaknesses of Italian coffee players abroad**

In the light of the evidence that a significant part of Italian roasting companies, even those of medium/small size, is projected on the international market with significant values in terms of exporting activities, it is appropriate to underline which are, or have been, the obstacles and the points of strengths of their experiences.

According to Coffitalia (2019), the major Italian players within the international coffee sector, which have collected different kind of experiences and reached different degree of international competitiveness, are:

1. Lavazza: today the company boasts a brand known all over the world, grown thanks to important partnerships, perfectly consistent with the brand's internationalization strategy.
2. Illycaffè: based in Trieste, the company is famous worldwide for its blends of coffee exclusively made up of nine types of pure Arabica. It is a leading brand in the high quality coffee segment and in 2018 the company has recorded a turnover of almost 500 million euros, of which 65% abroad.
3. Kimbo: has reached a certain notoriety abroad, where it has recorded the 20% of

its total turnover, with a presence in around 80 countries worldwide and with a strong presence in the French market, where Kimbo is distributed over thousands of bars and cafes.

4. Segafredo Zanetti: the Massimo Zanetti Beverage group owns an articulated network of over 600 coffee shops around the world with various brands (Segafredo Zanetti, Puccino's UK, Chock Full, Nuts USA).
5. Caffitaly system: it is definitely one the main important players abroad, since this company boasts an internationally patented and combined system of machines and capsules distribution in over 70 countries worldwide. It operates through three production plants in Bologna, Milan and Bergamo and the foreign turnover is largely predominant at the 80% compared to the Italian one.

Since that the Italian market is characterized by a saturated demand, by the stability of consumption and fragmented offerings, foreign markets have represented a huge strategic commercial solution which is also functional to a corporate growth strategy. The evolution, which is taking place in the international context with the affirmation of new competitors and the diffusion of coffee even in countries traditionally far from the beverage, provides new opportunities and challenges at the same time for the Italian companies.

When talking about the coffee sector in Italy, we must to take into account that our country is mainly a roaster force, and indeed, it occupies the third place in Europe for the export of roasted coffee, and the fourth in the global coffee market behind Germany, USA and Belgium. For the major Italian players mentioned above, the roasting activity and the sale of coffee represent the core business of their model, although within these companies also different competitive strategies may be found, depending on the company's history, mission, resources, competencies and so on.

Examining the dimensional distribution of enterprises within the Italian of coffee sector, the data reveals that: the 46% of coffee enterprises are SMEs, the 31% micro-enterprises, the 16% medium and only the 7% are large enterprises (Giuli et al,2012).

Indeed, the internationalization of several Italian coffee companies is quite difficult, due to their dimensions. As already pointed out, the integration of the developing countries

into the world economy, the technological revolution in the field of the information technology and communications, the globalization of the markets have all consumed the competitive position of the smaller companies. SMEs, which represents the majority of the roasting companies in Italy are too small to take full advantage of the opportunities offered by the globalization process and too lacking of human resources to benefit from new technologies.

Analysing the experiences made by companies in the foreign markets, it is clear the internationalization strategies between smaller and larger companies. Lavazza and Illy, on one hand, and the rest of coffee roasters on the other, in terms of resources destined for the development of foreign markets, organizational methods and marketing policies pursued.

However, according to the analysis carried out about the previous coffee companies experiences abroad, it has been possible to highlight some points of strengths and weakness:

1. Points of strengths:

- COO effect of Italian coffee → coffee is recognized as a symbol of the Made in Italy quality and excellence, which is famous worldwide, and also demonstrated by the fact that the Made in Italy brand is protected by the Italian law, and that, according to a research carried out by KPMG, is the second best known brand in the world after Coca-cola (Orrù, 1991). The Made in Italy label is no more a label only indicating the origin of the product, but due to the reputation of the Italian products within several industrial sectors, it has evolved in representing the prestige of Italian products abroad. Foreign consumers usually have a good perception about Italian coffee, that mainly rely on its positive COO effect aroused within the foreign markets. The COO image of Italian coffee is able to create ideas of quality and tradition in the consumer's mind, that relates them to prestigious products and great inherited skills.
- Focus on product quality → this aspect is mainly linked to the fact that the majority of these companies is family based. This means that are the heritage of a long tradition of coffee activities, which stands for their value. The traditional techniques, the company ethics and

core values, which has always paid much attention on the quality product and the business values, have been transferred for generations. Today, these Italian companies are still involved in these kind of activities, and although some of them do not have larger dimensions typical of MNCs such as Starbucks, they sell their coffee abroad, which is appreciated and recognized for their prestige and uniqueness.

- Organizational flexibility → is also derives from the reduced company sizes.
- Care for the development of relationships with foreign importers and distributors.

## 2. Points of weakness:

- Difficulty in collecting and managing informations on foreign markets → this difficulty also turns into the lack of marketing research to support the choice of markets in which operate.
- Prevalence of indirect exporting activities through importers and distributors, as a strategy for entering the foreign markets.
- Scarce usage of more demanding entry modes, which would guarantee greater oversight of the foreign market.
- Little or no adaption of products sold to foreign consumers if compared to those sold in the domestic market → as already pointed out, the majority of Italian roasting companies abroad mainly rely on the quality of product, which is used as the most powerful instrument of competitiveness. The problem is that these companies sometimes rely on this concept of quality, which has been stated according to the company standards, without any kind of regard for the perception of the foreign consumers.
- Poor marketing communication on foreign markets
- undersized organizational structures.

Given this analysis, Italian coffee companies need to carefully craft their strategies and growth expectations, since that they, despite have crossed national borders to bring their brands abroad, have to compete with global giants.

However, Italian espresso is little by little conquering the world: exports of roasted coffee

have doubled in the last ten years and only in Italy there are more than 800 roasters operating for a total production of billion of euros, which mainly depends on exports. Beyond the weaknesses, it is clear that Italian coffee roasters will always have large space in the global coffee sector.

## CHAPTER III

### COFFEE IN THE TEAPOT: THE CULTURAL COMPARISON

#### 3.1. - Tea and coffee: two different traditions

The first comparison which is certainly spontaneous to make is the one about the product and especially the role that the product has played, as a symbol of a cultural tradition.

If Italy is still today symbolized by the Italian espresso, which is recognized worldwide as the symbol of our country that has protected and preserved its importance, China definitely claims the same primacy for tea and the role that it still today plays in the Chinese culture.

Despite globalization has made possible the encounter of consumers all over the world with products all over the world, the cultural integration is much more difficult.

The arrival of coffee in China had certainly dealt with the tradition of beverage deeply rooted in the habits and history of Chinese consumers, who despite welcoming coffee, it is difficult they could prefer it above the traditional consumption of every kind of tea.

The introduction of a product such as coffee, so rich in history and so far from local habits, represents the real cultural clash, fomented above all especially by the generation of younger Chinese people, who in the era of modernity are constantly in the middle of tradition and innovation.

Of course, tea and coffee do not only concern two different cultural traditions, but also represent two different markets and two different sector of great importance.

Each of the company operating in one sector or the other, still today has to deal with the cultural tradition of both beverages in order to market their offerings properly.

Above all, China and Italy represent the countries which perfectly embody not only two different traditions, but especially two different markets.

Italian coffee companies which would like to approach the Chinese market, or which have already, cannot underestimate the importance that tea has had for Chinese culture for more than thousand of years.

### 3.1.1 – the importance of tea in the Chinese culture

Before talking of the arrival of coffee in China, and how this beverage so far from the locals' culture is perceived, it is certainly important to comprehend the role of tea within the Chinese culture and why it is considered almost impossible that one day coffee may replace it.

Coffee has been a rather recent introduction in China if compared to coffee, whose story dates back more than 3.000 years ago, when during the time of the Zhou dynasty the first tea plants and the practice of drinking their infusions were discovered.

Subsequently, tea cultivation expanded under the Tang dynasty (XII century), which inaugurated a period rich in commercial and cultural exchanges, so that among the central provinces of China at that time, drinking tea became more and more fashionable. This trend has gradually reached the other Asian countries, such as Japan and Korea, e its production increased at such scale that during the first half of the XVII century, Chinese tea was spread throughout the world (Hinsch, 2016).

From a cultural point of view, tea has always been celebrated in the Confucian school and the Toaist one as well, since that the Confucianism created the tea rituals and Taoism introduced the arts in it.

Of course, a strong connection is also present in Buddhism, which strongly encouraged people to drink tea due to its beneficial properties, and the literary tradition, since tea has been the source of inspiration for several Chinese people.

Particularly, these poems are considered rather important because they present the collection, treatment, characteristics of tea and even its influence on human spiritual and material life.

The diffusion of tea, as a subject of studies, reached such scale that later involved also the ballad and songs, originated from farmer's popular songs, theatre and dance.

Also from social perspective, the beverage occupied a fundamental role: Chinese has always given much importance to courtesy, especially when receiving visits from other someone. Offering a cup of tea to welcome visitors, still today, represents a traditional rite, and letting someone go without having offered one is considered deeply offensive.



Tea also represents a moment of sharing, since it symbolizes a moment to offer one's friendship, to express one's personal feelings or even express one's apologies and show one's respect. Indeed, the Chinese tradition requires that during feeling meetings, the importance of that moment is celebrated by drinking a cup of tea, and that the youngest members serve it to elder ones, meanwhile during a wedding's celebration the bride and groom kneel down in front of their parents, offering them some tea as a symbol of gathering between two families (Hinsch, 2016).

If Italian people has always paid great attention to the preparation of coffee, knowing the tools and methods of using a moka, for Chinese people too preparing tea is an accurate and diversified process (depending on the leaves, the processing, the typology) and the tea service has a long history, also linked to the development of pottery: indeed, a good teapot well reflected the tastes, the fashion and the culture of the time.

The social custom of this beverage acquired such important meaning to China, that the country itself codified a real and true art, which fixed its preparation's principles, and that, still today, is celebrate and implemented by Chinese.

The traditional tea houses, where people belonging to upper classes gathered to spend moments of leisure while sipping the infusions, were born just after the tea-tasting, whose practice has always been synonymous with personal morality and superior education. Nowadays, Chinese attend teahouses because they are place where socialize and meet friends, but throughout the history they were the environment where political alliances were created, such as the development of coffee house in Europe.

Furthermore, until the VI century tea was also used as a medical practice, so that the exaltation of its properties and benefits still lasts today: indeed, tea is commonly drunk by Chinese people as a healthy drink capable of soothing or preventing ailments and diseases (the healthy benefits of tea are in fact documented in several books regarding the traditional Chinese medicine, such as the *Nei Jing Su Wen* or *Treatise about Inner Medicine*).

In modern China residents within every house, even the most humble one, have a tea making set and tools to make tea, something that represents a very strong cultural custom. Indeed, tea has had a huge influence on the development of Chinese culture, being associated with art, literature, ideologies and philosophy and according to the Chinese

people it is one of the seven necessities of the life, along with the rice, salt, soy sauce, vinegar and firewood (Huang et al, 2000).

Due to such reasons, the introduction of a beverage such as coffee, unknown to the majority of Chinese population, has been truly risky. The cult of tea, its tradition and bond to Chinese culture makes very difficult to think that coffee, or any other beverage as well, may easily take over and compete with it, conquering the preference of Chinese consumers.

### **3.1.2 – The arrival of coffee in China**

The story of coffee in China begins much later than the European, especially considering that Chinese culture has always been famous worldwide for its tea consumption.

As a predominantly tea-drinking country, a coffee culture has never existed in China and actually, it is very difficult still today aim at developing one.

As already pointed out, the habit and the custom of drinking tea has a very long history, beginning with cultivation of the tea leaves, finding its roots at the emperor's court where has always been drunk in the ancient empire and ending up under the eyes of several scholars who made it an object of several studies.

In addition to the main traditional categories – green, black, red, yellow – currently offered to the market, the Chinese tea industry has also developed new individual tea-based beverage that has recently gained a lot of success, such as *bubble tea*, that makes very difficult for other kind of beverage overcome the tea presence.

If compared to tea, coffee represents a recent introduction dating back to the 19<sup>th</sup> century when the European missionaries and merchants firstly brought it in Shanghai, whose port was one of the major point of foreign trade.

In addition, during the 1920s and also later in 1930s, the city of Shanghai was also known as the “Paris of the East”, due to its cosmopolitanism and the presence of the foreign concessions, where the western people have exported part of their habits.

It is not surprising that the first coffee houses appeared right in the Foreign Concessions and these first Chinese bars were mainly attended by Western people, who already knew

the beverage and were accustomed to this kind of environments.

During those time coffee was nothing more than a further sign of the city's international temper, but it gradually has turned into a remedy for foreign people to handle their culinary nostalgia. Thus, local restaurants decided to invest in this new business, introducing coffee in their western menus, enabling the beverage to reach larger Chinese market (Pan, 2010).

At the beginning coffee was a status symbol of the upper classes within the society, who, although were not able to evaluate its lower quality nor its value, only relied on its rarity and exotism to show off themselves. Therefore, it was only in the early 20<sup>th</sup> century that the beverage has slowly come to the general public.

Shanghai begun entering in its golden days, due to its industrial and commercial activities: the constant presence of commercial goods and several services also guaranteed a permanent flow of foreign goods and travellers. Coffee houses became part of these services and spread throughout the city.

The majority of them were run by French or Russian expats, even Jewish refugees, so that the result was an exotic and varied environment: in some cases the owner hired dancers to gladden his customers, in other cases bar was made the perfect place for socialising, until that they become part of the people lifestyle (Pan, 2010).

After the foundation of the Popular Republic of China in 1949, the Communist Party took the power and established a planned economy, which also included the elimination of any kind of symbol of capitalism and Westernism.

As a consequence, all the coffee houses were shut down and only in the 1980, after the death of Mao and the end of the Cultural Revolution, most of them were re-opened.

The revival of the coffee houses in Shanghai was also considered the symbol of the re-birth of the city at global level, especially thanks to the World Expo that was opened in the first of May (Wasserstrom, 2007).

This novelty, which was interrupted for years and years, began a subsequent phase: the proliferation of a multitude of coffee shops, until the 1990, when Starbucks entered the Chinese market. Only after the affirmation of the American multinational, the locals started to appreciate and love coffee.

The Starbucks Reserve Roastery was opened on the famous Nanjing road, which is the

main street in Shanghai, and although today still offers more than 70 different types of tea and coffee drinks, it took more than one year to officially open.

Indeed, the Chinese government has always been very stubborn and serious in compliance with the legal regulations and the bureaucracy.

Despite the cosmopolitanism of Shanghai which has always embraced the foreign business, local authorities have often obstructed these new kind of investments: any type of new business necessarily had to go through screenings and permissions which were very difficult to obtain for outsiders of the system.

The opening of the Starbucks Reserve Roastery was possible only with the help of the Shanghai FDA which approved the “Shanghai open coffee-roasting production license rules”, that was rightly enacted before the MNC's entry (Pan, 2010).

In addition, the presence of Starbucks and the success of the beverage, led the Chinese entrepreneurs to evaluated positively the growing demand for coffee, which was satisfied by the Western coffee shops and chains, and to respond opening a significant number of independent coffee houses and bars.

As a consequence several artisan coffee appeared throughout the city, and although they were born with the need to satisfy the upper-classes, they end up spreading and strengthen the coffee culture, often also in a way which many local consumers disliked and disagree. The majority of these artisan coffee shops often conceal themselves as imported brands, did not provide Chinese menus or local drink options, and all of this only deliberately to educate the Chinese people to appreciate the drink.

These shops have been particularly criticized when they are placed in popular neighbourhoods, where low-income residents or older people looked at them suspiciously, as a symbol covering the local culture.

However Starbucks, and these independent coffee shops as well, ended up spreading in the main streets of Beijing, Shanghai and the bigger cities, and are frequently used to demonstrate the Chinese consumers' growing taste for the western drink and food, underlining the developing demand for coffee.

In the 1988, the Chinese Government with the World Bank and the United Nations jointly set up a program to develop the coffee cultivation in China. This program mainly concerned the Yunnan province, where still today the 98% of the coffee plantation are

located (China Daily, 2017).

In conclusion, whether people wonder if Chinese drink and appreciate coffee, they actually do, but perhaps, they do not drink coffee as much as western people do and without any cultural tradition behind it.

### 3.2 – Two different cultures: Hofstede's comparative model

As far as the comparative analysis concerns, I have chosen to apply the Hofstede's Cultural Dimension Theory to identify the features of two different cultures, the Italian and the Chinese, and how differ their relative perception about coffee.

As already been pointed out, culture is deeply capable of affecting the perception of consumers belonging to different countries about a specific product: relying on the application of Hofstede's dimensions, it is possible to underline how significantly differ China and Italy, but especially how significantly differ the perception of Chinese and Italian consumers about coffee and their relative business strategies.

#### 3.2.1. - the cultural comparison

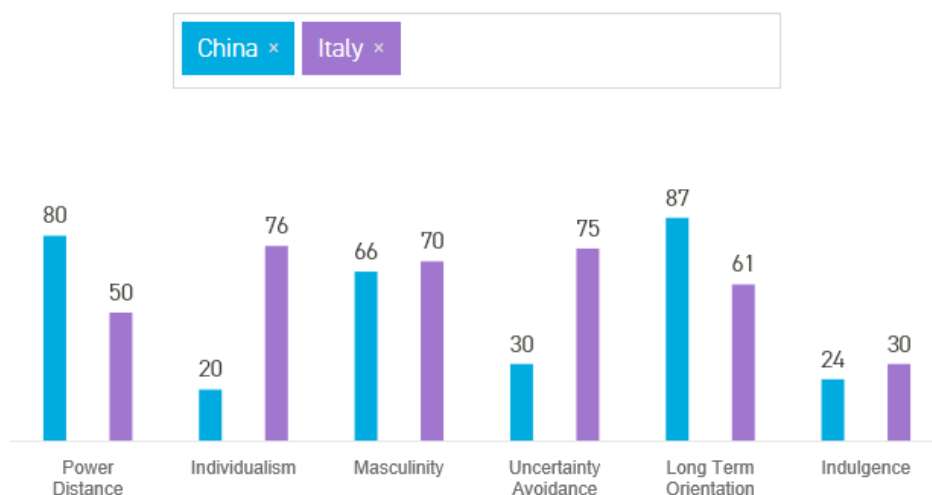


Exhibit 3.1: Hofstede's cultural dimensions. China and Italy. Source: Hofstedeinsights.com

As the previous framework suggests Italian and Chinese scores present significant differences in several cases: the majority of the cultural dimensions show a consistent cultural distance between these two countries.

Among them, I would like to underline particularly three dimensions, which mainly influence the coffee business and the consumers relative behaviour towards it:

1) Individualism vs Collectivism → Italy is an individualist culture (76), in which people are considered as separate individual, although their relationships with the family and institutions. As the other individualist societies, the individual is not evaluated according to its role in the community, but for the achievement of their personal goals. In business life it is showed also by two main elements: the tendency of Italian people to rely on family business which are small and private. This tendency mainly concern all the roasting companies in Italy, that as we have seen all began their activities thanks to this heritage transmitted for generations, which aim at exporting their culture, such as the coffee one, abroad.

In opposition the Chinese culture is definitely collectivist (80). Indeed, the Chinese society is totally marked by its historical events. The Maoist ideology and the supremacy of the Communist party have contributed to the formation of a clearly collectivist society, which gives more predominance to the group rather than the individual. This collective vision is reflected in every aspects of life, from the social to the business aspect, even influencing hiring or promotions. It is not surprising that often family members or people close to their circle, belonging to the in-group receive preferential treatment, meanwhile towards people considered out the of group, Chinese people could be very hostile.

This collectivist tendency push people to mainly concern about someone's own social status and to mainly rely on the “losing face” concept, which inevitably influence the final making decision of consumers. This ends up concerning the product itself, that could convey a social meaning, exactly what happens with coffee, which as a western product is becoming a fashionable trends and a product which allows its customers to show off their social position, modernity and internationalization.

2) Uncertainty avoidance → although is more often thought differently, the Italian culture

shows a high score in uncertainty avoidance (75), which means that people tend to look suspiciously at ambiguity and is not comfortable in dealing with the unknown. This score demonstrates also the need of controlling the external environment, for instance in planning actions with several details. The mix of high masculinity and uncertainty avoidance is able to create very much tension to people, that usually Italians release by relaxing moments or in the feelings' expression that is very vivacious, especially with the use of the body language. Probably, due to the fact that Italian history has been subjected to several political and economical changes, Italians seem to be fear of the unknown. In the business life, this is translated as a desire of minimizing the risks as much as possible, meanwhile from a consumer perspective, it is translated in looking very suspicious what comes from the outside. As already been reported, Italians tend to look very suspiciously the newness, exactly what happens when they deal with the evolution of foreign offerings about coffee, that is strictly considered as a national tradition.

On the other hand, Chinese culture is quite opposite as demonstrates its low score (30). In this dimension, the difference between these two cultures is clearly defined. If the Italian people have reached a high level of uncertainty, which leads them to look suspiciously at ambiguities, the Chinese, on the other hand, have proven to feel very comfortable with the novelty. Chinese people tend to not fear the future nor the unstructured situations, they are more prone towards the acceptance and approval of different opinions, and sometimes always watching the newness with great curiosity. Perhaps, this positive attitude towards the unknown and what is outside may also be linked to the historical past: the closure of the country and its following opening have triggered in many people a great openness and stimulus towards the diversity, that in the past was not tolerated in favour of an overall homogenisation. Since that Chinese consumers nowadays are able to come into contact with a wide range of western product, this is the main reason why, the introduction as an exotic product such as coffee has encountered the welcoming of the majority of the Chinese population: the curiosity and the openness definitely win upon the uncertainty and push the majority of the consumers to deal with coffee based products, taste them and judge them.

Actually, it rightly the low level of uncertainty avoidance which has allowed the rise of coffee in China, firstly as a foreign product, later as a fashionable product and, in the end,

as a product indicating a social status.

Meanwhile this has also provided a certain degree of experimentation and adoption of the product by the several local companies, which has allowed to the Chinese coffee market to beat the Chinese industries and economy, reaching considerable profits and expectations.

3) Long term orientation → As the this index describes the degree to which past is still very influential in the present decisions and social norms within a society, the final score reveals that Italian culture (61) is quite pragmatic and somehow is evolving across time. Although this, it is able to explain the ethnocentric approach of Italian enterprises in China, which are very slightly inclined to make coffee product adjustments or adaption to continue valuing the quality. The Chinese score in this index (87) is definitely even higher, as the Chinese society is also a pragmatic society and use a more pragmatic approach of adapting the past traditions according to the circumstances. Indeed, the Confucianist influences is still very present and influential within the Chinese society in several aspects of the citizens' life, and sometimes is also adopted in the modern education.

The current presence of Confucianism influence not only the business life, as all the foreign companies need to deal with the “guanxi” and social interconnections, but also in the consumer behaviour. The guanxi, the mianzi or “losing face” concept, the custom of gift-giving are all inherited by the Confucian tradition, which has represented a challenge for marketers, and of course for the coffee companies too.

The long term orientation is also observed in the country's ambition to become a driven force in the modern economy, so that the Chinese way of doing business, and also the culture itself as well, are influenced by a long term perspective that is used to accurately evaluate risks and dangers.

The Hofstede's cultural dimension model, given the comparison between China and Italy, clearly shows that the two results in each of the dimension should certainly be turned into a very different behaviour in communicating with one party or another.

In terms of marketing, the implementation of different strategies is a necessary



requirement for success: launching a new product, the presentation of a new brand, the conquest of the consumers' attention, must necessarily stick to the cultural model. In order to market a product like coffee in China, which is a product 'foreign' to the culture, it is required the respect, the analysis and the study of these cultural variables: this allows to understand which one to fear of and which one to exploit to create an advantage.

### **3.3 – The uniqueness of the Chinese consumer**

Chinese culture is one of the oldest and ancient culture in the world, a tradition of thousand of years that today is still unvaried and influential within the society.

Over the time, the millenarian tradition has had to reckon with the influence of the communist ideology and the western thought: both of them have brought significantly changes regarding food, habits, religion, language and style.

These historical changes, the heterogeneous environment and the developing economy is what makes China a unique case of cultural distance.

In this modern era, Chinese people are becoming increasingly consumerists, especially due to the opening of the Chinese market to the rest of the world, and today they are able to find and purchase products that were not so easy to be available in the past, exactly such as coffee.

Italian coffee firms, such as multinational and enterprises from all over the world, have been attracted by the opportunities offered by the Chinese market, as it is one of the most populated country in the world with a population of nearly one billion.

Actually, it is this billion of consumers that represent the huge difficulty, since they make up a varied and complicated market: the majority of the foreign enterprises simply rely on the number of consumers, presenting their products and appealing to the number to conquer the whole market. Of course, they underestimate the local understanding of the culture and the peculiarity of the Chinese society in the consumption.

On one hand, this society is animated by great sense of curiosity and interests toward the Western products, as they have been forbidden in the past history for a long time. On the other hand the same society, although its evolution, is still connected to its past and

cultural roots. Outside the metropolis and the biggest, cosmopolitan cities, there are million of people that do not feel any kind of curiosity for consuming any kind of Western products, but they still live in their traditional and isolated feelings of belonging to a closed country.

The existence of such differences and realities is quite complicated as they live together in the same market, but at the same time it needs to be considered because the society is evolving: old traditions still look at the traditional culture, young generations mainly look at the western influences, people belonging to the rural areas still look at the communist ideology.

The significant number of heterogeneous factors within the Chinese market - such as the differences in economic development among different regions, different infrastructures, different purchasing power, different consumer education – represent the most relevant obstacles for companies that are intentioned to apply a standardization strategy.

The behaviour of several firms is still ethnocentric as they tend to judge the Chinese market as a common one and develop marketing strategies which are not appropriate.

In most cases, the first companies that tried to apply a growth strategy in China, have chosen a market development that was based on selling their current product in the new market. As predictable, this approach was quite unsuccessful as they did not take into consideration that China is a non-acquainted market and the cultural distance that exists.

In order to take into account all the differences, the most appropriate strategy that several firms have already implemented was the diversification: developing a new product made appropriately for the market.

Indeed, the replication of the domestic business model in a market like the Chinese one works only for multinationals that have very strong brands and several resources, and as first movers have capabilities to invest and to face the difficulties and the competitive environment. For MNEs the best approach is to wait the market to become more acquainted and only after, enter the niche market where they can find more sophisticated consumers.

### 3.3.1 – The influence of Confucianism on the consumer behaviour

Still today the Chinese people are strongly influenced in their daily life by their cultural tradition: certainly this also concerns the purchase of a product, so that managerial strategies cannot underestimate this unvaried influence but need to be adapted to penetrate the market. The socialization process of a collectivist society, the social control based on a reward and punishment system, the morality conquered by an individual through the right public behaviour are all values inherited by the Confucian system, which regulated every aspect of the pragmatic and ideal life of the citizens.

According to some theorist, the beginning point to understand the Chinese culture is surely the analysis and the understanding of the works and ideology of Confucius, the Chinese philosopher which had lived about 2 thousand years ago and whose teachings have profoundly affected the Chinese mindset (Smith, 1958).

The Confucian doctrine emphasized the importance of the interpersonal relations, a social orientation (which is still a driven force of the modern society), a way of living properly with modesty and the achievement of the social harmony, which could be obtained through a hierarchical order in which every individual had a role.

Since Confucianism was based on presenting positive behavioural patterns, which were the example that society had to follow, it is not surprising that from a marketing perspective, the Confucianism is still recognized in several aspects of the Chinese consumer behaviour.

Although today coffee is a product well-recognized in China, also the coffee companies have had to deal with the Confucian heritage, crafting strategies that allow their coffee offerings to catch the attention of Chinese consumers.

Analysing the behaviour of Chinese consumers toward coffee, it has been possible to identify two main trends, which have influenced coffee sales and consumption within the Chinese market:

- the *Mianzi* → this word in Chinese means “face” or “reputation”, it refers to the “saving face” concept which is fundamental in maintaining the social reputation. The fear of “losing face” usually refers to the prestige or the position of an individual reached

through a personal effort, which has allowed him to acquire wealth and power.

The reason lies in the importance of the public approval as an instrument to be socially recognized and as a consequence, has led to an increasing attitude of showing off. This “showing off” behaviour mainly concern western products, which are commonly considered as fashionable or superiors.

As a consequence, this attitude deeply rooted in Chinese culture has contributed to let Chinese consumers consider coffee, a western famous product and heritage of western customs, as a luxury item or as a symbol of social status.

For this reason, drinking a cup of coffee has become a western trend among Chinese consumers, showing their being “cosmopolitans and modern”.

- The gift-giving custom → the influence of Confucianism is fundamental also in establishing personal or business relationships in China. For instance, most experienced managers surely agree that would be impossible doing business in China without adapting the gift-giving culture, which is inherited by the Confucianist tradition (Chan et al.,2003). In the Chinese society, the custom of making gift embodies the Confucianist values of appropriate emotion (*renqing*), demonstration of courtesy (*li*), practice of respect (*mianzi*), dignity (*lian*) and relations (*gaunxi*). In this way, the act of giving a gift become a vehicle for establishing but also maintaining relationships, and an aspect of friendship: the more the gift is expensive and of good quality, the more is recognized.

Indeed, in order to satisfy the public opinion, Chinese consumers mainly choose best quality products at higher prices and with innovative design just to be appreciated and recognized by the community or the group.

Comprehending the cultural symbols and meanings hidden behind the giving-gift habit surely provides an advantage for the foreign companies that aims at establishing relations and catching the consumers attention.

Since coffee already carries the symbol of a valuable product belonging to the Western tradition, it is not surprising that several marketers have also decided to commercialize it in gift packages that crowd the Chinese supermarkets' shelves and the e-commerce platforms.

Exhibit 3.2- gift-packaged Nescafé products.



### 3.3.2 – Chinese consumers and coffee perception

After the opening and the economic reforms enacted by Deng Xiaoping in the 1970s, the lives of Chinese people has drastically changed, because of the huge impact on society and citizens habits. As we have already reported, since that moment, Chinese people has become increasingly consumerists by coming into contact for the first time with products that have always been forbidden. People that have been grown up in that context have a different education and learned other values, which are very different from those received from their parents and these changes are deeply important for marketers.

After the revival of coffee houses that have been shut down during the Communist period and the opening of the first Starbucks in the 1990s, today coffee is an ordinary product within the Chinese society.

The Chinese people, as tea drinkers for centuries, are not particularly fond of coffee, or at least not in the way Italian people are: is not considered a morning habit, nor the fresh and roasted specialty coffee are evaluated as something to prefer over other beverages.

Although this, the familiarity with the product and the development of a market, has been possible only thanks to Starbucks, which has played a key-role in the education of the consumers.

At the beginning the most popular kind of coffee which received the local approval was

the “three in one”: a container which provided a blend of three different flavours - granulated Robusta, powdered creamer and sweetener. This was the first sign that the corporate strategies, the slow education process were giving their first results and that the coffee culture has started to attract Chinese consumers somehow (Lamb,2012).



Exhibit 3.3: Starbucks ready-to-drink frappuccinos

Of course, marketing a product such as coffee in China requires different strategies, rather those adopted in western countries, and for what concerns the food and beverage industry, the first strategy needs to adjust tastes and flavours to fit the Chinese ones.

For instance, Starbucks menus includes green tea frappuccinos or the red bean scones and sweet cakes and this has been a winning strategies to meet the local customs and satisfy also those customers that do not like coffee at all.

As a consequence, although Chinese are deeply rooted in the tea cultural tradition, they are increasingly drinking more and more coffee, because have developed new needs and habits and tend to be always more broad minded toward the Western cultures.

Chinese consumers have discovered in coffee a vehicle for socializing, talking of business, relaxing and of course, even for showing off the coffee-experience in some specialty shops within their group reference.

Before talking of the success stories of several international companies that are breaking into the Chinese market, it is important to focus some essential point.

Firstly, the perception of Chinese consumers about coffee is strictly related to their

cultural inheritance: tea is the national beverage whose preparation has been transmitted for thousand of years. Secondly, this unawareness about a product such as coffee, and that makes it non-acquainted to this product, draws a clear line of separation from all those cultures, such as the Italian one, which have turned coffee into a traditional rite.

The preparation of a cup of coffee, which for an Italian is so accurate, for a Chinese is a vague concept. The Chinese people so not have a precise idea of moka, they do not even have it in their homes, they do not know how to use it, how the preparation may be varied. Moreover, it would not be surprising to found a coffee machine in some Chinese people's living room as an exotic object to show. In fact coffee, basically, it is just another Western beverage.

Given these assumptions, it would be impossible to market coffee in China in the same way of any other country. In a country like China, a successful beverage must be easy to prepare, with quantity proportional to the price and of pleasant taste.

Obviously, Italian coffee is not able to provide such characteristics, but adapting the product's features accordingly to the Chinese perception it becomes possible.

Analysing the previous successful characteristics, some insights need to be evaluated:

- speed for preparation → a moka, without any kind of idea of its functionality and without any cultural bond that can drive its usage, it is not appropriate. It would require consumers to gain a certain degree of knowledge. Chinese people, absorbed by the rhythms of a busy life, most often prefer ready meals and quick drinks. Actually, the *to go/take away* formula is certainly the most popular. In order to meet such quick needs, the beverage that better may satisfy the Chinese consumers is an instant one. The soluble coffee has been the solution: it does not require any competencies nor machinery and may adopted to the local customers.
- quantity vs. price → the concept of “quantity” for an Italian is not necessarily related to quality of product, but the quality of a product is inversely proportional to its quantity. For Chinese people, the concept is totally opposite: the quality of a product is directly proportional to its quantity. This means that if there is abundance of something, is must be of good quality. Starbucks, Costa and other coffee chains have exploited this idea, so that the high prices related to their

offerings, which from an Italian point of view are quite high, have been accepted by Chinese consumers. A cup of 36cl of coffee is clearly obvious may be sold at 35 RMB, which is acceptable (Vescovi 2015).

- taste → The typical bitter taste of the Espresso is not appreciated, and is refused in favour of sweet and milky coffees, mocha coffees or lattes which are all very popular. The Italian coffee is actually quite strong for the Chinese palate and it may not appeal Chinese consumers. Commonly, the international coffee chains have all adopted their offerings to Chinese tastes with blended and tea drinks (French, 2010).

However, adapting tastes to the locals is not always a successful strategy. Yum Brands Inc, the American company selling food and beverage products, has entered the Chinese market proposing a wide range of offerings that always include some typical Chinese culinary element such as milky soy or shrimp. The final result was quite confusing and very far from both the local and the foreign taste, so that consumers rejected it and the company has faced a serious fallout.

### **3.3.3 – Coffee as a social status symbol**

In big cities, such as Shanghai or Beijing, some independent coffee has also tried to raise the bets: for instance, the Sumerian Coffee shop in Shanghai offers in its menu only high quality coffee beverages, refusing the habit of the milky and sweet blends.

The biggest challenge is to get customers to change their behaviours to offer a premium experience. Experiences like the Sumerian's one in Shanghai is the same that several businesses offer: “the experience of going into the store”.

Actually, the majority of coffee consumption in China derives from young people, usually belonging to the upper-medium social class. As living standards have improved in China, beverage consumption has changed: consumers are searching for a greater diversity in selecting products, and further, have become more discerning.

Since coffee has become a symbol of internationalization, among young people and older



people as well, it began representing a trend and “an urban life attitude”.

The strategy of offering an experience rather than a specific product has been quite successful, especially for Chinese consumers that give more predominance to the social recognition. Many young people consider almost an exotic experience going to exclusive locations, that offer high quality coffee and a premium experience, which allows them to live a “western” lifestyle experience (Physorg, 2014).

This attitude, which is shared by a large segment of young Chinese consumers has contributed to the current perception of coffee as a product symbolizing a certain high social status, especially in the east-coastal areas which is known as the most cosmopolitan market. It is enough to consider that attending these exclusive location allows consumer to gain a certain social admiration.

Indeed, consuming coffee is representing more than a cup to Chinese consumers belonging to the middle class, but has become an instrument to demonstrate their status, which not only concern the society, but also their personal features such as being international and fashionable.

Since coffee represents a social instrument, as a consequence the number of coffee connoisseurs has significantly increased in China: although they are not abled as much as Italians in recognizing a high-quality, more and more Chinese are interested in high quality coffee.

Indeed, according to a research carried out by Euromonitor, instant coffee based products have recently slowed down in sales, meanwhile products of ground coffee have increased at 60%, along with coffee capsules (Valuechina.net, 2020).

An interesting curiosity is that a significant number of Chinese consumers would like to learn how to make coffee by themselves: it is not surprising that several brands are relying on online channels to promote learning programs. For instance, the brand Davidoff is using its own website to spread the coffee production's history, publish plantations images and video tutorials to learn how make a perfect coffee at home.

Chinese are also highly connected customers: the recent phenomenon of taking pictures of food and beverages to share them with friends on social networks has been exploited by the premium experience companies, which also want to spread the idea of catching a moment of relax, that deserved to be remembered by taking a picture.

In conclusion, it is relevant for marketers considering that Chinese consumers look for certainty and recognition: coffee brands should carefully work on their brands in order to exploit the social role which coffee holds within the Chinese society.

### **3.3.4 – Coffee Habits and trends**

As already pointed out, Chinese consumers mainly relate coffee to the Western lifestyle and modernity: for young Chinese people, as well as for businessmen, going out to drink a cup of coffee with friends or colleagues is something very fashionable.

In China the main trend about drinking coffee is typically sip it, as an American coffee, during lunch and meals. On one hand, this is actually the American way of drinking it, imported by large coffee shop chains and, on the other hand, it is able to replace the slow consumption of tea. Thus, especially for these reasons, the famous Italian cup of coffee or coffee to go, is not particularly spread (Sethi, 2018).

However, it is worth lightning a slight change in this trend, as the quantities of roasted coffee, imported from China, has significantly increased, which actually reveals an increase in the appreciation of an alternative type of coffee instead of the instant one.

The reasons for this change in tastes mainly is attributed to different causes, such as the launch of new products, such as the Nestlè single pod or the number of coffee shops which now appear in almost all the urban areas of the country. This refinement of tastes could not be underestimated, because it results from years of consumption and desire to move to a different and more exclusive level of experience.

Coffee trends and habits always remains a phenomenon linked to the metropolitan areas and developed cities, environments which offer to the young Chinese people, which stands for the majority of the market coffee segments, three different kind of environments: cafes bar, internet cafes and fast-food.

Who actually benefits from this increase in consumption are the cafes bar, such as Starbucks and Costa, which have recently seen their respective turnovers growing and their popularity reaching more and more people.

Indeed, the coffee consumption is linked to the social benefit related to consuming a

coffee in a western place like the ones mentioned above.

In addition to this benefit of elevating oneself within the social hierarchy, it is very important for Chinese to satisfy another type of requirement, which is the socialization. The concept of drinking as a socializing activity is not something new to Chinese customs and habits: for instance *baijiu*, the typical Chinese liqueur is traditionally drunk during meetings and business dinners and also the tea ceremonies have always been occasions for socializing (Sethi, 2018).

Properly for how coffee is perceived in China, as a typical western drink or as a drink of prestige and suitable for socialization, the types of locations such as Starbucks have caught on. The Starbucks' attempt, which has been definitely successful, was to create spaces in which Chinese consumers could feel comfortable and pleasant to meet friends, discuss, work, read a book or check emails (Chatterijee, 2009).

In order to increase this feeling of intimacy and pleasantness, many coffee chains and shops have introduced the corners dedicated to students, couples or groups of people who want to have more privacy. Since Chinese consumers are highly connected, another factor which has decreed the success of these formats is the internet connection.

To sum up, we may argue that the model of the successful coffee shop in China is the one that, in order to increase its appeal towards Chinese consumers, adapts its offerings not only in tastes, but also in the average modalities of the locals' coffee consumption. In other words, coffee houses are places focused on socialization and the concept of experience and for this reasons, the environment plays a fundamental role in the choice of location, made by the Chinese consumer, where he will live his experience in consuming coffee.

### **3.4 – The perception of the coffee brands**

The global perspective, which today is contemplated by almost all the entrepreneurs, has always pushed companies to come out from the local dimension and compete with contexts very far from home. Beyond disadvantages and advantages, risks and revenues, operating on multiple markets is surely a source of opportunities, but it is important to

remember that having a global image is a responsibility.

The geographical, cultural and economic barriers of China make the notoriety and perception of the brand fundamental points in the education of the market, since the brand represents the company reputation, competitive position, experience and all important features which are particularly taken into account by the Chinese consumers.

On the other hand, companies such as MMNE and small enterprises that do not have strong brands and are not recognized worldwide, need to focus on convey a specific communication of their values, history, products, competencies behind their brands. These kind of companies cannot give the knowledge and awareness about their contents and value for granted, but if they do not apply a strong and appropriate communication, customers may not even understand their brand, especially if perceive prices too high for no reasons (Usunier et al.,2013).

In a peculiar context such as the Chinese one, it is actually important to explain the different criteria and variables that influence the perception of the products: Chinese coffee market that, such as other recently imported product markets, is characterized by an high number of *first consumers*. In terms of brand perception, these kind of consumers are distinguished to have a low brand loyalty and being, on the contrary, easily influenced by the word of mouths of their acquaintances.

As far as coffee is concerned, knowledge of this product in China is still scarce and, as a result, they still cannot distinguish merits, quality, differences of different brands.

Thus, their choice generally boil down to choose the most beautiful or eye-catching brand, the product of which they have heard better about and so on.

Within a market such as the Chinese one, for coffee brands the most important thing is to get noticed and be able to be quickly associate in the minds of Chinese consumers with quality and fixed values.

Illy has perfectly succeeded from this point of view: the company has chosen to replicate the same strategy successfully pursued also in Italy. Indeed, Illy has decided to display the typical white and red sign outside their shops in China to advertise and make its brand in more evident. Given the costs of serving Illy coffee and that this brand is already present in the best restaurants, ends up becoming a distinctive sign of the high quality of the place itself.

On the other hand, the brand could also be used as a strategic instrument, as in the case of the Milan roasting company Caffè Ottolina, which owns four different brands which are exploited according to positioning and situations, even if in such inexperienced market positioning too many brands may be very risky and counterproductive.

This is the case of what happened in the wine market: Chinese consumers found themselves surrounded by hundred of different Italian wine brands and they were actually unprepared so that kept up on buying the usual bottles of the best known brands.

### **3.3.1 – Translating the brand name**

Companies that start working in the Chinese market have to face a common problem: the need of translating the brand name to better appeal to Chinese consumers.

Indeed, when it comes to translating company names or product names, one of the first consideration is whether or not the name is same or similar to an existing word in the target language. Words that are spelt or pronounced the same as a company brand name in the target language bring their own meaning and connotations, so that this translation can work for the brand or against the brand. Chinese consumers prefer brand names that evoke propitious and positive images, the name of plants, animals and traditional auspicious words are widely used (Busato, 2011).

The reasons for translating the brand name following the Chinese language's rules are at least three: Chinese consumers need a Chinese name mainly considering that the majority of Chinese population living in China does not read English nor Italian, Chinese law requires that all foreign companies registered in China have an official Chinese name and an untreated translation in Chinese may damage the image of a western company's brand. Some companies would not like to complicate things by developing or registering an official name, but this lack may be able to force some journalists or mass media, writers to translate these names on their own. Indeed, these translations could be done without paying attention on the image of this specific company's brand.

As Chinese is a pictographic language, based on written ideograms, it is important to understand that every single character has a specific meaning and can convey a certain

translation. Translations that have been done only according to the pronunciation sometimes may lead to the use of characters with unpleasant meanings within the cultural context. Going through the existing translation methods, there are five strategies of translation which have been mainly applied (Frey,2004):

- Sound similarity: this method is based on the translation only according a sound similarity without any concern for the meaning. Starbucks and Costa have both used this method, since their Chinese names only recall the sound similarity of the English ones. This is also because they rely on a strong global image and reputation.
- Literal translation: the foreign name is translated according the most possible literal way that come close to its meaning. For instance the American Millstone coffee brand is known among Chinese consumers as “moshi”, which in Chinese language exactly means “millstone”.
- Meaning creation: this is a functional translation, as tries to convey the meaning that is behind the brand or a positive message, even if without concern for the sound similarity. Nestlé has adopted this option, choosing the Chinese name of “quechao” which is very far from the English pronounce, but in Chinese means “nest of sparrow”.
- Cultural similarity: the translation tries to appeal to some cultural elements to convince consumers. This is the case of Flogers coffee, which has chosen to be called “Fujue”, appealing to the “fu” symbolic character of fortune and good destiny to convey a positive meaning close to the local culture.



Exhibit 3.4: *Nestlé chinese brand name.*

Slightly out of the standards, is the strategy applied for many Italian coffee brands in China. The majority of them have western names, which recall western fashion, modernity and lifestyle: Illy is known almost everywhere as its authentic name, which has remained unvaried in China, and also sometimes strengthened by the definition of pure Italian coffee.

A similar strategy is applied also in the opposite case and, actually perhaps, the successful local brands should be source of inspiration for the foreign ones: this is the case of Luckin coffee, the Chinese coffee company which has recently reached such scale of popularity to compete with Starbucks.

The English translation of the brand name surely conveys a positive message contained in the word “luck”, which is meanwhile conveyed also in the former brand name through the Chinese character “Ruixing” which respectively mean “auspicious sign of fortune”.

Also the choice of the logo tries to appeal to local culture, using the image of a deer, which in the Chinese culture has always conveyed the meaning of longevity.

### **3.5 – Italian coffee in China**

As already reported in the previous chapters, the consumption and the idea of consuming coffee in China is truly different from the modalities found in western countries.

In other words, the idea of coffee consumption of Chinese consumers must be seen in a social context which provides a slow action rather than an instantaneous one, which is typical of the Italian espresso. As a consequence, the quality of coffee also become less important, since Chinese people are not able yet to distinguish between different type and qualities of coffee product.

Due to multiple reasons, Italian espresso is experiencing a significant number of difficulties within the Chinese market: firstly, several Italian companies after entering the Chinese market, must have adopted very strong promotional strategies to increase the coffee awareness and culture to let consumers know the product.

Although this strategy has been quite slow, it revealed to be effective and the concept of

Espresso has gradually entered within the Chinese consumers' minds and their imaginary. However, one of the main problem is represented by the fact that the average of Chinese consumers have several uncertainties and doubt regarding the espresso, mainly because for them is very difficult to understand this quantity-price relationship, as they have always been accustomed to the large cups offered by Starbucks.

We could argue that the multinational coffee chains, such as Starbucks and similars, have somehow ruined the market for the Italian coffee producers by offering poor quality products and educating the Chinese consumers to a consumption modality which is not really suitable to the idea of the espresso.

Despite the important role played by these big players to create a new market and educate it, it should be also noted that the major players on the Chinese market, including Starbucks, in their offerings and names of products as well, often rely on the concept of Italianness. In this way, for the Chinese consumer the mental association with Italian coffee is almost automatic: this is how the phenomenon of Italian sounding takes place in China. On one hand, it could be favourable to new entrants, as they would find a market already ready to accept and welcome their products, but on the other hand, it is a wrong and erroneous association that may create a false perception in consumer's minds.

For this reason the potential new entrants, and those already entered the market as well, must bring in mind that the idea of coffee in China strongly differ from what they are used to know in Italy. The concept that must be developed is the one concerning a comfortable location where spend time and, only after, worrying about the quality, which should be the responsibility of a trained staff, that need to be able to prepare a coffee of good quality. Only after these two phases, the company may hope to create a market segment, which probably will be a niche one.

The Chinese experiences which truly represent the Italian coffee in China, according to sales volume and not only, are basically: Illy, Lavazza and Segafredo Zanetti.

These three brands are presented to the Chinese public through three different profiles: Lavazza is the communicator, Illy the aesthete and Segafredo the connoisseur. Each of these roles have corresponded to different positioning and have brought different kind of advantages and disadvantages.



## CHAPTER 4

### THE CHINESE COFFEE MARKET

#### 4.1 – Approaching a recently emerged market

Nowadays the globalization has given rise to a wide range of opportunities: the world trade is driven by global competition among companies that sell their products worldwide. Foreign markets offer both opportunities and challenges for firms, especially the emerging ones, which due to their labour force and market potential are expected to grow relatively fast. This increasing opening to the international trade has allowed the emerging countries to reduce the gap with the Western markets: little by little, all these countries have given up to their inward looking strategies to welcome the global markets' competition preferring new strategical approaches (Manketelow et al., 2014).

All the emerging countries share common characteristics – great growth opportunities, uncertainty and different kind of instability, low cost resources, lack of appropriate institutions to support the market, internal heterogeneity reflected in the language, development or level of urbanization – which stand also for the reasons of their attractiveness.

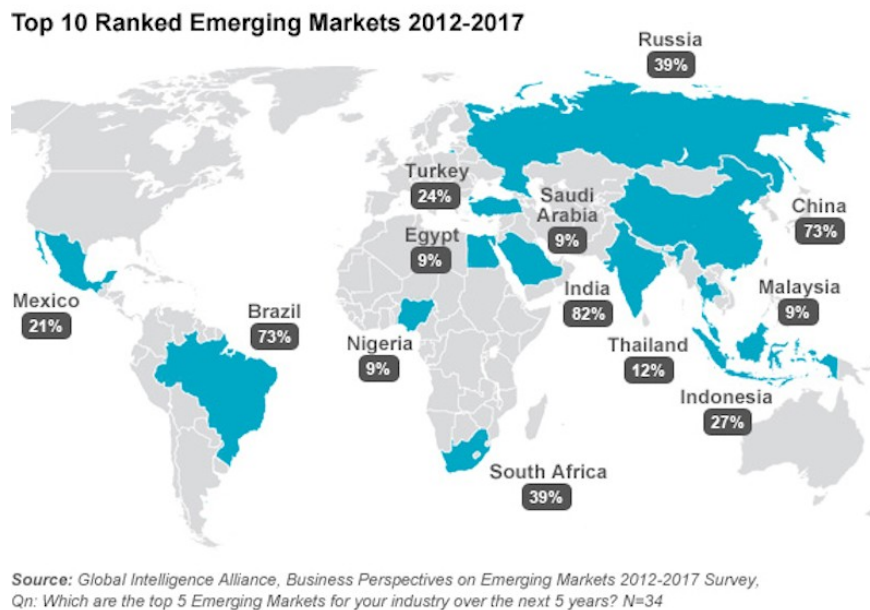
A significant number of foreign firms have been stimulated by the possibility of entering these markets because these economies are expected to continue growing in the future and will have always bigger impact on the world economy.

Among the developing economies, China is the second largest economy in Asia and the largest of the emerging markets in the rest of the world. The great change of China started in 1987, when Deng Xiaoping introduced and enacted the economic reform program for the recovery of the country, which provided the opening to the foreign trade and investments: as a consequence, also the privatization of services, the foreign technology and business practices were started to be adopted.

Since its opening toward the global economy, the Chinese growing development is still continuing: not only the country is now able to compete at high global level, but also has

become the preferred target for foreign investments.

China stimulates investors for several reasons, such as its rising incomes, rapid urbanization, slowly opening business environment, record of technological innovation and of course, a very huge domestic market, with increased consumer spending (Menzies, 2012).



*Exhibit 4.1: Emerging markets business perspectives.* Source: Global Intelligence Alliance

The Chinese population nearing 1.5 billion, represents a massive potential market: both large Western multinationals with established China presence and new-entrants with no previous China experience may find their success or their failure, which mainly happens for insufficient lack of local understanding.

Due to the fact that foreign markets represents a huge opportunity or a necessity for enterprises that are no more renewed by the domestic one, the internationalization process have been the object of several studies and theories, that provide the basis to implement the strategies for entering foreign markets.

According to the *Uppsala model* (1977), the most famous theory explaining how firms gradually intensify their activities in foreign markets, the internationalization is a

“learned-orientated process”, which means that is based on two key features: resource commitment (amount of resources required) and market knowledge (information about it).

The resource commitment stands for the amount of resources firms devote to a given market, while the “market knowledge” is a process that requires information about a market and available operations in this market.

It is clear that firms have firstly gain experience in the domestic market, only after can shift into other countries geographically close or that presents a resembling culture.

Finally after these previous resources of knowledge and confidence they may move into foreign countries, which from different perspectives are very far from them (Blomstermo et al, , 2003).

Johanson and Wiedersheim-Paul describe it as a gradual and incremental development of operations, and as a consequence organizations could best reduce their risk level by adopting an evolutionary approach. The commitment to engage in operations in a specific foreign market develops according to the so-called establishment chain, which is a sequence of stages that are made in small incremental steps (Vescovi et al., 2015):

1. irregular export activities
2. export via agent
3. establishment of overseas subsidiary
4. establishment of a local production unit

The firms are more prone to enter new markets with greater physic distance, and in most cases also greater geographical. The physic distance is defined as: the sum of factors preventing the flow of information from and to the market. These includes differences in language, education, business practices, culture and industrial development (Johanson et al., 1994).

As a consequence, the less a firm understands a market, the greater the physic distance and the perceived uncertainty are. Therefore, the best way to minimized the perceived uncertainty and to see opportunities is through experimental knowledge that is acquired through personal experience in the specific market.

The Uppsala Model, as the other theories concerning the Internationalisation of firms,

have been idealised and formulated according to a specific social and economic context, which is the geo-politic context after the Second World War (Vescovi et al.,2015).

All the markets that have been developed and the behaviour of enterprises, as they are socio-economic organizations, find their roots in the geo-political context in which they born, that was marked by the separation of two different realities: North-America – Western Europe and on the other hand URSS and COMECON countries (other countries, such as China or India do not belong to any of them).

Given this assumption, it is predictable that the internationalisation has started with the attitude of the American enterprises that in 1950 begun expanding in European markets, that were smaller than the American ones and culturally and politically conditioned.

This kind of attitude has raised until the 1980s where the spread in technology and communication shape the modern global market, characterised by large enterprises towards smaller markets that end up assimilating the globalisation process with the obliteration of cultural differences (Vescovi et al., 2015).

As we have seen in the previous paragraphs, European enterprises and Italians as well, that could not rely on large dimension but have limited possibilities, mostly run their business in the domestic market.

The fall of URSS (1989), the economic crisis from the 1992 to 2008 and the spread of the internet technology were the key-events that broke the economic and political pattern in which enterprises implement their strategies, and these changes led to a new economic system. In this new system, the enterprises felt unsatisfied by the local European markets that could not be able anymore to please their necessities and therefore started looking at the developing ones.

All these happenings have given birth to a new reality, which also today reveals itself and recalls three main paradoxes (Vescovi et al. , 2015):

- small firms in larger markets
- sophisticated products in non-acquainted markets
- strategies for replication of the business model in countries totally different

#### 4.1.1 – A non acquainted market

The three main paradoxes resulted from the economic and social happenings during the 1990s have been described as the internationalization of small firms within larger markets, in introducing sophisticated products in non-acquainted markets and in the inadequacy of replicating the domestic business model in totally different countries.

When it comes to discuss the peculiarity of the emerging markets, it is needed to make a main distinction between an acquainted market and a non-acquainted market and this distinction could be well defined by the comparison between the Italian coffee market and the Chinese ones.

1) The Italian coffee market is an acquainted market, which means that consumers have reached a certain degree of knowledge about products and services offered by the companies to satisfy them. This degree of knowledge, and therefore awareness, enable customers to evaluate properly the products' quality and differences proposed to the market by competitors (Vescovi et al. , 2015). Indeed, as already been reported, the Italian coffee market is developed, differentiated and segmented and Italian consumers are able to judge properly the different kinds of coffee, its offerings and have acquired the competences to distinguish among different brands and competitors. The cultural tradition behind coffee in Italy is what definitely makes the majority of Italian consumers almost as experts, which are very difficult to satisfy.

As a consequence, an acquainted market, as developed and segmented, is mainly focused by MMNEs or SMEs, that due to their size, resources and ambidexterity cannot face large markets, but gain a lot of success in the niche markets where customers can understand the value of their offerings.

2) A non-acquainted market is the market that firms have to face during their internationalization process: a market in which consumers do not have a certain degree of knowledge about products nor competencies to evaluate them. Since coffee represents a recent introduction in China, Chinese consumers do not have any previous education about it or about the most appropriate way to deal with this beverage. For this reason, as

commonly happens in this kind of markets, the purchasing of a product is made by following the principle of “the most-well known” to be sure about the quality or just as something for showing off.

In order to deal with such large and complicated markets, companies are consistently being faced with decisions regarding business moves to make, that will launch them forward these new competitive markets.

#### **4.1.2 - The first mover strategy**

In B2C business, the marketing strategy for firms that plan the internationalization process concerns two main moves, which are divided according to the order in which the companies decide to enter the market. The first company which enter is called the first mover and an eventual second company that follow the first, is known as the second mover (Lieberman et al, 1988).

The first mover or player is also recognized as the pioneer: they are the larger multinationals that, thanks to their size, resources, capabilities and investments are able to create a market that did not exist before. For instance, Starbucks is the first player which have created the coffee market in China, and without its pioneering activity it would have not be possible to create this new market.

Indeed, given that the Chinese consumers did not have any previous point of comparative reference for coffee not the knowledge about it, Starbucks, as first mover, necessarily needed to make huge investments to educate the consumers, which may be a serious challenge.

For this reason, the international business usually make a distinction between the first mover advantages and disadvantages of acting as a pioneer:

- the first mover advantages
1. Technological leadership → the first movers have the advantage of the technological leadership: as early entrants they quickly learn how to reduce the costs of producing through their experience and this will be a cost advantage upon the late entrants that do

not have a previous experience and still have to learn. Furthermore, the early entrants may also use technological advantage in a way which is very hard to copy for the second players. In many industries, the first movers benefit from applying for patents for their technology to try to prevent other companies from copying it (Lieberman et al, 1988).

2. Resources → the second first mover advantage is exploiting the timing entrance to control the needed resources for the business. For instance they are able to choose better locations for manufacturing, have better access to the shelf-space or supply of raw materials and so on.
3. Buyer switching cost → it is described as the 'cost' for the consumer to switch from one brand to another one. The first movers may turn it into an advantage: they need to attract new customers and gain their preference. For this reason, the first players aim at earning the brand loyalty and usually invest more to offer a product of high quality, that may satisfy the customer's need and preferences. Indeed, satisfied consumers usually do not spend time looking for information about other products with the risk of being disappointed if they switch.

All of these three benefits - technology leadership, control of resources and buyer switching costs – have provided to Starbucks a long-lasting first-mover advantage, a huge profit margins and monopoly status in China. However, although being a first mover has an overwhelming advantage, in some cases products that are the first ones may eventually be unsuccessful.

These products are the unhappy results of the first mover disadvantages.

- the first mover disadvantages

1. free-rider effects → as already reported the first movers have to make huge investments to create a new market and educate the consumers. Although this, these investments may also become a disadvantage at the expense of the first movers themselves. In fact, the imitation costs which will be paid by the second movers is much lower than the invention costs sustained by the early entrants. In this way the late movers could be able to free ride on the first mover investments in some areas, for instance the R&D, the

- market education or the development of the infrastructures (Lieberman et al, 1988).
2. market uncertainty → If the late entrants may rely on the first movers' experience, which have educated consumers and set the industry standards, this, of course, it is not possible for the first players. They cannot follow any standards nor adjust their strategies accordingly any kind of previous experience, but they must take on all the risks of the market's response toward their products.
  3. Incumbent inertia → this disadvantage is commonly recognized in the firm's unconsciously impossibility to act: once that the early entrants have created the market, it need to be sustained. Sometimes, in order to preserve what they have already built, firms may miss new opportunities and are stuck in a lack of activity phase. This could be very dangerous, because the firm may not be able to recognize a change in the market, if something new is introduced or adopting their activity accordingly with a new trend (Lieberman et al, 1988).

Given the uncertainty about the first-mover advantages and disadvantages, companies need to carefully consider their strategy: Starbucks, as a multinational operating worldwide, was able to enter the Chinese market as a first-mover, bringing basic offerings of coffee to create the market. Currently it has opened more than 4,100 stores in the mainland of China. It means that the companies has been able to exploit its first-mover advantages as much as possible in a successful way, that has been enough to open the roads for later entrants.

The MMNE, such as Lavazza or Illy, due to their limits cannot be able to do the same, as their products are quite sophisticated and require consumers to have a certain degree of evaluation and awareness about their coffee products.

Since they cannot create a market, the MMNE follow another pattern: they firstly need to develop three kind of knowledge about them: institutional knowledge (study of foreign cultures, foreign rules, foreign laws), business knowledge (how consumers act and make their purchases, how competitors move in the market) and internationalization (know-how of the enterprises, resources).

Only after the development of such fields of knowledge and larger firms have already created the basis, MMNE can enter and focus their offerings on the niche markets that are



more capable and educated to appreciate their products. In such cases, we may talk about the second movers, that may be the second, third or even the fifth company which moves into an already existing market.

#### **4.1.3 - The second mover strategy**

The second movers are defined as the late entrants which enter the market after it has already been explored and educated by the larger first movers.

The second entrants are also recognized to be in a wide range of categories – such as early followers, late followers, differentiated entrants and so on – according to the timing of the pioneers. However, these categories are revealed to be useless to determine the company position, because actually it depends more on the market response rather than the entry (Lieberman et al, 1988).

Although being first entrants is quite attractive to investors, due to the upside potential and the possibility of catching immediately the market share, it is too much risky since is not possible forecast the consumer's reaction to the offerings.

Thus, the second mover advantages are mainly given by the possibility of following already set standards or imitating another existing product.

- the second mover advantages
1. Free-rider effects → as a disadvantage for first players, is defined as an advantage for late entrants. The investments made by the first movers to create and educate the market, are not required by the second players, whose imitation costs is surely lower. In this way the late movers could be able to free ride on the first mover investments in some areas, for instance the R&D, the market education or the development of the infrastructures.
  2. Overcome market uncertainty → Since the first mover has already built some basis, the second movers may learn from their experience and reach a faster customer development which is easier, considering that the early entrants have already recognized what consumers desire and research. A late mover may be able to better position their

brands, thanks to what they have learned about consumer preferences from the first-mover experience or incorrect positioning (Kerin et al.,1992).

3. Customer acquisition: Customer acquisition: late entrants may learn how companies acquire customers making tests and researches, especially by analysing the first movers strategies. The competitors may help them to educate consumers of the value of their products and expand the market.

Therefore entering the market as a second mover, or even replicating an existing product, may be able to create a successful business: late entrants surely have less costs concerning R&D, less efforts concerning the market education, less risks concerning the product acceptance.

The arrival of the second movers underlines that the challenge of the non-acquainted markets may be overcome also by smaller companies, which are not multinationals, and their capacity to seize on the knowledge, driving it through a clever acceptance of the consumers, is what allows them to gain better success rate within the market.

In some cases, there is also the existence of third-movers, which are the smallest companies that enter in strongly acquainted markets to enlarge the niche ones.

Also in B2B markets, the first movers are large companies that offer mass products and their suppliers are usually MMNE that, in order to not lose strategic clients, are forced to follow them in the new markets. This can explain their presence in the B2B non-acquainted markets, that once have become more educated and their needs more sophisticated, the small enterprises can exploit their presence as suppliers of local new acquainted business.

The Italian enterprises, that we have previously defined as a system ruled by SMEs and MMNE, are strongly attracted by the Chinese market but it is quite impossible for them enter as first-movers. Their possibilities related to their size only allow them to enter as second or third mover after that larger multinationals have created the customer-basis. They need to educate consumers and to develop knowledge about their brands that are mainly unknown and unpopular among Chinese consumers, that due to their cultural distance more often are not able to understand their products' value.

These Italian firms' efforts are very noble efforts, given that are not always rewarded, but

instead, especially if concerning a product such as coffee, have found several obstacles from gaining success.

## 4.2 – The coffee market analysis

According to the Spr research, the cups of coffee which are drunk every year by people worldwide reach the amount of almost 7 billions, and everyday at least 20 million cups of coffee are consumed (Spr Coffee, 2019).

Within this screenplay, the Chinese coffee market offer a great potential for coffee drinks, indeed the coffee market in China is growing by 40% annually.

The billion of Chinese citizens, which stands for the hugest market in the world, consume from 200 to 400 bags of coffee every year, therefore it is thought that, within short time, it will soon be able to become larger than the Japanese one and the markets of many European countries as well.

	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
<b>Growth rates</b>				
1994-2013	21%	13%	17%	12%
2004-2013	21%	16%	19%	15%

In thousand 60kg bags

Exhibit 4.2 - *Coffee Statistics for China*. Source: ICO 2015

Since 2004 the size and the presence of the coffee shops has doubled, achieving a compound growth rate of 19% every year, so that several experts hold to be true that the Chinese coffee market could reach the trillions of yuan in the next ten years.

According to Zhu Danpeng, a researcher from the China Research Institute, the coffee market is currently dynamic with very dynamic consumers, but not fully saturated: it is opened to different brands, targeting different consumers and Chinese people are prone to welcome western lifestyle and diet (Hongbing Hua, 2019).

The International Coffee Organization (ICO) has declared that the Chinese production, which in 2015 was placed at the 14<sup>th</sup> at global level, has already doubled in the last six years, surpassing both Kenya and Tanzania.

Perhaps, the first reason of this increase lies in the fact that the price of the tea has recently been on decline. In fact, although the tea market is much larger, several growers and tea producers have decided to grapple with the coffee beans and products to increase their sales and revenues.

In 2015 the Chinese government authorized the construction of three railroad connections specifically for the coffee transport, which have connected the Yunnan province with Europe via Singapore (ICO, 2015).

The growth of the coffee market has also been found in the retail sector: in 2017 the amount of coffee beans stored have reached the 100 thousands of bags.

Due to the evidence that the Chinese economy is currently growing, the number of consumers with disposable income is growing too, so that the demand for coffee is also increasing accordingly.

#### **4.2.1 – Insights**

Given the market potential, it could be argued that the coffee market in China is a successful achievement, thanks to the actions of the pioneers, which have been able to reach a certain level of consumer education. Moreover, they have pushed a significant number of locals to begin their own production and to invest within the sector.

For all those companies that aim at marketing this product to China, it is fundamental to

catch up some essential insights:

- Consumption → according to the analysis of coffee market reported by Chinabgao, the growth rate of the coffee consumption reaches almost the 20% annually, which stands for more than the 2% of the global growth rate. From 2013 to 2014 it was coming around the 2 million bags and has constantly increased at 16% per year. Such consumption level has consequently put China at the 17<sup>th</sup> rank among the largest coffee consumer countries in the world. The average of the coffee consumption per capita is about 0.05 kg and is generally higher in the urban areas and cities rather than the rural areas (Chinabgao, 2017).
- Revenues → in 2015 the total sales volume of coffee has reached almost the 70 billions of RMB and is also expected to continue its growing. Several brands, such as Coca Cola and Suntory, has started producing bottled and canned coffee drinks, so that the market is able to offer a wide ranges of products at different prices: the ready-to-drink products at 4 to 8 RMB which stands in the middle between the cheapest instant coffee at 1 to 3 RMB and the most expensive coffees which are from 15 to 40 RMB.

However, according to the Euromonitor's market research, the instant coffee holds the majority of the market share in the retail side. Indeed, instant coffee makes up around 99% of retail sales by volume and 98% by value, although fresh roasted coffee is at growing faster rate.

The type of instant coffee particularly loved by Chinese consumers is still the “three-in-on”, which is a single blend containing a mix of coffee, sugar and potential flavours. Despite this, the popularity of the coffee chains is promoting the product culture, pushing always more consumers to also appreciate the fresh and ground coffee. The flexibility of the market which makes different products available (instant, whole bean, single pod, ground) has increased consumers awareness in seeking for premium experiences. Indeed, despite the coffee pods are considered a niche market category, it is the most faster growth within the retail side.

- distribution → accordingly with the distribution channels, the coffee market is

divided as on-trade and off-trade. While the off-trade stands for the further distributed segment such as supermarkets or hypermarkets, convenience stores or specialized retailers, China has also doubled its on-trade coffee consumption. This phenomena mainly concern the urban areas, due to the evidence that the on-trade sales derived from the different kind of establishments: coffee shops and cafes (whether they are independent or coffee chains), Internet coffee shops and food restaurants (Bantiwalu, 2012).

- imports → the total amount of the Chinese imports have substantially increased over the time, reaching 1.4 million of coffee bags and growing at an average rate of 15% per year. The majority of coffee imports concerns for the 70% the green and unprocessed form, while a much larger proportion regarding the soluble coffee. Its resulting decrease may be potentially connected also to the development of the domestic industry which have been stimulated by the Nestlè investments to meet the national demand (ICO, 2015).
- suppliers → Vietnam is recognised as the biggest and most important supplier of coffee to China and it is accounted for the half of the total imports. Robusta represents the majority of the requests to suppliers, which also reflects the preference of Chinese for instant coffee.
- production → the Yunnan province is the most important location for production, since the 95% of coffee produced in China comes from there and it is accounted for over 100,000 tons of coffee produced annually. Since the coffee production has raised output is definitely more sustainable and also the quality of the beans higher.

According to Sohu, the Chinese digital company, the sum total of the coffee shops which have gone through a net shop closing rate is only the 13% within a research focused on sixteen important cities, where the best performance has been reported in Shanghai and the worst in Zhengzhou.

Among all the independent shops and chains, Starbucks and Costa coffee definitely dominate the scene in terms of market share and customers flow, meanwhile the independent cafes have gained success within the non chain stores in terms of customers

flow. Surely, these kind of locations offer a more informal service and more friendly environments.

The overall impact of the Chinese coffee market on the coffee economy at global level is yet estimated. By considering these insights, the production and consumption represent relatively proportional amounts, so that China is currently an undefined presence.

#### 4.2.2 - Market segmentation

As the Chinese market is the result of different fragmented markets - which are heterogeneous in age, values, economic development, infrastructures, local culture and income – it is needed to apply different variables in choosing the target market.

In order to apply appropriate marketing strategies, the Chinese market is mainly segmented in four different categories: geographic segmentation, socio-demographic segmentation, psychographic segmentation and behavioural segmentation.

According to Geng Cui, professor of marketing at Harvard University, the geographic segmentation refers to three main geographical areas that refer to a specific market type, in which consumers have reached certain degree of knowledge (Geng Cui, 2000):



Exhibit 4.3 – Regional market segments. Source: Geng Cui (2001)

- growing markets (South-China and East-China): in these areas the presence of Guangzhou (or Canton), Shanghai, the Hainan island and the integration with Hong Kong's economy make its consumers the richest in the country. Consumers are really trend-setter, inspired by the Western thought, that push for materialism and intense consumption activity. Several products are available in this area three or four months sooner rather than the rest of the country and as predictable, coffee is truly appreciated in this areas, whose consumers consider coffee a symbol of their modernity and of integration with the western habits: it has become common to see Chinese people of this metropolitan areas attending coffehouses or esclusive locations, drinking coffee at the morning and research for high-quality coffee.
- emerging markets (North-China, Central China and south-west China): The northern China, with the presence of the Beijing and other important cities, is characterised by open minded consumers toward new products and services, but the central regions, which are for the most rural areas focused on agriculture, are inhabited by more conservative citizens. In this case we got more heterogeneity in coffee consumption, which is mainly recorded in urban areas rather than in the central regions, where traditionalism is still very influential.
- unexplored markets (North-east China, North-west China): these regions are trying to liven up their economy and to face the current unemployment which affects most of the people. As regions full of natural spaces or rural areas, consumers' expectations of life are very simple and plenty of modesty, with low incomes that allow them for few and useful things. As predictable, the importance of coffee consumption in this markets is quite invisible.

The regional market segmentation reveals another important factor: the coffee consumption mainly follows the socio-demographic segmentation, which stands for the analysis of Chinese consumers according to the age. It is possible to distinguish two main macro-segments:

1) Traditionalist consumers: they are those who still live the communist education of the past 1990s, in which Mao's ideology set the rules in every single behavioural aspect.



These consumers are strongly influenced by the price and conservative values, giving more emphasis to the modesty of life rather than the curiosity toward Western products or ideas. They mainly involves, of course, older people, which are less sensitive to a product such as coffee and the relative companies' marketing strategies (Busato, 2011).

2) young generation consumers: they have been educated under the Deng Xiaoping's era and the economic revolution in which China has been opened to the world. Stimulated by the Western products, but also their living style, are more prone to switch brands, try new products, put much attention on the brand and packaging.

As it has been proven, coffee is no longer a novelty anymore and it has been integrated within the urban environments and daily life, particularly among young Chinese professionals which are the responsible for the great amount of consumption.

Due to the fact that this young Chinese generations are attracted to the western lifestyle and also are highly influenced by the western trends, it is not surprising that the young people represent the main target of the coffee companies. They have also known as 'returnees', which stands for all those of Chinese students which have lived in the Western countries, have assimilated their culture and many of their habits, being accustomed to the coffee.

Thus, the 75% of young people belonging to the growing class, whose female side hold the biggest share, represents the majority of the customers force.

Actually they are rather strict, because they have high expectations by paying attention to the professionalism of the service, the location, the menu's offerings and the quality/price ratio.

Other famous coffee consumers are the global and rich categories stand for the Chinese word 暴发户 *baofahu* which means “upstart” or “nouveau riche”, as they represent a growing social class of “super spenders”, that catch the attention of coffee firms of high quality, desire to make a premium experience and commonly drink coffee to show off their prestige and social status (Ho et al. 2019).

Also worth mentioning is the class of the 雅皮士 *yapishi* which is the loan word for “yuppie” or young urban professionals, younger people between 25 and 45 years old, with at least university of technical education, who live in the metropolitan areas.

At the end of the 1970s, the Chinese government began to implement the One-child policy which led to the birth of the typical modern family structure consisting of a son, two parents and four grandparents. Indeed, the sentence “Six pockets and a mouth” stands for the custom of that period in which families invest all their funds and attention on this much desired only child.

These children do not have any sense of sharing nor the traditional sense of family and community preached by Confucius, they are not used to put anything before their own desires, they have been raised considering themselves the centre of the universe, so that are known as “The Little Emperors” generation.

They represent about the 5/6% of the population, reaching 100 million of individuals with a significant purchasing power, and especially in the coffee sector, this generation has played a fundamental role in welcoming Starbucks and its educational purposes.

The meeting between a new young generation ready to embrace the diversity and a large multinational has led the coffee education to reach the whole country and that the coffee western habits were quickly widespread among Chinese consumers.

#### 4.2.3 – Distribution

Coffee Market: Revenue share (%), by Distribution Channel, Global, 2018

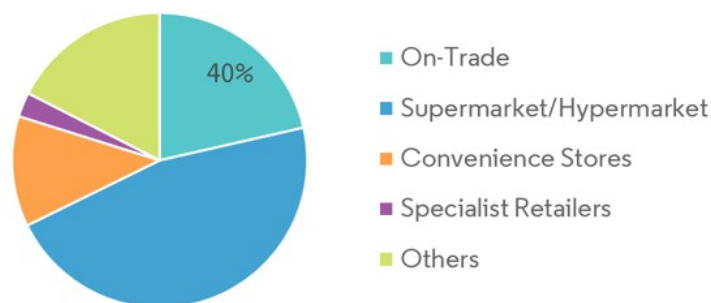


Exhibit 4.3 – Coffee revenues by distribution channels in China. Source: Mordor Intelligence

When Deng Xiaoping sanctioned the opening of the Chinese market in the 1980s, the amount of imported products increasingly raised and in 1996, the distribution of goods was pushed by the development of the first hypermarkets, with companies such as Wal-Mart, Carrefour and Metro: these retailers revolutionised the traditional practices, simplifying the buying actions and becoming the main reference point for food and beverage purchases (Baldinger, 1998).

Hypermarkets and supermarkets cover smaller areas if compared to the Western concept of distance, furthermore small shops keep up on playing an important role for those that live in peripheral or rural areas.

The distribution in China is ruled by three macro-markets (Busato, 2011):

1. the east coast: represents a highly developed area, whose market is very competitive, large and rich.
2. the emerging market of central China: represents the area between the coast and the inner area, which is full of rural areas close to urban centres. The government is rapidly building cities in this area, improving rail and roads.
3. the west Chinese hinterland: it describes a very remote area, whose population cannot meet the majority of products and with a difficult accessibility.

Firstly, the distribution strategy of a coffee foreign company should consider to which of these area to point and concentrate. Indeed, developing a distribution at national level in China is almost impossible as the distribution network should be extended excessively. However, some companies have have tried to build this wide network, but it has revealed too expensive as to difficult to handle, so that the best approach should be focus the marketing strategies, sales and distribution at local levels. Several companies take on a mixed approach to distribute products: on one hand they adopt a system based on agents and distributors, *franchising* chain stores and wholesale markets; on the other hand they develop offices establishing direct sales operation to wholesale distributors.

In terms of coffee sector, and of course in foods and beverages industry in general, the most widespread type of retails in China are the following:

- Foreign Hypermarkets → they stand for the foreign giants of the global distribution. The major players are: Carrefour (the first one entering the Chinese market in 1995, after that it has opened 132 stores in China, 20 of which based in Shanghai), Metro (the German supermarket chains which mainly aimed at large hotels and restaurants and is present in 34 cities with almost 43 supermarkets), Wal-Mart (entered the Chinese market in 1996 and has collected 189 stores located in 101 Chinese cities) and Auchan (which has established its headquarters in Shanghai and since the 1990s has opened 32 points of sales).
- State-owned hypermarkets → There are a lot of large domestic and international companies in the hypermarket industry in China, but only few are fully domestic such as Yonghui, Renrenle and so on. Among them, the Bailian Group is worth to be mentioned, since this state-owned company has been founded in 2003 by the merger of some already existing groups. Based in Shanghai, this group includes different types of distribution stores, such as supermarkets, shopping centres and convenience store.
- Supermarkets → they mainly refer to the evolution of traditional shops and the shops resulted from products under the state monopoly such as tobacco and liquors.
- Convenience stores → the convenience stores play a fundamental role in Chinese distribution, especially in big cities, as they are medium to small size of stores which are considered the “neighbourhood shop” which is very convenient to go and they are always open offering a 24hours service.

In China most of these distribution players are local, with the exception of some chains which is owned by foreign capital such as the famous American 7 Eleven or the Japanese FamilyMart. The main important Chinese groups are Kuaike, Haode and Kedi, some of them are owned by food producers such as Kedi, which offer to a medium-low customers a wide range of ready to drink beverages.

- department stores: multi-stores buildings which are very common in big urban centres. Each floor is organized according to the type of product and commonly on the top floor they provide some Chinese and international restaurants. In many cases they have floors dedicated to food and beverages where it is possible to find

several Chinese products as well as imported ones. In most cases, these huge complexes are managed as independent units and, as regards the sales of food and drink products, they are comparable to hypermarkets and supermarkets.

- Mom and pop stores: this colloquial term generally describes a small and family owned or independent stores, which represent the 92% of the more than 13 million Chinese retail stores (Baldinger, 1998). Despite their abundance in rural areas, they have not so much relevance in the sales of the entire retail sector. These shops are limited in size and mainly sell snacks, fruit, drinks and household items.

Moreover, the retail world is evolving and this transformation goes far beyond the online shopping: according to Jack Ma, the most important Chinese business investor and co-founder of Alibaba Group, the future of retail sector is not a question of channels but experience. Thus, new retail consists of offering a new shopping experience without boundaries: all the economical activities need to rely strongly on digitalization and consumer data (Daxue consulting, 2019). For instance, the offline supermarket Hema Xiansheng, which has been opened by Alibaba Group in 2016, has successfully implemented the new retail strategy: the whole retail system is based on digitalized features which are incorporated within the store.



Exhibit 4.4 – Italian coffee at Chinese supermarket.

This means that customers just have to scan the bar codes through the online application to select the product and find all the features and informations, to choose the mode of payments or to get the products delivered at home within short time.

However, coffee in the Chinese hypermarkets and supermarkets still “speaks Italian” as a common saying expression, since that Illy, Lavazza and other Italian brands occupies the majority of the hypermarket shelves, leaving the instant coffee to other brands.

Within department stores, coffee is mainly considered as a luxury item, indeed it occupies a separated and distinguished sector from the rest of the offerings. In this specific section, customers may carefully evaluate all the different brands, different qualities and types of coffee. Of course, the service offered, which sometimes is even entrusted to a trained staff who dispenses advices, reflects a higher price.

In the convenience stores, the prevalence of coffee offerings mainly concern Nescafé, in the form of instant coffee mono-portion bags or various canned coffee with different flavours of different brands.

Basically, it is an offering of ready-to-drink products, which reflects the medium-low class of customers and therefore are more affordable, since their prices are quite low.

Indeed, in this stores is also possible for customers making coffee by their own: through the help of apposite self-service appliances they could decide to make a quick instant coffee at only few yuan.



Exhibit 4.5 – coffee ready-to-drinks



Exhibit 4.6 – coffee vending machine

### 4.3 – Marketing strategies and communication

Since China is a market which is rapidly becoming always more coffee consumerist, a significant number of companies worldwide are elaborating and developing their marketing and communication strategies to conquer and attract the Chinese.

The majority of corporate strategies aim at developing new habits for consumers, trying to stem the cultural influence very far from coffee on the consumer behaviour, even if actually there only few companies which have developed a good strategy for this mass market.

The reason is that they are afraid of damaging the premium brands on which they have hardly worked on. In fact, in the developed and acquainted markets the companies commonly organize and move all the brands horizontally, which means that they develop different offerings. For instance, the same drink which provides different tastes and flavours, is able to attract different segments among consumers in addition to the specific segment that company has pointed.

In non-acquainted markets, such as China, the main goal of the companies is catching up a wide range of consumers belonging to different classes and owning incomes at different levels. Therefore, the best strategy is moving the brands vertically, so that they could offer different kind of products that provide different benefits for different consumers at different incomes.

This strategy, however, is quite risky because it may damage the brand image in terms of the original premium product's consumer and, as a consequence, the new products which are commercialized at lower prices could end up cannibalizing sales.

In order to avoid the possibility that moving brands vertically could damage the brand image, it would be better to introduce a new brand which targets consumer's segments of medium/low income with appropriate prices.

Obviously launching a new brand is truly expensive: the Chinese consumers are daily bombarded with several advertisements and the competition is quite heavy, so that making space and reaching a consistent market volume requires huge investments.

Due to the cannibalization process eventually caused by the brand extension, the

marketing managers, after having identified the consumer's needs, should separate the premium needs from the generic ones and only then develop offerings at different levels that also differ as a sales point.

However, both the global brands which have already entered the Chinese market and the new entrepreneurial brands which look for growth opportunities always wonder which type of marketing strategies are going to work properly.

According to GMA or Gentleman Marketing Agency, which is the Shanghai based company focused on Chinese digital growth and on helping companies to thrive in China, there are some key-insights which should be taken into account when crafting strategies:

1) brand awareness: since Chinese consumers are surrounded by a significant number of unknown brands and countless producers (the legal system has not still developed a system to prevent consumers from being cheated by counterfeit products) coffee companies need to create a brand awareness, which is a priority. Due to the previous reasons, the Chinese consumers have become more paranoid towards the less famous brands, but actually are more prone to change their mind: they are willing to pay even higher prices if those brands may increase their social status. This exactly what has happened with coffee: all the brands which have pointed on the brand awareness as starting point of the overall strategy, ended up exploiting the social recognition that the coffee offers to its consumers.

2) social media marketing: the majority of Chinese citizens represents a massive amount on the social media. According to a McKinsey survey, over the 95% of Chinese people have at least one account on at least one social media. Furthermore, the Chinese users are rather active than in other countries, and, in this way the social media become a vehicle to address the buying decisions of consumers (McKinsey, 2012 ). The increasing emergence of the digital marketing and e-commerce activities reveals the importance of the web impact: generally, if a product is being discussed positively online, particularly among friends, Chinese consumers are more likely to buy it. This is the main reason why in China why the social media are especially sophisticated and divided, because their role is to generate brand awareness and engage consumers. Due to the increasing role of digitalization in China, also the



coffee companies need to keep up with the newness: indeed Luckin coffee has successfully elaborated a truly *coffee network* with digitalized services, allowing consumers to simply order online their coffee and drinks. In this way, other coffee chains have followed its example, trying to point at the digital marketing action to strike at Chinese consumers.

3) The brand website: the digital ecosystem alive in China has brought companies to integrate the website into the consumers' final decision process. Indeed, when it comes to purchase a product, the website is another hub of information, which should not be underestimated. It should be adopted for the mobile usage as China is first mobile-using country and designed methodically to satisfy the local customers. It is clear that in order to be successful and achieve a market growth, coffee companies need to optimize their business at different level, including the digital one.

Despite all these missteps foreign businesses have taken when marketing in China, Chinese consumers are possible to please if a company is able to market them in the right way. Thus, especially regarding coffee which is such an exotic product, the two crucial things in crafting strategies are the understanding of the local culture and convey the message in a culturally appropriate way. These appropriate messages that must strike at consumers need to be conveyed, not only in the brand image and the coffee promotion , but also in two main categories of the marketing plan which are fundamental for conquering Chinese people: packaging and price.

#### **4.3.1 – Packaging**

The appropriate marketing communication and managing of products implemented by companies for the Chinese consumers needs to pay much attention to some cultural variable, which may crucially affect the purchasing decision and that should be exploited as advantages. Coffee is not an exception: Chinese consumers are still very superstitious and seriously take into account some old belief and historical tradition. In this way, an object or few words, a product, may convey a certain message which should be carefully

elaborated to prevent customers from the bad luck or the association with negativity. It is not surprising that the still today the opening of some stores is very focused on location, not only for the promotional advantages: the *fengshui*, also known as the Chinese geomancy, is the traditional practice which is based on the usage of soul forces to enable individuals to reach the harmony with the surrounding environment. Still today it is the principle which is applied to prevent the bad luck and misery in choosing location and places to which build a structure.

When it comes to marketing coffee in a country with thousand and thousand years of history and cultural tradition, a wise foreign brand should be careful to not challenge these superstitions and cultural practice, but exploiting them as much as possible.

In conveying promotional messages as in developing the packaging of products, marketers should be aware of some ancient, but still present, cultural superstitions: for instance the importance of numbers and colours. The number 4 in Chinese recalls the sound of the word “death” and for this reason this number is thought to bring bad luck and is avoided in several social contexts, meanwhile, the number 8 is positive and is thought to bring fortune and prosperity, the colour red generally has positive influence on Chinese consumers, as it represents the good luck and the mood of celebrations, is the colour of the national flag and the symbol of the Communist power.

Thus, the packaging and the packaging design of a product, which has only three seconds to grab the attention of a consumer, need to be carefully elaborated in China.

In fact, in China the packaging design is particularly relevant, not only for its protective function toward the product, but above all for communicating its benefits and attracting customers.

According to Lab-brand, the colours on packaging are able to raise the brand recognition by the 80% and influence from the 60% to the 80% the buying decision. Chinese consumers usually are attracted by bright colours, especially for food and beverage products, and tend to prefer pastel colours (Labbrand, 2009). Indeed, since that when it comes to purchase something, the decision is pretty quick and consumers quickly look at all the offerings, they put much attention on the typeface applied on packages. The majority of companies have gained success in China have carefully and methodically elaborated the images and patterns visible on the packaging.

For instance Nestlé, which is the first foreign operator in China which dominates the off-trade sector with Nescafé brands, has changed its packaging for several products: different colours or some local Chinese cartoons and famous icons, in order to appeal to local culture, are becoming the main characteristics on the packages of coffee products.



Exhibit 4.7 : Nescafé coffee packaging in China.

The packaging of a product is able to appeal to consumers especially thanks to the label and the typeface because they are leading visual element on any package.

Since different countries have different regulations and requirements regarding the products labels, therefore the size and the layout of informations must change accordingly before entering the specific market.

Chinese people are consumers very careful about some informations on the labels, especially those referring to healthy benefits and values of a specific product.

Particularly in the food and beverage sectors, the focus on wellness is changing their purchasing behaviour and creating new opportunities for foreign investors.

This concern for the health, physical as mental, find its roots in the cultural tradition again: peanuts are the symbol of longevity, orange are the symbols of good luck, seaweed are the symbols of rick and so on (Journal of Ethnic Foods, 2015).

Appealing to the healthy values of a product is a great strategy for companies: Chinese people deeply take into account the traditional Chine medicine's theories about the properties of some products and ingredients.

Offering a product's healthy benefits and values it may have on the health, could mean attracting a vast majority of Chinese consumers. Some coffee companies have mainly relied on this belief, adopting the packaging properly to show off the coffee benefits on the health, such as a boosting energy



Exhibit 4.8: Coffee products packages

Beyond the labels, Chinese consumers are suspicious and want to be sure about what they are buying. If the product is not so well known or recognized, the initial best strategy would be selling small packages rather than large quantity packages, so that can stimulate a first trial (Vescovi, 2015). For this reason several companies have applied this strategy of the mono-portion coffee bags, which is especially productive in the convenience stores and also for those consumers which still privilege instant coffee over the ground and roasted.

Also the choice of materials used in the packaging is very influential in the final choice of the customer. Indeed, a growing section of the Chinese consumers is concerning for the waste material, instead price sensitive consumers are less concerned about the recycling of packaging and more careful about the product's value. Thus, the materials used for packaging is the reflection of how much the company understands the local market. In this case, companies such as Illy or Caffè Pascucci which currently operate in China, are particularly successful since they have always put much attention on the environmental sustainability.

To sum up, the packaging design needs to catch up the attention, stimulating curiosity and creating connections with the market's culture, especially the Chinese one with its long story. In order to be successful in this country, foreign brands need to reinterpret their identity through the eyes of a Chinese consumers, so that, can understand how colours, numbers or images conveyed could be attractive.

#### 4.3.2 – Price

When products are standardized, and therefore it is very easy to compare each others, the pricing strategy could make the difference in the final purchase decision.

If the coffee's quality is fundamental for selling abroad, the price of this specific product also depicts the element of the marketing mix, which is carefully evaluated by all consumers. In China, the perception of difference in the prices is immediate, even when the consumer is not able to distinguish quality nor service. Some studies have also notified that Chinese sellers, hired by Italian enterprises, are not able to perceive the value of the brand and consequently have greater difficulties in finding the appropriate methodology to sell Italian quality through a premium price (Busato,2011).

Setting price changes a lot whether it concern consumption goods, industrial goods or capital goods: for consumer goods, the lower is the per capita income, the bigger is the importance of the price. Therefore, in developed countries the price of consumption goods is less considered as in country like China.

Price accessibility is a critical point in order to gain the mass adoption by consumers (Kotler, 1999) :

- a price set between the 30 and 60% above the market price is a guarantee of gaining many segments.
- an extra-charge about the 30-50% is more balanced, as consumer can afford the purchase and meanwhile may have the perception of better quality and condition.
- a high final price is usually adopted by companies that remain in specific niche markets with global brands.

For Chinese consumers, price is an indicator of quality: the higher the price, the better the quality. For instance, selling coffee, a product coming from a developed country and setting it at low price, may be confusing for Chinese consumers, so that an excessive low price is not always the winning choice.

This factor, united with the perception of Chinese people about quality and quantity (more quantity stands for more quality) has allowed the consumer to justify the higher prices of Starbucks offerings. This reveals that the social value of products, that push Chinese consumer to buy them just to show that they can afford it, may be important when operating in the high-quality sector, setting the price according to the coffee experience offered and applying a *prestige pricing*.

Indeed, Chinese consumers are sensitive to price fluctuations and at the same time they have accustomed to spend large amount of money whether they believe that the product worths it. On the other hand, it could dangerous for companies relying only on low prices, because even if some segments could be definitely attracted by this perspective, the brand image could be damaged, since it could be resulted to be cheap and of low quality.

However, nowadays the price of coffee has become a problem also for some Chinese: great controversies broke out over the high price of a cup of coffee.

The CCTV, the Chinese public television, has recently criticized Starbucks for its pricing policy, which would be more expensive in China than in the United States. Indeed, a latte-coffee in one among the thousands Chinese Starbucks costs almost 27 yuan (about three euros), which stands for the 30% higher than sold in some of Chicago's stores.

The CCTV has declared that the American multinational “aims at getting richer behind the Chinese” and Starbucks has replied by explaining that the operating costs in China are particularly high and the import of coffee beans is subject to high taxation (almost the 15%) and this especially due to the fact that coffee is still considered as a luxury item. However, the price war fought by the western companies within the Chinese market is always in progress, at the point that several companies have earned the reputation for being easily prone to start a price war and implement pricing strategies.

This happens mainly because defining an appropriate pricing strategy is part of the company's core strategy, whether is maximizing profit or creating repeat sales.

Since the population of China stands for billion of consumers, which are particularly sensitive to price, a significant number of western companies have focused on the price shrinking as the strategy more likely to get rewards.

According to three different pattern models, there are three pricing strategies regarding coffee which have revealed to be particularly successful:

- Heytea (high quality and cost effective model) → Heytea is a Chinese tea chain founded in 2012, which has also ended up offering coffee, whose stores daily sells almost 3000 cups at the average price of 25 RMB per drink. The success of this model lies in the combination of the pricing strategy, through which the company has positioned itself as providing high value added products, the premium location and an effective promotional campaign (Heytea, 2019).
- Taobao (freemium model): the freemium model applied by Taobao is actually very familiar with all consumers worldwide. This model provides to online users some limited functionalities for free and only after, whether they want, could pay for advanced and premium functions. On the other hand, they could also pay a fixed amount of commission to be ranked on the top of seller's list to gain more visibility on the platform. Taobao allows Chinese consumers to deal with a significant number of coffee brands at different or discounted prices, which in several cases stimulates the curiosity of new customers.
- Vipshop (discount retail): the discount retail pattern is only focused on online discount retailer which are engaged to sell a wide range of branded products, including coffee, famous worldwide. Vipshop is also particularly renowned for its flash sales strategy, which means that the company fix a specific amount of products to be sold within a fixed period of time during the retail off-season (Vipshop, 2016).

#### **4.4 – The market leaders**

The Chinese coffee market is highly competitive. In order to achieve a market growth, all

the major players have been focused on partnership, acquisition or merger and in spite of the local presence, the global brands and highly consolidated multinational play the key-role.

In the last few years, the total sum of coffee houses and café bars have rapidly expanded, reaching the amount of almost 6 thousands branded chains and also new investments made by the larger MNCs are expected to grow by the 2022.

This competitive environment is mainly fragmented: on one hand there is Starbucks, which is a symbol of modern lifestyle and has already opened almost one hundred of stores in the country, Nestlé has also played a crucial role as it has been the first multinational to develop a coffee plantation in China to increase its instant coffee market share, and on the other hand, the emergence of several local brands which are also gaining the preference of a multitude of Chinese consumers.

The reasons and strategies that led these companies to success have been different, but a broader view highlights some points in particular, that may be considered as precious advices:

- location → the position of the store is definitely a lasting advantage of the pioneers, which proves fundamental. Whereas the coffee market is competitive particularly in the urban areas, MNCs have made large investments to secure themselves a place within the best shopping malls or the major intersections. Actually, according to Carol Liu, which is the co-founder of Big Sugar Tea and Coffee, the real challenge for local brands is to compete with Starbucks or Costa chains as they have a very strong location strategy.
- Fun and sweet choices → entering the Chinese market, a foreign brand must consider that the strong taste of the Espresso or and American coffee are both not so much appreciated by the Chinese consumers. Innovative products and sweet drink options, on which several independent stores have been focused and that enhance particular tastes, have found much more success.
- premium product → If an innovative product attracts the majority of the market, there is also a smaller segment which is interested in tasting the real traditional coffee culture with its tastes and locations. Since Starbucks, and other international



coffee chains as well, are not able to offer this reality, the niche market plays a key role in offering a premium experience and a possibility for those companies that have entered with sophisticated offerings.

- competitive prices → as the Chinese market is quite heterogeneous with consumers at different income levels, the price is fundamental, especially in the small cities and less urban areas where the business is not fully mature. The coffee prices in China are so much higher than other western countries, including the USA, and the strategy of several coffee shops is maintaining a balance in being affordable but not being perceived as low quality.
- digitalization → as Chinese consumers are highly online connected users, the digitalization of services should be a driver to success. For instance, Luckin coffee, through an appropriate promotional campaign and exploitation of the main social media, have earned the preference of several members by growing its customer base on networks.
- social event → drinking coffee is considered a social event, which takes place in comfortable environments with friends. For this reason, if in Italy is possible to see also someone drinking coffee alone or walking on the road, in China the companies need to aim at create a social environment and stimulating products which may attract the young targeted consumers.

In conclusion, we could argue that the Chinese market has been the ground for different kind of experiences and is characterised by three different models of strategies: the experiences of the larger multinational that has educated the market and could rely on lasting advantages, the second movers which have entered the niche market with their sophisticated products for privileged consumers and finally the local brands, which are competing with the previous ones and are slowly earning more and more market share thanks to their ability of understanding the local market.

#### **4.4.1 - The first mover: Starbucks' experience**

The history of Starbucks in China begins only in the late 1990, when Lawrence Maltz, which was the president of board and former executive, decided to challenge the Chinese market by entering in this huge and non-aquainted market with a growing potential. The first Starbucks store was opened in Beijing at the China World Trade Building.

Today, Starbucks in one of the major leaders in the coffee sector in China: its world's largest store has been opened in Shanghai, in addition to the other 5.000 stores in almost 200 cities, employing over 58.000 partners (Starbucks China, 2020).

The total amount of the stores is only one of the symbols of the company's power, which is also reaching other geographical areas.

Indeed, at the beginning the Starbucks stores were located only in the richest coastal areas and cities, and only after it was decided to expand the activity to the rest of the country, considering also the most remote areas.

Today is possible to find a Starbucks almost everywhere and, in fact, despite the competition from other western companies such as Nestlè or Costa coffee, it still represents the 60% of the market share maintaining a dominant position.

According to Andrew Hetzel, a coffee trade expert, the birth of the coffee market in China has been necessarily linked to the Starbucks experience, which has united the growing western influence of the 1990s and the phenomena of the millennial generation (Dimock, 2019).

This idea is based on the assumption that the increase of coffee consumption recorded in the 1990s coincided with the economic development and the opening of the country, which has led an increasing number of young people, defined as millennial generation, to adopt western habits and customs.

As these youngster have been born during the economic reforms, they have automatically born with new technologies and educated with different ideas, so that the cultural gap between this generation and their parents is extremely broad, particularly if concerns the Westernization of China.

However, Starbucks has also been able to understand how the Chinese market works and from the beginning has also put much attention on the local culture, developing a long-term vision, establishing local partnerships and relationships and customizing the offerings accordingly to the market.

Indeed, when the company entered the Chinese found a great doubt to solve: if it were better to change the Chinese tastes at all or to develop offerings appealing the local tastes. Starbucks' leaders have bet on the new young generation of Chinese people which have been born watching American movies and dreaming of western lifestyle, with a growing spending power and the desire to increase their social status.

Once that the first customers entered the first Chinese Starbucks the education process began: firstly by handing out key chains to help new customers learn how to order, then with the help of employees, who wandered around the shops offering small cups of pumpkin latte or different new innovative products to encourage the first trial. This strategy seemed to be rather effective (Lamb et al., 2012).

In addition to the consumer's education, Starbucks has been very careful about the role of coffee in a society strongly accustomed to the tea for thousands of years.

For this reason, the company has aimed at becoming something different, a place which may be considered something in the middle between home and the working hours, that may also appeal customers for its western and modern ethos.

Since that previous days, Starbucks has been methodically managed its plan accordingly with three pillars of the Chinese society: the importance of family, the importance of the community and the group and the importance of the social status.

- Family → Starbucks has clearly understood that family has always played a key-role within the society, not only for Confucian system but also for the educational role of parents in their children future life, including also the work life. For this reasons, from 2012, the company has annually organized a “Partner Family Forum”, which is a meeting of all the employees and their respective families so that they may mutually learn about the company future plans in China, and a “China Parent care program” through which the company has promised to provide the health care insurance for the elder parents of a fixed number of employees. In this way Starbucks has definitely struck on the Chinese inner values (Wang, 2012).
- community → among Chinese consumers, the community and the group reference is the most importance source of information and approval. In this way, Starbucks have exploited the value that Chinese give to their group reference, designing its

spaces and location specifically to facilitate these circles and welcoming the crowds and noises.

- Social status → Chinese consumers consider the social status and reputation particularly related to the branded products, so that a brand which represents prosperity or success is highly appreciated. Starbucks has positioned itself as a premium coffee brand, choosing the best location for its outlets such as luxury malls, and focusing on the symbol of western lifestyle of its products at higher prices to convey the high quality of its products



Exhibit 4.9 – *The Starbucks' partner family forum.*

Starbucks defines the example of a global brand's experience in a non-acquainted market: it surely relies on a deep commitment to the market, also opening the road for less powerful companies

Nestlé, as another powerful multinational, when firstly came to China in 1980s, choosing Shuangcheng city in the Heilongjiang province as starting point to develop the business. At that time the company, due to the fact that had not earned so much power yet, opted in favour of a partnership, cooperating with the Shuangcheng government in order to improve the training of the local farmers and engaging in joint ventures.

In spite of the evidence that today other companies, such as Fraft or Maxwell House have begun to purchase the Yunnan Arabica beans from the locals, the Nestlé company currently holds the 68% of the instant coffee market share.

Nestlè accounted for more than 80% of retail coffee sales in China and its dominant market share is largely attributed to its early arrival, the fact that has set up a Nescafé factory in Dongguan and its successful marketing and sales activities (Fu Jia et al,2017). To some extent, it is very difficult for domestic players to compete with the larger multinational companies.

#### **4.4.2 - Luckin coffee**

Thanks to the massive local coffee production, mainly in the Yunnan and Hainan provinces, a significant number of local brands have also been able to gamble with the coffee market.

Since the large multinationals hold the majority of the market share, the local brands still have little space within the competitive environment, but among them, there is one which has been particularly successful.

Luckin Coffee, is the Chinese coffee company and coffee house chain, whose strategies have allowed the company to compete with the foreign brands, such as Starbucks or Costa Coffee, and whose offerings have been able to satisfy consumers from different point of view.

Luckin coffee was founded in Beijing in 2017 by the Chinese entrepreneur Jenny Qian Zhiya with a straightforward goal: to become the dominant coffee chain in China.

Just two years later, the company is currently running its business in more than 3000 locations worldwide, although the majority of them have born as small pick up locations, placed close to office buildings or universities campus, that provides an online orders and pickup delivery (Luckin Coffee, 2019).

Indeed, Luckin coffee's business model is totally different from those of its competitors: it is based on a rapid expansion not of only the physical presence, but especially the digital one.

Through the company digital and high-tech competencies, Luckin coffee aims at becoming the first “coffee network”, nickname which already uses to define itself. In opposition to Starbucks high-end strategy, Luckin coffee aims at creating increasingly

digitalized environments to guarantee the speed of the service and setting relatively lower prices to raise the brand awareness.



Ehibit 4.10 – Luckin coffee's digital services.

Due to its digital vocation, the company has already entered the digital commerce, developing different app of online purchase delivery so that in future the purchases may only be made through the Luckin mobile application.

As it is a Chinese company which surely knows the Chinese tastes, its offerings are coffee-based drinks which should be found in other coffee shops, but also some drinks whose recipe has been elaborated specifically for the Chinese consumers (Mary Hui, 2019).

Cost savings plus the predominant digital operations allows Luckin to offer comparatively higher wages to its employees and undercutting the Starbucks prices at over 20%.

Luckin coffee's model allows the customers to choose between four different stores: the elite stores (which are the premium experience), the relax stores (which are following the model of Starbucks or Costa), shops fronts (which are exclusively for the mobile pickups) and private locations (where all the orders are dispatched).

In May 2018, the company has submitted an open accusing letter toward Starbucks company, which according to their point of view, have violated the China anti-monopoly law. Indeed, the accuse was based on the fact that the company have signed rental contracts with property owners to limit them from making agreements with competitors. This argument ends up including several coffee brands, stores which were making more than the 30% of the market share and even stores which only accounted the word “coffee” in their name (Zhuoqiong, 2018).

#### **4.4.2 - Local brands**

Beyond the Starbucks supremacy, Lucking coffee should also be careful about the UK based Costa Coffee, which is still expanding its business in China reaching the 500 stores in the whole country, and the increasing popularity of other local brands is becoming everyday more relevant.

- Lisun Coffee: has been founded in the 1987 in the province of Hainan island. Indeed, the company manage its own plantation there, exploiting the local products to develop different kind of recipes and selling roasted coffee as well. The company has earned a reputation in the instant coffee sector, especially due to its wide range of products with different tastes contained in the blends.
- Hogood coffee: founded in the 2007 in the Yunnan province, which is the most important location for Chinese coffee production. Indeed, Hogood is one of the most renowned coffee producers: it sells roasted and ground coffee, including the whole beans, and instant coffee products. It has also recently started to export its offerings in Europe.
- Nanguo coffee: has been founded in 1992 in the Hainan island. Such as Lisun, Nanguo Coffee has focused on the native products, using coconut and coffee in order to develop its products. Its coffee based products are mainly sold as solid drinks including coconut coffee and “Tao Shao coffee” which is a powdered one.

Despite the expansion of coffee in Chinese market, it is unlikely that coffee will replace tea in the cultural custom, but more and more Chinese are enjoying drinking this beverage. With the development of local brands and the Chinese production of coffee, the market has a great development potential. Apart from coffee retails, coffee shops in China and foreign café branches, independent stores are now opening in the small to middle range cities, enabling people to learn more about the beverage.

#### **4.5 - Italian firms and the China experience**

The current business relationships between Italy and China are quite complicated and the understanding of such relations requires the analysis of socio-economic factors which have changed in the last years. In 2001, the entering of the Popular Republic of China in the World Trade Organization (WTO) signed the opening of the country toward the global business, offering at the same time a wide range of investment opportunities for several companies belonging to different countries. From that moment, despite a significant number of enterprises exported or invested to China, defined as the hugest and the most profitable market in the new global economy, most of these attempts proved unsuccessful. This kind of phenomenon regarded also Italian enterprises, that especially due to their small size, felt very deeply the difficulties to approach such market and most of them gave up after the first disillusionment. The reasons of these failures are connected to complex dimensions, such as ideology, culture, politics and customs: in other words, there was an underestimation of the cross-cultural studies, so that the most common mistake made by them was to let the most densely populated country in the world coincide with the most “populated market” (Barbatelli et al., 2015).

Due to its strong COO effect abroad that we have mentioned before, Italy has been truly penalized if compared to other countries' situation: especially in the food and beverage markets, the undoubted popularity of the Italian products turned into hundred of imitations and counterfeit products. This has been possible especially because of the law regarding the copyright which in China is quite weak than in other countries and therefore, several products could be commercialized against the international standards,



hurting the turnover of the Italian companies.

These counterfeit products are very far from the real quality held by the Italian producers, and the majority of them aim only at imitating the brand, the design or the packaging.

In China the violation of the Italian property has become so massive and widespread that has been referred with the name of Italian Sounding, which describes the concept of imitating and recalling the Italianness of a production.

This imitation relies on different kind of features such as names, colours, slogans, places which are associated with Italy, or sometimes, does not even have any kind of relationship with our country but are used to convey an ambiguous message to the customers.

In the case of coffee it is very common find products which recalls names and quality of Italian espresso, something which is very common also in the coffee bars' menus although their offerings are very far from the Italian tradition. The majority of these commercialized coffee products or offering are quite trick for customers, especially the Chinese which do not have a certain degree of experience in terms of coffee.

Another stumbling block for Italian coffee companies is surely represented by the different legal and juridical systems very far from those in the western societies: Chinese leaders has always pushed on the application of the *rule of law* which means the instrumental use of laws to facilitate social control and to impose punishment.

The application of the Western law or juridical systems, in which the Law embodies absolute rights, even if against a public welfare, is seen as a huge demonstration of individualism that would be inappropriate to reach this kind of stability, that has always be strengthened by the Confucian conception of hierarchy among social relations (Barbatelli et al., 2015).

Another heritage still influential of the Confucian tradition are the well-known Guanxi or “relations”, which represent the effective rules that shape the international business in China and they are the result from family-relationships, loyal customers, localist attitude, social hierarchy and so on.

For several coffee companies, such as Lavazza or Nestlè, the establishment of joint-ventures with locals has been fundamental in studying the local culture, but at the same time dealing with the Guanxi has become a serious problem: during the operations the

Chinese party benefits of relations with the public administration that can prevent the partner from performing his respective duties and powers in an appropriate ways (De Vecchis, 2017).

Due to this reason, despite the joint-ventures are often chosen as vehicle for entering new market worldwide, several investors prefer establishing an entire new foreign society in China rather than relying on a joint-venture subject to the Guanxi.

Furthermore, when relying on the Guanxi system, Italian operators often tend to trust this relationship-network or pretend to be comfortable with it, following the partner in very risky businesses and attempts in which they do not have any kind of control or power.

The story of the joint-ventures in China, especially for Italians, has been a true disappointment in many cases, with very few cases of enterprises being successful.

From the beginning of 90s the situation started to change: new type of investments have been introduced – such as the acquisition of Chinese societies – and, on the other hand the vehicle of wholly foreign-owned enterprises (WFOE) have gained success among foreigners that now have more experience and confidence rather than in the past.

#### **4.5.1 – The niche market**

Although the previous mentioned difficulties in dealing with the Chinese legal and commercial system, several Italian coffee companies has proven successful, especially relying on the concept of “specialty coffee”.

This word has been originated in the United States, where people started to use it to indicate all those coffee-based products which were sold in the specialised and dedicate coffee shops. Actually, this term was useful especially to provide the difference between the coffee products that were found on the supermarket shelves and the other retail stores (Gibson, 2018).

Today the adjective *specialty* indicates those coffee beverages offered to customers in the cafes bars and coffee houses, in opposition to the restaurants and other catering establishments. The product range encompasses all the high-quality coffees, despite they are blends or single, and unconventional coffees such as flavoured or with an unusual

background or story behind them.

However, the increasing growth in specialty coffee outlets and the specialty coffee products which have ended up to be sold in common outlets, has led the term to lose its initial meaning.

Nowadays, these two words are used to label a range of different coffees which provide a premium experience, are set at premium price or are perceived by customers as superior and different from the widely available brands.

It suggests a certain degree of exclusivity as these types of coffee as often limited in their availability, their sophisticated and different tastes appeal to different targeted consumers that are willing to pay a premium price for their value.

Thus, a niche market is a market which includes certain conditions of exclusivity, that enable consumer to get in contact with single species or single product, which have been originated in the greater ecological or commercial environment (Gordon, 2002).

For this reason, whether a coffee should be available in a niche market, it must respect two main conditions: the high quality and the availability to the selected consumers.

Due to the fact that these products are specifically specialized and methodically elaborated, they are likely to survey in the competitive environment. This factor has led several brands to create products appositely for different niches, whose consumers is always a little amount of people.

As we have previously seen, the work done by Starbucks and the other MNCs allows the education of the market, allowing smaller companies to enter the market: in this way they could aim at the niche market offering higher quality products at higher prices.

This is the case of some Italian firms, such as Illy or Lavazza, coming from sophisticated markets like the Italian one, whose conditions are impossible to replicate.

Actually, the emergence of specialty coffees in China has already begun to take ground: in addition to the Italian brands, several industry specialty coffee such as Irving Farm in the USA or Mile in the UK, are currently serving up China single origin coffees with the welcoming and the approval of the local consumers.

Among the Italian experiences, Caffè Pascucci and Lavazza are the two Italian coffee house chain having a renewed experience. They have conveyed the specialty coffee's quality and efficiency within the Asian markets, especially the Chinese one.

#### 4.5.2 – Lavazza

Lavazza entered the Chinese market in the 2011, after that the larger multinationals have developed the demand for the product and have educate the consumers.

In order to penetrate the market, this Italian company has relied on its Lavazza Espression store, which was launched in 2017 to represent the brand at global level.

Indeed, the purpose of the Lavazza Espression is to spread the Italian coffee culture worldwide, guaranteeing the taste and offering a high-quality product in a modern location where consumers may appreciate the creativity and design.

For this reason, when entering the Chinese market, Lavazza opened the first fifteen stores in the main Chinese cities, such as Beijing or Shanghai, with the aim of promoting the brand image, encouraging the first trial and the purchase of the product with the benefits of immediate royalties. Moreover, the first commissions collected by the company have been used to sell the know-how.

Ehibit 4.11 – *Lavazza Espression shop* in Beijing



Since Chinese consumers did not know the company nor the offerings, the Lavazza business model certainly was concerned about the customer education and creation of the

brand awareness, at least in the first moment. Only later, when customers would have reached a certain degree of education, Lavazza would have focused on the retail sector, especially concerning the instant coffee segment, which still stands for the largest demand in China (Vescovi et al, 2015).

In the coming years, if on the one hand the Lavazza Espresso has strongly contributed to the knowledge of the brand, on the other hand has also allowed the Chinese consumers to live an experience plenty of Italianness for what concerns the taste, quality and style.

However, all this would have been impossible without the local help, therefore Lavazza has relied on a local partnership with a Chinese investment company, the Guangdong Hongcheng Chao Coffee Catering, which has been responsible for the developing of the Lavazza Espresso chain in China.

The combined strategy envisaged the opening of the stores in the main points of the urban areas and shopping centres, matching the cosmopolitan characters of cities such as Shanghai or Beijing, which could have conveyed to consumers the internationality of the brand.

In this way, Lavazza on one hand has been able to take advantage from the rapidly growth and modernization process of the country, and on the other hand to target the larger segments of the Chinese market which are attracted by the Western products and are interested in living a customer experience close to the Western style.

The business model also provided that, whether the first openings have been successful, the opening of two hundred of following shops by the next six years across the whole country. This forecast proved to be correct, because today the Lavazza Espresso conveys to Chinese consumers a mix of modernity and Italian charm, offering not only the authentic Italian coffee, but also a wide range of drinks and dishes.

Indeed, the menus provide a wide range of drinks and foods, which are liked to the Italian culinary tradition, but of course, there has not been a lack of sensitivity toward the local culture. Here, the partnership have played a crucial role in adapting many offerings to the Chinese tastes: along with the traditional cups of coffees and cappuccinos, it is also possible to order different sweet or savoury dishes, whose names bring to mind the Italian tradition, but that in reality are very far from being Italian and have been developed to be closer to the local tastes.

In addition, Lavazza has also wanted to raise the bets, giving the possibility to Chinese consumers to taste and judge the new type of coffees recipes designed by the company within an exclusive location: the niche market has been totally conquered by the company sophisticated offerings and the combination of modernity and design, which are conveyed by the creative environment.

As far as the retail sector is concerned, Chinitaly annually carries out a research in the Chinese supermarket to check the changes in preferences of the Chinese buyer or the arrival of new brands and products.

In those western-friendly supermarkets, which are mainly located in the most cosmopolitan cities, there is always a large presence of international brands, an example of what may be developed in future also in other cities which now are less opened toward the Western style.

According to this market research, Illy and Lavazza are the masters on the supermarket's shelves, showing how our Italian companies, despite the small dimensions, are managing to conquer more and more space within the life of uneducated consumers.

#### **4.5.3 – Caffè Pascucci**

The history of Caffè Pascucci begins way back in 1883, when Antonio Pascucci decided to become an entrepreneur in the food and beverage sector.

Its activity will be the inheritance of a family for whole generations up to the current format, which is a coffee chain spread in more than 25 countries worldwide.

Currently, the Caffè Pascucci shops is one of the most recognised Italian coffee chains abroad: this is mainly because this franchising company has been able to develop a unique activity of this kind. On one hand, the Pascucci shops are comfortable location where is possible to live the experience of tasting the excellence of coffee blends, and on the other hand, its menus provide also herbal teas and a wide range of catering products at any time of the day. It is not surprising that has become an habitual place for customers, whether they would like to enjoy a brand or a break.

Also among Asian consumers it is rather famous, in fact it is a popular brand in China,

Korea and Japan, with about 500 coffee shops around the world.

In 2014, the company entered the Chinese market and, in order to do that, the company signed a franchising agreement with The Difu Holding Group, which is a Chinese company responsible for consumer strategic research and investments, that may help foreign firms to enter the Chinese market.

The choice of the franchising agreements have been also useful for developing and promoting the brand and to enter in several Middle East countries (Pascucci, 2007).

Indeed, the partner of the contract has the exclusivity on the opening the Caffè Pascucci shops also through third parties.

The partnership of a Chinese company has been crucial in understanding the local culture and penetrating the market at such level that, in 2015, only after one year, the first Caffè Pascucci stores have been opened in the main points of Beijing, Tianjin and Suzhou.

The key-success of their business model is hidden in some points:

- training
- innovation through the constant research in obtaining the best coffee blends
- raw materials and high-quality products
- sustainable production, regarding the natural environment and people
- a refined and elegant place
- qualified and trained staff to give the consumer the best experiences

The current Chinese beverage and foods market detects the new trends which are taking hold in this sector, particularly regarding the healthy functionality of a product. Products with healthy features and benefits are expected to sudden growth in the future. In addition to these characteristics, there is also an increasingly concern for the ecological sustainability among consumers (Pascucci, 2007).

Pascucci has been an example in this way, attracting also a specific target of the Chinese market, that segment of Chinese consumers who pay very much attention on the organic products and methods of production.

Starting from the choice of using only coffee beans of quality, that come from the company owned plantation, Pascucci has gained the public's favour thanks to the decision

to become an organic producer.

This “green” choice turned into a growing market and profit, as consumer appreciated this shift of coffee culture and this attention toward the environment, that should be an inevitable path for all the companies.

Indeed, Pascucci Caffè has conveyed a specific message to the Chinese audience, which is that a coffee of excellence passes through a long path: research, agricultural support and passionate experience.



Ehibit 4.12 – Pascucci Caffè Shop in Tianjin.



## CHAPTER V

### THE CASE STUDY: ILLY EXPERIENCE

#### 5.1 – History

The Illycaffè S.p.a has been founded in 1933 in the city of Trieste, and since that year it has been operating in the production and marketing of high quality coffee, for the on-trade and off-trade channels. The company's offer is wide and includes roasted, ground, coffee beans or inserted in special pods or capsules, coffee-making machines, accessories and author's cups. Currently the company, still family-run, has over 700 employees and the 44% of turnover in 2014 exceeded 300 million euros in Italy and 56% abroad in 140 countries. Although Italy remains the main market, Illycaffè's international vocation has characterized the company since the beginning.

In 1993, year of the company's foundation, the city of Trieste was one the most important harbour on the Mediterranean sea for the Italian trade of coffee.

Indeed, the city was the centre not only of several coffee business activities run by many entrepreneurs, but also the centre of the contemporary literature expression of the European culture: the city's literary cafes were famous as they were attended by a significant number of renewed writers, such as Svevo and Joyce.

Francesco Illy was one of the several entrepreneurs of the time: born in Timisoara (Romania) in 1882, he was forced to interrupt his economic studies due to the outbreak of the First World War (1914 – 1918) and moved to Trieste where started working for a roasting company specialized in coffee and cocoa.

Only later, he decided to make coffee as his job, dedicating himself only to the black water, as the Espresso is typically called in the city's bars: in 1933 founded his own company, which has always been linked to the story of the family, so deeply that still today is managed and guided by the third generation of Illy's family.

Actually, the entrepreneurial vocation of Illy was quite risky during those time, due to the fact that Trieste alone accounted for almost 70 companies, which were specialized in the

coffee business and coffee commercial activities.

In order to differentiate his work and bring out his company against the several competitors, Illy bet on innovation. Indeed, the history of the company is based on innovation and from a technological-production point of view, some of these innovations have marked the fundamental stages, as well as business development of the entire sector. In particular, Illy has developed three of the radical innovations that in the last century have contributed to revolutionizing the world of coffee:

1. pressurization (1934): a new patented method of preserving the aromatic qualities of coffee over time, made with inert gas that imprisons the flavours and protects them in the long term. This method has been improved over the years and today it is still applied (Pracucci, 2017).
2. Illetta (1935), the first espresso coffee machine, at the base of the current professional machines. In other words, it was the first automatic coffee machine, which aimed at replacing the traditional pressurized water with steam, which since that moment became the Illy professional espresso machine.
3. the pre-packed pod (1974), in paper, which contains a dose of ground and pressed coffee.

Subsequently, from a technological-production point of view, other innovations were also proposed. The system for the digital selection of beans (1988), which was introduced by Ernesto Illy, Francesco's son, adopted an automatic chromatic selection machine, which was commonly applied for diamonds, in the coffee industry, so that this appliance was able to select only the perfect beans. Later (2007) was patented the Iperespresso method, Illy's exclusive capsule system based on a capsule that extracts coffee in two phases (hyper-infusion and emulsion); and finally Illyssimo (2008) ready to drink canned coffee, the result of collaboration with The Coca-Cola Company.

The company has also moved the innovation toward other directions: for example, we can recall the important role played by experiential marketing, in which two particular innovations have contributed to the spread of the brand image: the concept of the "Illy Art Collection" espresso cups and the network of premises "specifically Illy".

The cups, with their peculiar link with the world of contemporary art, try to "combine the sensory pleasure of coffee with the aesthetic pleasure of art". Born in 1992 from an idea by Francesco Illy, they were developed with a porcelain cup designed by Matteo Thun, which has now become an icon of Illycaffè. Over a hundred exponents of international contemporary art, but also emerging young talents from all over the world have contributed to transforming the cup into small art objects.

Thun's main idea was to design a collection of cups what would have highlighted the contemporary art. Thus, he firstly idealized the traditional white porcelain cup with the red logo, which served as the basis for subsequent collections, and after entrusted established artists or hidden talents to decorate the white basic cup to develop new models.



Exhibit 5.1: *The first Illy cup designed in 1990*

In 1980, Ernesto Illy gave way to his son Riccardo, who was the first member of the family to give particular value to the company's marketing action. In fact Riccardo, in the wake of innovation undertaken by his predecessors, decided to expand the company's range of action in distribution and towards new market.

The company's growing development continued until the 1996, when Andrea Illy became the CEO, implementing considerable innovations not only in the renewal of the brand in collaborating with important artistic representatives, but also in the foundation of the University of Coffee. Indeed, the University of Coffee, which has been founded in 1999, reflected Illy's desire to share its long history and experience in the coffee sector. The University was idealized with the aim of promoting the Italian coffee culture, enhancing its high-quality, and as a place where coffee lovers and young entrepreneurs may have the

opportunity of gaining experience and acquiring competencies (Illy, 2015).

The university meetings and courses are held by important experts from the scientific, economic, cultural and anthropological sectors, who may collaborate and exchange opinions to generate new stimuli and also new creations.

From the 1990 onwards, the spread of the brand and the competitiveness of the company extraordinarily grew: firstly, through the internationalization of the company which, through franchising agreements, has created the *Espressamente Illy* chain to spread the Italian coffee culture worldwide. Secondly, *Illyssimo* has conquered a large slice of several foreign markets, as being the first flavoured coffee drink commercialized in cans, which has been the result of the joint-venture with the Coca-cola company.

Furthermore, in 2017 the *Ethisphere Institute* company has formulated the list of the 124 most ethical companies in the world and *Illycaffè* has been the only Italian company to be included in.

## **5. 2 – The Strategy**

*Illycaffè* is certainly recognized as a brand of excellence, not only in the Italian market for the high-quality of products, but also in the global market for promoting the Italian coffee culture at high level. Indeed, the company has made of quality its own flag, offering a wide range of products, such as ground or roasted beans, capsules, modern single-pod coffee machines, canned coffee beverages, satisfying consumers' tastes from all over the world.

Everyday about 6 million cups of coffee belonging to *Illycaffè* are consumed by customers all over the world, in fact are almost 150 the countries in which *Illy* markets its products, also available in more than 50.000 bars and restaurants (Illy, 2015).

*Illy's* strategy is essentially based on the production and sale of a single blend of Espresso, i.e. Arabica, maintaining a high standard in product quality to satisfy the high quality coffee segment's expectations.

*Illy's* business model follows different directions: on one hand it has always been focused on innovation, investing heavily on technology and agricultural techniques, on the other

hand it promotes the design's creativity, entrusting several artists to create modern and appealing products. The result is a high quality product which allows the company to charge higher prices (Illy, 2015).

The fact that Illy has always been a family-business company has always represented an added value: all the values and the traditions of this family, passed on from generations to generations, have also meant the transmission of the value of the Made in Italy.

It could be said that the values of the authentic Made in Italy are exactly the family bond that enhances tradition, a high quality product and great ethics in conducting the business, characteristics that Illy truly embodies. It is precisely thanks to these values, combined with an ethics orientated towards the value of the product and the sustainable environment, which have made the brand famous worldwide.

In fact, Andrea Illy, which is the third CEO of the generation, has declared that the most important challenge for the company is keeping the product at high standard without giving in to today's globalized environment: despite the current competitiveness with other important coffee brands, a limited supply of raw material at high quality to provide a high quality experience always represents the main goal. The mere profit is not an ethical as much as valuable target.

Nowadays, the company is famous worldwide to provide an authentic coffee culture experience and the essence of this successful strategy is contained within a specific pattern:

- quality → Illy has made of product quality its mark and its guarantee. Precisely, the company only uses green coffee beans of the Arabica quality, which are provided directly from the producers. The agreement made with producers was based on the creation of mutual value for both parties: when during the 1980s, Illy began its research to select the best coffee beans to offer to his customers, Brazil had no great considerations. Actually, Brazilian producers did not consider Arabica as a valid product, perhaps for a lack of skills and competencies. Thus, Illy decided to train the Brazilian producers, providing them with machinery and skills, to farm high-quality coffee beans and finance the production in the best way possible. In this way, the company gained the endorsement of producers and a

premium price for the final product. In fact, investing largely and sharing the knowledge are both two pillars of the corporate business model.

- Sustainability → the concept of quality often goes hand in hand with the concept of sustainability. Indeed, Illy's model takes in great account of the environmental respect and the sustainability of the means of production at all the levels within the production scale. During the production process, from the cultivation of the bean until the coffee is served in a cup, the company ensures that it retains its value. The company heavily invests in the transferring of skills and machineries, information and competencies for the continuous development and improvement of the supply chain in favour of the sustainability. Otherwise, it would not be possible to charge higher prices, which is a pre-requirement and a consequence at the same time for the high quality means and for the guaranteeing of higher compensation.
- Know how → Illy has not only provided the transfer of knowledge to its producers, but as it has already been underlined, also at public level. As the transfer of knowledge is one of the pillars of the business model, the company has strongly worked for the opening of the University of Coffee. Although at the beginning its purpose was solely to train entrepreneurs in coffee sector or the exchanging of informations among experts, it ended up including also consumers. In fact, even simple coffee lovers may join to tasting courses, preparation lessons or innovation meetings. Meanwhile, this strategy is also able to let the company engage consumers to create a strong brand loyalty.

To sum up, it could be argued that Illy business model is mainly concerned on these three pillars accordingly with the values enhanced by the company and its main goals. The strategy aims mainly at promoting the coffee culture worldwide, improving the brand perception, create a strong brand loyalty and a current customer development.

### **5.2.1 – Brand identity, brand image and brand equity**

Considering that the value of the brand is the value perceived by consumers, Illy perfectly embodies this symbolism: it represents the set of material and immaterial characteristics which make the product unique for buyers, that are willing to pay higher prices.

The company's goal is precisely to offer a product perceived as unique, accordingly with the packaging aspect, the pricing aspect and communication as well. Therefore is clear that the niche market is the one which is able to appreciate this kind of offerings and differentiate it from competitors. Indeed, it becomes highly differentiated product on the market with a superior positioning which makes it acquire a certain notoriety and visibility.

The brand analysis highlights that Illy is a strong brand, with distinctive characteristics, mainly because it gives to its customers the security of a right choice, establishing with them a relationship based on loyalty and making the customer experience as unique as possible. Indeed, the company has always worked hard to give its products a higher positioning in opposition to its competitors, which has allowed the brand to gain a certain notoriety and visibility.

Illy's products have a strong brand image, are high-end products, which are given added value: a brand full of charm, expression and Italian style, so that is considered a luxury product, with high value, high consumer capacity and high emotional, cultural and aesthetic content.

There are three main dimensions for assessing the strength of a brand: brand identity, brand image and brand equity (Lombardi, 2011).

- Illy brand identity: is formed by the selection of the best Arabica qualities, unique systems for the improvement of taste and aroma and the achievement of a unique experience for consumers. The company identity is represented by the excellence of quality and by promoting the authentic coffee culture: in this way is able to allow consumers to feel like an expert, bringing them to spend more because they are sure of the quality excellence.
- Illy brand image: the image perceived by consumers is that of predominantly niche coffee, for true connoisseurs, mainly consumed in bars. Therefore, it is a premium category. The brand is expressed in warm colours, such as red and black, which is the

orientation towards aesthetics and search for beauty.

- Illy brand equity: it is the added value which the brand provides to the product. Illy has founded its equity on a product strategy focused on quality innovation, aimed at conveying the high positioning of a property traditionally perceived as commodity. By placing consumer at the centre of the overall strategy, the company bases its equity on what consumers has learned and perceived about the brand.

According to the BAV (brand asset valuator), which is a system developed by Young and Rubicam to analyse the strength and growth potential of a brand, there are four main dimensions to be taken into account: diversity (the reason for the brand to exist), relevance (the adaption of the brand to the personal needs of consumers), esteem (the consideration held by consumers about the brand) and familiarity (understand what the brand represents and consider it as part of the personal environment).

The combination of the first two dimensions (diversity and relevance) represents the brand strength, which is its growth potential in future, meanwhile the combination of the last two dimensions (esteem and familiarity) represents the brand stature, which is the current size of the brand (Lombardi, 2011).

Applying the BAV model, Illy results to be a brand with excellent growth potential: in fact, in addition to a very high diversity and relevance, typical of its qualitative different products compared to its competitors, it also shows that has reached a good level of esteem among consumers, following a profile of a premium niche brand.

### **5.2.2 – the SWOT analysis**

The SWOT analysis represents the effective summary of a company situation in terms of strengths, weakness, opportunities and threats. It is based on an exhaustive study of these four areas and how they affect the firm's marketing plan. The result of the SWOT is generally converted into specific marketing actions that may help the company to grow.

- Strengths → Illy has been able to build a strong brand image, giving its consumers



a guarantee of a high quality product and great attention for the customers. The company has been able to gain a large presence on the market, which has stimulated further new innovations, attention on design and promotion of the coffee culture.

- **Weakness** → Despite consumers are willing to pay higher prices for products which have excellent quality, it clearly represents also a disadvantage for developing new customers or approaching a mass market.
- **Opportunities** → Illy focuses on innovation, looking for new markets where to expand and position its products. The wide range of differentiated products also represent an opportunity to enter new markets and target new segments.
- **Threats** → whether high prices represent a weakness, it is expected that they also become a threat: several consumers could switch to cheaper brands. In addition, the competitiveness in the market is particularly high, therefore Illy must constantly develop new strategies to differentiate its products from the other firms.

Exhibit 5.2 – *Illy SWOT analysis.*



### 5.2.3 – The internationalization

Nowadays the coffee sector is particularly dynamic, especially thanks to the image of Italian coffee which holds a positive COO effect abroad and whose brands are considered the most prestigious ones for offering a product of excellence. In such globalized world, the internationalization of a firm is essential to approach new markets, and also to consolidate its presence in new countries.

This internationalization process must necessarily be accompanied by innovation, something on which Illy has always been focused on.

As Andrea Illy declared during an interview "we are the antithesis of geographical focus": indeed, the Illy Group's consolidated turnover in 2010 was almost 305 million euros and the international market represents more than half of the overall turnover.

Illycaffè, which directly and indirectly controls 11 companies and employs over 700 people, is distributed in 140 countries and 5 continents.

The current statistics report that the company counts for more than 1.200 employees worldwide and its growing turnover has exceeded the 400 million of euros at the end of the 2018 (Illycaffè, 2019).

Almost the 40% of this turnover comes from the business run in the Italian market and the remaining 60% from foreign countries, therefore even if Italy still represents the privileged market, since the beginning the company has always been market by a strong international orientation (Seguso, 2019).

The internationalization process began during the 1950s, with the first commercial branches, when Illycaffè entered Germany and in the following years in France, Holland, the United States and other markets, reaching over 140 countries on all continents. In addition to direct investments, the internationalization process was also undertaken with the use of partnerships and franchises, always with the aim of spreading and developing the culture and market of Italian espresso in the world (Illycaffè, 2019).

Initially the corporate strategy only included the on-trade consumption and was aimed at serving only the HO.RE.CA sector: its products are initially destined to the HO.RE.CA, at home and in the office. With the exception of some countries, where there is only a

distribution network, the company works directly with distributors (some of them also owned), joint ventures and commercial branches.

Lately Illy decided to satisfy also the final consumer: firstly, serving their product through the retail channels and after with the development of *Espressamente Illy*, a bar chain which is based on a contractual vertical system created in 2003.

Indeed, a strong boost to growth in the foreign markets was made by developing the *Espressamente Illy* in 2003, the franchise chain of authentic Italian coffee that wants to bring and promote the culture, style and products of *Illycaffè* in the world.

Since that moment and until now, almost 250 *Espressamente Illy* bars have been opened in more than 35 countries all over the world, with fashionable locations placed in several cosmopolitan cities, such as London, Rome, Shanghai, Tokyo, Paris and even Las Vegas. In fact, the comfortable environment, the accurate design and the high-quality coffee have also found the approval of several eastern countries, where *Espressamente Illy* have also arisen in China, Japan, Korea, Hong Kong, Vietnam and Taiwan (Beverfood, 2008).

Currently, the goal of the company is to open other 120 stores in the next three years.

Thanks to this global expansion in the foreign markets and also to an excellent e-commerce strategy, in 2008 Illy recorded a spike in profitability, reaching a turnover of around 500 million euros and a net profit of 20 million euros. If compared to the results of 2017 there has been an increase of 3.5% in turnover and of 40% for the net profit.

Another strong factor, which contributes to Illy's growth, is surely the development of a mono brand retail channel through franchising and ownership agreements: indeed, already in 2018 the company accounted for almost 300 sales points in 40 countries. Among them, 170 *Illy* café bars, of which 8 are directly managed and 162 franchised to third parties, 80 *Illy* outlets, of which 6 are directly managed and 74 franchised. The Chinese market is the one recording the highest growth (Albricci, 2019).

The company's internationalization has been elaborated exploiting the direct investments and collaboration agreements, such as franchising and partnerships: in this way, it has been possible promoting the Italian coffee culture at high standards and at the same time overcome the cultural distance thanks to the collaboration agreements, which have played a crucial role for transferring the Italian tradition to the local cultures.

The first goal always is to remain faithful to the company origins, which means that also

the customization of the products must maintain a high quality line.

Furthermore, the two main pillars of Illy strategy, i.e. market orientation and business innovation, have also led to a new model of dealing with the B2B customers: this gradual transformation has brought to the creation of business relationships mainly based on customer services and consulting (De Luca et al, 2015).

### **5.3 – Illy experience in China**

As already pointed out, if the geographical distance may be overcome by taking incisive actions regarding the diversification, customization, the packaging and other characteristics of the product, the cultural distance represents the real challenge for marketers in entering the foreign markets. This challenge has been accepted also by Illy, whose presence was already consolidated in Asia, with the decision to enter the Chinese market.

Geographical differentiation has led to the adoption of sophisticated and innovative product conservation and packaging techniques. For the company, in fact, it is essential that "the quality of Illy coffee drunk in Trieste is the same in any other area in the world". Above all, the most culturally distant countries represent an interesting challenge for the future development of the company, such as in the case of the Chinese market, where Illy, already in Asia since the first half of the 1990s with the establishment in 2005 of Illy Shanghai, is developing successfully.

#### **5.3.1 – Entry mode**

Despite the well-known data regarding the number of Chinese population and its consumers, the potential market to which the company pays attention is not yet large, as it stands for a niche market, and the Chinese people is not ready, probably will never be, to replace tea with coffee. For this reason, China is however a relatively minor market, since the coffee culture is not totally developed and Illy's coffee is well renewed throughout

China to be generally associated with luxury and high quality.

Illy's decision to enter the Chinese market dates back to the 1990s and the entering took place by relying on a Chinese distributor, which over the years has proven to be a reliable partner, as it is able to correctly convey the quality and the characteristics of Illy coffee to its customers. In 1992 Illy arrived in Hong Kong and in 1998 in the mainland of China, before landing also in Japan (AgiChina24.it).

In 2001, Illy signed a partnership agreements with Cafè de Coral, important hotel chains and luxury restaurants based in Hong Kong.

Through this partnership, the company envisaged to open 30 new *Espressamente Illy* between Hong Kong and Macao, relying on the collaboration in the management and for the competencies required for the market knowledge.

This first agreement was followed by another one: a joint venture agreements with the Dachan Great Wall, a company working in the food sector in Taiwan and this strategy aimed at expanding further with the promise of new stores in Taiwan (Beverfood, 2007).

The company was definitely satisfied by these two joint ventures as they allowed Illy to cover the entire Greater China territory and to create 105 *Espressamente Illy* in the following years. The collaboration was based, on one hand on the management skills and knowledge of the Chinese consumers, and on the other hand on the international success of *Espressamente Illy* business model, based on the excellence of the Italian culture.

Indeed, entering the Chinese market has been consistent with the company's main mission to spread the pleasure of coffee and offer an excellence in quality for all the products even in countries where this culture is not present.

After the first phase marketed by the presence through distributor, the company decided to invest more by directly acquiring the partner's activities, which even if was considered a very reliable operator, it was no longer able to meet the market potential.

The greater dispersion of the market, which was not concentrated anymore only in the Shanghai cosmopolitan area, but widespread also in other 43 cities expecting to have more than 25 million inhabitants in the next years, required considerable investments which the distributor could not have faced alone (Cecchinato et al.,2011).

During the purchase negotiations, the peculiarity of Chinese culture emerged: as a consequence, Illy wanted to reassume ownership and control of the stores, operating as

already was done in other countries, so that in 2011 after gained the authorization of the Chinese government for the transfer of the distribution license, acquired the Dachan distribution, which was renamed Illy Caffè China.

Exhibit 5.3 – *Espressamente Illy in Beijing.*



In order to develop its expansion strategies in new markets, taking on control is very fundamental for the company: indeed Andrea Illy, the third CEO, declared that when the market potential is quite high, it is strategic reacting with the acquisition of control. Furthermore, he stated that the phenomenon of massification of luxury is taking place in China and coffee represents for the country a good comparable to those belonging to the neo-luxury category. It is able to rise interest and curiosity, which is very prominent for the future of the coffee market, and in particular for the brand itself (The Economist, 2006).

Through the franchising chain *Espressamente Illy*, which is the expression of a mix of modernity and creativity, Illy has been able to catch the Chinese consumers' attention by interpreting properly the Italian coffee culture for the premium segments.

With the aim of offering "the authentic Italian coffee and the soul of the Italian traditional bar" all over the world, the *Espressamente Illy* project was born with the purpose of

offering places of quality where consumers may find all the products of the Illy's offer and a selection of typical Italian foods. The preferred location which were selected for the stores were airports, the busiest streets, high-quality shopping centres, museums and other places of culture.

Though these coffee chain, in which the environments are enhanced by design and other multisensory stimuli, the company intends to interpret the culture of Italian coffee, with a focus on the premium segment, to transfer it to the Chinese consumer, still not accustomed to this drink in its daily use.

### **5.3.2. - Successful key factors**

The success of Illy in China has been declared by a series of winning factors: beyond the corporate core business and the ethics of the company, which has always remained faithful to its principles, Illy has been able to implement a good diversification strategy, keeping on offering a product qualitatively high.

Since that the diffusion of coffee started within the most westernized areas, the first coffee houses appeared already in the first half of the 90s in Taiwan and after in the mainland of China. Of course, after this process of westernization and distribution of typical western consumption habits, Illy distribution took place involving the main cosmopolitan cities, such as Beijing and Shanghai, where the presence of Italian people has always been higher.

The presence of Italians has always been fundamental. Who is the target? Of course, Illy focuses on the Italian people living in China, and at the same time, to Chinese people with high-medium income, to those that love and appreciate the authentic taste of coffee. In other words, to the elite (AgiChina24.it).

Since the origins, Illy's development and success has been based on the company's capacity of exploiting and taking advantage of the various changes taking place in the Chinese market. Since the beginning of its business activity, when coffee was still considered as a commodity, Illy has always been able to forecast and anticipate the new trends, focusing on the high quality coffee niche.

In order to deeply and effectively penetrate the Chinese market, Illy has launched different products targeting two main segments:

1. coffee based soft drinks of different flavours (i.e Illyssimo) to satisfy the cosmopolitan tastes and stimulate curiosity of young people.
2. Traditional espresso for the large segment of Chinese workers, elite members, and people who wish to live a premium experience and is able to appreciate high-quality coffee.

Meanwhile, the opening of the coffee chain *Espressamente Illy* has allowed to provide the typical Italian value proposition.

Indeed, Illy greatly takes into account China and Chinese consumers in the current globalization politics, despite the revenues generated in China are still far from those belonging to other markets. The largest market after Italy are the United States, where the company is highly investing, but the markets with the highest growth rates are linked to Asia, particularly China, where Illy was visionary opening a subsidiary in Shanghai 17 years ago, when coffee was not still so much popular. Despite the presence of the company's subsidiaries in China, *Illycaffè* mainly relies on online channels, from which the majority of sales come from.

By analysing some choices belonging to the strategy implemented by Illy in China, it is possible to highlight some key factors which have contributed to the success of this company in China:

- Italianness → Illy widely makes use of Italian words on its packaging and communication strategy. The culture of Italian coffee is now widespread throughout the whole world, and therefore, for the Italian roasting company the tradition, pleasure and authenticity of its coffee represent a competitive advantage on the Chinese market and the global market as well.

Using Italian language to convey the authenticity of its products is part of Illy's strategy: it is quite difficult to find the company's Chinese brand name on packaging or online channels.





Exhibit 5.4 – *Illyssimo in China.*

Due to the fact that companies are obliged by Chinese law to register a Chinese brand name, also in this case the company has focused on its origin: Illy's Chinese name is 意利 *yìlì*, which is actually the simple phonetic transliteration of the name, but at the same time the choice of the characters is not accidental. Both of the characters 意 *e* 利 *lì* recalls the Chinese word “Italy” which stands for 意大利 *yìdàlì*. The same strategy is commonly applied also on products: payoff such as “*issimo*”, which are easily recognizable as Italians, efficiently conveys the idea of pleasure and desirability related to Italian lifestyle and experience. As Andrea Illy declared “To us, expressing ourselves in Italian language is a way to convey the Italian origins and authenticity” (Antonacci, 2017).

- diversification → *Illyssimo* definitely represents the diversification strategy implemented by the company. As Riccardo Illy said “who is able to diversify, is able to win”. *Illyssimo* represents this challenge: given the wide importance that the ready-to-drink beverages still have in China, the idea of promoting the intense taste of Illy coffee in a can has certainly contributed to the spread of the product and the encouragement to several consumers to the first trial.

The *ILKO* Coffee, a joint venture signed between Illy and Coca-cola, is the

company that actually oversees the project: Illy coffee in a special ready-to-drink format, bottled and distributed by the Coca-cola company, which favors many ways of enjoying the product as well as many occasions of usage.

The new campaign aimed specifically at targeting the young-adults segments and had the task of communicating the elegance, style and taste of Italian coffee through an international format.

Illyssimo has reached great success in China, managing to embrace segments among consumers which are less prone to drink high quality coffee in cups proposed by Espresso Illy stores. Indeed, through this global choice, the company has been able to match the needs of more consumers, offering a canned coffee with more flavours as a quicker solution.

However, despite the success reached by Illyssimo, especially among young Chinese people, the ready-to-drink beverages in China, and generally across Asian countries, is definitely a developed sector. As a consequence, Illy must compete with Starbucks, Nestlè and also other smaller firms which have pointed to this alternative drinks.



Exhibit 5.5 – *Illyquore in China.*

Illy's diversification has continued over the years. In fact, Illyssimo is just one

among the different product that the company has launched in the past years within the Chinese market, where definitely hope to increase its capsules and pods sales, as much as in Italy.

Beyond Illyssimo, the company has introduced other new products on the Chinese market, such as Illycrema (which is a cold coffee ice-cream) and Illyquore (coffee liqueur).

This latter particularly has been appreciated by several Chinese consumers, especially considering the long tradition of 白酒 baijiu, traditional Chinese spirit usually distilled from sorghum.

Moreover, since that the instant coffee consumption in China represents almost the 80%, it also worth mentioning Illy's soluble coffee. Although the popularity of this company is strictly related to the espresso and the “coffee in a cup”, Illy also provide to its Chinese consumers the Illy instant coffee, which always comes from the 100% Arabica blend. Since the main purpose of the firm is offering the best quality coffee, also in the instant sector, Illy's offerings cover a wide range of choices: decaffeinated, smooth taste, intense taste and so on. Also in this case, the quality of the product justifies the higher price, which is commonly above the average: a 250gr jar is sold for 58 yuan, about 8 euros.

Illy instant coffee is surely a product mainly concerning the retail sector, which provide to the company the majority of its sales within the online branch, but although soluble coffee is a quite competitive environment in China, Illy has already declared that the company is going to focus the majority of its efforts on the HO.RE.CA, and therefore on the espresso, where the majority of Illy's revenues in China comes from. Furthermore, this choice has also some defensive nature, since that within the large distribution system, the company is not truly able to value its product against competitors.

- modernity → The changes taking place in the Chinese society and in the Chinese consumers' perceptions have lead to the consideration that coffee is no longer a product but an experience: it is no just a drink, but a moment in which develop emotions of different nature. This factor, joined to the greater

importance for Chinese consumers about experiences and products socially recognized, has brought *Espressamente Illy* to perfectly match these two requirements. They offer an environment which is able to offer to consumers a different experience and, at the same time, to show off their social status through the modernity of Italian coffee and the aesthetic location.

*Espressamente Illy*, project launched in 2013, consists of a network of innovative stores, which the company is opening all over the world in franchising, and that combine a series of elements such as sounds, atmosphere, and colours. In this way, coffee is qualified by Chinese consumers as rewarding and multi-sensory experience.

The strong control over owned or franchised stores has allowed to maintain high sales prices, full control over the company's products and cafès without needing of compromises with third parties. In this way, *Espressamente Illy* is able to establish a direct contact with the final consumer.

Indeed, art and creativity are two concepts that deeply characterize the strategy chosen by *Illy* to express its values and philosophy. The visual perception, already internalized within the *Illy Collection*, has been materialized in a real communication strategy based on the aesthetic and cultural involvement of the consumer.



Exhibit 5.6 – *Galleria Illy in Beijing.*

Illy's interest in arts and culture extends in many directions: it contributes to the spread of contemporary art, supporting artists, institutions and internal exhibitions. For instance, the company has collaborated with Marina Abramovic, Daniel Buren, Sandro Chia, Andrea Bocelli and other famous personalities.

An important example of this bond between Illy and art, and how it has been also applied to the integration within the Chinese market, has been the Galleria Illy opened in Beijing's Central Business District in 2012 (Illycaffè,2012).

Galleria Illy is a temporary space, an expression of Illy's personality and philosophy, a real cultural salon in which internationally renewed personalities from the world of art and literature, design and food could meet.

This event is managed any time in a different city, and this has been also the case of Beijing, the heart of Chinese culture and today a global and cosmopolitan city, which is characterized by a cultural crossover and artistic contaminations that Illy has recognized as perfect to its goals.

The symbol of Galleria Illy in Beijing has been *The Chandelier* , a visual project bringing together in a suspended spiral the history of the Illy's cups, which still represent the most well-known manifestation of the relations between Illy and art. During that occasion, the new Illywords, the magazine through which the company maintains the dialogue with the world of art and culture, had been presented and its graphics and images were created by the China Central Academy of Fine Arts of Beijing.

### **5.3.3. - The University of Coffee**

Since that the transfer of knowledge and competencies is one of the main pillars of Illy's business model, the company has opened in 1999 the University of Coffee. The aim of this project was to create a centre of excellence to spread the culture of high quality coffee worldwide through training, research and innovation.

As already pointed out, at the beginning the purpose of this University was solely to train entrepreneurs in coffee sector or the exchanging of informations among experts, but it ended up including also consumers. In fact, even simple coffee lovers may join to tasting

courses, preparation lessons or innovation meetings. Meanwhile, this strategy is also able to let the company engage consumers to create a strong brand loyalty.

The opening of the Chinese University of Coffee in Shanghai in 2006 has been part of the company's global expansion strategy in the light of the birth of Illycaffè Shanghai, which is the Sino-Italian joint venture created by Illy.

Still today this university constitutes a key to access those markets whose consumption trends are looking to the west. We may also argue that it represents a new kind of internationalization, which rather than be based on shifting production, mainly relies on transferring the knowledge and experience about a product.

During the courses of the university, the teachers, which are all Chinese trained in Italy, are assisted by international experts and technicians and prepare lessons and courses on every aspect of the supply chain: from cultivation to grinding, from roasting to preparation, from setting service as the typical bars in Italy.

The environment in which lessons are held is the one of an innovative conception, inspired by the University in Trieste, equipped with the most modern multimedia technologies and all the teaching instruments capable of enhancing and promoting the learning.

As Roberto Morelli, director of coffee and culture department at the University, said “spreading the coffee culture in China in such broadest way, providing theoretical and practical training, is a completely new model of internationalization” (Beverfood, 2006). There is no need of moving production, but the most important instrument is transferring the knowledge useful to appreciate the Italian product. Thus, what happens is almost a delocalization of culture.

The University of Coffee in China has organized about 15 courses by the end of the year and aims at training around 1500 professionals, and it also has increased its presence in the country: the university in Shanghai has been followed by two others, respectively in Guangzhou and Xiamen.

This Illy's project has been so effective that also Starbucks in 2012, emulating the Italian company, has opened its Starbucks China University in Beijing.

The purpose is offering training curriculums as well as leadership competency to Chinese people, providing skills and learning in different coffee sector's areas, which could be

useful to achieve the future growth and development of the company itself.

#### **5.3.4 – Strategic e-commerce**

Andrea Illy has defined the e-commerce as strategic: Illy has been one of the first enterprises to bet on the digital evolution during the 1990s. Since that, the company has strengthened its online presence for over 25 years, collaborating with the technology giants such as Alibaba and Amazon.

A country like China, where consumers are accustomed to buy almost everything just with a simple click and the level of digitalization embraces almost every aspect of their lives, represents a huge market for the e-commerce and the export Made in Italy.

Chinese consumers are accustomed to use the new technologies and purchase every kind of product and service online, which is a factor that needs to be considered by any enterprise that aims at entering the market.

Nowadays, through the cross border e-commerce it is possible to sell foreign products in China without facing the long and complicated authorization procedures required by the local authorities, which are mandatory for the exporting and selling activities through the traditional channels.

The presence of Illy in the online retail has always been strong, mainly because the company has always held to be true that the digital platforms are essential to offer a customer experience of quality.

From an e-commerce perspective, which for Illy represents the technological basis of e-shops and online selling of its products, the company has decided to increase its online channels to reach long-term achievements.

Other Italian producers have successfully started the direct online sales, but in the case of Illy, one of the most successful services is that of subscription of capsules: the customer chooses an espresso machine, inserts the average number of coffee consumed per day, after signs up for a subscription that will automatically send the capsules at home accordingly with the espresso machine on free loan.

This strategy is just one among the future plans that the company would like to integrate

within the Chinese market.

Indeed, the Chinese tech giants, such as Alibaba and Tencent, who have a history that combines retail, technology, logistics and services of any kind and have become the undeniable leaders of the online market in China, have recently become quite interested in the coffee sector.

Furthermore, since 2018 Alibaba Group, accordingly with ICE, has established a virtual hub on its online platforms to give greater visibility to the Made in Italy on the Chinese market. Since that moment, HelloITA has been accessible to all the Chinese consumers on the company's digital platforms, helping Chinese companies to enter the Chinese market and at the same time helping Chinese consumers to understand their offerings (Foodweb, 2018).

Over 80 Italian enterprises have joined this project, which basically concerns a landing page with contents and insights about their products, from which consumers can directly be linked to the stores of the companies. In this way, these ones may take advantages by the visibility obtained thanks to the multi-channel digital marketing campaigns created by Alibaba on its major online media.

Illy is one of the 80 Italian companies which has joined the project, renewing its collaboration with Alibaba and Tmall, that has started in 2014 and that has brought a significant growth in terms of turnover and brand awareness.

Recently, a new deal for both Alibaba and Tencent has been represented by betting on coffee, probably due to the incredible growth of coffee market which is still recording higher revenues and possibilities for investors.

On one hand, Tencent has signed an agreement with the local company Luckin Coffee, and on the other hand Alibaba has pointed on the established empire of Starbucks.

Through this exclusive agreement, Chinese consumers may order Starbucks coffee and beverages by Alibaba mobile application, which makes deliveries with bellboys (Capsules and coffee, 2019).

Indeed, whether coffee in China attracts the investments of large chains, coffee sales on e-commerce are also growing: both on Taobao and Tmall, owned by Alibaba, more than 18 million of users have purchased coffee based products in the last 12 months.

Among those who gain benefits, Andrea Illy has declared that, since Illy's agreement with



Alibaba, the company has annually grown by 48% thanks to their shop on Tmall. Indeed, the e-commerce for the company has represented not only a chance for increasing its revenues in the Chinese market, but also as a business accelerator. For this reason, the e-commerce is not solely a vending channel, but needs to does synergy with the rest of the company's activities and it is essential for any company that wants to seriously export. Illy has also played a primary role in the editions of Alibaba Single's Day: an annual event held every 11 November which is similar to the Amazon's Black Friday. It recently has reached 10 billion of yuan in one hour of online shopping. The last Single Day has effectively registered how much the coffee consumption in China is experiencing a real boom: for Illy it has been the fourth participation in the Alibaba event. For the company, this global event represents an important opportunity to constantly get in touch with Chinese consumers. In addition to the classic products of ground coffee and coffee beans, Illy is also attempting through such opportunities to spread the online system of capsules which have already spread in other countries. By now, Illy has registered about 190.000 Chinese followers and aim at going beyond the 200.000 by the next year, demonstrating that the collaboration and the agreements with the local larger companies has been fundamental in the expansion and growing of the company in the Chinese market (Comunicaffè, 2018).

#### **5. 4 – Illy's future plans for Chinese market**

Illycaffè has always based its growth strategy on the relationship with customers: the purpose is always creating customer satisfaction, in order to be able to create a lasting relationship through the offerings of products and a high-quality service.

The company's growth plan focuses on three strategic directions:

1. Consolidation and increase of the market share through the development of high-quality products and services and this especially concerns the global *premium hospitality* segment.

2. Extensions to other consumption possibilities, particularly at home through portioned preparation systems.
3. Focus on high-quality offerings and experiences for consumers, which concern single brand stores and e-commerce.

Nowadays, the 75% of Illy revenues in China mainly derives from the sector *hospitality* (Chinadaily, 2011) and the company has registered in the last few years an annual growth equivalent to the 30% . Today Illy in China may rely on 16 sub-dealers and its network covers more than 20 major Chinese cities: the company has estimated that this growth rate would double within the next two years.

Andrea Illy has also declared that Illycaffè is currently still growing in the Chinese market as far as this growth concerns portioned (i.e single-serve capsules) or ready-to-drink products (i.e Illyssimo).

Illy's future projects in China do not aim not so much at large organized distribution, which is the modern retail system through supermarkets and hypermarkets, but focuses on espresso and therefore on HO.RE.CA sector.

The reason for this choice lies mainly in the fact that, within the large-scale organized distribution, the strong contractual power of the largest distribution chains, such as Carrefour, Wall-mart and Metro, damages the perception of the product.

The high selling price of Illy coffee based products is justified by the fact that its coffee is considered a luxury item and is capable of generating a premium experience.

In the eyes of Chinese consumers, the perception of the product within the supermarkets is qualitatively lower and, moreover, the large supermarkets do not tend to give much space and particular importance to Illy products on their shelves.

Therefore, the company believes that this attitude could damage the perception of the Chinese consumers toward their coffee products, something that is not possible to happen in the HO.RE.CA sector, where Illy is able to pursue a strategy consistent with the corporate business plan and philosophy.

Espressamente Illy also represent a relevant part of the future format in China for the same reason.

Through Espressamente Illy the company has direct control over the products and stores

and therefore must not compromise with third parties, can safely maintain the high sales prices and at the same time come into direct contact with the final consumer.

Precisely, it has been the importance of urban areas which has changed the company's initial business choices in China: the company initial plans wanted to export a format focused on way station and crossing points, as they may enhance the concept of Italian espresso to take and go.

For this reason, stations and airports, as other usual places, represented the most suitable points of sales, but the initial results did not match the expectations and therefore the company decided to open stores in the main cosmopolitan cities and metropolis.

In the past and in the future as well, the partnerships have been, and will always be, a fundamental element for the corporate growth, especially in the Chinese market, which is ruled by differences in culture and communication, also reflected in the business field.

Thus, Illy's future plans in the Chinese market are concentrated especially in making other agreements that could concern operators of a certain size, such as Hilton for hotels which is the next step that the company would like to achieve.

Collaborating with such important and large groups has several advantages: firstly, the standard of both parties is respected, since these companies are accustomed to deal with qualitatively high products, Illy is able to match these expectations. Meanwhile, having few large groups as operators, who manage a large number of points of sale, makes operating activities easier and faster and there are no difficulties in payments.

Illy also would like to create the possibility of multiple openings with the same operator, as happened in Tokyo, where 19 *Espressamente Illy* stores were opened by a single operator. In this way Illy may continue to offer its customers a coffee and an environment qualitatively high that meets standards and expectations.

With this positioning, it is clear that the target of the company always remains an elite segment. This evidence, within a market such as the Chinese one, does not represent a problem, since a typical Chinese espresso consumer, who is generally a coffee lover or a manager, is almost considered of that level.

Basically, what bring all consumers of the brand together, regardless of social status, is the intention to live an experience of an Italian atmosphere in China and to drink a better and high quality coffee, for which they will be willing to spend more.

However, it is important to highlight how, in Illy's experience, the virtuous relationship between innovation and internationalization is not so much connected to the need to adapt to particular geographic markets, but rather to the need to guarantee everywhere a very high quality of product / service, which is the basis also for future approaches.

In order to effectively serve the Chinese market, which is one among the 140 markets which the company has entered, Illy needs very sophisticated technology and therefore permanent innovation.

The goal is to make that coffee pass through the cup in the best possible way, so having as objective the elevation and standardization of quality. Therefore it is linked in itself to the innovative process, not to the single market.

In fact, in Illy's case, since it is a highly internationalized reality and with the mission of "making the best coffee in the world" through a global strategy, the influence of local contexts may not be perceived as a limit, but as something always to work on.

## **5.5 – An interview with Giuseppe Taccari, international markets director at Illycaffè**

As the last part of this working paper, I have had the pleasure of interviewing Giuseppe Taccari, who is currently engaged as the International markets director at Illycaffè. He has a very long experience within this company, firstly as Export and International market director and he also has been recently appointed as director at Illycaffè Germany.

The purpose of this interview is to better understand the dynamics behind Illy's experience in China, the strategies and the difficulties of approaching the Chinese market and meanwhile revealing some insights of the company's future goals and perspectives. For this reason, I have elaborated a set of questions covering the past experience of the company, the current difficulties faced due to the health emergency of Covid 2019 and the future plans that Illy is willing to achieve.

1.

**Q:** “Nowadays, China represents a huge market which offers several opportunities for

Italian enterprises. We may argue that now coffee is definitely a growing sector in China, but due to the cultural barriers, running a coffee business is rather complicated. Which have been

the main stumbling blocks that Illycaffè has faced during its experience on the Chinese market?”

A: “Firstly, it is very important to focus on the internationalization process and on the idea that Illy started its business as a small sized enterprise which has experienced a fast internationalization process within the last twenty years.

I have been working for this company since 1996, and therefore for 24 years, and during that time Illy's business was focused at 80% on the Italian market and at 20% on the foreign ones. Thus, since Illy was born as a firm offering a product to make the espresso, Italy definitely represented the perfect model for our idea of coffee consumption, that only later has been slightly adopted following a global strategy.

Like any other small enterprise which do not have the possibility of making a direct foreign investment and establishing immediately foreign subsidiaries, Illy entered the Chinese market by searching for an importer, establishing business relations and looking for customers interested in the product. Only once that the importer has been found and the product is distributed, the market is ready to be developed. Furthermore, companies who run a coffee business offer a product which requires to be transformed and this makes things further complicated.

The preparation of a cup of coffee is a concept well rooted in Italy, as it embodies a part of the national culture, but in China, especially during the 1990s, the espresso was not known and appreciated as much as today.

During those years, Illy came into contact with Gordon Chang, an importer which was engaged to sell in China the Italian professional coffee machines to make the espresso and which were destined to the out of home consumption. This activity, as any many others, started keeping up in Shanghai, which was the most cosmopolitan among the Chinese cities. This makes clear that within a huge territory such as the Chinese one, the first thing to take into account is that a large distribution is rather impossible and firstly it is wiser focusing on single big cities. Since that Chinese consumers are not coffee consumers and also do not so much about coffee, selling and distributing coffee based product has not

been easy at all. Indeed, the first Illy's customers were large hotel chains.

In a country lacking of the coffee tradition and the espresso consumption, a successful strategy implemented by Illy has been opening sales point.

Still today, we think that the best strategy on the Chinese market, that still represents a small size for the company's business if compared to their markets, is opening sales point where consumers may directly have a premium experience with the brand and the product.

After a rather long phase reached until 2010 and during which Illy has relied on the importer, we have finally decided as a company to acquire it and to open a direct branch, the Illy Shanghai”.

**2.**

**Q:** “The competitiveness within the Chinese coffee market is currently very high and intense. Particularly, other Italian roasting companies, such as Lavazza or Kimbo to mention few of them, are present in China. What are Illy's points of strength that have allowed to differentiate itself from the other Italian competitors?”

**A:** “We may argue that Illy and Lavazza have followed two opposite paths. Lavazza was born as coffee for the domestic consumption, which is offered to be mainly consumed at home, and therefore the core business of the company is the domestic consumption which is provided by the large distribution. Illy has been developed to serve the HO.RE.CA sector following the concept of “one blend, one brand”, providing a unique blend of 100% Arabica, meanwhile Lavazza, such as other companies, offers products resulted from different mixed blends. We have started from the HO.RE.CA to only after reach the large distribution and the retail sector, meanwhile Lavazza has started from the large distribution and only later has reached the HO.RE.CA.

There have been significant changes in terms of global strategies and Lavazza has carried out a wonderful job in marketing and professional channel in these recent years.

Thus, there is need to start from the distribution channels to look at the competitive differences. According to Illy's core business the first distribution channel at global level is the HO.RE.CA, which requires to have different skills, especially concerning how to

make a coffee and to create competencies. Being a barista is a profession in Italy, but definitely is not always has been the same in China.

Of course, Illy does not only look at the HO.RE.CA, but also at the large distribution and at the e-commerce, which especially in China, as in the other Asian countries as well, is highly developed”.

### 3.

**Q:** “When talking about coffee market in China, we are commonly talking about a soluble and instant coffee market. Illy's strategies in China mainly concern about offering a premium experience, and therefore about the espresso. Which value does the marketing of Illy instant coffee hold if compared to the premium product?”

**A:** “To be honest, the soluble coffee is a tiny thing if compared to the rest, it represents a tiny part of the overall business. The 90% of the revenues come from the offerings of grounded and roasted coffee, and the Illy instant coffee, that is surely a high quality offering such as the others, is just the reflection of a corporate strategy. The diversification of the product aims always at satisfying our customers, which always stands for the main purpose, and especially approaching the foreign markets the soluble coffee is able to satisfy a large part of the market's segments. However, it could be defined mainly as an experience and to be a part of the company's possibility to offer a wide range of products using a unique blend, but it surely does not represent our corporate DNA”.

### 4.

**Q:** “The cultural distance represents an objective obstacle during a firm's internationalization process. For what concerns the Illy's product policy, there is no product which is created ad hoc for the Chinese market. In the light of this lack of any product adaptation strategy, which are the fundamental points to exploit as advantages to convince a Chinese consumer to drink and appreciate the Italian coffee?”

**A:** “The Chinese consumer is a different consumer and we may not talk generally about Chinese consumers, but we need to make a distinction between consumers of big cities,

which represent a niche and Chinese consumers of rural areas, which are more difficult to understand and satisfy. The big cities' consumers are more cosmopolitan and gourmet, more interested in the western consumption habits and furthermore, they particularly appreciate the imported brands. As the food, wine and fashion sectors have showed, the products coming from Europe, and particularly from Italy, have always a certain degree of attractiveness and this attractiveness has allowed to maintain a price difference significantly important.

In China, Illy has sold coffee at double price at which coffee has been commonly sold in Europe, and only the developing of the e-commerce business has later led to the prices' reduction. Indeed, through the online e-commerce, consumers may select and find different options, even at lower prices and the overall price's reduction is a predictable consequence.

The understanding of the Chinese consumer requires a cultural development, which starts from the megalopolis and the cosmopolitan areas. Furthermore, this also concerns the distribution: we need to bring coffee to China and the supply chain is rather long, since that it is quite impossible to cover the whole country, we need to rely on the wholesaler, but they represent a weakness for us.

To make an example, if a company sells wine, the wholesaler does the logistical work and distribute this wine whether the company wants, but in our case, selling coffee also requires taking care of the post-sale service. It is needed to gradually build a group of wholesaler which are particularly focused on illy, acquire know-how and are able to replicate it at local level. Moreover, considering that the supply chain is rather long, coffee could arrive at distribution level at significantly higher prices and as a consequence, the little wholesaler of a city of million of citizens could prefer buying coffee online rather than on a subsidiary”.

## 5.

**Q:** “The University of Coffee has firstly been idealized as a training project for young Chinese entrepreneurs, but it ended up involving also the consumers, which may follow the university's courses and tasting lessons. Could we define this choice as a new real



model of internationalization?”

**A:** “Definitely yes, we can. It is clear that converting all the Chinese consumers to the espresso is a huge attempt, especially if we think about how much know-how would be required to be transferred.

The best strategy is firstly working on trade, therefore on bars, hotels and restaurants which buy Illy's coffee in China and need to learn how to prepare it and manage it. They need to be supported by trade marketing packages that allow consumer to understand the brand and to distinguish our coffee from the others.

This change in consumption habits could only later pass to consumers, but it requires a significant quantity of time. The University of coffee is surely an attempt of shifting these competencies and learning to consumers, which through the university are educated and acquire always more and more discerning in coffee matters.

Also the digital world has helped in this case, due to the several social media which have shared the know-how contents. In this way, the marketing strategy completely change and is not based anymore only on the traditional levers, but also on the modern and digital possibilities”.

## 6.

**Q:** “Chinese are highly connected consumers and the digitalization of services could be a driver to success. The Chinese high-tech giants, such as Alibaba and Tencent, are currently betting on coffee market. Which are the future Illy's project on the Chinese e-commerce sector?”

**A:** “Illy aims at clearly dividing the direct and indirect e-commerce. Our company's main purpose is the development of Illy e-shops. Therefore, strategically speaking, Alibaba or Amazon are just another of the large distribution channels.

Illy would like to create a community of consumers which crowds around the Illy e-shops, meanwhile it is needed to create a synergy with the Chinese social media, that as we known, are not the same in Europe and Italy.

The direct B2C contact is the real purpose: not only Illy directly owned or franchised coffee bars and shops where consumers could buy coffee machines and capsules, but also

the supporting role of the digital services to create a community of consumers.

This online community, that directly communicate with us, needs to gradually grow in dimension and need to be based on the value of trust and loyalty to the brand.

Only in this way, Illy could definitely rely on effective e-commerce strategy, which is surely a driver to success”.

7.

**Q:** “Coffee consumption in China is also experiencing new trends and Chinese consumers are always more discerning on coffee quality and different modalities of preparation. Relying on these assumptions, the entering of the coffee capsules in the Chinese market could also open new important business spaces?”

**A:** “Capsules have an extraordinary advantage: they allow to anyone which do not have any idea of how making a coffee to make easily make it at home and, furthermore, at qualitatively high level. Our Iperespresso owned system relies not only on these advantages but also on the quick preparation.

Thanks to our technologies, consumers could prepare a high quality espresso, but on the other hand these technologies are definitely expensive. The machines for capsules or portioned systems represent a closed system, this means that if a consumer buys the Illy machine needs to buy Illy capsules and on the contrary if buys a Nespresso machine needs to buy Nespresso capsules.

The machines we produce in China have a certain price and we have low margins since we are interested in making them popular and calculating the profitability by trying to estimate the consumption of capsules per machine, because coffee will generate our revenues.

A single capsule may cost four times the portion of a single grounded coffee, so that whether you buy a coffee machines for capsules, you definitely need to have a certain interest in coffee. This system also surpasses the large distribution system: the strategy is not distributing the capsules on traditional channels, but opening point of sales where selling capsules or selling them on the company's e-shop.

Illy has also commercialized capsules which are compatible with the Nespresso machines:

this has been possible because the European law states that each patent expires after 10 years and thus the Nespresso system has become open to the other roasting producers. Nespresso has been represented not only an incredible idea, but also a phenomenon in terms of marketing, Illy has decided to commercialize capsules compatible with Nespresso rightly to bring consumers to consume Illy's coffee in the Nespresso areas. Therefore, this is not a strategy, but is tactic, because our strategy is to develop our own system”.

## 8.

**Q:** “Illy has always had a strong international vocation, which has lead the company to gain the majority of its revenues from the foreign markets. What would you advice to the Italian entrepreneurs that would like to undertake the same adventure and enter the Chinese market?”

**A:** “Entering the Chinese market is rather complicated, due to different reasons: linguistic barriers, entry barriers, local legislation, cultural barriers and the list goes on and on. If I should advice an a small business entrepreneur how to do it, I would definitely recommend two options: the first one involves the possibility of being part of a group of investors, which gather together and move together toward the Chinese market. In this way all of them may benefit from greater sharing and negotiating strength. The second option involves the possibility of carefully selecting an external partner and with this partner elaborate the business plan on the market and the commitment on the product.

At the beginning it would wiser making firstly an experience with an indirect distribution and only later create commercial figures within the company, i.e. the export managers, which start travelling China and exploring the market. If the business develops and grows, I think that would be interesting maintain the relationship with the partner and let him work jointly with an export manager residing in China. After a while, when the business is able to reach a certain profitability capable of sustaining a direct investment, only in that moment the company may aim at creating a subsidiary. It is important to wait for the previous step to realize in the first moment, because only when the business becomes

stable and strong and the business model is sustainable as well, it is possible to take a further step.

Furthermore, the manager's competencies on the Chinese market are particularly important and the need to satisfy at least two requirements: knowledge of the Chinese language and market and a high level of trust toward the company”.

**9.**

**Q:** “In the wake of the new investments taken under the Belt and Road's Initiative, which are the projects of Illy in the lights of this new Sino-Italian cooperation?”

**A:** “Actually, it is not so much changed for Illy, if we compared the situation prior the BRIT. The reason is that we were somehow precursors, we made a direct foreign investments over ten years ago and we have been in China for 25 years, therefore we have definitely moved before than others.

Illy is intentioned to implement a clear strategy of strengthening the Asian-Pacific area. We do not only own the subsidiary located in Shanghai, but also an another important branch in Hong Kong, and this means that the company is slowly broaden the business and building a solid base which currently relies on distributors in Beijing and other important cities.

We are giving a lot of space and putting a lot of attention on the points of sales dedicated to the B2C and there is a group of managers responsible of finding important and reliable partners in loco. Illy has also tried to set up some joint ventures to open the bars, but we have understood that this was not the right way.

The partnership is truly important but it is also something to accurately work on: the focus needs to remain the preparation of an Italian coffee and the offering food belonging to the Italian culinary tradition. In spite of the fact that company has always bring to mind these focuses, it also has to able to be flexible.

Being flexible means giving space in our bars to some food and specialty closer to the local culture and tradition to attract more consumers, who may find also some of their products”.

**10.**

**Q:** “The Covid-19 emergency has slowed down the activity of several Italian coffee roasting companies. How has Illy managed the health emergency and what are the main concerns for the after?”

**A:** “As for other companies, it has been an important shock. We have faced the greatest difficulty in the HO.RE.CA sector, since that the overall shutdown has brought the hotel, bars and restaurants' profitability to the zero percent. This has represented the major problem on the Italian market, which still today stands for the 30% of the total turnover of the company. Our total turnover accounts almost 250 millions per year, and thus, still today we are dealing with the problem of the overall Italian Ho.re.ca shutdown.

Despite these problems, the fact that we have had a clear internationalization strategy in 140 countries, and that we have a strategy relying on a single blend operating in different channels, has also brought a clear growth in profitability on the retail and e-commerce sectors in the last two months.

We have been able to maintain the business and the company open during the emergency and this has been possible only thanks to the promptness of the company, which has done an incredible work to increase safety within factories and offices.

We are currently going through an optimal situation: an interesting thing is that we have all our employees doing smart working and the company continues to work properly even with all the employees at home. I am currently engaged as director at the German subsidiary and I have applied all the provisions and requirements enacted by the headquarter. The same has been done by my colleague in China and in other countries. Beyond the employees, which still work at home, we all have done an incredible job of replanning: with a completely closed channel, we have sold much less than the professional 3kg format that is commonly sold to the bars. Meanwhile, the sales of capsules and grounded coffee in jars have significantly increased and this means that we have had to accordingly increase the number of production lines to sustain the demand growth.

Moreover, Covid has also a financial impact, especially for large and complex companies such as Illy. In order to prevent this inconvenience as much as possible, we have

developed a sensitivity analysis, which involves elaborating four different scenarios of perspective: a positive scenario, a medium level scenario, a dangerous scenario and an extreme scenario.

These four scenarios have different impacts, both in economic and cash flow terms, and they are continuously monitored in order to have a maximum control and to promptly react accordingly with the risks and situations on the markets”.

## CONCLUSIONS

The main goal of this thesis has been to analyse two culturally distant markets and through a comparative study highlights their relative differences, with particular concern about the Italian and Chinese consumers' behaviours.

As we have previously seen, coffee in Italy represents a consolidated and developed market, which is the result of a deep rooted cultural tradition, that has also experienced, and is still experiencing, several innovations.

Italian companies have recognized a great challenge in entering the Chinese market, bringing coffee in a country worldwide famous for its tea consumption and whose consumers have drunk tea for thousands of years, whose habits and experiences have generated the expectation of a completely different customer experience.

The perception of the same product across different cultural contexts is subject to the influence of several different factors: cultural, historical, economic, anthropological and so on; but they are not insurmountable obstacles, whether the strategies implemented by the enterprises reveal to be appropriate.

Illy's experience in China is the concrete demonstration that these barriers may be circumvented or exploited in favour of the company to conquer the foreign market. The idea of analysing the history, growth and plan of Illycaffè within the Chinese market makes this possibility even more evident.

This is not the story of Starbucks, or other large multinationals which may rely on large amount of resources and which have mainly adopted a strong customization of the product to get closer to the local culture, but is the story of a company that has been able to remain faithful to the original product and its authenticity to conquer the Chinese market.

Thus, this makes clear that, despite globalization is breaking down our differences and border boundaries are slowly disappearing, it is still possible to preserve the authenticity of one's culture, even simply through a cup of coffee, and bring it to a country which is located on the opposite side of the world.

The analysis of the coffee market in China also represents an analysis of the Chinese consumers' history and the incredible evolution they have undergone in these recent years.

They have passed from coffee intended as a purely foreign beverage, to the appreciation of coffee as a drink, to acquire greater interest and discernment and finally to the desire to learn how to make coffee and drink an authentic Italian one.

It is only thanks to this evolution that many Chinese companies have decided to explore this sector, giving birth to local brands and becoming coffee passionate themselves.

Coffee is a significant example since that nowadays is a product consumed worldwide, and which has been able to penetrate culturally distant markets. It is enough to think that tea has not had the same fortune: there are few tea houses in Italy, or also in other European countries, few Italians consume tea domestically or at the bar.

In this case, it may be demonstrated that this is not truly caused by a cultural habit or fortuitous coincidence, but it is mainly due to the fact that companies have not invested or implemented the appropriate strategies to allow tea enter the Italian's people lives.

However, through the history of coffee we may believe that is not impossible to happen: it is unlikely that coffee could replace the role of tea in the Chinese culture and tradition, but is possible to demonstrate that the Chinese may drink and appreciate coffee, considering it as a valid alternative.

When the cultural context makes difficult the encounter between a consumer and a foreign product, marketing has the great responsibility to make this happen: marketing must bring consumers close to a distant product, make them capable of appreciating it and make them wanting to buy it.

Through this working paper, I would like to demonstrate that cultural differences of a foreign market could be overcome, and especially in case of the Italian enterprises, there are some key chains that could not be underestimated. Illy's experience teaches us that is possible to enter the Chinese market with a product that is faithful to our tradition and that this product may be appreciated exactly like it is.

However, the Italian companies must be prepared to face the Chinese market, must be aware of the existing differences and especially must be careful since this market is in constant and continuous mutation. It requires to have managers capable of identify these changes, quick to ride them by offering an adequate and timely offering.

Indeed, the companies proved successful in this sector have been able to understand the



Chinese market, adapting themselves to the need of the Chinese consumers and making them able to communicate their social position through their purchase.

Coffee represents a unique product, but such as other foreign products which represent a “recent introduction” in the Chinese market, it has passed some “tests” which stand for the key-success to conquer the Chinese consumer.

Through this study of mine, I believe that an Italian enterprise may successfully enter the Chinese market, whether it may satisfy some essential requirements: the enterprise needs to be flexible, creative and above all, dynamic. This is important as much as the understanding of the market, since that the company needs to be able to adapt to the continuous changes that characterize the current Chinese market.

The local understanding is fundamental to exploit the peculiarities of the Chinese consumers: as the coffee experience reveals, there is need to offer a product that may increase the people social status, their curiosity toward the western world and relying on the increasing disposable income that the new Chinese consumers have.

For this reason, the brand awareness is the most powerful element that may be exploited: companies need to have, or create, a strong brand which stands for a distinctive feature and is the determining factor for the Chinese consumer’s choice to buy a certain product. Acting in a different cultural context also means respecting the local culture. It is essential that the company is capable to build a logistic and distributive network of relations that allow it to get an efficient distribution and also to rely on the help of a local partner. In some cases, for example, the *guanxi* proved to be a fundamental driver to success. It is only turning the local culture as an advantage that it is possible to find the right way to overcome the cultural barrier.

Only doing this way, the perception of a same product, even if different and far from the culture of the company, may be positively elaborated. As we have seen, the perception of a product is something which does not follow specific rules, but relies on the subjectivity of the consumers which interpret reality according to their experience. For this reason, it is almost impossible to replicate the same perception for the same product across two different cultural contexts, but it is possible for marketers to influence and build a new perception which could bring consumers to appreciate it and enrich the new market.

This is exactly what has happened to coffee in China: companies have been able to create a

new perception around this beverage, making Chinese consumers capable of perceiving it in a different way, rising their interest and knowledge about it and demonstrating that diversities need to be studied and respected rather than rejected.

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