Ca' Foscari
University
of Venice

Master's Degree programme in

Languages, Economics and Institutions
of Asia and North Africa

Second Cycle (D.M. 270/2004)

Final Thesis

GLOBAL BRANDS CONNECT WITH THE LOCAL CULTURE

Advertising strategies of Coca-Cola in China

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Academic Year
2020 / 2021

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前言

　　广告在我们日常生活中扮演着一个重要角色。我们总是被广告包围着，到处可以看到广告。

　　这篇论文的主要目的是提供一份有关可口可乐在中国市场广告策略的完整分析。这个牌子是软饮料行业的全球领导者，而且是中国最重要和最受欢迎的品牌之一。在这篇论文中，另一个被分析的非常重要的因素，是文化以及它对公司的销售策略的巨大影响。所以我首先将详细说明在中国这样的国家广告现象的发展历程。我不仅将从历史方面，也将从文化的方面进行分析。说明完这些因素后，我将专注于可口可乐这个牌子的个案研究。

　　接下来我将对论文的每一个章节的内容进行更详细的总结。

　　第一个章节的主要目标是分析近年来各国公司国际化的问题。全球化、持续的文化交流、越来越动态的市场变化等现象都是每一家企业必须面对的困难因素。瞄准一个国外市场对任何公司来说都是一个巨大的挑战，尤其是对于营销人员来说。这是因为他们的任务是说服当地客户购买自己的产品而不是竞争对手的产品。能够在这个领域做出正确的决定需要许多相关文化差异的深厚知识。由于国家之间存在的无数差异，在国际市场上经营的公司必须根据当地价值观与消费者的要求调整它们的产品和战略。国家化过程可以分为五个阶段，也就是说一个企业可以被定义为国内的、国际的、多国的、全球的、跨国的。根据公司所在的不同阶段，沟通策略相应变化。一个公司应该标准化自己的沟通策略还是使它适应当地的环境并包容当地文化因素？什么是最好的策略？这是这篇论文试图回答的主要问题，但是，正如前文已经提到的，将特别关注广告因素。后者是沟通的组成部分之一。这个章节首先提供沟通概念的一般定义，然后列出公司可以在自己的营销策略中使用的主要媒体。这部分也再次强调文化的重要角色：广告是文化的产物，它们是不可分割的两个要素。

　　对我来说，在中国这样一个独特而复杂的国家分析这个问题是非常有趣的。事实上，广告在中国是一个相当新的现象，它直到 1978 年才在邓小平的政策下真正开始发展。在此之前，从 1949 年到 1978 年，毛泽东政府禁止了广告，并且在这个方面引入了许多的限制。因此，这个情况导致中国近三十年的广告内容逐渐消失。相反，

今天这一现象已成为这个国家经济发展的必要组成部分：如果没有它，中国就不会发展得那么快。于是，第二章节的主要目标是详细说明中国从起源到当下各个阶段的广告。由于 19 世纪后期的鸦片战争（现代广告诞生的时期）之后，在中国的外国人很多，所以广告行业受到他们非常大的影响。随着时间的推移，中国的广告经历了巨大的演变。事实上，这个国家是现今世界上最重要的广告市场之一，并且由于当地广告公司赢得的无数奖项，它成了民族的骄傲。

　　详细分析了中国广告发展的不同阶段之后，第三章节重点分析了考虑行业的各个方面，即软饮料。近年来，该行业取得了巨大的增长：本章节的目的是分析中国软饮料行业的特征、其随着时间的发展过程、本地消费者相对于该行业发生的变化、主要在市场上运作的国际和中国竞争对手、该行业的分销网络以及新冠病毒对后者方面的影响。《软饮料》是一个通用的术语，它包括不同类别的饮料。比如，在中国被视为软饮料的产品包括碳酸饮料、能量饮料、果汁、瓶装水、咖啡和茶。由于中国经济的发展，特别是在 2001 年加入 WTO 之后，中国成为了全球领先的软饮料市场之一。中国公民的收入水平提高，导致对软饮料的需求越来越高。在这个章节中，我特别关注的一个方面是近年来有关中国消费者发生的变化：事实上，他们越来越意识到健康和健身的重要性。由于这个因素，中国人的需求发生了一个革命，具体地说他们开始要求产品要能满足健康和健身的需求。因此，在该行业运作的公司都决定在中国市场推出越来越多的低卡路里或低糖的饮料。这种变化的另一个结果是，过去最受欢迎的类型是碳酸饮料，然而现在事情不再是这样的了，因为它们被瓶装水取代了。至于在该领域经营的主要品牌，全球领先当然是可口可乐、百事可乐、红牛、雪碧。但是也有许多本土公司，比如说农夫山泉、哇哈哈、王老吉或加多宝。

　　最后，最后一章的主要目标是提供一个我决定选择的案例研究的深入分析，即可口可乐公司。第一段重点解释了 1949 年至 1978 年封国后品牌进入中国市场的历史。对我来说，一个值得强调的有趣元素是，可口可乐是 1978 年现代化进程开始后第一家获得中国政府许可进入中国的外国公司。从那个时候起，可口可乐就从未停止过成长并创新，今天它代表着中国软饮料行业第二大公司。第一大公司就是本地公司康师傅（开曼群岛）控股有限公司。可口可乐中国公司除了可口可乐的品牌以外，还包括别的很有名的品牌，比如说雪碧、芬达、冰露水、美汁源等等。其中，雪碧居第一，

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而且可口可乐居第二。解释了该公司在中国市场的历史以后，本章对营销组合的四个组成部分进行分析，即产品、价格、分销、促销，显然尤其关注后者。然后我探讨了可口可乐品牌在中国开展的各种活动，并分析了它们的共性和差异。最后一段特别介绍了在农历新年这一国家节日之际开展的广告活动，因为对中国人们它是每年最重要的时期。事实上，每年可口可乐和许多其他公司都为这个假期开展特定的营销活动。这个方面是品牌对消费者和当地文化关注的一个明显证明。

我进行的分析让我明白消费者的文化如何影响他们对品牌和产品的看法，进而影响公司的政策。在中国市场上，比较消费者的价值观和他们的购买行为以了解公司如何适应这些需求和愿望似乎比以往任何时候都更重要。对于所有想在中国市场取得成功的公司来说，这是一条必经之路。

CHAPTER 1 – COMMUNICATION IN THE INTERNATIONAL SCENARIO

1.1 Levels of internationalization

Phenomena such as globalization, continuous cultural exchange and the increasingly dynamic changes in the international market are often difficult elements to deal with for companies and entrepreneurs. From both an economic and cultural point of view, entering a foreign market represents a huge challenge in particular for marketing specialists and brand managers, who have the goal to convince the local consumers to buy their product and create a link between the two contexts under discussion[1]. Marketing is an element which affects every individual, organization, industry and country and it can be defined as "the activity for creating, communicating, delivering, and exchanging offerings that benefit its customers, the organization, its stakeholders, and society at large"[2]. It is becoming a more and more global phenomenon and, as a consequence, making the right decisions in this field requires a deep knowledge and understanding of the cultural context in which the company is willing to operate[3]. Cultural differences make it necessary for a company to adapt its offer to the local values of consumers[4], since this process allows the company to have success in developing its brand in a market other than the domestic one[5]. The experiences of the marketers of the last few years give an evidence of the fact that "promotional and branding efforts that work in one cultural context may fail in others"[6], which is why a cross-cultural approach and research are needed.

The ability to develop an efficient communication strategy in every country in which the company operates has become in the last few years an unavoidable quality that all those companies willing to internationalize their own businesses must have. The process of entering a foreign market is not immediate and takes many efforts. In developing its cross-border business, a company usually goes through five stages of development, which is to say the domestic, international, multinational, global and transnational stage.

The starting point for a company is defined as the domestic stage, in which the domestic or national company operates solely within one single country and focuses on providing domestic customers of the home country with its own products or services[7]. In this case, the approach chosen is the ethnocentric one. According to the concept of ethnocentrism "an individual views the world from the prospective of his or her own group, establishing the ingroup as archetypal and rating all other groups

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[1] De Mooij M., *Global Marketing and Advertising: Understanding Cultural Paradoxes*, Sage Publications, 2018

[2] Kerin R. A., Lau G. T., Hartley S. W., Rudelius W., *Marketing in Asia*, page 3, Asia Global Edition, 2015

[3] Shavitt S., Barnes A. J., "Cross-cultural consumer psychology", in *Consumer Psychology Review*, 2018

[4] De Mooij M., *op. cit.*

[5] Shavitt S., Barnes A. J., *op. cit.*

[6] Shavitt S., Barnes A. J., *ivi*, page 70

[7] De Mooij M., *op. cit.*

with reference to this ideal"[8]. From the marketing point of view, this term describes those consumers who prefer to buy goods produced in their home country and, as a consequence to the increasingly level of globalization, this concept has become a big element of criticism[9]. This tendency of people to be more likely to buy domestic made goods represents an advantage for the domestic firms, since they are able to survive given the fact that the foreign competition is not very fierce. However, this situation makes it difficult for the same domestic companies to sell their products in other ethnocentric markets and consequently their opportunities to grow are limited[10]. Connected with the ethnocentric approach, another important characteristic of a domestic company is that it usually only targets the domestic market and uses the domestic resources in order to develop its business and create customer value. As a consequence, a domestic company's relations with the foreign markets and its knowledge about them are very limited, since there is no interest in doing business with other countries. This kind of business model has its advantages and disadvantages: the latter one include the fact that domestic firms can be limited as far as the audience, materials, resources, profit opportunities are concerned. Whereas its main positive elements are represented by the fact that the domestic environment is easier to deal with than the international one, since the firm only needs to follow the domestic rules and technical requirements[11]. Almost every company, including the biggest one, begin their journey by being domestic and targeting the local market, in many cases also only a single region of the country, and then after having built a strong image at home they try to exploit all the advantages of being international. As an example, the nowadays giant of the soft drinks industry Coca-Cola began as a simple American company too, which over time grew into a global marketing power. Anyway, in an increasingly globalized world like ours, the number of this kind of companies is beginning to decrease, since the competition is more and more international and so, their business model is not able to allow them to being successful and maintaining their competitive advantage.

The second stage in the process of internationalization is the one in which companies are defined as being international. The term international business can be defined as "the study of transactions taking place across national borders for the purpose of satisfying the needs of individuals and organizations"[12]. International companies simply are those which do some of their business in a country other than the domestic one and the most popular method of international business is international trade, which is to say the actions of exporting and importing. Indeed, since this phase represents the first time for the company of having business abroad, its knowledge and experience

[8] https://www.oxfordbibliographies.com/view/document/obo-9780199766567/obo-9780199766567-0045.xml
[9] https://www.oxfordbibliographies.com/view/document/obo-9780199766567/obo-9780199766567-0045.xml
[10] https://pmt.physicsandmathstutor.com/download/Economics/A-level/Notes/Edexcel-B/Theme-3/3-Impact-of-Globalisation-on-Global-Companies/a)%20Responding%20to%20global%20demand.pdf
[11] https://onlinebusiness.northeastern.edu/blog/domestic-transnational-or-multinational-business/
[12] Collinson S., Narula R., Rugman A. M., *International Business*, page 5, Pearson Education Limited, UK, 2017

will be limited. Consequently, when a company wants to go international, the best strategy is to simply extend in the foreign market the existing business and marketing strategy used in the domestic one in order for the company to be able to focus its attention on learning as much as possible on how the business is done in that specific market, which is unknown and new[13]. Usually, international companies are for example importers or exporters, which have no direct investments outside the home country[14].

Anyway, when the company during this process of internationalization starts to become aware of the numerous differences for what concerns the market characteristics and consumer behaviours and decides to respond to them, it enters into the third stage, which is to say the company becomes what is called a multinational. This kind of businesses locate their facilities in multiple countries but the structure is decentralized, which is to say every unit operates as a single entity rather than building a network together, which is a typical characteristic of transnational companies, that will be analysed in the following points. The main characteristic of multinationals is the fact that this kind of company develops a unique strategy for every country in which it operates and consequently, as opposed to the domestic company, the multinational one adopts a polycentric approach. It considers every market as a relevant one regardless the fact that it is the domestic or a foreign one. The multinational company focuses on identifying the differences existing between the markets and then developing the most suitable strategy according to them. For what concerns its main advantages, we can think about the fact that by establishing international operations this type of firm is able to reduce transaction costs and expand their reach. Given the fact that they can exploit the advantage of tax variations with strategic planning, they often have to face criticism because of this element. Moreover, developing the global presence of the company also makes it necessary to hire multilingual employees, which leads to an increase in the investments the company has to face[15].

The fourth level in this process leading to the complete internationalization of a firm continues with the company becoming a global one. In this case, there is a strong emphasis of elements such as volume, building cost advantages and efficiency through a centralized global-scale strategy. Usually this approach is adopted by companies operating in markets characterized by a fierce competition and a strong dynamism. The global company tends to consider the whole world as a single common market and this is why it adopts a global strategy regardless the country taken into consideration. The main strength of this company model is that it is able not only to see the differences between the markets, like in the case of the multinational, but also their similarities. Its main goal is to target a

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[13] Collinson S., Narula R., Rugman A. M., *ivi*
[14] https://leeiwan.wordpress.com/2007/06/18/difference-between-a-global-transnational-international-and-multinational-company/
[15] https://onlinebusiness.northeastern.edu/blog/domestic-transnational-or-multinational-business/

global consumer with a global product in a global market with a global culture. A prerequisite that is necessary in order to implement this strategy is that the company has to be big enough and with interests in many countries, even if an extreme and total version of such strategy is not possible given the minimum and unavoidable differences existing among the countries worldwide[16].

The transnational company can be considered as the arrival point in the development process of a company willing to target international markets. Its main goal is to combine the positive aspects of the two previous models and, as a consequence, it tries to put together domestic and global strategies. The main advantage of a transnational company is its ability to respond to the markets' needs in which the company has located its facilities and so, a major quality is its flexibility. While the main disadvantages to take into account is the fact that in many cases the transnational companies are criticized about the fact that they tend to choose to locate their manufacturing facilities in countries with lower labour costs and favourable taxation leading in this way to the suffering of smaller businesses and to the formation of monopolies[17].

As we can understand by reading the above mentioned points, every stage has its positive and negative aspects and it is important to stress the fact that they are not inevitable steps for all the companies, which often find themselves in intermediate situations.

Companies need to analyse their goals and understand which stage of the internationalization process best fits their situation and characteristics. The selected approach will then strongly influence the type of communication adopted by the firm in the different targeted markets that can be more local or global[18].

1.2 What is communication?

As mentioned in the paragraph above, the choice of a company concerning the most suitable strategy as for the different possible stages of the internationalization process deeply impacts the type of communication to be adopted in the foreign markets in which the company wants to expand its businesses. Marketing communication can be defined as "the means by which firms attempt to inform, persuade, and remind consumers – directly or indirectly – about the products and brands they sell"[19]. It can be considered as the voice of the company, which allows the creation of a relation and a dialogue with the final consumers. Communication processes have been profoundly influenced by

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[16] Liao T., Le U., "A Dynamic Global Integration and Local Responsiveness Framework: Understanding Strategic Movement of Multinational Enterprises", in *International Review of Management and Business Research*, Vol. 6, 2017
[17] https://leeiwan.wordpress.com/2007/06/18/difference-between-a-global-transnational-international-and-multinational-company/
[18] Liao T., Le U., *op. cit.*
[19] Kotler P., Keller K. L., *Marketing Management*, page 580, Pearson Education Limited, England, 2016

the rapid innovation and changes as far as technology is concerned, which have negatively affected the effectiveness of the traditional mass media and led to the creation of brand new one[20].

The communication or promotion should be analysed by considering it as a component of the so called marketing mix. According to the renowned marketing expert Philip Kotler, "marketing mix is the mixture of controllable marketing variable that the firm uses to pursue the sought level of sales in the target market"[21]. In other words, it is the combination of four variables, the so called four P's, that the company needs to take into consideration in order to be able to achieve the stated marketing objectives. The components of the marketing mix or four P's are product, price, promotion, and place (Figure 1).

Figure 1 – Components of the Marketing Mix

Source: personal elaboration

The impact of these elements on the company's performance will be the expected one only if the firm will assign enough weightage to each of the elements and if these will be integrated one to the others. The marketing mix cannot remain unchanged for a long period of time, since it is necessary for it to respond to the continuous changes in nowadays marketing environment. For most of the industries, the element that keeps on change more frequently is for sure the customer with his tastes and preferences. As a consequence, the company needs to make continuous market analysis and accordingly to the results adapt the marketing mix decisions[22]. The main purpose of promotion is to communicate with consumers but at the same also influence them. In order to do this the company

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[20] Kotler P., Keller K. L., *ivi*
[21] https://www.yourarticlelibrary.com/marketing/marketing-mix-meaning-definition-and-characteristics-of-marketing-mix-with-diagram/32321
[22] https://www.yourarticlelibrary.com/marketing/marketing-mix-meaning-definition-and-characteristics-of-marketing-mix-with-diagram/32321

needs to completely understand the process of persuasion and how this is affected and influenced by the external environment. Furthermore, the information that the company sends to the final consumer must be strong enough in order to make the buyer react in a positive way.

The act of communicating involves the sharing of facts and information between two people. If we analyse the communication, we can notice that it is a process composed by five elements, which is to say source, encoding, information, decoding and receiver[23] (Figure 2).

Figure 2 – The communication process
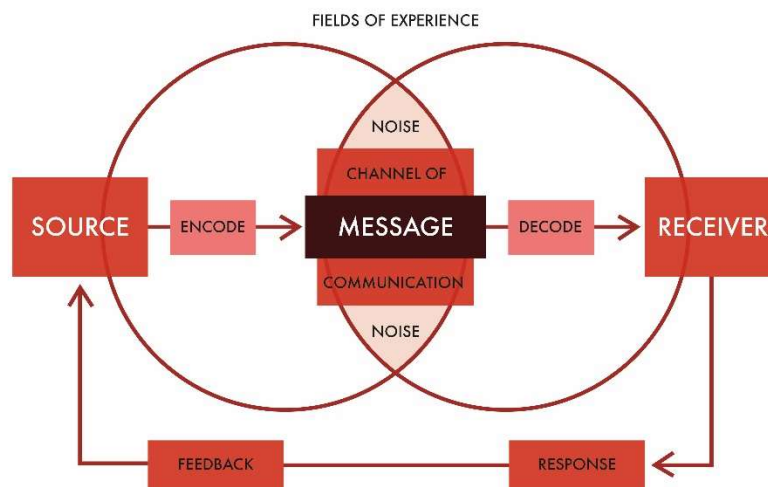
Source: personal elaboration

The source is represented by the company or the person who is in possess of the information to convey to the receiver, which in the case of the company consists of the target consumer. This piece of information sent by the source becomes a message through the process of encoding, which transforms the idea or information into a set of symbols, into something that can be successfully transmitted. This message will then be conveyed by means of the chosen channel of communication, which could be for instance advertising, a salesperson, public relations tools etc. After these passages, the receiver will get the message and translate the set of symbols and the message back into an idea through the mechanism of decoding, that will be performed by the receiver according to his beliefs, values, and attitudes. The latter step is essential in order for the person to be able to fully understand the message. The processes of encoding and decoding are possible only thanks to the different types of experiences that the source and the receiver have developed through the years. These fields of experience of both parts are represented in the picture above by the two large circles, which can have

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[23] Onkvisit S., Shaw J., *International Marketing. Analysis and Strategy*, Routledge, New York, 2004

a larger or smaller common area depending on how many similarities the two parts have in common. If this area is large, then it follows that the communication will be easier because both individuals present similar attributes and characteristics. Otherwise, if this overlapping is limited, the communication process will appear more difficult to happen. If on the extreme side, the two circles do not meet, then the communication is likely to be impossible. Another element that needs to be taken into account is the noise or interference, which includes extraneous elements that can act as an obstacle for the communication process by distorting the message or the feedback received by the source. Noise can happen if an error occurs, if the company uses the wrong words or images and communicate in this way the wrong message leading to a misunderstanding between the two parts. The sender needs to be receiver oriented, which means that the message must contain information that the receiver is able to decode. Anyway, if the message is a promotional one, it is not enough to convey it to the receiver, since this message must be designed in order to be also able to persuade the final target[24]. After having received and decoded the message, the receiver produces a response, which is "the impact the message had on the receiver's knowledge, attitudes, or behaviours"[25]. This response will be interpreted by the sender and represents the so called feedback, which makes the source understand if the message was received and decoded in the expected way.

In order for the message to be effective, there are four principles that the company should take into account when planning the communication strategy. First of all, the message must gain the attention of the receiver and consequently it is necessary for the sender to choose the most suitable message channel in order to ensure the reception of the message. Then the second principle states that the message should be compliant with the receiver's cultural norms, otherwise it will be likely to be rejected or distorted and in this way not effective. Thirdly, another element to consider is the fact that the message created by the sender should arouse the receiver's needs and suggest a particular action that will allow the receiver to achieve a stated objective. The last principle requires that the message obtains control over the receiver's behaviour at the right time and place and allow him to have a precise path leading to the achievement of the goal[26].

When we think about marketing communications, our first thought usually goes to advertising. Although the latter represents a central element of a marketing strategy, it is not the only one for the purpose of building stronger brand and customer equity. What is called the marketing communications mix is composed by eight modes of communication.

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[24] Onkvisit S., Shaw J., *ivi*
[25] Kerin R. A., Lau G. T., Hartley S. W., Rudelius W., *op. cit.*, page 356
[26] Onkvisit S., Shaw J., *op. cit.*

As mentioned above, one of the most important components of this mix is surely advertising. In its simplest sense, this word means "drawing attention to something"[27], it can be defined as "any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor"[28]. One interesting aspect of this definition that should be taken into account is the term 'paid', since it is important to stress the fact that the advertising space must be bought. There are numerous available advertising media that are at disposal of the companies and the people worldwide, like for example the print media, which are newspapers and magazines; broadcast media, like radio and television; then there are the network media, that are for instance telephone, wireless, satellite, cable; electronic media, like audiotape, videotape, CD-ROM, web page; and finally display media, that are for example billboards, signs, and posters. Advertising is always present in our daily life, even if we may not be aware of it. In today's society, advertising uses every possible instrument in order to make the message available to as many people as possible[29]. The role of advertising is seen in different ways depending on the condition and the political system of the country, which is to say many developing and communist countries consider advertising as a wasteful instrument, whose main goal is to create unnecessary needs. In China, starting from 1949 with the establishment of the Popular Republic of China advertising was considered politically inappropriate and was banned. However, the situation changed in the 1980s thanks to the policies of Deng Xiaoping, who wanted to make China more open to the external world. He wanted Chinese population to be more informed about the products available on the market and he succeeded in achieving this goal. According to the data collected in the last few years, a link has been demonstrated to exist between a country's expenditures on advertising and its level of economic development and GNP: higher the level of industrialization of a country, higher the level of its advertising expenditure[30].

In addition to advertising, another important component of the marketing communications mix is represented by sales promotion, which is "a short-term inducement of value offered to arouse interest in buying a good or service"[31]. Sales promotions can be divided into different categories, which is to say consumers promotions, like for example samples, coupons, and premiums; trade promotions, such as advertising and display allowances; and business and sales force promotions, like contests for sales reps.

The third type of promotion that a company can opt for is public relations and publicity, which is represented by programs, which can be directed both to employees of the company and external

[27] Dyer G., *Advertising as communication*, page 2, Routledge, England, 2009
[28] Kotler P., Keller K. L., *op. cit.*, page 582
[29] Kotler P., Keller K. L., *ivi*
[30] Onkvisit S., Shaw J., *op. cit.*
[31] Kerin R. A., Lau G. T., Hartley S. W., Rudelius W., *op. cit.*, page 360

figures, like consumers, companies, and government, with the goal of promoting or protecting the company's image. So, it seeks to influence the opinions and feelings of for example customers, competitors, suppliers, employees etc. about the company itself and its products or services.

Then companies should also take into consideration the personal selling, which actually is the second major promotional instrument. It is defined as a face-to-face communication between the buyer and the seller, with the purpose of influencing the buyer's purchase decision by making presentations, providing answers to questions, or procuring orders[32].

Another promotional alternative is direct and database marketing, which consists in using direct communication with the buyers in order to lead to a response by him in the form of an order, a visit to the store, a request for information. The direct marketing can use different means in order to achieve the stated purpose, such as face-to-face selling, direct mail, telephone solicitations, or online marketing[33].

Events and experiences is another tool that could be useful for companies and is represented by activities and programs sponsored by the company organized in order to create brand-related interactions with the final consumers.

Then in the last few years, thanks to the booming of the social networks, another important alternative of the marketing communications mix consists of the online and social media marketing, which nowadays appears to be essential in order to achieve the final target, especially if this is represented by young people. So, they are online activities and programs which have the goal to increase the customers' engagement level, improve the company's image, or raise awareness.

Finally, the last available tool is mobile marketing, which is a special form of online marketing that focuses the communication on specific tools, which is to say the consumers' cell phones, smart phones, and tablets[34].

As for the international market, it is important to remember that there is no one single media mix that is suitable for all countries and existing products worldwide and consequently, the mix has to be different depending on the target market. Apart from this fact, the basic principles used to select the best medium remain the same regardless the country. First of all, it should be selective and cost-effective as far as reaching the largest number of customers possible is concerned. Moreover, the selected medium should also allow the company to provide the reach, frequency, and impact expected[35].

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[32] Kotler P., Keller K. L., *op. cit.*
[33] Kerin R. A., Lau G. T., Hartley S. W., Rudelius W., *op. cit.*
[34] Kotler P., Keller K. L., *op. cit.*
[35] Onkvisit S., Shaw J., *op. cit.*

1.3 Levels of international communication

For what concerns companies willing to internationalize their businesses, one of the core themes that needs to be taken into account is the type of communication to be adopted outside the domestic market. This topic has been debated for many years by academic scholars but however, nowadays the opinions are still contrasting and a common solution has not been reached. This is because it is not possible to develop a theory and a strategy able to fit the needs of all the companies worldwide, since they are too disparate. This debate has been developing for the last thirty-five years, even if the first one to take the question into consideration actually was Erik Elinder in 1965, who in his article 'How international can European advertising be' supports the idea that European consumers started to develop more and more similarities and this could have a huge impact on the advertising. However, the actual starting point of this discussion is represented by the publication by Theodore Levitt in 1983 of his essay entitled 'The globalization of markets', which explains his theory about the ongoing process of globalization of products in the different industries of the market and initiated this intense debate[36]. According to him, "a powerful force drives the world toward a converging commonality, and that force is technology"[37], which leads to a new reality characterized by the development of global markets suitable for standardized products. The academic discussion as far as standardization and adaptation in marketing are concerned finds its roots in the field of advertising: starting from the publication of the article by Levitt, scholars began to ask themselves what the best strategy as for advertising was, which is to say whether companies should adapt their commercials to the local customs, whether they should better adopt a globally standardized advertising or whether to opt for a so called glocal strategy, which is the combination of both the approaches mentioned above. In the latter case, companies should be able to recognize which elements to adapt and which one to standardize. For example, the copy strategy is an element that typically is standardized, while on the other side language is something that companies need to change according to the country they want to target. Levitt's theory has been criticized by numerous authors, since it was considered to be too radical and moreover, the national differences as for consumers tastes and preferences were seen by these authors as an insurmountable obstacle to the process of standardization. So, there has been the creation of two factions in this debate: on one side those scholars claiming that the world is becoming increasingly global and similar as for environmental factors and consumers' requirements regardless the cultural context of origin. In contrast, on the other side there are other academics emphasizing the key role played by culture in influencing the customer behaviour and preferences. The latter scholars

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[36] Light L., "How organisations manage global brands in an increasingly local world", in *Journal of Brand Strategy*, Vol. 2, No. 3, 2013
[37] Levitt T., "The globalization of markets", page 1, in *Harvard Business Review*, 1983

affirm that living in the same nation-state leads people to share common communicative and behavioural features, which represents a distinctive element differentiating the several countries. As a consequence, according to them taking into consideration cultural characteristics is believed to help companies in increasing their competitive advantage in the international scenario[38]. The latest literature shows a preference toward a glocal approach but with some degree of adaptation as for the local culture and tastes, given the deep influence played by culture in terms of creating brand acceptance[39]. One of the many ways for achieving brand acceptance in different cultural contexts is through celebrity endorsement, who must be in the position to be able to represent specific cultural characteristics, that are particularly relevant for that market[40]. In this sense, Grant McCracken in his article 'Who is the celebrity endorser? Cultural foundations of the endorsement process' defines the celebrity as "any individual who enjoys public recognition and who uses this recognition on behalf of a consumer good by appearing with it in an advertisement"[41].

As we can deduce, one of the core decisions for a company as far as international marketing is concerned is the degree of adaptation and standardization to adopt in order to develop its marketing messages worldwide, since this decision strongly influences a company's performance[42]. According to some theories, it is possible to identify three schools of thought, which is to say the standardization, the adaptation, also called individualization, and compromise approaches[43].

Supporters of the standardization theory believe that the world is becoming increasingly similar as far as customer requirements are concerned and that consumers worldwide have common demands, needs and preferences. According to the Levitt's theory, companies able to achieve long-term success are only those that have shifted from the previous tendency to emphasize the products' customization to a new tendency to offer globally standardized goods, which is to say global companies. Instead, those firms which kept on focusing on consumers' preferences have become "befuddled and unable to take in the forest because of the trees"[44]. In order to be successful, companies need to focus on what everyone wants rather than concerning about what every single person thinks he or she might like. So, according to Levitt, the globalization is at hand[45]. This school of thought states that nowadays' faster communication has led to a convergence in terms of art, literature, tastes, thoughts, beliefs,

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[38] Vescovi T., Friedmann E., "The influence of ad design and content on purchase intentions of low and high context cultures", in *European Academy of Management*, LISBONA, ISCTE-IUL, 2019

[39] Light L., *op. cit.*

[40] McCracken G., "Who is the celebrity endorser? Cultural foundations of the endorsement process", in *Journal of Consumer Research*, Vol. 16, No. 3, 1989

[41] McCracken G., *ivi*, page 310

[42] Vescovi T., Friedmann E., *op. cit.*

[43] Onkvisit S., Shaw J., *op. cit.*

[44] Levitt T., *op. cit.*, page 1

[45] Vrontis D., Thrassou A., "Adaptation Vs. Standardisation in International Marketing – The Country-of-Origin Effect", in *Innovative Marketing*, 2007

culture, language, and therefore advertising. Advertising can be defined standardized when it is adopted at international level with no change in terms of theme, copy, or illustration. As a consequence, according to this approach, even if people are inevitably different one from the others, they still share common physiological and psychological needs[46]. When having to choose which strategy better fits a company's needs, a firm should better take into account the various forces and motives for a standardized advertising strategy. First of all, this method allows the company to have a cost reduction also thanks to the access to economies of scale in R&D, production, marketing, managerial and organizational processes. Then, the standardization approach also leads to the creation of one common message that is recognizable worldwide, which allows the company to strengthen its own corporate image. A firm, when deciding to develop a standardized strategy, is also able to have greater control over the development and implementation of its marketing mix policies. Moreover, the company benefits from the fact that standardization favours the spread of product innovations and know-how and also allows for a better use of resources within the company. Last but not least, this approach makes it possible for the company to enter a new market and gain experience and knowledge from countries other than the domestic one[47]. A model has been proposed in order to determine the conditions under which the standardization approach is considered to be more effective and practical, which is to say in those situations where markets are alike from an economic point of view and have similar consumer behaviour and lifestyle, physical, political, and legal environments. Moreover, the product in question should be culturally compatible across different countries and be industrial or high-tech and the company should be characterized by a high level of similarity as far as its competitive position is concerned in the various markets taken into consideration. Another condition is represented by the fact that the domestic and host countries should have similar marketing infrastructures and then, the company's managers should have a global mindset and a common world view and there should be a strategic consensus among them in both the parent company and the subsidiaries located abroad[48].

The opposite theory is the one supporting the hypothesis that countries worldwide and even regions within the same country are characterized by inevitable and undefeatable differences for example from the cultural or economic point of view. Such dissimilarities must be given due consideration and necessitate the adaptation and implementation of new and different advertising strategies. The major basis on which this school of thought is based is that marketing is a field, which is characterized

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[46] Onkvisit S., Shaw J., *op. cit.*

[47] Le U., "A Dynamic View of Global Integration and Local Responsiveness Framework", in *International Journal of Emerging Research in Management & Technology*, Vol. 6, 2017

[48] Subhash C. Jain, "Standardization of International Marketing Strategy: Some Research Hypotheses", in *Journal of Marketing*, Vol. 53, 1989

by the development in recent years of a new set of macroenvironmental elements. Countries are subject to different constraints, for instance different language, climate, education level, laws, political stability, economic conditions, technological advancement. However, the most relevant element leading to this need to use an adaptation approach is so far culture, whose differences find their roots in history, education, religion, values, beliefs, manners and customs, taste, consumers' needs, economic and legal systems. According to this theory's supporters altering and adapting the marketing mix components is essential for companies to suit local tastes and satisfy consumers' different requirements. It is an unavoidable condition for companies to survive in nowadays' market, since this school of thought argues that globalization is an overstatement and an ideology and standardized marketing strategy itself is seen as a bankrupt for the company[49]. There are several elements making it favourable and necessary for firms to adopt such an advertising strategy, which is to say companies are able to adjust to the differences as for the market's and country's characteristics and to use different media sources, given the different availability and usage across the countries. The adaptation strategy must be adopted by companies when individual country requirements as for advertising differ. This approach represents an advantage also as far as local consumers are concerned, since the company would be more likely to be considered as a local company: this represents a positive element for the firm because customers tend to prefer local companies' advertising. Moreover, adapted products and advertising are more attractive and competitive in foreign markets[50].

However, even though both schools of thought are logical, coherent and highlight the benefits that a company could have by adopting one of the two approaches, it is well known that they both represent an extreme and the use of either strategy is almost impossible and impractical. In the last few years research has shown that standardization and adaptation are not an all-or-nothing concept but they are a matter of degree. On one hand complete standardization is not possible given the heterogeneity existing among countries worldwide. On the other hand, total adaptation cannot be practiced as well, since it would be too much expensive for a company. Many experts highlight the importance of both approaches in the implementation of a company's advertising strategy and they argue that both of them should be used at the same time. This is why it is important also to refer to a third theory, which is to say the compromise school of thought, according to which it is desirable for companies to reach a balanced combination of standardization and adaptation[51].

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[49] Vrontis D., Thrassou A., *op. cit.*
[50] Le U., *op. cit.*
[51] Vrontis D., Thrassou A., *op. cit.*

1.4 Communication strategies

Once having decided the degree of internationalization and the proper combination of standardization and adaptation, the most suitable communication strategy will follow. A set of guidelines is provided by Keegan in order to help companies to determine whether it is more appropriate to use standardized advertising or not. According to him, companies have at their disposal five different international product and promotion strategies and the choice of the best one depends on three factors, which is to say cost, need, and use conditions. For example, if use conditions of one specific product are uniform across different markets, then the company should better opt for a standardized advertising strategy. Likewise, a commercial may be standardized also if consumer need for the product in question is universal. As the company moves from the first strategy toward the following ones, there is an increase in costs.

The first of the five strategies under consideration is called 'one product, one message, worldwide'. With this approach the company develops a single communication and product model, which is able to adapt to every market. It is feasible for a company to use this strategy only under certain conditions, which is to say if both the need for the product and its use conditions are uniform across all the markets worldwide. However, these conditions are difficult for a company to be reached and because of this, only a few products can use this approach. Some examples include diamonds or the BMW automobiles, which can be found everywhere with the same product and the same advertising, except for the translation, which must be necessarily adapted. It is easier to find this type of approach used for the industrial goods, since they are instrumental products and consequently their mode of use and business proposal are similar regardless the country to be targeted.

'Product extension-communications adaptation' is the second of the five strategies. In this case, the approach is addressed to those products having common use conditions across the markets but being used for satisfying different needs by consumers. Companies when deciding to use this type of strategy must be aware of the fact that depending on the country being targeted, it is necessary for them to focus the attention on one specific aspect of the product under consideration, which differs across the markets. What is considered to be particularly important in one country maybe will not have such great importance in another one. So, since consumers' needs vary, even though a product may be extended to more countries because of common use conditions, this is not possible and the promotional messages need to be adapted. An example of such a strategy is toothpaste, which is used in the same manner worldwide but often the reasons for using this product vary across the countries. For instance, in Northern America the French-speaking area of Canada use toothpaste primarily for breath control and big emphasis is placed on the fact that the product can make the breath fresh and leave it odorous with an enjoyable aftertaste in mouth. Whereas, in the other areas more stress is put

on the aspect of the dental hygiene. As we can deduce, it is necessary for companies in such industry to customize their advertisements for each national market. Usually, this strategy is used by those companies finding themselves in the first phases of the internationalization process, when they offer their products to foreign markets without modifying them and obtaining in this way huge cost savings, which is a really important aspect given the many difficulties the company must already deal with. On the other side, there is a necessary adaptation of the promotional messages, which is more easily practicable in the short-term if compared to a modification of the product.

'Product adaptation-communications extension' is the third strategy to be taken into account. It can be considered as being the opposite strategy of the previous one, since in this case what differs is not consumers' need but product's use conditions, while what remains unchanged is the usage need. When the product meets these characteristics, a modification of product but not promotion is to be made. One of the several examples of companies adopting this strategy is Black and Decker, a US company dealing with the design and production of household power tools, accessories and products. It promotes its goods with the same advertising model in all the markets in which it is present, though it is obliged to partially modify the products. Even if they look the same from the outside everywhere, the company had to make some adaptations for what concerns for example circuits and cords given the variations in electrical outlets and voltages across the world. Another example of products' modification is the software and vocal recognition systems in the mobile phones, which need to be adapted to the national languages and the variations of the different types of alphabets and writings, such as the Latin and Cyrillic alphabet or the Chinese characters.

The fourth of the five strategies is called 'Dual adaptation' and it consists of the simultaneous adaptation of both product and promotional message, which have necessarily to be changed for a foreign market because of the variations in both consumers' need and use conditions of the product. This strategy recalls the theories arguing that an adaptation to the market is necessary owing to the fact that every single market has too many unique characteristics making it incomparable with others. For instance, companies selling refrigerators must pay attention and modify their products in order to accommodate the volt and Hz electricity requirements in each country. Moreover, the dimension of such product must change as well, since large refrigerators with spacious compartments do not fit well with markets in which people do shopping for fresh food daily and use the refrigerator mainly for short-term storage. As for the advertising, if the market being targeted has high cost of electricity, then the company's advertisements must focus on concepts such as low electricity consumption, durability, and reliability[52]. By using this strategy, what remains unchanged for a company in the

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[52] Onkvisit S., Shaw J., *op. cit.*

several markets is the brand and the core product, which can be described as the utility that a customer gets by using the product and the main need satisfied[53].

Last but not least, the fifth one is the 'Product invention' strategy, which is used by companies in those cases in which the existing product happens to be for example too expensive for the foreign market or the costs of adapting the product and promotional message for foreign consumers are too high. In these situations, a suitable strategy for such companies can be to create ex-novo a brand new product with different characteristics if compared to those of the original product in the domestic market and that necessitates also a specifically created communication model. For example, Whirlpool Corp. has developed a new washing machine called 'World Washer' for the young Indian couples willing to have a Western-style automatic machine. For generations, Indians have washed the dirty laundry upon the rocks of the rivers and this was seen by the company as an opportunity for product invention by offering them a compact washer with specially designed agitators in order not to tangle saris, which are the traditional outfits of Indian women. So, the company invented a new product to meet the special requirements of a market, in which the offer was quite limited.

Keegan's classification of these five strategies of international communication, as already mentioned above, takes into consideration three variables, which is to say cost, need, and use conditions, that are important elements to consider but, however, they are not the only one. The actual reality presents also other conditions, which are just as relevant, like for instance the concepts of feasibility and desirability. An international advertising manager when taking such difficult and important decision is affected by the perception of whether the choice to implement a standardized advertising strategy is feasible and desirable. The decision to apply such an approach must be considered as a function of these two conditions.

The issue of feasibility consists in analysing whether situations such as environmental obstacles or restrictions may impede the use of a standardization advertising strategy and it is represented as an example by literacy, local regulations, media and agency availability. For instance, if the level of education is not as high as that of the domestic market, then probably the local consumers will find some difficulties in understanding the advertising copy and in this case the company should better replace the text in the advertisement with pictures or reduce the text portion. However, marketers must at the same time pay a lot of attention on the usage of images, since even though they are more universal than words, it is still necessary for companies to carry out research about the market's characteristics. As for local regulations, there are many countries that have laws restricting the content and nature of advertising messages. For example, in Germany the law prohibits slander against competitors in order to put emphasis on the concept of fair competition and, as a consequence,

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[53] https://www.marketing91.com/core-product/

marketers must be very careful in using comparative and superlative words. The degree of feasibility differs depending on the country, making the standardization easier in some countries while creating obstacles in others. Moreover, the environment around us keeps on changing day by day, offering more or less opportunities for standardization in the years to come.

Together with the degree of feasibility, marketers should also take into account the concept of desirability, whose degree can be calculated by using three main criteria. The first one of them is the amount of cost savings that a company could achieve by adopting a standardization strategy, since this type of approach should be used only if the consequent saving as for production costs is significant. The second criterion is represented by consumer homogeneity: higher the degree of homogeneity among local consumers, greater the advantage of using a standardized approach. Then the third and last criterion of desirability proposed is the degree of cooperation between the foreign subsidiary of a MNC and the managers of the parent company. Companies are more likely to decide to use standardization when they are deeply aware of the similarities in market position, familiar with the foreign context and when they share common values and beliefs with the subsidiary's managers.

The standardization technique may be appropriate in specific markets but always on a modest scale and definitely not on a worldwide basis, since a minimum degree of heterogeneity exists among all the cultures at an international level. For decision-making purposes, a useful framework is represented by market segmentation, which however is a cost for the company. If the world is not considered as one whole market but instead it is divided into various segments, then each one of them will require a customized marketing mix. In order to understand when the company should better segment the market, five requirements must be met. First of all, it should be possible to identify unique demographic characteristics of the country in question. Then the responses of consumers in one country to a common marketing mix should differ from those of other countries. The third condition is that the country under consideration must be accessible through available advertising media. Another element to take into consideration is the numerosity of the consumers: a country's population size must be large enough to justify the design of a different advertising strategy. Lastly, the incremental costs deriving from the market segmentation must be lower than the incremental profits obtained thanks to this strategy. When all the above criteria are met, then it is favourable for a company to proceed with a marketing mix designed specifically for a country. The analysis of such conditions leads to the conclusion that, for instance, USA can be considered as a separate segment, since it fulfils all the criteria thanks to its unique characteristics and responses, size, media availability and profit potential. On the contrary, it happens to be more difficult to consider the European market

as a single one due to the still existing differences among the countries as far as needs and product requirements are concerned. Therefore, it is preferable to consider Europe as a set of segments[54].

1.5 Advertising across cultures

Culture is an inclusive term, which cannot be conceptualized in one single way and it must be considered as "the glue that binds groups together"[55]. Culture has numerous meanings for many people, since this concept includes values, customs, norms, art, and mores. It comprises also the lifestyle of people and the way of thinking that are passed from one generation to the other[56]. Without the cultural aspects characterizing a group or society and without a system of shared significant symbols, it would happen to be difficult for people to live together. According to the anthropologist Clifford Geertz, culture is seen as a set of so called control mechanisms, which are used in order to govern people's behaviours. From the point of view of companies, consumers must be considered as a result of their culture and therefore culture and individuals cannot be separated. Culture is not a set of abstract elements existing independently of people and it must go together with the historical context: language, time, and place are all elements useful in order to define it. Considering the fact that culture is an inclusive term, it is not a surprise that academics have not managed yet to agree on a single common definition of the concept. In any case, a basic definition of the term can be that culture is a set of "shared beliefs, attitudes, norms, roles and values found among speakers of a particular language who live during the same historical period in a specific geographic region"[57].

When talking about culture, there are many characteristics that we can refer to in order to describe and explain the concept. First of all, culture is prescriptive, meaning that it prescribes what type of behaviours are accepted by people within a specific society and, as a consequence, culture provides people with guidelines as far as the decision making is concerned. As an example, East Asian countries are more likely to look for compromises during the decision making process if compared to the North American cultures. This prescriptive characteristic also helps consumers in making decisions regarding which products to buy, since it limits the choice solely to those goods considered acceptable from a social point of view. Therefore, another relevant characteristic of culture is the fact that it is socially shared. Culture must necessarily be built on social relations and interaction: it cannot survive by itself and it must be a common element among all the members of a society. Moreover,

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[54] Onkvisit S., Shaw J., *op. cit.*
[55] De Mooij M., "Translating advertising: Painting the tip of an iceberg", page 181, in *Translator*, Vol. 10, Number 2, January 2004
[56] Onkvisit S., Shaw J., *op. cit.*
[57] De Mooij M. (2004), *op. cit.*, page 181

culture has also the power to make the communication easier and facilitate it by defining a set of common ways of thinking and feeling among people belonging to a group or society. At the same time, culture can also represent an obstacle to the communication between groups characterized by a lack of shared cultural values. Culture can also be considered as an element which is learned: indeed, it is not inherited automatically from one generation to the other, but it must be acquired and learned. The process of absorbing and learning the culture of the country of origin is called socialization or enculturation. On the other side, acculturation occurs when a person learns the cultural elements of a society or a country other than the one in which he or she was born. Some countries are more opened and likely to absorb new cultural trends by learning cultures through the acculturation process. For instance, Asian countries do not wish their cultures to be contaminated by foreign elements, which are in many cases negatively considered as a source of danger. Then, culture is also subjective and it makes people consider a same object in different ways depending on their cultural background, since what is accepted by one culture may not be in another one. As a consequence, the same event occurring in different countries may be perceived in opposite ways. Another adjective that could be used in order to describe culture is enduring: culture is shared and bequeath from generation to generation and consequently, it is quite stable and permanent. If we analyse our way of living, we can note how old habits are difficult to break and how people are likely to maintain their own heritage: an element which is in contrast with the nowadays continuously evolving world. Culture can also be defined as being cumulative, since it is the result of thousands of years of accumulated events and circumstances. Every generation contributes to adding new elements to the culture's heritage before passing it on to the younger generation and this is why culture becomes more and more broad with the passing of time through the incorporation of new ideas and concepts. By taking into consideration the above mentioned elements, culture can also defined as dynamic, since it is in constant change and it always adjusts itself to new conditions and sources of knowledge. Due to this dynamism of culture, some elements can become outdated and thus leading to new buying habits.

As it is possible to deduce, culture has a strong influence on many aspects of our daily lives and one of these is for sure consumption patterns. Indeed, culture defines how people tend to satisfy their desires and how the priority of needs is organized and structured. Moreover, apart from influencing what should be better consumed, culture on the other side also has an impact on what should not be purchased. As an example, Jewish people require food to be kosher, a term which means 'pure' and they abide by specific rules in order to prepare food. These restrictions include the prohibition of using pork or shellfish and of mixing milk and meat. Coca-Cola started being considered kosher from

1935. The challenge for companies from a marketing point of view is to offer a product, which is able to meet the requirements of a specific culture[58].

Considering the fact that culture is such a relevant element that companies need to take into account when having to define and implement the most suitable advertising strategy, then how can they measure the cultural differences between the domestic country and the foreign market the firm wants to target? One of the most well-known and useful instruments for this purpose is for sure the Hofstede's dimensions of national culture. In 1980 he developed a model composed by four original and later two additional cultural dimensions aimed at identifying the basic value differences and explaining why people from various cultural contexts behave in so many different ways. Such dimensions are measured by using a scale that ranged from 0 to 100 and, consequently, his research is a quantitative one. So, this model can be useful in order to assess differences in terms of consumers' needs and preferences, communication styles, metaphors, concepts used in advertising, language.

The first of the six dimensions is power distance, that can be defined as the degree to which less powerful members of the society are aware of and accept the unequally distribution of power within that specific society and consequently, how people deal with hierarchical power relationships. In high power distance cultures, everyone knows his or her place in society and have strong respect towards elder people with more authority and experience. This is a dimension, which is shared by both Italy and China, where dependence relations exist between young and old, parents and children. In such cultures big importance is given to demonstrations of social position and so, people are concerned about owning objects showing their status within society.

The second dimension is individualism versus collectivism, which describes the strength of relations between an individual and the other members of a society. It is the extent to which people act as single individuals rather than as members of a group. In individualistic cultures, people tend to care more about themselves and their immediate family and they urge to have privacy and to differentiate from others. Whereas, collectivistic cultures' people belong to groups or collectives, whose members look after each other in exchange for loyalty. In contrast with the previous definition, collectivistic people tend to abide by the norms adopted by others and not differentiate.

Uncertainty avoidance is the third Hofstede's cultural dimension and it can be defined as the degree to which people prefer structured or unstructured situations and how cultures seek to deal with the fact that the future is not perfectly predictable. In cultures with strong uncertainty avoidance, people tend to feel threatened by phenomena such as uncertainty and ambiguity and for this reason, they need to have strict and precise rules, rituals, and procedures. On the other side,

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[58] Onkvisit S., Shaw J., *op. cit.*

people in cultures characterized by weak uncertainty avoidance tend to focus more on innovation and less on bureaucracy.

The fourth dimension is the degree of masculinity and femininity that characterizes a certain culture. Masculine cultures' core values are achievement, success, money, assertiveness. What is important in this case is showing success through status products and brands. While cultures with a high level of femininity consider values such as the quality of life, caring for others and solidarity of primary importance. Members of such cultures tend to have a people orientation and status is not considered to be so important as in the first case.

The fifth dimension, the first of the two added later, is the time orientation of cultures, which is to say their long-term versus short-term orientation, that can be measured by identifying the linkages maintained by the society with its past when dealing with the challenges and problems of the present and the future. Cultures characterized by a long-term orientation, which mainly are East-Asian countries, focus on the future and people give strong importance to values such as persistence, perseverance, saving and adaptation to the changes. They are able to adapt their traditions when conditions change, they tend to focus on long-term goals and to invest and save for the future. While on the other side, short-term orientation means that people are more focused on the present and past, which are considered to be more important than the future. Traditionally, Western countries are identified to belong to this group, since their core values are tradition and fulfilling social obligations. They are more satisfied by immediate gratification, have short-term goals and do not save for the future.

Last but not least, the most recent dimension identified by Hofstede is indulgence versus restraint, which assesses the freedom and possibility to satisfy one's own desires and natural needs within a specific society. Indulgent cultures tend to encourage people to achieve instant gratification of human needs, while on the other side restrained societies want to control people's behaviours through the implementation of precise social norms.

Hofstede's model is particularly helpful in order to assess and understand consumers' behaviour, since the countries' scores obtained thanks to these dimensions can be used for statistical analyses as for consumption data. In spite of this, many academics have criticized Hofstede's research on a number of points. First of all, Hofstede bases his study on the assumption that there is a correspondence between culture and nation-state but the opponents argue that there are several cases of multiple cultures to be found within one single country. Moreover, Hofstede's research happened to be bound from a cultural point of view, considering the fact that his team was composed only by European and American people and so, there was no global representation. Notwithstanding this, his work is still the leading research worldwide as far as cultural differences'

analysis is concerned and it represents a mandatory starting point for managers trying to identify how cultures differ and how this impacts the company's management practices.[59]

Together with the classification of Hofstede, another important element that needs to be taken into account is how communication of companies changes depending on the cultural aspects. In order to understand how communication is perceived and transferred, companies can refer to the classification of countries as high-context or low-context cultures. The latter include North American and Northern European countries, like for instance Germany, Switzerland and Scandinavian countries. In these kind of societies, the messages are explicit and direct and actual words are used in order to communicate the data and information. Words being said are what matters: they are independent entities that are not linked to the context in which they are said. What is important in such cultures is not how or the environment in which something is said but what is said. These cultures are characterized by short-term relations and a strict respect of rules and standards. The low-context communication can be described as being precise, direct, open. Such cultures tend to belong to the group of individualistic countries with a strong emphasis of the goals and the achievements of the individual instead of the group. They are also characterized by low power distance and flat organizational structures. On the contrary, high-context communication cultures include Asian and Middle Eastern countries. In such contexts, the communication is mainly indirect and the information necessary to fully understand the conveyed message depends on the context and consequently, the major part of the information is contained in the nonverbal part of the communicated message. The context of communication includes numerous additional elements other than the words said in the message, like for example the message creator's values, background, position. So, most of the information to communicate can be found in the physical environment and internalized in the individual, while not much is contained explicitly in the code. Members of such culture have close relationships one to the other being these societies tendentially collectivistic, they share common backgrounds, values, and education and give great value to interpersonal relations. High-context communication can be described as indirect, ambiguous, reserved and they usually are characterized by high levels of power distance with a great focus on hierarchy and autocratic leadership.

All of the above mentioned elements have to be coherent in the advertisements as well in order for them to be successful. Consequently, in a low-context culture advertising has to be more direct and make reference to the technical characteristics of the products. Such advertising would not be accepted by high-context countries, as it happened in Japan with the US advertisements, which were deemed too direct, not respectful and quite vulgar[60]. As we can easily deduce, the link between

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[59] Pontiggia A., *Organization, People and Culture: Management to China*, McGraw Hill Education Create, UK, 2020
[60] Vescovi T., Friedmann E., *op. cit.*

advertising and culture is indissoluble, since "advertising works as a potential method of meaning transfer by bringing the consumer good and a representation of the culturally constituted world together within the frame of a particular advertisement"[61]. The advertising world has developed a particular system of meaning, which is in any way universal across countries but on the contrary strongly defined by culture. This fact leads to the understanding of the fact that advertising shows a difference in how it is perceived and organized. It suggests also that if the spoken language varies between two countries, then probably there will also be a different set of symbolic references and "any advertisement that does not tap into such references is likely to be a blander proposition that one that does"[62].

Language is a relevant part of culture as well and the communication process would be impossible without it. As a consequence, advertisers when developing their company's strategy have to take this element into consideration and decide whether it is necessary or not to adapt this aspect. A word or sentence thought and created for one specific culture could happen not to be so meaningful for another cultural context. Moreover, some terms do not even exist in another language and when it is difficult for advertisers to find an equivalent to a word from a linguistic or conceptual point of view then in most cases it means that these terms express culturally important values that cannot be translated for an advertising in another culture. The language is an element that cannot be separated from the cultural framework: speakers of different languages apart from saying things dissimilarly, they also perceive things in their own way. It is a reflection of values and an expression of how people communicate with each other[63]. From a marketing point of view, differences as far as the spoken language is concerned makes a strategy modification necessary. When a marketing campaign is used outside the national borders, it is essential to pay attention to the fact that what needs to be translated is not words but the thought and concept behind the words themselves. The reason for this is that differences among languages are not limited to words and, as a result, the most effective strategy is not to translate an advertising copy but rather to interpret it, because otherwise companies will face the danger of having an advertising that sounds false to the consumers' ears[64]. Marketers need also to focus their attention on the fact that the chosen writing system has an impact on the perception and the memory of the final consumer. As an example, Chinese speakers tend to prefer visual representations, while English consumers rely more on phonological one, which is to say on verbal sounds. Some researchers have found that Chinese people tend to recall more easily a brand when

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[61] De Mooij M. (2004), *op. cit.*, page 180
[62] De Mooij M. (2004), *ivi*, page 181
[63] De Mooij M. (2004), *ivi*
[64] Onkvisit S., Shaw J., *op. cit.*

they are able to write it down than when it creates a spoken response. In China visually recognisable brand name transcription and logo designs have proved to be more effective than in the Western world.

To conclude, it is possible to understand that there are several elements that companies need to take into account when willing to start their internationalization process as for advertising and this is why every strategy needs to be carefully designed in every detail in advance. Companies that improvise are very likely to fail also considering the fierce competition characterizing the nowadays international market. Nothing can be left to chance today more than ever[65].

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[65] De Mooij M. (2004), *op. cit.*

CHAPTER 2 – THE HISTORY OF ADVERTISING IN CHINA: A CRITICAL OVERVIEW

2.1 The origins of Chinese advertising

Even though commercial advertising is nowadays known as one of the most important tools used in order to promote the consumer revolution in the contemporary Chinese society, it has not always been accepted and considered in such positive way by the Chinese government. On the contrary, after a short period in which it rapidly developed between the 1920s and 1930s, this process was immediately interrupted due to the rise to power of Mao Zedong and the Chinese Communist Party (CCP) and the establishment of the People's Republic of China in 1949. Advertising was then reintroduced starting from 1979 simultaneously with the policy of reform and opening up implemented by Deng Xiaoping.

Before analysing all the above-mentioned steps of the advertising's growth process, this chapter will focus firstly on the roots and birth of the phenomenon of commercial advertising in China.

Figure 3 – The origins of advertising in China
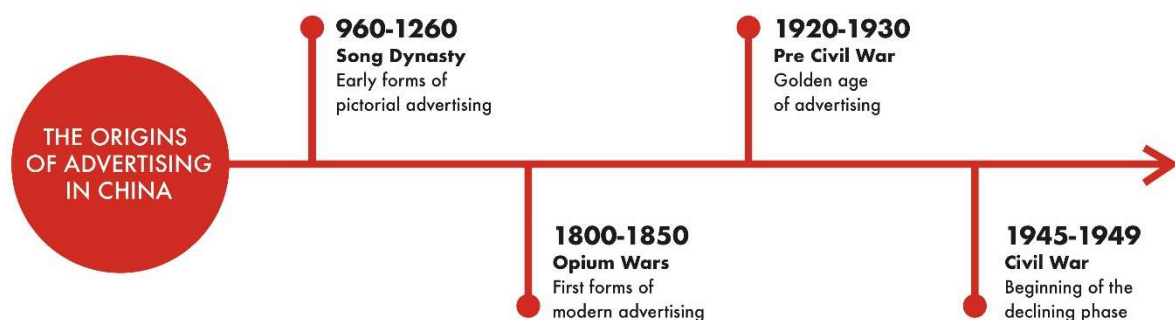
Source: personal elaboration

Chinese studies carried out on the history of advertising highlight how its origins can be traced very far back into history. Indeed, it was possible for some experts to find the first examples of commercials in the country already at the beginnings of primitive society with the tribal and clan totems before the mythical dynasties of Shang and Xia. Other academics even argued that the first cases could be traced back to 3000 BCE, when the first physical advertising started to be created following the first trade businesses[66]. The long tradition of pictorial forms of advertising in China can also be confirmed by the finding of numerous copper printing plates, which find their roots during

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[66] Puppin G., "Advertising and China: How does a love/hate relationship work?", in *The Changing Landscape of China's Consumerism*, December 2014

the Song Dynasty (960-1260). Thanks to the inscriptions on the plates, it was possible for researchers to understand that they were used in order to print wrapping paper for packing acupuncture needles. Information concerning these needles' high quality and excellence and the address of the manufacturing location were provided by the advertising copy and the illustrations to be found on such plates. Nowadays just a small number of advertisements, which were printed before the nineteenth century, have been successfully preserved. They consist of few packing boxes, handbills, and wrapping papers containing actual advertising contents and they are an evidence of Chinese rich advertising heritage. The reasons why today we have at our disposal so few old advertising tangible examples of Chinese history are three. First of all, ink and paper are very fragile elements and Chinese people did not expect them to must have such a long preservation. The second reason is that those papers, which contained advertising messages, were in most cases recycled and then used for other purposes and thirdly, there was a tradition called 'reverence for lettered paper', according to which papers covered with Chinese characters were highly desired, and because of this a huge demand for paper was recorded[67].

Of course there is no need to specify that these examples of advertising largely differ from those commercials we are used to nowadays in the modern society. According to the latest studies, the latter form of advertising started to appear only in the first half of the nineteenth century and in Chinese language it can be defined as '狭义广告', which means 'advertising in a strict sense', '商业广告', which is to say 'commercial advertising', or just '广告', whose meaning is simply 'advertising'. This period of time in Chinese history corresponds with the moment in which the country was subject to a strong increase in the arrivals and settlements of foreign countries, which were led by both economic and religious reasons. They started to implement a strategic and persuasive promotional instrument, which is to say advertising, with the purpose of both spreading their religious beliefs or starting business with the Chinese local population by selling their products. Therefore, it is not a coincidence that the first cases of modern advertising in the Chinese society were published in those newspapers run by foreign people and sold in the country's cities along the coast, like for instance 'Canton Register' and 'Eastern Western Monthly Magazine'[68]. Those were also the years remembered for the two Opium Wars in 1839-1842 and 1856-1860 and the Unequal Treaties, which were a set of agreements initiated by the conflict between China and Great Britain, which is to say the first Opium War. These treaties were negotiated and signed between China and the back then foreign imperialist countries, like for instance France, Germany, Great Britain, Russia, Japan, and the United States and

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[67] https://muse.jhu.edu/article/221972
[68] Puppin G. (2014), *op. cit.*

their purpose was to force China to cede part of its territories and sovereignty rights[69]. As a consequence of these events, the foreign powers imposed an imperialism in China not only from the commercial point of view, meaning that they altered the flow of capital and products for their own benefit, but also as far as advertising was concerned. This advertising imperialism was analysed by Michael H. Anderson, who defined it as "a particular type of communication exchange that fosters a general structural relationship that keeps some nations and some groups in harmony and others in conflict"[70]. However, due to these forms of imperialism and the spreading of nationalistic movements and boycotts in the first years of the nineteenth century, there was the promotion of consumer nationalism and therefore, being able to sell foreign products to Chinese people happened to be a difficult challenge[71]. In spite of this, the Western presence in the Chinese territory represented a milestone in the process of development of the country and openness to new realities. Indeed, together with the introduction into the Chinese market of Western products, many different types of promotional advertising came as well: signboards, newspaper advertisements, advertising calendars, posters are just some examples. Advertising containing images managed to make Chinese consumers know and accept the Western forms of representational art. In these years, the most well-known type of advertising perhaps was the so-called pictorial calendar, which was in the majority of cases given to consumers as a gift and contained advertising and pictures of manufacturing companies and retail shops, in order for them to be known by potential customers. Advertising agencies even started to collaborate with actual artists in order to design images for such calendars and in some cases, these illustrations became so popular that they were sold as hangers, which is to say alone without the calendar.

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[69] https://www.britannica.com/event/Unequal-Treaty
[70] Puppin G. (2014), *op. cit.*, page 179
[71] Puppin G. (2014), *ivi*

Figure 4 – Example of Chinese advertising poster art

Source: https://muse.jhu.edu/article/221972

The above image (Figure 4) is a classic example of Chinese advertising poster art and it was printed by Ni Gengye, who was one of the most famous and influential commercial artists of these years and worked for the British American Tobacco Co. between 1928 and 1938. This illustration shows a young lady posing on a bench in a garden and the advertised brand of such picture is a cigarettes company, whose logo can be noticed in the bottom[72].

The 1920s and 1930s were the years in which advertising in China witnessed a huge boom and entered into its golden age before the revolution of the following decades occurred. Thanks to the stability characterizing the economy of time, the creation and development of the first Chinese advertising agencies were promoted, like for example Consolidated National Advertising Co., Millington's Advertising Co., or China Commercial Advertising Agency. Advertising messages were more and more spread in a huge variety of media, which included newspapers, radio, billboards, electronic displays and in particular, the Chinese city of Shanghai was the heart of these advertising activities. However, this period of splendour for what concerns advertisements in China did not last long, because of some events that led the country to face several difficulties, namely the beginning of the anti-Japanese resistance movement between 1937 and 1945 and the following Chinese civil war, which saw a decisive battle between nationalists and communists lasting until 1949. During this

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[72] https://muse.jhu.edu/article/221972

last period before the foundation of the new People's Republic of China, advertising kept on existing even if its importance gained through the previous glorious years gradually decreased[73].

2.2 The disappearing of advertising after 1949

The establishment of the People's Republic of China and the rise to power of the Chinese Communist Power guided by Mao Zedong on 1st October 1949 marked the beginning of an era characterized by the gradual and almost entire disappearing of advertising in China, which as every socialist country considered it as an "uncomfortable presence"[74]. Even though there has never been an official announcement of the advertising's ban in China, it stopped for almost three decades and it is possible to identify three main factors, which contributed to arriving at that point.

Figure 5 – Advertising in China between 1949-1978

Source: personal elaboration

First of all, the most important element to be taken into consideration is for sure ideology, because advertising was not consistent with the Chinese government's social values and ideals and moreover, it was considered as the major representation of capitalist culture and consumption. Then the second contributing factor is related with the economic system: given the fact that the Chinese economy, the buying and selling activities were strictly controlled by the State and consequently highly centralized, advertising was considered as a useless instrument, because companies did not need to care about promoting their goods. Last but not least, the third element to consider is the country's production

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[73] Puppin G. (2014), *op. cit.*
[74] Puppin G. (2014), *ivi,* page 180

orientation. The Chinese economic model tended to put much more emphasis on the heavy industries' development rather than on consumer goods' one. Due to this situation, demand for consumer products was not so high and as a consequence, advertising was not considered as a necessity for companies[75].

However, this disappearing of the phenomenon was not immediate, since the first years of Mao's government still saw the advertising surviving, even if without the participation and presence of non-Chinese companies. Indeed, Western advertisements and goods witnessed a process of sudden vanishing.

Starting from 1956, the advertising sector began to be influenced by the development process of a socialist economy as well, and after a few years all the Chinese advertising agencies were controlled directly by the State. The relevance and legitimacy of advertising in China were highlighted by the Conference of Advertising Workers in Socialist Countries, which took place in Prague in 1957. As a direct consequence to this event, there was a huge boost to the implementation of a so defined 'socialist commercial advertising', which can be translated in Chinese language as '社会主义商业广告'. The latter had to be "ideological, truthful and concrete in nature"[76] in order for it to be accepted by the State. Consequently, thanks to this push towards the phenomenon, advertising started even to appear in previously never used media, like for instance lunchboxes, magazines, hangings of decoration in trains, which all had the possibility to show commercial contents.

After this initial phase of general tolerance, the following one was characterized by a quick closure in the so defined dark years during the Cultural Revolution between 1966 and 1976, in which advertising was not tolerated anymore, being it considered as a result of the capitalism. Even from a linguistic point of view the term 'advertising' itself was a sort of taboo and started to disappear as well, along with for instance some names of brands and products[77].

"When the Cultural Revolution began, neon signs were first smashed by 'red guards'. Advertisements disappeared from newspaper, except those showing and staging the eight 'model dramas'. […] There were only political slogans on billboards."[78]

As we can deduct from the above extract, during the years of the Cultural Revolution, but more generally in this period of the Chinese history starting from 1949, the place of commercial advertising

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[75] Hong J., "The Resurrection of Advertising in China: Developments, Problems, and Trends", in *Asian Survey*, Vol. 34, No. 4, 1994

[76] Puppin G. (2014), *op. cit.*, page 180

[77] Puppin G. (2014), *ivi*

[78] Cheng H., "Advertising in China: a socialist experiment", page 78, in *Advertising in Asia: Communication, Culture and Consumption*, Edited by K. T. Frith, Ames, Ia.: Iowa State University Press, 1996

was taken by propaganda, which in most cases occupied the same spaces where before it was possible to admire commercial advertisements on posters or billboards. The Chinese government imposed to the national media to only act on behalf of the Party and be its major mouthpiece. Within a short time, they all became state-owned and started to be a mean of communication for solely political messages. Until the late 1980s, thousands of propaganda posters (宣传画) were published and sold in official libraries across the entire country and they were used in order to be hung in classrooms', homes' and offices' walls as an element of decoration. Their style and content were quite simple at the beginning, but then they witnessed an increase in variety of themes and complexity throughout the thirty years of publication. Most of the techniques used in the creation of these propaganda posters were just the same implemented by the artists for the commercial advertisements, even though it goes without saying that they were used for different purposes. The style of Chinese propaganda posters received several influences, since it is possible to identify some elements deriving from the Soviet style together with the painting techniques of the Chinese tradition, which however started to be used only later.

At the beginning, in the period immediately after the founding of the People's Republic of China, the propaganda posters contained public announcements, which were a simple translation of the political philosophy.

Figure 6 – Example of a Chinese propaganda poster

Source: https://chineseposters.net/posters/e13-711

As an example, in 1953 a poster (Figure 6) encouraging the care for the physical hygiene was published, whose slogan '常洗衣被常洗澡，保持清洁身体好' can be translated in 'Regularly

washing clothes and frequently having a bath maintain people clean for a good health'. Someone may wonder the purpose of this campaign, which is to say maintaining a control over the bodies of the population in order to be able to govern them in a proper way. As Sun Yat-Sen clearly explained, the philosophy behind this poster is the fact that "competent governance of the body's natural functions [is a] necessary condition for competent government"[79]. In China, abiding by the hygienic rules provided to the citizens by the government was considered as an element of patriotism.

Then the years passed and Mao Zedong initiated the Cultural Revolution in 1966. As a direct consequence to this event, Chinese people witnessed a shift in the themes addressed by these posters. The main purpose of the movement was to strengthen Mao's authority within the communist party and eradicate the so-called 'Four Olds', i.e. old ideas, customs, culture, and habits of mind. These revolutionary elements can be found in the major part of the posters published in this historical period.

Figure 7 – Example of a poster during the Cultural Revolution

Source: https://chineseposters.net/posters/e13-764

This poster (Figure 7) of 1966 is one of the most popular examples: it declares the relevance of breaking away from the past, motivates the Chinese population to take part in and support the changes and provides them with behaviour and thought patterns. In this case, the slogan reads as follows: '高举毛泽东思想伟大红旗把无产阶级文化大革命进行到底–革命无罪，造反有理', which means 'Hold high the great red flag of Mao Zedong and carry the Great Proletarian Cultural Revolution through to the end: the revolution is innocent, the rebellion is justified'.

Chinese posters happen to present many similarities with the advertisements of public services in the United Stated, even if they are characterized by one essential difference, which is to say that even though they both encourage social policies aimed at bringing some benefits to the population, the Chinese one are created directly by members of the government, while on the contrary in the US such

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[79] https://chineseposters.net/themes/hygiene

advertisements are developed and financed by private and non-governmental entities. This form of propaganda, which is sponsored and controlled by the State, can be referred to as 'socialist realism', which is a style whose main goal is the promotion of the socialism's and communism's objectives. Indeed, it provided the Chinese citizens with instructions for what concerns how to properly live, think and behave. Even though advertising and art in the years between 1949 and 1980 were characterized by continuous changes as far as the approach and the main focus are concerned, throughout the years they always maintained a common goal, namely satisfying the needs of the State and society. According to Mao Zedong, art had to be considered as a political tool. This way of thinking kept on existing during the whole period in which he was in power and then these policies started to become less and less stringent in 1980s[80].

2.3 How advertising was reintroduced after 1978

Over the last 40 years, Chinese advertising industry has thrived. Without a doubt, its increasingly growth and the economic miracle the country went through are two events that cannot be separated and that are intertwined one to the other. The most important factors that made such quick development possible comprise as an example the gradual removal of trade barriers, the more and more fierce competition happening within the Chinese market due to both national and international businesses, the continuous increase in available income and purchasing power of the new generation of Chinese consumers, and the increasing spread of new buying opportunities and e-commerce services[81].

[80] https://muse.jhu.edu/article/221972
[81] Puppin G., "Forty Years of the Return of Advertising in China (1979-2019): A Critical Overview", in *JOMEC Journal*, ed. Sally Chan and Rachel Phillips, 2020

Figure 8 – First phase of the reintroduction process (1978-1991)
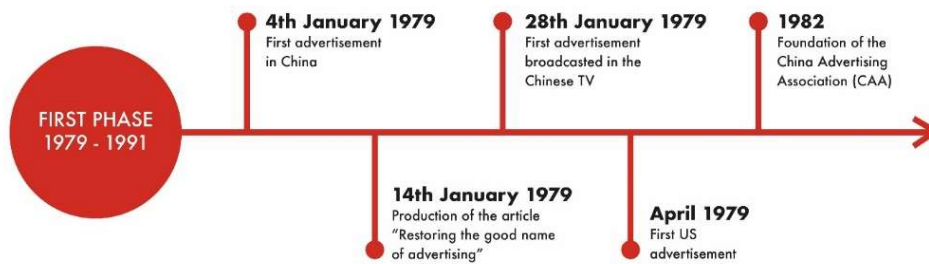
Source: personal elaboration

The process of gradual reintroduction of advertising in the Chinese society was marked by the implementation of the economic and political reforms and the process of opening-up, which relaunched the strong relevance and power of such phenomenon for the survival of the whole country's economy. In this way, advertising became again an irreplaceable element in Chinese people's daily life[82]. The starting point of this process of reformation in China is represented by the Third Plenum of the 11th Central Committee, which was held on 18th December 1978, during which Deng Xiaoping's open-door policy was adopted. This meeting is considered worldwide as the original impetus leading to the transformation of an economy from being backward to becoming the second-largest at a global level[83]. A new stage in the Chinese history began: a stage characterized by a strong focus on elements such as the modernization and development process of the country, as opposed to how it was before under Mao's power, when the major emphasis was put on elements like ideology. This change in focus was clearly expressed by Deng's famous words: "Black cat or white cat, as long as it catches mice, it's a good cat"[84]. The economic and political reforms initiated by Deng consisted in a gradual increase in privatization and competition level, rapid economic development through the implementation of a socialist market economy, more availability of consumer products, the enhancement of the living standards and opening-up to the outside with a consequent spread of businesses abroad. These are some of the most relevant elements, which allowed advertising to soon reappear on the Chinese major media. Some of the most important global advertising agencies – like for instance Young & Rubicam, McCann-Erickson, Leo Burnett – started to negotiate with the Chinese government and obtained the permission to re-enter the country under condition of concentrating mainly on the international scenario. Having reached this kind of context, the country was able to achieve the primary conditions, which were necessary for advertising to exist and at the

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[82] Hong J., *op. cit.*
[83] https://www.bbc.com/news/world-asia-china-24846812
[84] Puppin G. (2014), *op. cit.*, page 182

same time operate for reaching its basic goal, namely let the demand increasingly growing and encourage the consumerism[85].

The first sign announcing a reintroduction of advertising within the Chinese society after an interruption lasted for thirty years can be found in January 1979, right after the Chinese government initiated the set of political and economic reforms, which set brand new economic priorities for the country. In this renewed context, advertising was seen as an essential resource in order to promote the economic growth of the country and this is why it was able to flourish again.

Figure 9 – The first advertisement after their reintroduction in China

Source: Puppin G., "Forty Years of the Return of Advertising in China (1979-2019): A Critical Overview", in *JOMEC Journal*, ed. Sally Chan and Rachel Phillips, 2020

January 4th, 1979 is an historic date that marks a milestone event for Chinese contemporary society, since it is the day in which the daily newspaper *Tianjin Daily* (天津日报) published the first in a long series of advertisements after the period of the Cultural Revolution. It was a printed advertisement (Figure 9) promoting a local company producing toothpaste composed by a headline in Chinese language, which can be translated as 'Description of Tianjin Toothpaste main products', and some black-and-white pictures illustrating the different types of products sold by the company under consideration. The advertisement's visual was composed by both simple images, like for instance those of a child in an effort to brush her teeth and a smiling lady, and some informative parts. It goes without saying that if compared to those advertisements we are used to nowadays, which tend to be quite full of colours, very attractive and consequently also more eye-catching, this on the other side appears too simple, out of date and inefficient given the much higher standards of today's market and therefore, it would be impossible today for a company to be successful and to attract the consumers' attention with such an advertisement. However, it still represents the starting point for the process leading to the development and spread of commercial advertising in China.

Just ten days later, on 14th January 1979 the document legitimizing the reintroduction of advertising within the Chinese society was published by the author Ding Yunpeng on *Wenhui Daily*,

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[85] Puppin G. (2014), *ivi*

which was a famous and influential newspaper on a national level with its headquarters located in the city of Shanghai. This article's title unsurprisingly was 'Restoring the good name of advertising' (为广告正名) and its main purpose was to rehabilitate the advertising by providing the readers with a list of reasons why it would be profitable and positive for the society to reintroduce the phenomenon within the country. Among these arguments, some of the most significant ones are for instance that the disappearing of advertisements on Chinese television channels should be seen as a great loss from an economic point of view for the entire country. Moreover, according to this editorial, Chinese citizens should no longer consider advertising as a deceiving or exaggerating instrument, as on the contrary Lin Biao and the Gang of Four during the Cultural Revolution tried to convince them of, but rather as a source of knowledge, which is able to boost commercial exchanges and enhance business management. Indeed, as it is possible to read on the article, the author also highlighted the fact that advertising has been a useful tool used by capitalist countries in order to improve their economic situation and as a matter of fact, data proved that it actually represented a significant contribution to these countries' economic positive results[86]. Additional arguments used in the attempt to support the author's thesis were for instance the fact that advertising could also lead to the expansion of Chinese citizens' horizons and to the embellishment of the country's cities, since it is both a pleasure for one's eyes and mind[87]. The author then also stressed the necessity to differentiate between the advertising considered as the major symbol of capitalism, which can be called 'capitalist advertising', and an alternative, to which it is possible to refer as 'socialist advertising'. The latter's primary purpose was to contribute to building a market economy, which is socialist as well, but some conditions need to be met in order for an advertisement to be considered as socialist. First of all, it has to tell the truth, highlight the achievable profit economically speaking and be "able to guide consumers, beautify cities, serve the masses, be ideologically correct"[88], which is to say it has to abide by the principles of production, the proletarian theory and the socialist values. Most importantly, the main characteristic differing from the capitalist advertising, is that the socialist one did not include the possibility to use creativity[89].

The main differences existing between the advertising practices in socialist and capitalist societies were identified by the one, who laid the basis of Chinese modern advertising theory, which is to say Xu Baiyi. In harmony with the principles of capitalism, according to which the production is conducted at a private level, capitalist advertising primarily aims at maximizing the quantity of profits

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[86] Puppin G. (2014), *ivi*
[87] Hong J., *op. cit.*
[88] Puppin G. (2014), *op. cit.*, page 183
[89] Puppin G. (2014), *ivi*

to the advantage of the shareholders and the groups with the monopoly. On the other side, in the case of socialist advertising the profits' maximization needs to be achieved in order to bring benefit to the state, which thanks to these profits should improve in this way the citizens' quality of life. Another relevant difference, which needs to be taken into account, is the fact that in capitalist societies advertising is a separated entity from the government and, moreover, in such contexts advertising usually tends to use instruments, which are highly advanced from a technological point of view. In contrast, Chinese socialist advertising has to belong to the planned economy, which is designed and structured by the government itself, and this is why advertisements need to be consistent with the governmental policies. Last but not least, capitalist advertising's interest is focused on attracting the final consumers' attention and consequently, in order to do this, its contents also include exaggerations and false information, it is in most cases in bad taste, and resort to sexual references in order to promote the goods. Whereas being China a socialist country, here advertising has to develop a socialist civilization, which can be described as something that increases the people's moral quality and is healthy. Another way to describe the Chinese socialist advertising's characteristics is by using the concept of the so-called 'five natures, one style', which is to say that in order to be defined socialist, it had to be "ideological, informative, true, scientific, and artistic in nature as well as national in style"[90].

On 28th January 1979, another important event as far as the reintroduction of advertising is concerned took place in China, namely the Shanghai Television Station (STV) aired an advertisement promoting a medicinal wine, which was the first commercial to be broadcasted in the Chinese television after the announcement of the opening-up policies of Deng Xiaoping. In a time of a few weeks, the same channel carried on the Chinese screen the first foreign advertisement as well, which was a commercial for the Rado watches, that were produced in Switzerland. One month later, the official newspaper of the Chinese Communist Party in Shanghai, which was called *Liberation Daily*, published a set of commercials over the period of four days, which publicized both industrial and consumer goods and then on 15th March of the same year, the *Wenhui Daily* newspaper brought to the Chinese audience the first ever printed foreign commercial after the end of the Cultural Revolution.

As it is possible to deduct, Shanghai was the heart of the commercial advertising's development process in China but in any case, other big cities in the country promptly followed its lead too, like for example Beijing, Guangzhou, and Tianjin. Companies from outside the Chinese borders were informed as well about the fact that it was possible again for them to place their commercials in the Chinese media across the country, which did not only include newspapers or television, but also radio and billboards. As a consequence, the Chinese advertising industry was suddenly hit by an

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[90] Puppin G. (2014), *ivi*, page 184

extraordinary expansion. Therefore, within just a year, refusing to accept to publish an advertising content happened to be no longer the rule for Chinese national media institutions, but rather an exception.

Another important event marking the history of commercial advertising in China is represented by the foundation in 1982 of the China Advertising Association (CAA) in the city of Beijing, which deeply contributed to the process of advertisement's reactivating and shed a new light to the industry by putting it in a more relevant position.

It has been possible for academics to identify different phases of development of the advertising industry in China since its reintroduction starting from 1979. Chronologically, the first of these stages started in 1979 and ended at the beginning of the 1990s, more precisely in 1991.

Figure 10 – Advertising Industry in China during the 1980s

Advertising Industry in China during the 1980s			
Year	Business Volume (millions of Yuan)	No. of Employees	No. of Agencies
1979	-	-	10
1981	150	16.000	2.100
1984	360	50.000	4.077
1985	600	60.000	6.034
1986	845	81.100	6.944
1988	1.600	100.000	8.000
1989	2.000	130.000	11.000
1992	16.200	-	16.683

Source: Hong J., "The Resurrection of Advertising in China: Developments, Problems, and Trends", page 329, in *Asian Survey*, Vol. 34, No. 4, 1994

As we can notice, the data contained inside the table above (Figure 10) referred to this first development phase are a clear evidence of the quick growth for what concerns the advertising industry in China starting from its reintroduction. If we compare the first figures at our disposal of 1981 and 1984, over a three-year period the advertising business volume exceeded two times, starting from 150 million Yuan in 1981 and reaching then 360 million. As far as the number of employees working in this industry is concerned, the increase in these three years was tremendous with 50,000 people employed in 1984, more than three times the data of 1981. With regard to the number of advertising agencies existing within the Chinese soil, the number in 1984 represents double as much the initial quantity in 1981. As the years went by, we can notice that the figures of all three columns never stopped increasing and jumped markedly year by year. It is astonishing to compare the final data recorded in 1989 with the first numbers of just seven years before and this growth has to be considered as a clear reflection of a significant change that happened within the Chinese society and economy in the advertising's status and in how it was seen by Chinese people. Throughout these revolutionary

years advertising managed to be considered as a high-performance means of communication, as an instrument to enhance the quality of people's lives and a fundamental connection between production and consumption. Moreover, its power of influencing the growth of trade both at domestic and international levels had been recognized.

A factor that needs to be taken into consideration and specified when talking about this phase of the development process of advertising in China is represented by the considerable expansion in the country's market of foreign advertising. The latter in 1982, after just a few years from the introduction of the opening-up policies, already constituted more or less 10% of the total amount of advertising revenues in China. In the first years, the country which invested the major quantity of money in the Chinese advertising industry was for sure the neighbouring Japan with brands, such as Toyota, Sony, and Panasonic. They started to create specific advertisements for Chinese consumers in the early 1980s and nowadays their products are still highly requested in the country given the positive reputation for what concerns their level of quality but also their well-planned strategies as for advertising, which led to the building of a strong brand loyalty. At the same time, Japanese advertising agencies also started to occupy a prominent position within the Chinese market thanks to the well-known Dentsu and other few Japanese agencies, which worked together with Chinese advertisers and professionals. Apart from Japanese companies, which accounted for two-thirds of the total foreign advertising during the first years of 1980s, another relevant actor was represented by the United States, whose firms proved to be quite interested in the Chinese market as well. The first US commercial in China was published in April 1979 by the newspaper *Guangzhou Daily*. By 1987 US companies were pouring a quantity worth of $16 million into the Chinese advertising market every year, including giant firms, like for instance Coca-Cola, Pepsi-Cola, Procter & Gamble, Gillette, to mention but a few[91].

As far as advertisements' characteristics are concerned, in the early 1980s Chinese advertising professionals tended to adopt hard-sell strategies with a strong emphasis on product technical information and manufacturing processes, such as the kind of machineries used in order to produce the good, the diligence distinguishing the company's employees, the achieved awards, etc. But then over time, thanks to the increasingly strong influence played by the implementation within the country of foreign advertising strategies, Chinese advertisers started to take a cue from them and consequently to use more soft-sell advertising practices. The latter tended to focus more on values, like for instance romance, love, relationships within the family, modernity. During this period, Chinese advertising professionals also showed to be keen to learn from their foreign colleagues and several programs aimed at this were organized in order for Chinese advertisers to acquire knowledge for what concerns

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[91] Hong J., *op. cit.*

the latest practices in this area. Professionals employed at foreign advertising agencies were also asked to give talks and lectures about the foreign advertising strategies and there was also the establishment of degree courses in the matter in important universities of the country. Moreover, numerous books on advertising were published and professional associations were founded. All of these elements help us in understanding how advertising started to gain more and more importance and to become a potentially attractive career thanks to the elevation of its reputation[92].

Another technique, which was introduced within the advertising strategies adopted by Chinese professionals during this first phase, is the celebrity endorsement. The latter first appeared in the country in the 1930s but then disappeared for thirty years after 1949. The event that marked the reintroduction of such an approach is represented by the appearance of the Chinese actor Li Moran in a commercial of a pharmaceutical company in 1990, which was broadcasted on the China Central Television (CCTV), the biggest television network of the country. As soon as the commercial was aired on the Chinese screen, the spot set off a quite violent reaction from the public opinion, which was asking itself if it were right for a famous actor to become the spokesperson of a brand. As a matter of fact, the traditional Chinese culture has always been based on the belief that public figures had to show a perfect moral education and, on the contrary, traditionally companies were little esteemed because they were considered as being too materialist. This is why at the beginning the first cases of celebrity endorsement in the 1980s and 1990s were subject of strong criticism. However, thanks to the continuous development of the Chinese market economy and to the increase in the cultural openness' degree, the public opinion started to gradually adapt to this new advertising format, until it became part of the everyday life[93].

Figure 11 – Second phase of the reintroduction process (1992-2001)

Source: personal elaboration

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[92] https://www.chinacenter.net/2017/china_currents/16-1/advertising-in-china/
[93] Lupano E. (edited by), *Media in Cina oggi. Testimonianze e orientamenti*, Francoangeli, Milan, 2010

Starting from 1992, the second phase (1992-2001) of the Chinese advertising's development process began, during which the country's advertising industry got into a stage characterized by an even quicker growth[94]. The latter was in part due to the 1992 Southern Tour of Deng Xiaoping, which took place in the southern cities of Wuchang, Shenzhen, Shanghai, and Zhuhai between 18th January and 21st February of the same year. During such inspection tour, the former Chinese Communist Party leader Deng made some important speeches, that are referred to as 'South Tour Talks', in which he analysed the occurred events and lessons gained starting from the beginning of the reform and opening-up process. He then put particular emphasis on the need for a more rapid development and a more radical reformation. Given that Deng was at that very moment the most influential actor in the political scene of his generation, his tour had a tremendous impact on the society[95]. For what concerns the influence of such tour on the Chinese advertising industry, he stressed the importance of creating a socialist market economy (社会主义市场经济), which represented a positive incentive for the spread of commercials, since in such an economy the role of advertising as a driving force for economic growth was recognised. In these years, the government also gave to media associations the possibility to be managed as business units and no longer as public entities. In particular, 1993 is known to have been China's advertising year (中国广告年), because of the unprecedented expansion of the industry's revenues, number of workers and advertising agencies. In this second phase, the most popular advertising medium in China became the television, as opposed to how it was during the 1980s, when the largest instrument was the newspaper[96].

When analysing the advertisements, which had been created throughout the 1990s, four trends can be identified. First of all, Chinese authorities started to finally admit the relevance played by advertising within the new context of Chinese society characterized by a reformed economic system and recognized advertising to be a powerful resource for growth. This official change of perspective was highly crucial given the fact that in a political system like the Chinese one receiving the consent from the government is a prerequisite for everything. Secondly, along with the authorities, Chinese entrepreneurs started to adapt to the new market economy as well and to develop a stronger predisposition towards advertising. Managers showed an increasingly positive attitude to the new role played by advertising as far as the promotion of improved living standards, economic development, prices, consumption models is concerned. Then the third trend that could be observed during that years is represented by the already mentioned tendency of foreign advertisers to seize the several opportunities offered by the Chinese market and of foreign companies to develop advertising

[94] Puppin G. (2020), *op. cit.*
[95] http://www.china.org.cn/english/china_key_words/2018-10/29/content_68861016.htm
[96] Puppin G. (2020), *op. cit.*

strategies specifically for the Chinese market. Lastly, another relevant element that needs to be stressed is the emphasis put on research and education. In these years, more and more efforts have been made in order to provide Chinese people with training in the advertising field[97].

2.4 Chinese advertising in the 21st century

In 1996 a Chinese delegation took part for the first time in the Cannes International Advertising Festival and in this way the advertising representatives of the country had the chance to come into contact with the international figures of the sector. This gave to the Chinese professionals the opportunity to assess their position in the market in comparison to their competitors. The delegation was composed by people coming from local advertising agencies and media. According to their statements, their first impression was a huge sense of surprise due to the experienced gap between Chinese and international advertising. As a matter of fact, the delegates of the international jury were perplexed as for Chinese advertisements, since in their opinion the latter were in many cases difficult to be decoded due to the presence of elements, which were perceived as cultural obstacles making it hard for China to be able to win any kind of prize and award. As a consequence to this event, Chinese academics of advertising started to be aware of this problematic and to take particular care of creativity in commercials: an aspect, which previously had not been given enough emphasis because Chinese advertisers tended to prioritize the ideological alignment. So, in order for Chinese advertising to be accepted and fully understood by the international market, it was necessary for it to figure out how to deal with the cultural contents in a more efficient way. With the beginning of the new century and of a new epoch characterized by increasing commercial exchanges between China and the Western world and a more and more globalized advertising industry, a new type of advertising was needed in China, which is to say an advertising with Chinese characteristics (有中国特色的广告). As we can notice, a huge change has been made in the definition of the phenomenon in the country, since in the new version the term 'socialist' does not appear. According to the experts of those years, a change of perspective towards international advertising was considered to be urgent and moreover, Chinese people should no longer perceive foreign goods or advertisers as something to be afraid of[98].

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[97] Hong J., *op. cit.*
[98] Puppin G. (2014), *op. cit.*

Figure 12 – Third phase of the reintroduction process (2002-2009)
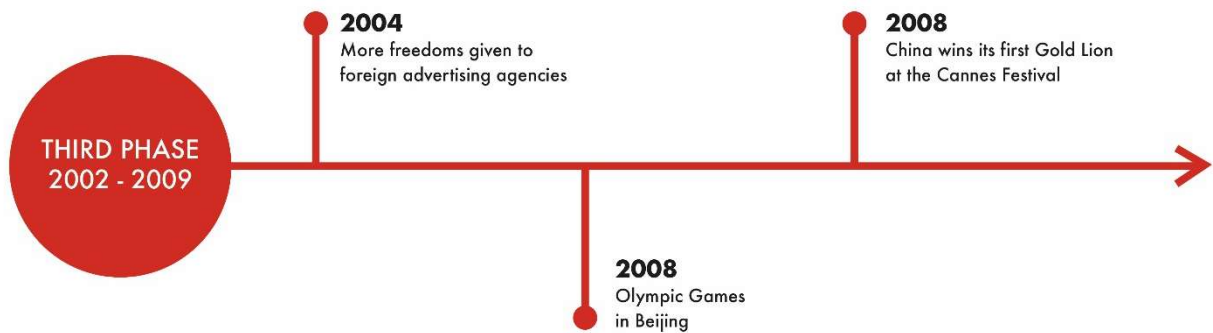
Source: personal elaboration

The third phase in the development process of commercial advertising within the Chinese market consists of the period between 2002 and 2009, which is characterized by a generally stable growth. The primary event that opens the door to this stage is represented by the entry of China into the World Trade Organization (WTO) on 11th December 2001. As a result to this event, the Chinese government committed to remove within a period of four years the existing restrictions obliging non-Chinese advertising companies to enter into the Chinese market only through joint ventures with domestic firms under the condition of holding a minority share that could not be higher than 49%. This event represented another crucial step forward in such development process. Starting from March 2004, foreign agencies were given the possibility to also hold a majority share in the joint ventures and over the ensuing few years wholly foreign-owned enterprises (WFOEs) were finally allowed to work in China in the field of advertising services as well. This of course represented a huge challenge for the nation because in allowing this, it opened the doors of the country to transnational agencies as well, which if compared to the Chinese one were much more competitive and stronger. As a result to these new concerns, Chinese professionals wanted to place themselves as the main experts of Chinese culture and therefore, developed a new form of advertisement, which was called 'creative advertising with Chinese elements' (中国元素创意广告). The end of this second phase is marked by the Chinese hosting of the Olympics in Beijing in 2008.

Figure 13 – Fourth phase of the reintroduction process (2010-today)
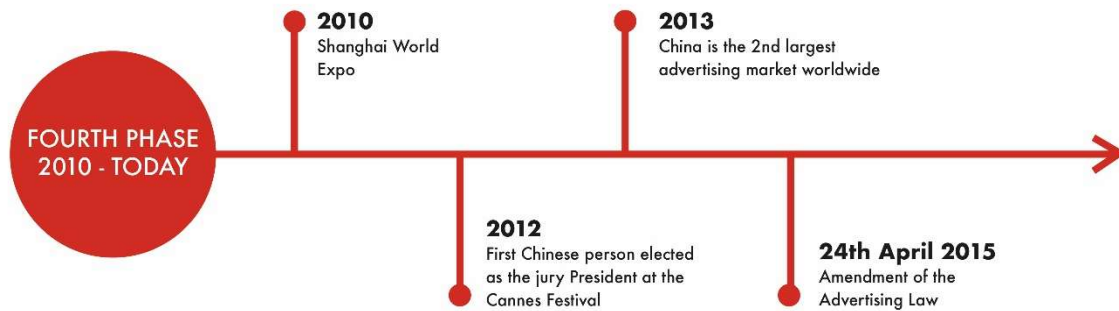
Source: personal elaboration

The fourth and last phase is the one comprising the years between 2010 and today. 2010 represents another significant moment for China as far as its international reputation is concerned, since it is the year during which the country organized the Shanghai World Expo, an event of great prestige.

Figure 14 – China's Advertising Industry Growth (2010-2019)

Year	Advertising Turnover (Billion Yuan)	Annual Turnover Growth (%)	Advertising Business Units	Advertising Employees (People)
2010	2,340.50	14.67%	243.445	1.480.525
2011	3,125.60	33.54%	296.507	1.673.400
2012	4,698.00	50.31%	377.778	2.177.840
2013	5,019.75	6.84%	445.365	2.622.053
2014	5,605.60	11.67%	543.690	2.717.939
2015	5,973.41	6.56%	671.893	3.072.542
2016	6,489.13	8.63%	875.146	3.900.384
2017	6,896.41	6.28%	1.123.059	4.381.795
2018	7,991.48	15.88%	1.375.892	5.582.253
2019	8,674.28	8.54%	1.633.092	5.935.052

Source: Puppin G., "Forty Years of the Return of Advertising in China (1979-2019): A Critical Overview", in *JOMEC Journal*, ed. Sally Chan and Rachel Phillips, 2020

Afterwards, as it is possible to understand by looking at the figures of the table above (Figure 14), the years following 2010 were all characterized by a continuous stable growth of all the analysed indicators, which is to say the advertising turnover, the turnover growth on a yearly basis, the number of business units and people employed in the sector.

This same phase was also characterized by numerous improvements for what concerns the advertisements' quality and creativity levels, which started to finally gain recognition at an international level. In 2008, China won its first Gold Lion at the Cannes Lions International Festival of Creativity, thanks to the creation of the outdoor campaign, which was entitled 'Together in 2008,

Impossible is Nothing' (一起 2008，没有不可能) and realized by the agency TBWA Worldwide Shanghai for the brand Adidas on the occasion of the Olympic Games (Figure 15)[99]. Indeed, Adidas China was the Official Sportswear Partner of the games and this campaign represents the largest campaign ever realized by Adidas for a single market.

Figure 15 – 'Together in 2008, Impossible is Nothing' Campaign

Source: https://adland.tv/ooh/adidas-together-2008-impossible-nothing-china-olympics-print-campaign

Its main purpose was to encourage the whole nation and show the nation's support for the Chinese athletes. This integrated marketing campaign was composed by a series of contents that were released in different moments all over China through a mix of computer graphics and photography. It was realized by adopting different media, such as TV, outdoor, print, roadshows across the entire country and PR and by providing the consumers with platforms aimed at allowing them to get in contact and know closely the participating athletes[100].

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[99] Puppin G. (2020), *op. cit.*
[100] https://www.adidas-group.com/en/media/news-archive/press-releases/2007/adidas-china-launches-its-olympic-games-campaign-together-2008-i/

By 2013 China managed to be recognised as the second largest advertising market worldwide, following only the US, which is the undisputed leader. If we look at the data announced by Zhang Mao, the director of China's State Administration for Industry and Commerce (SAIC), it is possible to notice that by the end of 2012 the number of people employed within the Chinese advertising industry reached 2.18 million employees and the business volume in terms of Yuan was equal to 469.8 billion, which corresponds to US\$75.52 billion. Whereas as for the number of advertising agencies located in the country, they were 377,800. According to the figures at disposal, the Chinese advertising sector has been one of the industries of the country, which grew at the fastest speed: its revenues rose by 30% year by year. Moreover, apart from this quantitative increase in the industry's volume, as already mentioned, improvements have been made for what concerns the levels of creativity and quality as well leading thus to exposure and recognition at international level. As an example, in 2008 the Cannes International Advertising Festival created a unique section, which was thought as a showcase for the Chinese advertising. Then in 2012, Lo Sheung Yan of the renowned agency JWT Shanghai became the first in history jury president of Chinese nationality at the prestigious Cannes Festival. Despite this, as stated in a speech by Mr. Zhang himself, even if Chinese advertising was able to achieve all of the above-mentioned remarkable results, it still appears to be less innovative and professional if compared to the advertisements created in developed countries, probably due to the lack of highly specialized talents. So, all the efforts made appear to be not enough in order for the country to achieve its advertising dream. According to Mr. Zhang, there was a huge need for China to make an evolution and not being only a big country as for advertising but rather becoming a strong one by giving more priority to the advertisements' quality. During these years, the advertising sector received also great support by the Chinese government: in 2012, the SAIC released the Plan for the Development of the Advertising Industry during the 12th Five-Year Period (广告产业发展十二五规划), which covered the years between 2011 and 2015. This event highlighted once again the importance played by advertising within the Chinese society and economy and made the government's objectives in this field clear, which is to say the enhancement of professionalism, competitiveness, internationalization. The main intention of this program was to create future Chinese players able to be fearsome competitors in the international advertising market. The same SAIC then in 2016 issued the plan for the next quinquennial 2016-2020 and in this case, the main purpose was to improve the services provided by the Chinese advertising agencies, the level of innovation and to develop stronger programs of advertising education[101].

[101] Puppin G. (2020), *op. cit.*

If we look at the data for what concerns the utilisation rate of the different advertising media, this last phase of the development process is characterized by a huge increase and dominance of online technologies accompanied by a consequent reduction in the use of traditional media, like for instance newspapers or television.

Figure 16 – Turnover by Category 2014-2019, LCU million
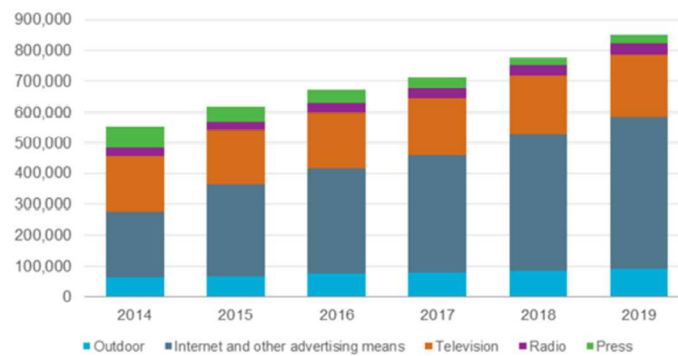
Source: "Advertising in China: ISIC 743", in *Euromonitor International*, June 2020

By analysing the figures contained inside the above table (Figure 16), it can thus be evinced how in the period between 2014 and 2019 internet and other advertising means have been the fastest-growing advertising media and the sector recording the highest levels of turnover. Digital advertising has been constantly growing over the years, which have been taken into account. All the other sectors, which is to say television, radio, and outdoor have remained quite stable except for the press, that on the contrary recorded a reduction if we make a comparison between the figures of 2014 and 2019.

Figure 17 – Turnover by Category 2019-2024, LCU million
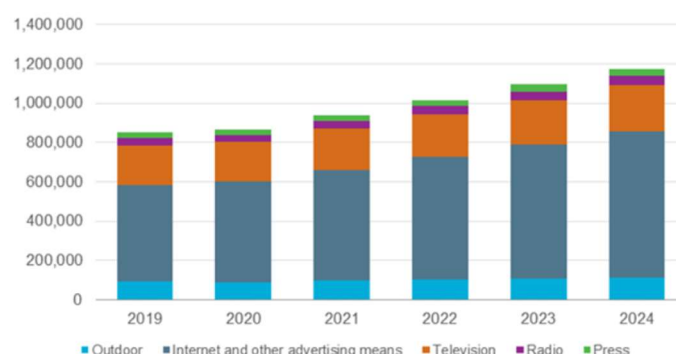
Source: "Advertising in China: ISIC 743", in *Euromonitor International*, June 2020

This table (Figure 17) instead shows the data for what concerns the expected turnovers of each category to be recorded between 2019 and 2024. As can be deduced, according to the forecasts the

digital advertising is going to continue to record a stable positive growth year by year. Whereas all the other types of media are presumably going to be used always with the same frequency and no sudden trend reversal is excepted to happen.

So, the real protagonist of this fourth and last phase of development is for sure the online advertising, which starting from 2011 has recorded on average a yearly growth equal to 40%. In 2016 its business turnover was even bigger than the total amount of business volume recorded by the other four traditional media together and then in 2017 it accounted for nearly half of the yearly total turnover of the Chinese advertising sector. By 2019, the internet users within the Chinese soil were equal to 854 million people and the national rate of internet penetration rose to 61.2%.

Figure 18 – Social Media Landscape in China

Source: "2019 China's Social Media Landscape", in *Kantar CIC Intelligence 2019*

So, if Western brands are willing to have success in nowadays market and make their mark in Chinese social media environment, they have to be aware of the wide variety of social media platforms at their disposal (Figure 18) and then be able to choose the most suitable one. The today's most popular social networks in China are for example Weibo, which is the most frequently used micro-blogging site, and WeChat, which instead is mainly a messaging app even if its functions are much broader. Apart from these, the Chinese market is characterized by the presence of thousands of other different apps, like for instance Tik Tok, known in China as Douyin 抖音, which is a video-sharing platform, whose target is the Generation Z, namely those people under 24 years old; then there is also Little Red Book (小红书), that is the most popular shopping platform specialized in

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luxury goods, in particular in the sectors of fashion and cosmetics. Together with the choice of the most appropriate platform, companies need also to take into consideration which type of advertising form is most profitable for them to adopt. Also in this field, the range of choice is considerably wide: they can opt for the search engine advertising, whose leader with the highest market share is represented by Baidu; another possibility consists in the sponsorship through a collaboration with Chinese Key Opinion Leaders (KOLs), who correspond to our influencers; or also programmatic advertising. All of these forms are active parts in Chinese consumers' daily life and during the last few years they have revolutionised how people make their purchasing decisions, live, and maintain relations with others[102].

Nowadays companies tend to invest the major quantity of money in digital advertising as a result of the increase in TV advertising costs and decrease in the number of newspapers' readers. This radical change has of course thrown down a challenge to the more traditionalist advertisers. Digital advertising's main characteristics are represented by a stronger focus on consumer direct participation, strategies centred on consumers themselves, and a branded form of entertainment. This increasing use of such form of advertising has a direct consequence on the regulation aspect as well, since it is more and more difficult for regulators in China to effectively control the advertisements and as a consequence to this factor, in the last few year the number of controversial and illegal commercials in the country has drastically increased[103].

2.5 Advertising regulation

Are you planning to develop and implement an advertising campaign in China, the second largest market worldwide thanks to its 1.38 billion potential consumers? Well, you will be required to strictly abide by the advertising regulations, which nowadays are in force in the country. As a matter of fact, regulation for what concerns advertising represents an essential part to take into account when creating a strategy in a market other than the domestic one, since the laws greatly differ depending on the country under consideration. The term 'advertising regulations' refers to the set of laws defining the acceptable ways and methods a company or a person can adopt in order to communicate information concerning a product or service. Such rules have a huge impact on many aspects the company has to deal with, like for instance how to label the product, how to give information for

[102] Puppin G. (2020), *ivi*
[103] https://www.chinacenter.net/2017/china_currents/16-1/advertising-in-china/

what concerns possible effects on people's health or on the environment, how to structure a specific campaign, to mention but a few[104].

The major governmental controller and administrator of the advertising industry in China has always been the above-mentioned SAIC, which stands for State Administration for Industry and Commerce. This entity is allowed by the State Council to regulate and monitor the advertising agencies located within the Chinese soil, the advertising media and professionals. The SAIC has an authority from the legal point of view, which is guaranteed by the State itself. This authority consists in preparing and implementing regulations but also in sanctioning illegal forms of advertisements. This authority is composed by an Advertising Supervision and Administration Department (广告监督管理司) and other branches at a local level. However, starting from 2018 the functions of SAIC have been transferred to another entity, namely the State Administration for Market Regulation (国家市场监督管理总局), as a consequence of the institutional reforms implemented by the Chinese government.

The first regulations for what concerns advertising in the Chinese society can be dated to the beginning of 1980s and they are represented by the Provisional Regulations on the Administration of Advertising (广告管理暂行条例), that were developed as a result of an adjustment process of the administrative and legal systems following the previous revolutionary years. These regulations were officially accepted in 1988 and called the Detailed Implementing Regulations on the Administration of Advertising (广告管理条例施行细则)[105].

Even though the above-mentioned documents have to be considered relevant for the general development process of the legislative aspect of the field, they were too vague and not enough specific to be adopted. Indeed, when talking about advertising regulation in China, the main legislative text people have to refer to is the Advertising Law of the People's Republic of China (中华人民共和国广告法), which was adopted for the first time in 1994 but then later emended in 2015. This restated document's length is almost double than the original one and it was developed in order to satisfy a general need of strengthening Chinese consumers' level of protection and introduce stricter limits upon advertising professionals.

Following some attempts to impose administrative regulations and obligations, in 1994 the Chinese authorities finally managed to introduce an actual law governing on the advertising market of the country, which was rapidly expanding but in a chaotic way. The law was adopted on October 27, 1994 at the Standing Committee of the Eight National People's Congress of the People's Republic

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[104] https://www.hg.org/advert.html
[105] Puppin G. (2020), *op. cit.*

of China and it officially entered into force on February 1, 1995. It was composed by 49 articles divided into six chapters, which is to say general provisions, guiding principles for advertising, advertising activities, examination of advertisements, legal responsibility, and supplementary provisions[106]. The 1994 Law represents a milestone in the history of Chinese advertising legislation.

Article 1 concerning the main purpose of the law reads as follows:

> The law is formulated to normalize the advertising business, promote sound development of advertising, protect the legitimate rights and interests of consumers, safeguard the social and economic order and to give full play to the positive role of advertising in the socialist market economy[107].

Whereas, as for the official definition of the term 'advertisement', the article 2 refers to the concept as "commercial ads that publicize, directly or indirectly and through certain media or forms, some kind of commodities or services at the expense of the suppliers of the commodities or services"[108].

The law goes then on specifying the necessary characteristics to be noted in a commercial. As already mentioned before, an advertisement in order for it to be defined socialist had to be "true, lawful and conforming to the requirements in the building of a socialist spiritual civilization"[109]. Moreover, according to the following articles, the information contained within a commercial should have a positive effect on one's health both physical and mental, provide the consumers with details for what concerns the product's or service's properties and respect at the same time their rights and interests together, of course, with the interests of the State itself.

It is then interesting to put particular emphasis on article 12 of the law, which addresses the issue concerning the fair competition among companies within China. In order to guarantee such fairness, the authorities included this article, that prohibits advertisers from creating any content with the purpose of denigrating the products and services of other competitors. This concept of fair competition is then re-iterated by article 21 as well[110].

However, the nowadays' scenario as far as the Chinese media, the advertising sector in general and the local consumers, who are becoming more and more demanding, are concerned is completely different from the situation in 1994. As a consequence, due to the radical changes in the

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[106] http://english.mofcom.gov.cn/aarticle/lawsdata/chineselaw/200211/20021100053452.html
[107] Advertising Law of the People's Republic of China, art. 1, 1994, in
http://english.mofcom.gov.cn/aarticle/lawsdata/chineselaw/200211/20021100053452.html
[108] Advertising Law of the People's Republic of China, art. 2, 1994, in
http://english.mofcom.gov.cn/aarticle/lawsdata/chineselaw/200211/20021100053452.html
[109] Advertising Law of the People's Republic of China, art. 3, 1994, in
http://english.mofcom.gov.cn/aarticle/lawsdata/chineselaw/200211/20021100053452.html
[110] http://english.mofcom.gov.cn/aarticle/lawsdata/chineselaw/200211/20021100053452.html

aforementioned sectors, Chinese advertising professionals and academics showed the necessity of making an update to the 1994 Law. And this is how the Chinese authorities got to the new 2015 Law, which was accepted at the Standing Committee of the 12th National People's Congress on 24th April 2015 and then formally entered into force starting from 1st September of the same year.

The restated law was composed by six chapters as well, namely General Provisions, Rules for the Contents of Advertising, Code of Conduct of Advertising, Supervision and Administration, Legal Liability, and last but least, Supplemental Provisions. The main aspect differing the two versions of the Chinese advertising regulations is represented by the number of articles within the chapters, that increased to 75, with 33 added new articles, 37 revised and three deleted[111].

Another important factor that needs to be taken into account when analysing the reasons behind this necessity of reviewing the existing Advertising Law is represented by the significant increase in the appearance of illegal and false advertising within the Chinese media environment. As a matter of fact, according to the data provided by the aforementioned SAIC in the years between 2007 and 2014 the total number of illegal advertisements recorded in China was equal to 370,000. Therefore, as a result to this increasing negative trend, Chinese authorities finally made the decision and focused their efforts in order to control the phenomenon. In particular, the emended law has been thought as a possible solution in order to contrast false advertising mainly thanks to the provision of a clearer definition of the concept and to a stricter administrative sanction and civil accountability system. As far as the first point is concerned, the new advertising law offers a more precise definition than the one provided by the previous law as for the concept of false advertising, which is followed then by the listing of five possible situations, in which a commercial is to be considered as false. The Article 28 reads as follows:

> Any advertisement that defrauds or misleads consumers with any false or misleading content shall be a false advertisement[112].

An advertisement must be deemed false if the product or service under consideration does not exist, or if the commercial provides untrue information for what concerns "the good's performance, functions, place of production, uses, quality, specification, ingredient, price, producer, term of validity, sales condition, and honors received, among others, or the service's contents, provider, form, quality, price, sales condition, and honors received, among others, or any commitments, among

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[111] Puppin G. (2020), *op. cit.*
[112] *Advertising Law of People's Republic of China*, art. 28, 2015, in
https://www.hfgip.com/sites/default/files/law/advertising_law_16.02.2016.pdf

others"[113]. The third specific situation occurs when the company advertising the product or service in question uses scientific research, quotations, statistical information or excerpts, that cannot be validated, as the basis for certification. An advertisement is to be considered false also in those situations in which the positive effects and results obtained by using a product or service are invented and last but not least, when the final consumers appear to be misled or defrauded by false information contained within the commercial[114].

By analysing and comparing those articles, which can be found in both laws, it is possible to notice a small difference for what concerns the above-analysed article listing the characteristics of the advertisement's contents, which is to say Article 3.

> The contents of advertisements shall be expressed in a true, lawful, and healthy manners, and conform to the requirements of the construction of socialist spiritual civilization and the development of the fine traditional cultures of the Chinese nation[115].

As it is possible to deduct, it is almost identical to the corresponding one of the 1994 Law, except for the adding of the concept of health in the way commercials have to be structured. Moreover, in addition to the fact that advertisements have to contribute to the building of a socialist civilization, a new element has been included, which is to say the need for advertising to develop the cultural aspects of China. It is also interesting to highlight that inside the article the Chinese authorities used the word 'cultures' in the plural, showing an awareness concerning the huge differences to be found across the nation.

Generally speaking, this new Advertising Law introduced several stricter rules and limits on advertising, like for instance the fact that the information provided by the commercial has to be "accurate, clear, understandable"[116], advertisers do not have the freedom of using superlatives or symbols connected to the Chinese State, such as the national flag or the names of the authorities and organs. Moreover, those contents that are "obscene, superstitious, incites violence, violates the law, threatens public order or harms the public interest"[117] are forbidden as well. Another interesting update concerns the celebrity endorsement approach, which is to say through the entering into force of the new law the use of testimonials is not permitted for products or services related to health and

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[113] *Advertising Law of People's Republic of China*, art. 28, 2015, in
https://www.hfgip.com/sites/default/files/law/advertising_law_16.02.2016.pdf
[114] *Advertising Law of People's Republic of China*, art. 28, 2015, in
https://www.hfgip.com/sites/default/files/law/advertising_law_16.02.2016.pdf
[115] *Advertising Law of People's Republic of China*, art. 3, 2015, in
https://www.hfgip.com/sites/default/files/law/advertising_law_16.02.2016.pdf
[116] Puppin G. (2020), *op. cit.*, page 10
[117] Puppin G. (2020), *ibidem*

moreover, advertisers cannot hire a child below the age of ten to act as an endorser in a commercial. Moreover, due to the rapid increase in internet users within Chinese soil, a new article for what concerns advertising on the internet has been added, which is to say advertisements cannot be sent to the final consumers by email without their previous consent and furthermore, they must provide an opt-out link. Advertisers are also not allowed to adopt disruptive methods to make sure that users click on their link neither on webpages nor in emails.

It is important to stress the fact that the advertising industry in China is regulated also by other organs of different nature, which is to say a self-regulatory system called 'Self-regulation of the Advertising Industry' (广告行业自律规则), some regulations concerning the moral and ethics of advertising, like for instance the 'Code of Ethics in Advertising' (广告活动道德规范) and it is also possible to find ideological regulations, e.g. the 'Self-regulation of Advertising Promoting a Spiritual Civilisation' (广告宣传精神文明自律规则).

This chapter was aimed at providing a comprehensive overview for what concerns the unstable history characterizing the development of the advertising industry within the Chinese society, from the beginning to the modern era. Overtime Chinese citizens have become increasingly familiar with the phenomenon, which in the past was considered in a quite suspicious way because of the Chinese authorities telling them to do so. The theme of the reintroduction of advertising in a country like China with its unique characteristics is fascinating and represents an incomparable case study in the advertising literature at international level. As it is possible to deduct, the Chinese authorities still have a dual attitude towards the phenomenon. On one side, it is aware of the essential role played from the economic point of view and thus it provides support to the industry by enhancing the regulations and implementing its Five-Year Plans with the purpose of making the advertising environment healthier. But on the other side, the government obliges the advertisers to satisfy the ideological requirements and holds them accountable for the improvement of Chinese people's quality of life. However, despite this aspect and this kind of control maintained by the authorities, since advertising is seen as a unit of measurement for a country's social and economic progress, China will always make increasing investments in the sector in order to achieve the long-awaited Chinese 'advertising dream'[118].

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[118] Puppin G. (2020), *ivi*

CHAPTER 3 – THE SOFT DRINKS INDUSTRY IN CHINA

3.1 An overview of the Chinese soft drinks industry

The Chinese market with its 1.43 billion potential consumers represents an unmissable opportunity for marketers from all over the world, who in the last few years have tried to gain a foothold within this prominent market and compete with both local and international players. The entry of China into the World Trade Organization (WTO) in 2001 marked the beginning of a new era for the country, since it made it possible to improve the retail and logistics system and boost the investments. As a consequence to this event, the competition for what concerns prices, distribution channels, products became increasingly fierce. The Chinese authorities promote the establishment of partnerships between foreign companies and Chinese local one, in order for the latter to seize the opportunity and learn as much as possible to become global leaders in the different industries. However, foreign firms are still not satisfied with some elements characterizing the Chinese market, which is to say the unfair competition, the existing issues as for the protection of their intellectual property, the limited access, the difficult bureaucracy. Despite all of the above-mentioned factors, the Chinese market still is full of valuable opportunities and in the context of this fierce competition with domestic companies, the majority of Western firms take advantage of their positive name as far as safety, reliability, and quality are concerned. But, at the same time, they also need to be locally recognizable[119].

The main purpose of this chapter is analysing the most relevant elements characterizing the soft drinks industry in China, its development process over the years, and the Chinese consumers' behaviour in relation to this sector.

Soft drink is a term that can be defined as the set of "non-alcoholic beverages, usually but not necessarily carbonated, normally containing a natural or artificial sweetening agent, edible acids, natural or artificial flavours, and sometimes juice"[120]. When referring to the natural flavours, we can think of the usage of for example fruits, herbs, berries, nuts. Whereas, manufacturers of such products use for instance sugar, sugar substitutes, or high-fructose syrup as sweetener. In order for the beverage to be considered a soft drink, as already mentioned, it must be non-alcoholic, which is to say the quantity of alcohol to be found inside cannot exceed 0.5% of the total volume. Moreover, soft drinks' ingredients can also include other substances, such as caffeine, preservatives, or colourings[121]. Originally, the concept of soft drink was created in order to make a clear distinction between them and the category of hard liquors. Indeed, soft drinks were thought as a way to improve the habit of drinking alcoholics that could be witnessed in many early Americans. Nowadays, the category of soft

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[119] Kotler P., Keller K. L., *op. cit.*
[120] https://www.britannica.com/topic/soft-drink
[121] https://www.dccchina.org/news/soft-drinks-china-market-import-soft-drinks-to-china-chinese-importers/

drink has evolved once again: due to the contemporary consumers' tendency of taking care of their health, new drinks putting an emphasis on the low quantity of calories, sodium and caffeine and on the natural origin of the ingredients were created.

The appearance of the first soft drink on the worldwide market is to be marked back in the 17th century, specifically in 1676, when the Compagnie de Limonadiers was established in order to get the monopoly for the distribution of the first ever soft drink, which is to say a beverage created through the mix of lemon and water with the addition of honey for a touch of sweetness. Many other European companies followed the lead and started to launch new waters and carbonated drinks in those same years. The main ingredients to be found in the soft drinks are water, which is usually processed in order for the final product to be uniform, sugar, juices, flavours, acids, and carbon dioxide, that makes the drink tangier and more sparkle and avoids the spoilage. As for the packaging used for such product, soft drinks' manufacturers usually opt for bottles made of plastic or glass, plastic or aluminium cans, cartons or foil pouches[122].

China represents one of the leader markets as for the soft drinks industry. As a consequence to the entry of the country into the World Trade Organization (WTO) in 2001, the Chinese economy witnessed an increasingly rapid growth leading to being the second largest power in the world following the USA. Moreover, the income level of Chinese citizens increased as well, leading thus to a higher demand for soft drinks. This is why soft drinks manufacturers in China started to develop and launch into the market new types of products aiming at meeting the needs of local consumers, that if compared to the beginning of the century were subject to a radical evolution[123].

The category of soft drinks in China can be divided into bottled water, carbonates, juice, concentrates, ready to drink (RTD) coffee and tea, Asian specialty beverages, energy and sport drinks.

As far as bottled water is concerned, the Chinese market in this sector is among the most important and biggest ones at international level. The most popular brands in the country are represented by Nong Fu Spring (农夫山泉), Hangzhou Wahaha Group (哇哈哈), C'estbon (怡宝), and Kang Shifu (康师傅). Even though traditionally Chinese people tended to prefer drinking warm water if compared to foreign countries, nowadays the latest generations of Chinese consumers, in particular young people, have shifted towards a new consumption pattern, which is to say drinking cold and ice water. Moreover, another element that boosted an increase in the demand for such product is represented by the problem of water safety that the entire country has to deal with. In addition to this, elements such as the increasing awareness of Chinese people about the relevance of personal health and the higher available income led to healthier purchases, like for instance the case of bottled water.

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[122] https://www.britannica.com/topic/soft-drink
[123] https://www.researchandmarkets.com/reports/4090369/research-report-on-soft-drink-industry-in-china

Another important component of the Chinese soft drinks industry is represented by the segment of fruit juice, which in the last few years has witnessed a strong increase thanks to the change in the Chinese consumers' requirements. Indeed, the latter started to ask for healthy and functional drinks made of all natural ingredients and, as consequence, fruit juice became one of the most requested products. The major brands in this market are represented by Nong Fu Spring (农夫山泉), Kang Shifu (康师傅), Tongyi (统一), and Huiyuan (汇源). For what concerns the taste, the best-selling one is orange juice. By looking at the sales figures of the different areas of the country, it is possible to notice that the Northern and Southern regions of China present some differences as for the choice of fruit juice's taste. As a matter of fact, the market in the North is characterized by a preference towards peach, apple, and pear juice. If we take the gender into consideration, fruit juice has a greater success among women and this is connected with their desire of having a healthy body. However, the most relevant market segment is for sure represented by families and this is why the brands of the sector have to pay attention to this aspect and propose themselves as the perfect drink for breakfast, dinners, snacks for all the members of the family.

Then, undoubtedly it is not possible to speak about Chinese drinks industry without mentioning tea, due to its long tradition in the country. The tea market has been evolving during the years as well: it started being commercialized firstly as instant tea, then as bottled tea and lastly, nowadays the third stage of this development process is represented by handmade tea with brands such as Gong Cha (贡茶), Royal Tea (皇茶), Heytea (喜茶) or Naixue Cha (奈雪查). Such drinks' ingredients include pure tea, milk, and different fruits. A strong emphasis is put not only on the product's health and quality but also on the design of the stores. Indeed, the level of competition in this industry is increasingly fierce and every detail needs to be taken into account in order for a brand to remain competitive in the market. The tea industry in China is a very profitable sector and more and more brands from all over the world are willing to target this country.

On the other side, an additional sector that has been developing in the last few years is represented by coffee, which as opposed to tea, does not have such a long history in the country but has been introduced to Chinese consumers only recently. However, nowadays the product belongs to the everyday life of people thanks to the entrance into the Chinese market of European and American companies, like for instance the leaders Starbucks and Costa Coffee. Coffee started to be a relevant part of the Chinese culture, in particular thanks to the youngest generation, which is more likely to adopt a lifestyle similar to the Western one. Today Chinese citizens consider the culture about coffee a very important part of their social life.

As far as the distribution system of this industry is concerned, soft drinks in China can be easily found in various channels, such as restaurants, fast food venues, convenience and dedicated stores,

cafes, supermarkets, small grocers and vending machines [124]. When we talk about beverage's distribution it is important to distinguish between off-trade and on-trade sales. The latter include those drinks sold at places like bars, hotels, restaurants, cafes, or clubs. Whereas the off-trade market comprises supermarkets, grocers, convenience stores, hypermarkets, kiosks [125].

However, in addition to the above-mentioned channels, a new trend developed during the last few years is represented by the availability of soft drinks in most of the online Chinese B2C channels, like for instance the well-known platforms of Tmall or JD.com. This form of business has recently witnessed a huge growth as a consequence of the lockdown period due to the COVID-19 pandemic in 2020. Indeed, the latter had a massive impact on the figures recorded during last year in the context of the Chinese soft drink industry's results.

According to the data provided by the National Bureau of Statistics, in 2019 the on-trade sales of soft drinks recorded during the traditional Spring Festival were equal to 15.5% of the total on-trade revenues on a yearly basis. However, in 2020 the situation changed: the appearance of the COVID-19 pandemic led to severe damages as far as the consumption in this sense is concerned. (Figure 19)

Figure 19 – Off-trade vs On-trade Sales of Soft Drinks (RTD) by Channel: Volume 2015-2020

million litres	2015	2016	2017	2018	2019	2020
Off-trade	69,852.0	70,630.8	73,485.2	76,420.5	79,590.0	82,085.7
On-trade	7,529.1	7,735.9	7,961.9	8,125.5	8,432.3	6,753.6
Total	77,381.1	78,366.7	81,447.1	84,546.0	88,022.3	88,839.3

Source: *Soft Drinks in China*, Euromonitor International, December 2020

As we can deduce by observing the data contained inside the above table, in the previous years between 2015 and 2019 the on-trade sales of soft drinks have always gradually increased. While it is possible to notice that in 2020 the number witnessed a severe reduction from 8,432.2 to 6,753.6. On the contrary, this trend was not shared by the off-trade sales, which as opposed to on-trade ones underwent a significant increase from 79,590.0 to 82,085.7 in 2020. More specifically, this growth was mainly due to the higher demand recorded for bottled water, in part thanks to its natural benefits, to which people started to pay particular attention during this period. These trends are basically connected to the fact that Chinese citizens were forced to stay at home and moreover clubs, bars, and

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[124] https://daxueconsulting.com/market-research-market-soft-drink-china/
[125] https://www.hartziotis.com.cy/cyprus-trading-operations/sales-marketing/off-trade-on-trade

restaurants were all closed. Consequently people only had the possibility to go to the bigger supermarkets and consume, in this case, soft drinks at home. Indeed, the Chinese authorities opted for a total or partial lockdown for several Chinese towns and cities in order to fight the spread of the pandemic. They only allowed the activities of all those retailers, which were considered as being essential for the livelihood of Chinese people. On the other hand, all the other smaller independent supermarkets and grocery stores were obliged to temporarily close.

Another important consequence of this period could be witnessed in the field of logistics: indeed, the lockdown had a strong impact on this aspect as well, since companies were not able to work at full capacity because of many workers obliged to stay at home.

The China Cuisine Association declared that approximately 93% of the total on-trade businesses concerning the soft drinks in China closed during this difficult period and consequently only the remaining 7% of the on-trade had the possibility to stay open and keep on offering food and beverage to the Chinese citizens, who were isolated at home. During this period, the major part of on-trade firms stopped their expansionist plans or shut down those venues, which were not essential, in order to reduce as much as possible the potential losses and to guarantee the sustainability of their main businesses' activities. Even though in the second part of last year the situation started to improve, the companies in this particular sector will probably need more time to fully recover from the numerous consequences left by the COVID-19 outbreak.

If we look at the data recorded by the companies operating in the Chinese soft drinks market, it is possible to deduce that most of them were not damaged in a particularly severe way by the COVID-19 pandemic. On the contrary, some of these firms actually seized the opportunity provided by that period for launching into the market new products by putting particular emphasis on elements such as the positive impact on one's health. For instance, one successful example in this sense is represented by the leader dairy company Inner Mongolia Yili Industrial Group Co, which introduced new products and flavours in its portfolio but moreover, it also started a collaboration with some of the most popular Chinese social network platforms, which is to say Tik Tok, Weibo, and Kuaishou in order to promote in a more efficient way its new goods. Also Coca-Cola began to cooperate with one of the most important food sharing app, namely Meituan Dianping, with the purpose of developing the company's on-trade business in China. Moreover, other companies introduced new services of delivery in order to meet in a quicker way the consumers' needs, like for instance local bottled water producers Nongfu Spring, Hangzhou Wahaha Group, and Shenzhen Ganten Industry. As a matter of fact, the outbreak led to an acceleration in the launching of more and more food delivery platforms all over China[126].

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[126] *Soft Drinks in China*, Euromonitor International, December 2020

When talking about the future trends of both off-trade and on-trade sales as for the Chinese soft drinks market, it is possible to observe from the figures to be found in the Euromonitor report for 2020 that both elements are going to increase, even if with different intensities. As far as the off-trade sales, this growth will be stable and gradual. Whereas the on-trade business after the collapse in 2020 is going to record an enormous spike exceeding the pre-2020 levels after 2022. Indeed, despite all the negative consequences caused by the pandemic, the Chinese soft drinks market's potential growth rate is one of the highest at international level. This data has convinced most of the importers and global leaders in the beverage industry of the need to consider China as a priority and a country, in which it is essential to operate, in order for them to expand their business[127].

3.2 Chinese consumers

As a direct consequence of the opening-up policy initiated by Deng Xiaoping in 1979 the Chinese economic system has witnessed an unprecedented boom, which convinced many international companies to locate part of their businesses in this mysterious and unknown country. However, due to the difficulty of fully understanding Chinese consumers' behaviour and culture, many foreign firms still are quite scared of taking this important step. Indeed, the consumer behaviour of Chinese people is tricky, since they present unique characteristics, which are not shared by any other country. Being aware of the preferences and requirements of the numerous consumer segments to be found in China and meeting their needs is the secret to being successful in this market[128].

According to an undertaken research as far as Chinese consumer behaviour is concerned, nowadays Chinese citizens are undergoing a modernization process in this sense. Indeed, in conjunction with the initial economic boom the country has witnessed since the 1980s, Chinese consumers' income level rapidly increased as well and in addition, the unemployment rate of the country on the other side started to be reduced. However, due to the current slowdown of the economic growth process, the depreciation of the Chinese currency and the unstable stock market, the general behaviour of Chinese consumers suffered some consequences as well. The above-mentioned process of modernization consists of people becoming increasingly aware and selective about where and how they spend their money with a shift from products and mass segments towards services, experiences and premium segments. They tend to prefer spending money on travels, entertainment and free time. Moreover, nowadays they want to own the best product on the market, even though it is the most expensive one and this element highlights the importance played by the
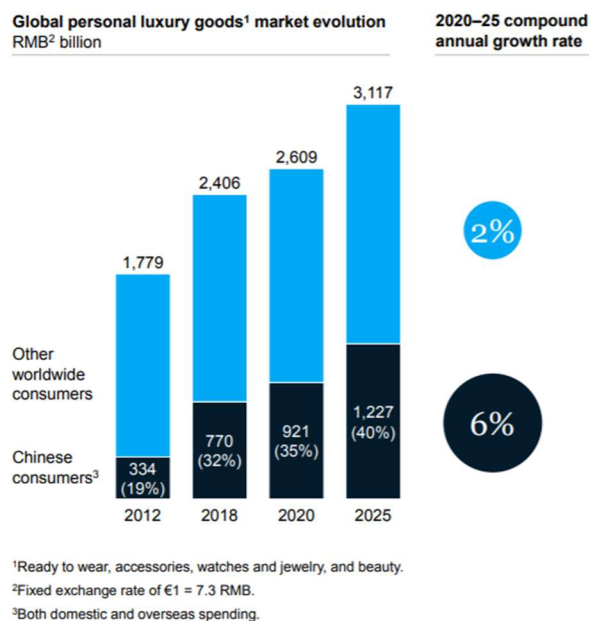
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[127] https://daxueconsulting.com/market-research-market-soft-drink-china/
[128] https://daxueconsulting.com/market-trends-chinese-consumer-behavior-and-motivation/

status for Chinese consumers. The general trend that can be witnessed among them is the willingness of leading a life, in which the priorities are represented by elements such as health and family[129].

This new tendency of Chinese consumers of preferring to buy premium segments' products managed to make China one of the worldwide leaders of the luxury sector (Figure 20).

Figure 20 – Chinese presence in the luxury world

Global personal luxury goods¹ market evolution
RMB² billion

2020–25 compound annual growth rate

¹Ready to wear, accessories, watches and jewelry, and beauty.
²Fixed exchange rate of €1 = 7.3 RMB.
³Both domestic and overseas spending.

Source: *China Luxury Report 2019*, McKinsey & Company, 2019

As the figures contained in the above table clearly show, by 2025 Chinese consumers are going to account for 40% of the total worldwide consumers of the sector into question and moreover, the growth rate in China of this segment is going to gradually increase by 6% on an annual basis in the period between 2020 and 2025, which is a mind-blowing result if compared to the forecasted 2% as far as the other worldwide consumers are concerned. From the Chinese point of view, luxury in considered to be a symbol of social advancement and a way in order to differentiate from others[130]. Chinese citizens tend first to look for information concerning the product they are willing to buy on the Internet, both on blogs and on companies' official websites but then they are more likely to make their purchases in physical stores rather than online. Therefore, they have a deep knowledge for what concerns the luxury industry: according to surveys carried out in the country, Chinese consumers both from bigger cities and rural areas on average are able to recognize 57 luxury brands, which are way more if compared to the results in the other countries. In this industry the country of origin element

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[129] https://www.mckinsey.com/industries/retail/our-insights/here-comes-the-modern-chinese-consumer
[130] https://www.mckinsey.com/featured-insights/china/how-young-chinese-consumers-are-reshaping-global-luxury

is deemed highly relevant in the purchase decision process and every country is associated with the sector, in which it is most specialized. As an example, Italy is the symbol of excellence for footwear.

The key drivers for Chinese consumers to purchase luxury goods are numerous: apart from showing a specific status to others, their purchasing behaviour is determined also by emotional elements, like for instance self-indulgence, self-expression and self-actualization. As it is easily possible to deduce, these kind of needs are not the same as they were at the beginning of the modernization process of the country.

The needs showed by consumers require a certain level of motivation in order for people to satisfy them. It goes without saying that if a need is met, then it will no longer be a motivating element and, as a consequence, a higher level of need will become the new motivator for the consumer. This is the idea, which is the basis of the hierarchy of needs theory developed by Abraham Maslow, a renowned humanistic psychologist.

Figure 21 – The pyramid of needs
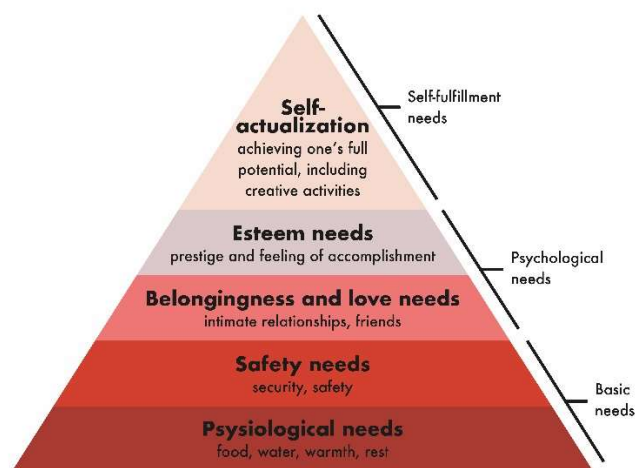
Source: personal elaboration

According to Maslow's theory, people show five different types of needs: starting from the most basic one and going up towards the highest and less essential to the survival, they are classified into physiological, safety, social, esteem, and self-actualization needs. Physiological needs are the first layer to be found in this pyramid and essentially, they are basic elements to survive, like for instance water, food, and warmth and must be satisfied before all the others from consumers. Maslow upholds that a person's motivation to meet this type of need is greater than the drive to satisfy any other need. Then safety needs include a desire for physical well-being, security, and stability. The third level is represented by belongingness and love need, which is the desire to interact and have contact with

other people. Then there are the esteem needs, that comprehend the willingness to experience achievement, prestige, and self-respect. Last but not least, self-actualization need is the fifth level and consists of the desire to fully reach one's potential and achieve personal fulfilment[131].

After the initiation of the opening-up policy, it has been possible to witness a radical change in Chinese people's desires throughout the 1980s, as highlighted by the words of Jonathan Spence:

"The 'Four Musts' were no longer enough. The 'Four Musts' that had set a limit of materialist yearnings under Maoism had been a bicycle, a radio, a watch, and a sewing machine. In the new world of Deng Xiaoping they were replaced by the 'Eight Bigs': a color television, a refrigerator, a stereo, a camera, a motorcycle, a suite of furniture, a washing machine, and an electric fan"[132].

This process of evolution kept on going up to now and led to this new scenario, in which Chinese consumers are more likely to care about frivolous aspects of life. This moment represents the end point of the process and the transition involving China from needs to desires. The difference is to be found in the fact that desire is a feeling of wanting something that is not necessary for our survival.

Another typical characteristic of the Chinese market is represented by the addiction of consumers for social media, which belong to their everyday life in many aspects, from their usage in order to make mobile payments through the well-known WeChat pay (微信支付) and Alipay (支付宝) to the widely used social media marketing, which represents an essential instrument to be included in every company's strategy. Moreover, another important element characterizing such market is the fact that e-commerce platforms continue to thrive offering to local consumers more and more purchasing opportunities. Last but not least, China cannot be considered as one single market, since on the contrary every region and city of the country has its own needs. So, as a consequence, what is important for a firm is to identify the right consumer group to target[133].

It is possible to divide the Chinese population into different groups according to their age: in this sense the first category includes those people born before 1960, who are the eldest consumer group existing in the country. In this category we can identify two subgroups, which is to say the wealthy retired and frugal retired, who both grew up during a difficult historical period. The difference between them consists of the fact that the frugal ones do not have a good education and used to work at state-owned companies. So, as a consequence, this kind of consumers is strongly price sensitive[134]. Price sensitivity can be defined as "the degree to which demand changes when the cost of a product

[131] Kerin R. A., Lau G. T., Hartley S. W., Rudelius W., *op. cit.*
[132] Spence J. D., *The Search for Modern China*, page 693, W.W. Norton & Company, New York, 1999
[133] https://marketingtochina.com/chinese-consumers-behaviors-you-need-to-know-to-succeed-in-china/
[134] https://daxueconsulting.com/market-trends-chinese-consumer-behavior-and-motivation/

or service changes"[135] and usually it is measured through the parameter of price elasticity of consumers. On the other side, the wealthy retired used to have a job at the government or companies funded by the government itself, which offered higher salaries and pension provisions. As a direct result, they put more emphasis on the quality rather than on the cost of the product or service and they show a lower price sensitivity degree.

The second group that can be identified is represented by the middle-aged consumers, which is to say those people, who grew up in the period of the Cultural Revolution (1966-1976). As in the first category, this kind of customers can also be divided between frugal and wealthy forties, who both experienced the reform era of the country and, as a consequence, find themselves in the crossfire between tradition and modernity. The difference between the frugal and wealthy forties also consists in the level of wages received by the workers and in the kind of purchase decisions made accordingly. Indeed, given the fact that the wealthy ones usually receive higher wages, then they will be more likely to spend their money for premium products, travels, entertainment, healthcare goods as opposed to the frugal group[136].

The next category to be identified is represented by those Chinese consumers, who belong to the first generation born after the one-child policy, which was enforced in 1979. Members of such category can be called as twenties and they represent the Chinese millennials, which is to say people between 20 and 39 years old, who grew up during the unique historical period of the economic reforms and digital revolution, which led to an increasing level of global connectivity. As a consequence, they prefer using e-commerce platforms and they tend to integrate technology into every aspect of their daily life. From the company point of view, this group of consumers is brand sophisticated, demanding, and conscious about the importance of fitness and health. Indeed, they are willing to spend huge amounts of money and therefore, they show an enormous demand for premium and luxury products, in particular in the body care and cosmetics sectors.

Last but not least, the fourth category is represented by the youngest generation, which to say those Chinese citizens, who were born in the new millennium. These consumers are deeply aware about the important role played by the brand, they are highly advanced from the technological point of view and this is why, they account for most part of the country's digital consumption. As for marketing strategies, if the target of a firm is this category of consumers, then it should better opt for promoting its products through the help of influential KOLs, whose knowledge and experience are strongly respected[137].

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[135] https://www.investopedia.com/terms/p/price-sensitivity.asp
[136] https://daxueconsulting.com/market-trends-chinese-consumer-behavior-and-motivation/
[137] https://marketingtochina.com/chinese-consumers-behaviors-you-need-to-know-to-succeed-in-china/

Generally speaking, the outbreak of COVID-19 had a huge impact on the Chinese consumer behaviour as well. Indeed, in 2020 the household spending level decreased if compared to the initial forecasts done in 2019 for the following year. Moreover, as it can be easily deduced, the sectors, which were most strongly affected, are represented by the non-essential ones, like for instance tourism, entertainment, restaurants, clothing, to name but a few. As a result, in April 2020 the total amount of retail sales fell by 7.5% in comparison with the results recorded in the same month in 2019. While on the other side, essential sectors and e-commerce purchases remained stable[138].

After having analysed the Chinese consumer behaviour from a general point of view, now the attention will be shifted towards the evolution of such topic by focusing on the soft drink industry. Consumer behaviour of Chinese people in such sector has been changing over time as well, thanks to the continuous progress of the country and the increasing awareness, education level and disposable income of consumers. The main dimensions that emerge from the analysis of this market can be summarized in Figure 22.

Figure 22 – Soft drinks industry and consumer behaviour in China
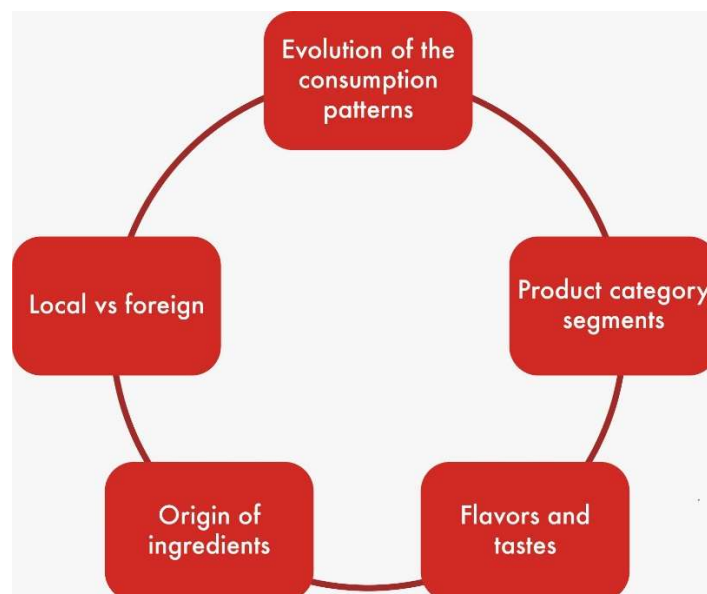
Source: personal elaboration

At the end of the 20th century, the undisputed leader of the industry was represented by carbonated beverages, which used to grow at the fastest pace with the largest production volume. Overtime, the

[138] https://daxueconsulting.com/market-trends-chinese-consumer-behavior-and-motivation/

situation started to change and the attention of consumers began to shift towards tea and functional beverages in the period between 2000 and 2006[139]. However, as a result to the increasing concern about the high calories, danger to health and poor nutrition of carbonates and the awareness developed by Chinese consumers about the importance of health and wellbeing, the consumption patterns in this industry changed once again (Figure 23).

Figure 23– Off-trade vs On-trade Sales of Soft Drinks by Category: Value 2019

CNY million	Off-Trade	On-Trade	Total
Bottled Water	173,910.4	30,387.6	204,298.0
Carbonates	50,756.3	40,701.3	91,457.6
Concentrates	1,441.1	-	1,441.1
Juice	76,287.4	11,288.6	87,576.0
RTD Coffee	9,061.3	-	9,061.3
RTD Tea	99,416.7	22,492.1	121,908.7
Energy Drinks	44,192.5	3,066.9	47,259.4
Sports Drinks	11,212.9	673.3	11,886.2
Asian Specialty Drinks	4,958.7	5,025.6	9,984.3
Soft Drinks	471,237.3	113,635.4	584,872.7

Source: *Soft Drinks in China*, Euromonitor International, December 2020

Nowadays, the modern market is dominated by bottled water at the first place, followed by RTD tea, carbonates and juice. This is clearly a consequence of the increasing awareness developed among consumers on wellness and health. This trend has been profoundly impacting the soft drinks market in China: consumer demand nowadays is mainly shaped by factors, such as low calories, reduced quantity of sugar, and health-related ingredients. As a matter of fact, low calorie carbonates after having faced a continuous negative growth finally recorded a double-digit increase rate, also thanks to the product innovation implemented by both the giants Coca-Cola and PepsiCo.

Another interesting element to take into account when talking about soft drinks in China is represented by the flavours companies launch on this unique market. Given the fact that such products are relatively standardized on the market, one of the ways, which is most widely used by companies in order to maintain their competitive advantage in the market, is differentiating their products by introducing new flavours. As an example, in 2019 Coca-Cola launched a new sugar-free coconut flavoured Sprite and it was then followed by the competitor PepsiCo, which created a sugar-free carbonates with raspberry flavour, a banana flavoured drink, and a Pepsi with flavour of salted caramel. Such innovations are to be found in other categories of soft drinks as well. For example, in

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[139] https://daxueconsulting.com/market-research-market-soft-drink-china/

the field of RTD coffee, Nongfu Spring company launched a brew flavoured carbonated RTD coffee. While in the category of Asian specialty drinks, the local company Inner Mongolia Yili Industrial Group introduced a new drink called Yiran, which is yoghurt flavoured. As we can see, the Chinese soft drinks market is characterized by a range of products that probably could never have success in Italy. This is because culture and consumer behaviour are completely different. What companies need to do is to be sure to have fully understood the target consumers, in order for them to make investments that will be profitable and will not lead to a loss for the firm.

The Chinese consumer is increasingly evolving with the passing of time. There has been a decisive shift towards premium products and a recorded increase in their desire to spend a balanced and healthy life. Moreover, due to some scandals happened within the Chinese food and beverage sector, nowadays the most important priority of local consumers is represented by the integrity and safety of the product. From the company point of view, fully understanding and promptly responding to these changes will be crucial in order to determine which companies will fail and which one will be successful[140].

3.3 Competition Landscape

One of the most relevant consequences of the opening up process China went through starting from the 1980s is represented by the fact that Chinese consumers started to have at their disposal an increasing number of foreign products, which previously were not allowed by the authorities. In the early times, such products were much more appealing and had a higher quality if compared to the corresponding local ones, which in most cases were produced by factories, that were not willing to invest in the marketing and were not interested in satisfying the final consumers. This is why, in these years Chinese people tended to show a clear preference towards foreign products. In particular, this scenario could be witnessed for those consumers, who were defined as status-seeking. As already mentioned before, being able to show a specific status to other people through a product is extremely relevant for the Chinese culture and in this sense, at the beginning there was a lack of local icons, which were able to meet these needs. Then over the course of time, Chinese companies started to understand the important role played by marketing as well and, as a consequence, to develop an increasingly positive and attractive image for their consumers. This process has been evolving up to

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[140] https://www.mckinsey.com/industries/retail/our-insights/here-comes-the-modern-chinese-consumer

the present day and as a result, nowadays Chinese brands represent fierce competitors for the Western companies located in the country[141].

This same scenario could be witnessed in the field of advertising as well: after an initial outright preference for Western advertisements insofar as more truthful and better in terms of creativity, nowadays this tendency has vanished and Chinese commercials are on par with foreign ones[142]. However, it is important to highlight the fact that depending on the segment to be targeted and the kind of product under consideration the preferences change. When talking about certain categories, in particular with luxury, technological, and beauty products, Chinese consumers still tend to rely more on Western products driven by the desire for cosmopolitanism. While the situation is opposite in the case of food, beverages, and medicinal products, for which people happen to be very patriotic and careful about traditional values.

As we can easily deduce, one essential thing that every company needs to do in order to be competitive in the Chinese market is to fully understand the preferences as for advertising of Chinese consumers in the sector into question and act accordingly. If for example a foreign company finds itself in an industry of the market in which the consumers tend to have a preference towards local advertising, then maybe it should better adapt its commercials and include some local elements recalling the Chinese culture. Therefore it is vital for advertisers to have a clear idea of which strategies are more efficient in selling specific products or services within a country[143].

After having analysed in general the competitive scenario companies have to deal with within the Chinese market, now the focus will be shifted towards the soft drinks industry of the country. Competition in such sector is becoming increasingly strong and challenging and moreover, the number of enterprises operating inside it is growing as well. The latter represents a clear evidence of the fact that the soft drinks industry in China finds itself at the growth stage of its lifecycle. Producers working in such market keep on implementing and expanding their penetration strategies through the development of their distribution channels and a strong emphasis on the creation of new products specifically designed in order to satisfy a major variety of consumers' needs.

The soft drinks industry in China is composed by both local and foreign competitors, smaller and bigger companies. The competitive scenario comprises not only powerful brand leaders at international level, such as Coca-Cola or PepsiCo, but also large Chinese companies as well as small local firms, which operate at a regional level and provide supplies for market niches. Generally speaking, as we can see in the below table (Figure 24) the most relevant players in the Chinese soft

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[141] Zhou N., Belk R. W., "Chinese consumers reading of global and local advertising appeal", in *Journal of Advertising*, Vol. 33, 2004

[142] Jiang W., *Foreign Advertising in China. Becoming global, becoming local*, Prentice Hall, New York, 2000

[143] Zhou N., Belk R. W., *op. cit.*

drinks industry are represented by Tingyi (Cayman Islands) Holdings Corp at the first place with 10.1% of the total volume of soft drinks in China, followed by Coca-Cola China Ltd, and Nongfu Spring Co Ltd[144].

Figure 24 – Company Shares of Total Soft Drinks (RTD): % Volume 2016-2020

% total rtd volume Company	2016	2017	2018	2019	2020
Tingyi (cayman Islands) Holdings Corp	13.9	13.6	12.3	11.1	10.1
Coca-Cola China Ltd	9.0	8.9	9.0	9.3	9.3
Nongfu Spring Co Ltd	5.3	6.1	6.9	7.4	8.4
China Resources C'estbon Beverage (China) Co Ltd	4.1	4.6	4.9	4.8	5.0
Shenzhen Ganten Industry Co Ltd	1.6	2.0	2.4	2.5	2.7
President Enterprises (China) Investment Co Ltd	3.2	3.0	2.9	2.8	2.7
Guangzhou Wanglaoji Pharmaceutical Co Ltd	2.2	2.3	2.3	2.4	2.3
Guangdong Jiaduobao Beverage & Food Co Ltd	4.0	3.3	2.8	2.5	2.2
Hangzhou Wahaha Group Co Ltd	3.7	3.3	2.9	2.5	2.1
Jinmailang Food Co Ltd	0.2	0.4	0.7	1.0	1.4
Beijing Huiyuan Beverage & Food Group Corp	1.4	1.3	1.3	1.2	1.1
Danone (China) Food & Beverage Co Ltd	-	1.4	1.3	1.1	1.1

Source: *Soft Drinks in China*, Euromonitor International, December 2020

As already mentioned, the first brand we tend to think of when speaking about soft drinks in every country of the world is for sure Coca-Cola. However, this company will be later analysed in the following chapter. Now the attention will be drawn to the other foreign and local players operating within the Chinese soft drinks industry.

First of all, the most competitive brand Coca-Cola has to deal with is represented by PepsiCo. The latter is a worldwide leader in the field of food and beverage: in 2019, PepsiCo's net income accounted for more than USD 67 billion. The company comprises a set of successful brands, like for instance Pepsi, Lay's, Mirinda, Gatorade, to name but a few and among the totality of the Pepsi products, 23 of them have recorded a yearly turnover equal to more than USD 1 billion. The company operates in over 200 countries and regions across the world and it is well-known for its commitment as far as sustainability is concerned. Because of this PepsiCo in 2019 has been selected by Fortune Magazine as one of the most admired companies in the world. The company has been one of the first

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[144] *Soft Drinks in China*, Euromonitor International, December 2020

multinationals, which has entered the Chinese market: in 1981 PepsiCo established its first facility in Shenzhen and this marked the beginning of the firm's investments in China. In the last 10 years, it has poured more than 53 billion RMB into the Chinese market together with its numerous trading partners and in this way it established a successful activity in the food and beverage sector of the country. The PepsiCo products are profoundly loved by hundreds of thousands of Chinese consumers[145]. Moreover, an important milestone in the history of PepsiCo in China is represented by the strategic alliance started in 2012 together with Tingyi (Cayman Islands) Holding Corporation. As a result of this agreement, the latter became the official franchise bottler of PepsiCo, which is to say responsible for production, sale, and distribution of the company's carbonates soft drinks, Gatorade, Tropicana, and Aquafina products. On the other side, Pepsi maintained the control on the brand and remained accountable for the marketing activities. Thanks to this alliance, the network of Tingyi has boosted the distribution across China of PepsiCo branded products by establishing over 35 Tingyi units aimed at producing such products and moreover, this provided many benefits to retail consumers as well, since there has been a reduction in out of stocks and an increasing speed to market[146].

Another important component of the Chinese soft drinks industry's competitive scenario is represented by Red Bull (红牛), which particularly is the undisputed leader in the field of energy drinks. The latter together with sport and nutrient-enhanced beverages constitute the category of functional drinks, for which the demand in China is significantly high. Generally speaking, functional drinks play a relevant role in the daily lives of Chinese consumers regardless of their gender and age. Indeed, they are in the position to meet a wide variety of different needs and requirements coming from people with opposite lifestyles. As an example, some of the functions covered by the general category of functional drinks are represented by the capability of giving energy in the daily activities, working as a tool for the prevention of particular diseases or the aging process, fighting against stress and tiredness. Thanks to the above-mentioned positive effects such drinks are able to bring into everyone's life, this sector is witnessing a continuous increase in the demand from the Chinese market. The specific segment that will be analysed now is represented by energy drinks, whose sales in 2019 were equal to RMB 88 billion by only considering the data recorded in China alone. If compared to the same data recorded a decade before, according to which in 2009 the sales of such industry accounted for only RMB 9 billion, it is possible to see what an impressive growth the sector went through in only ten years. This astounding increase has caused a sensation into the worldwide market and thanks to this attracted attention China nowadays has primacy over both the largest market of energy drinks and the highest growth rate in the sector. The main consumers' category of these

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[145] http://www.pepsico.com.cn/company/About-PepsiCo.html?action=about
[146] https://www.globaltimes.cn/content/819419.shtml

products are for sure represented by students, the working class, and sportspeople. As already mentioned before, the unrivalled leader is Red Bull, which is the dominant brand of the sector thanks to a market share equal to 80%. Following Red Bull, other well-known energy drinks companies are for instance Hi-Tiger and Eastroc[147]. Red Bull was founded in 1984 by Dietrich Mateschitz, who for three years has worked on the Red Bull product, the brand's positioning, the packaging, and the marketing strategy to be adopted. Red Bull Energy Drink was then sold for the first time ever in Austria on 1st April 1987: this date marks the birth of a new product category, which is to say the energy drink. At the end of 2020, the company Red Bull amounted to a total of 12.618 employees in 171 countries[148]. In December 1995 Red Bull officially entered the Chinese market with a global strategic vision and a strong trust on the future opportunities this market could offer. Red Bull Vitamin Beverage Co., Ltd. was founded and nowadays the company has in its portfolio two different types of products, which is to say the Red Bull Vitamin Functional Drink (红牛维生素功能饮料) and the Red Bull Vitamin Functional Drink Extra, which contains an additional quantity of taurine among its ingredients, as it is possible to read in Chinese language on the can (牛磺酸强化型)[149].

As a direct consequence of the entry of numerous foreign multinationals into the Chinese soft drinks market during the 1980s, new elements have been introduced into the country, like for instance new marketing strategies, advanced management practices and cutting-edge production techniques. Due to this factor, the Chinese local companies operating in the sector had to adapt as well and to learn as much as possible by this foreign presence in order for them to be able to maintain a competitive advantage in the market.

One of the most important Chinese companies, which is active in the sector under consideration and represents a competitor that should not be underestimated, is for sure the well-known Wahaha. The latter was founded in 1987 by Zong Qinghou, who together with other two employees managed to find a market niche still not targeted by any company, namely the sector of nutritional drinks specifically designed for children. Therefore, the company developed a nutritious beverage called Wahaha Nutrient Beverage for Children and attacked through the latter this specific market. It was an immediate success in the whole country and led to revenues equal to RMB 400 million by 1990. This initial monopoly was never destined to last for long: indeed, due to the low entry barriers and technical requirements, several companies followed the lead of Wahaha and launched into the market their own children's drinks. Since it was quite impossible to sustain the company with one single product, Zong decided to expand the product portfolio by targeting the fruit-flavoured milk drinks

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[147] https://daxueconsulting.com/functional-beverages-in-china/
[148] https://www.redbull.com/it-it/energydrink/azienda
[149] http://www.redbull.com.cn/

industry. Then in 1996, as a direct consequence of the increasing concerns of Chinese citizens for what regards the quality of tap water, the company also launched the Wahaha purified water targeting in this way another important market segment. This product quickly achieved the highest market share among its competitors and led in that same year to sales revenues equal to more than RMB 1 billion. 1996 was also the year that marked the beginning of the partnership between Wahaha and the French company Groupe Danone through the establishment of a joint venture. Thanks to the investments done by Danone, Wahaha managed to establish additional production facilities for bottled water, tea, and milk, and launch its well-known Wahaha Future Cola, a carbonated soft drink similar to a coke, which was promoted as the local brand to fight against the market leaders Coca-Cola and Pepsi. As a matter of fact, Coca-Cola itself once stated that Wahaha Future Cola is the only Chinese competitor to be found in the soft drinks market of the country, because it was able to promote itself as a symbol of Chinese patriotism, happiness and luck: values that are considered to be particularly important by traditional families. Moreover, the company also adapted the drink's flavour to the Chinese taste and preferences[150]. The founder Zong, when asked why Wahaha was able to have such a huge success in China, answered that the company's secret is represented by a deep understanding of the Chinese market, as we can deduct from the following words:

> "Market research reports in China are not reliable. You pay the market research firms large amounts of money and you don't know where the money was spent. However, our own marketing people are our market research staff since we are always collecting information about the market, and we make decisions based on their understanding of the market"[151]

Nowadays, the corporate name of the company is Hangzhou Wahaha Group Co., Ltd. and it operates in the sector of bottled water, carbonated beverages, RTD coffee and tea, energy drinks, dairy products, canned food and many others. It is particularly famous for the dimensions of its distribution network, which does not only cover big cities but also the country's rural and mountain areas. Indeed, the company owns 70 production facilities and 170 subsidiaries located in 29 provinces and cities across the country and provides employment for over 30,000 people[152].

As already mentioned in the first paragraph of this chapter, as a direct result of the recent increasing awareness of Chinese consumers towards the importance of health, the soft drinks category that recorded most sales in 2020 is represented by bottled water. In this sector, the Chinese unquestioned leader is for sure Nongfu Spring (农夫山泉). The company was founded in 1996 and is among the

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[150] Davar N., Hua Dai N., *Cola wars in China: The Future is here*, Ivey Publishing, 2003
[151] Davar N., Hua Dai N., *ivi*, page 3
[152] *Soft Drinks in China Q1 2015*, EMIS, 2015

20 biggest companies producing beverages in general in the Chinese market. As far as dimensions, growth, and profitability are concerned, Nongfu Spring is a leader company in the country. According to the Frost & Sullivan report, between 2012 and 2019 the company into question has always maintained the highest market share of the bottled drinking water industry in China and this same market share ranks among the top three of the Chinese market in general. The strength of the brand, that differentiates the company from the others, is represented by the concept of '天然、健康', which can be translated into 'natural and healthy'. Indeed, Nongfu Spring is well-known for the purity of its water: it has never used tap water and also never added artificial minerals into its products. In order always to be able to guarantee a continuous supply of high quality natural water, Nongfu Spring has a unique strategic view and owns ten natural water sources within the Chinese soil, which represents a huge competitive advantage for the company, since it is in this way able to ensure a long-term service to its consumers. Moreover, the level of technological advancement the company is able to provide is extremely high: it offers cutting-edge equipment, big production and management capacities and a rigorous quality assurance system. However, except from the bottled water, Nongfu Spring in its product portfolio also offers coffee products, tea beverages, functional drinks, and fruit drinks. Then for what concerns its financial performances, the company's revenues in 2019 accounted for 24 billion yuan, which is equal to USD 3.4 billion: it recorded an impressive growth if compared to the 20.47 billion yuan of just one year before[153].

If we analyse the data recorded during the last few years for what concerns the sales of the different brands operating in the Chinese soft drinks industry it is possible to draw some interesting conclusions.

As already mentioned, when talking about the distribution in the beverages' industry it is possible to make a distinction between off-trade and on-trade. First of all, the attention will be focused on the on-trade sales recorded by the different companies operating in China.

Figure 25 – Off-trade vs On-trade Sales of Soft Drinks (RTD) by Channel: Volume 2015-2020

million litres	2015	2016	2017	2018	2019	2020
Off-trade	69,852.0	70,630.8	73,485.2	76,420.5	79,590.0	82,085.7
On-trade	7,529.1	7,735.9	7,961.9	8,125.5	8,432.3	6,753.6
Total	77,381.1	78,366.7	81,447.1	84,546.0	88,022.3	88,839.3

Source: *Soft Drinks in China*, Euromonitor International, December 2020

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[153] https://www.nongfuspring.com/

In order to make a comprehensive analysis about the performances recorded by the competitors as far as volume is concerned, it is necessary to look at the total volume in million litres of the soft drinks industry in general (Figure 25). In this way, it is indeed possible to understand to what figure the different percentages of the companies refer to. These data can be observed in the below table (Figure 26).

Figure 26 – Brand Shares of On-trade Soft Drinks (RTD): % Volume 2017-2020

% on-trade rtd volume Brand (GBO)	Company (NBO)		2017	2018	2019	2020
Pepsi (PepsiCo Inc)	Tingyi (Cayman Islands) Holding Corp		7.1	7.3	7.4	7.4
Coca-Cola	Coca-Cola China Ltd		6.3	6.2	6.5	6.6
Sprite	Coca-Cola China Ltd		5.6	5.7	6.1	6.2
Wong Lo Kat	Guangzhou Wanglaoji Pharmaceutical Co Ltd		5.4	5.8	6.2	5.7
Jiaduobao	Guangdong Jiaduobao Beverage & Food Co Ltd		6.3	5.5	5.3	5.3
Nongfu Spring	Nongfu Spring Co Ltd		2.4	2.5	2.6	3.0
Mirinda	Tingyi (Cayman Islands) Holding Corp		2.9	2.9	2.9	2.8
Evian	Danone Premium Brand (Shanghai) Trading Co Ltd		1.9	1.9	1.9	2.2
Master Kong	Tingyi (Cayman Islands) Holding Corp		2.1	2.0	1.8	1.5

Source: *Soft Drinks in China*, Euromonitor International, December 2020

By looking at the figures contained inside the above table (Figure 26), we can see how in the on-trade sales Pepsi has always been able to have a better performance than Coca-Cola in the previous four years, from 2017 up to the present day. Pepsi, the leader of this scenario, is followed at the second and third place by Coca-Cola and Sprite, the two brands owned by the company Coca-Cola China Ltd. So, what is important to highlight is the fact that in the on-trade sales Coca-Cola is a leader as a company but not as a brand. Then it is interesting also to stress the fact that these three foreign brands, that are among the most popular ones at international level, are then immediately followed by three other Chinese local products, which also include the above-analysed Nong Fu Spring. But another element that should be taken into account when looking at these data is the existing gap between the first five brands of the table and all the others below. Indeed, it is possible to notice a clear difference

in the recorded data, going from 5.3 directly down to 3: a reduction, which is not as gradual as it is in the first companies.

If we consider the three Chinese brands following the giants Pepsi, Coca-Cola, and Sprite, the local Nong Fu Spring is overcome by the brands Wong Lo Kat owned by the Guangzhou Wang Lao Ji Pharmaceutical Co Ltd and Jia Duo Bao of the Guangdong Jia Duo Bao Beverage & Food Co Ltd. The latter brands both belong to the tea category of the soft drinks industry and their histories appear to be interconnected one to the other.

The first company between them appearing within the Chinese market is the Guangzhou Wang Lao Ji Pharmaceutical Co Ltd, whose foundation can be traced back to 1828 thanks to the efforts of the doctor Wang Zebang and his family. As we can see, it is a very ancient firm that nowadays has managed to become one of the top 50 national enterprises operating in the traditional Chinese medicine sector. The brand's popularity is so widespread that it is considered as a synonymous of Chinese herbal tea as much as Coca-Cola is the symbol of Cokes. Wang Lao Ji is specialized mostly in the production and distribution of herbal medicine and products like pills, capsules, powder, teas for the health care. Its portfolio comprises a wide range of different products but the traditional excellence is represented, as we can see in the table under examination, by the Wang Lao Ji Herbal Tea, also called 'Wong Lo Kat', which is the Cantonese transliteration of the term in Mandarin Chinese (王老吉)[154].

On the other side, the company Guangdong Jia Duo Bao Beverage & Food Co Ltd was founded many years later, precisely in 1995 and it belongs to the Hong Kong Hung To Group. Also this firm's products are based on the long Chinese tradition represented by herbal tea. Its flagship beverage is for sure the red can drink 'Jia Duo Bao' (加多宝), which acts on the market as the most fearsome competitor for Wang Lao Ji in the battle for the Chinese herbal tea sector's domination[155].

As already mentioned before, the histories of these two companies have intersected starting from the late 1990s, when the Wang Lao Ji company signed an agreement together with the Hung To Group, according to which the latter obtained the trademark license and as a consequence the right to use it. The Wang Lao Ji company itself was producing the 250ml green carton product, while the Hong Kong group had the responsibility of marketing the Wang Lao Ji red can version, which was manufactured by its Jia Duo Bao subsidiary. Over the years, the performance of the red can tea on the market significantly outperformed the one of the green cartons and achieved sales domination. In 2013 the sales of the product distributed by Jia Duo Bao accounted for 73% of the total Chinese herbal tea sector: a percentage which is enormous if compared to the 9% recorded by the Guangzhou

[154] http://www.wlj.com.cn/en/Aboutus.aspx
[155] http://jdbchina.foodmate.net/introduce/

Pharmaceutical company. However, in 2011 a dispute for the Wang Lao Ji's trademark usage began given the more rapid growth achieved by the Jia Duo Bao company and it ended in 2013, when a state arbitrator declared that the trademark agreements were not valid. As a consequence to this relationship's end the Guangzhou Pharmaceutical company started distributing its own red cans with their trademark, and so did the Jia Duo Bao, which in order to differentiate its products from the competitor's ones changed the colour of the cans from red to gold (Figure 27)[156].

Figure 27 – Wang Lao Ji vs. Jia Duo Bao

Source: https://www.chinadaily.com.cn/china/2017-08/17/content_30717876.htm

So, after having analysed the histories of these two other colossus of the Chinese soft drinks industry, in my opinion it is interesting to stress the fact that by considering the on-trade sales the tea category appears to be one the most relevant of the sector in general.

The situation happens to be totally different if we take into consideration the off-trade sales instead of the on-trade ones.

Figure 28 – Off-trade vs On-trade Sales of Soft Drinks (RTD) by Channel: Volume 2015-2020

million litres	2015	2016	2017	2018	2019	2020
Off-trade	69,852.0	70,630.8	73,485.2	76,420.5	79,590.0	82,085.7
On-trade	7,529.1	7,735.9	7,961.9	8,125.5	8,432.3	6,753.6
Total	77,381.1	78,366.7	81,447.1	84,546.0	88,022.3	88,839.3

Source: *Soft Drinks in China*, Euromonitor International, December 2020

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[156] https://www.sixthtone.com/news/1000705/herbal-tea-rivals-must-share-trademark%2C-supreme-court-says

Also in this case when analysing the data contained in the below table (Figure 29) it is necessary to always consider them in relation to the total amount of volume as for the whole Chinese soft drinks industry (Figure 28) in order to have a more realistic point of view and to be able to make actual considerations.

Figure 29 – Brand Shares of Off-trade Soft Drinks (RTD): % Volume 2017-2020

% off-trade rtd volume Brand (GBO)	Company (NBO)		2017	2018	2019	2020
Nongfu Spring	Nongfu Spring Co Ltd		5.1	5.8	6.4	7.2
C'est Bon	China Resources C'estbon Beverage (China) Co Ltd		5.1	5.4	5.3	5.4
Master Kong	Tingyi (Cayman Islands) Holding Corp		6.6	5.4	4.3	3.7
Ganten	Shenzhen Ganten Industry Co Ltd		2.2	2.6	2.8	2.9
Sprite	Coca-Cola China Ltd		2.4	2.4	2.5	2.6
Coca-Cola	Coca-Cola China Ltd		2.4	2.4	2.4	2.5
Master Kong Ice Tea	Tingyi (Cayman Islands) Holding Corp		2.9	2.8	2.6	2.4
Pepsi	Tingyi (Cayman Islands) Holding Corp		2.5	2.4	2.4	2.3
Wahaha	Hangzhou Wahaha Group Co Ltd		3.3	2.9	2.5	2.1

Source: *Soft Drinks in China*, Euromonitor International, December 2020

In this case the market leader with the highest recorded sales is represented by Nongfu Spring, a local Chinese brand. Coca-Cola in this scenario is located even after Sprite at the 6th place, while Pepsi is ranked 8th, followed by Wahaha. An interesting information that should be noted is the big difference even in this case existing between the leader brand and the others. As we can easily see by looking at the table's figures, a brand that starting from 2017 has always witnessed a continuous gradual reduction of sales is Wahaha. Coca-Cola on the contrary has always remained stable and Pepsi has recorded very small decreases[157].

On the contrary, Nongfu Spring over the last four years has managed to record an impressive growth if compared to all the other brands operating in the market. This data is another evidence of the fact that in particular in 2020, due to the COVID-19 pandemic, the bottled water category in the off-trade market has recorded an incomparable increase. But what is the reason for this leadership of

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[157] https://daxueconsulting.com/market-research-market-soft-drink-china/

the brand in the retail sector? For sure the company has implemented an adaptation of the product to the final consumers' tastes and preferences: a move that has contributed to achieving such success. As a matter of fact, Nong Fu Spring is committed to constantly diversifying and innovating its offer. But at the same time another relevant element is represented by the advantage of the company in the field of distribution. Indeed, it has established a comprehensive national sales channel, which is continuously improved thanks to the use of big data systems aimed at improving the efficiency of its distribution system. If we look at the numbers, Nong Fu Spring currently manages over 4,000 dealers and more than 10,000 sales management personnel all over the country[158].

When taking into account the off-trade sales recorded by the several companies within the Chinese market it is possible also to analyse the figures from a different point of view, namely by considering the percentage of value achieved by each competitor.

Figure 30 – Off-trade vs On-trade Sales of Soft Drinks by Channel: Value 2015-2020

CNY million	2015	2016	2017	2018	2019	2020
Off-trade	395,404.9	405,547.2	422,449.7	445,515.6	471,237.3	485,201.6
On-trade	93,900.3	98,011.1	102,277.4	106,596.1	113,635.4	91,135.4
Total	489,305.2	503,558.3	524,727.1	552,111.7	584,872.7	576,337.0

Source: *Soft Drinks in China*, Euromonitor International, December 2020

The above table (Figure 30) shows the figures recorded by all the actors operating within the soft drinks industry of the country by focusing the attention in this case on the produced value in terms of millions of CNY. This offers a very interesting point of reflection because by comparing the results achieved by the brands as far as volume and value are concerned, it is possible to draw some conclusions for what concerns their pricing positioning in the market: if a brand has a better performance in terms of volume than in terms of value, this is a sign of the fact that its price will be lower than the average one and as a consequence, even if it sells a lot of products proportionally it earns less money.

Another interesting element that caught my eye is the fact that the performance in terms of value can be found in the Euromonitor report only when talking about the off-trade sales, while for the on-trade ones it only provides the data for what regards volume. I personally tried to think about the reason for this and, in my opinion, this happens probably because in the on-trade, namely in the

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[158] https://en.nongfuspring.com/aboutus/introduce.html

restaurants and bars sector, the pricing level is not uniform. Drinking a Coca-Cola in a fancy bar of a big city or in a place of an unknown town is not the same thing and the price will vary a lot. Consequently, I think that it is more difficult for the on-trade to make a balanced comparison.

Figure 31 – Brand Shares of Off-trade Soft Drinks: % Value 2017-2020

% off-trade value rsp Brand (GBO)	Company (NBO)	2017	2018	2019	2020
Red Bull	Red Bull Vitamin Drink Co Ltd	4.8	5.0	5.0	4.9
Nongfu Spring	Nongfu Spring Co Ltd	2.8	3.2	3.5	4.1
Wong Lo Kat	Guangzhou Wanglaoji Pharmaceutical Co Ltd	3.4	3.5	3.6	3.6
Jiaduobao	Guangdong Jiaduobao Beverage & Food Co Ltd	5.7	4.6	4.1	3.5
Master Kong	Tingyi (cayman Islands) Holdings Corp	4.5	4.0	3.6	3.3
Ganten	Shenzhen Ganten Industry Co Ltd	2.2	2.6	2.8	3.1
C'est Bon	China Resources C'estbon Beverage (China) Co Ltd	2.7	2.9	2.9	3.0
Sprite	Coca-Cola China Ltd	2.5	2.4	2.5	2.6
Coca-Cola	Coca-Cola China Ltd	2.3	2.2	2.3	2.4
Pepsi	Tingyi (Cayman Islands) Holdings Corp	2.3	2.2	2.2	2.1
Master Kong Ice Tea	Tingyi (Cayman Islands) Holdings Corp	2.4	2.3	2.1	2.0
President	President Enterprises (China) Investment Co Ltd	2.2	2.1	1.9	1.7
Wahaha	Hangzhou Wahaha Group Co Ltd	2.6	2.3	2.0	1.6

Source: *Soft Drinks in China*, Euromonitor International, December 2020

The first thing I looked at when analysing the above table (Figure 31) is the fact that in this case the leader of the market is Red Bull. However, when considering the off-trade sales in terms of volume the brand's performance was not so good: it ranked seventeen with a 1.1% of the total volume of sales. So, in conformity with the reasoning, which has been done before, this fact is an evidence of the fact that the prices Red Bull has set for its products are much higher than the average, allowing the brand to account for 4.9% of the total value of the industry. By making the calculations, it is possible to understand that the brand's yearly volume in 2020 was equal to 902.9 million litres, given the fact that it was 1.1% of 82,085.7. On the other side, the same can be done for value: in 2020 the brand's value was 4.9% of 485,201.6 million CNY, which is to say 23,774.8 million CNY. By

comparing these two results, it is possible to obtain how many CNY per litre people have to spend on average for a Red Bull product: the result is 26.3 CNY/L.

The same calculations have then been made also for Nong Fu Spring, which is the market leader for what concerns volume and second in the classification for the value. In this case, the result shows that the average price to be paid for a product of the brand into question is 3.3 CNY/L: almost nine times lower than the Red Bull one. This is a clear evidence of the fact that even if the Nong Fu Spring's price is quite low, the amount of litres sold are proportionally much higher.

The focus has been put on Coca-Cola and Pepsi as well, which are two of the undisputed leaders of the market. They are fierce competitors that represent a symbol of the worldwide soft drinks industry and as will be explained in the following chapter, the Coca-Cola's price in China is a benchmark for the pricing strategy of all the companies and it appears to be strongly influenced by the ones set by the other competitors, in particular Pepsi. The results of the calculation are 5.6 CNY per litre for Coca-Cola and 5.3 for Pepsi. These prices are a little bit higher than Nong Fu Spring, which is reasonable considering the fact that this latter sells mainly bottled water products, but at the same time much lower than the prices set by the leader Red Bull, more than five times lower.

To conclude, nowadays the Chinese soft drinks industry offers to its consumers a wide range of choice and in order for the already entered companies and those willing to target such market to be successful and competitive, they require to be very creative in the strategies to be implemented and bring something fresh to the Chinese final consumers. Moreover, a particular attention needs to be paid to consumers' needs and preferences, that keep on changing even in a very short period of time.

CHAPTER 4 – THE CASE OF COCA-COLA

4.1 How Coca-Cola entered into the Chinese market

May 8, 1886: an historical date that revolutionized the industry of beverages worldwide. On that day in the US city of Atlanta, Dr. John Stith Pemberton created for the first time the syrup, which is the basis of the nowadays leader drink Coca-Cola. The drink obtained by mixing such syrup and carbonated water was described by those who tested it as being refreshing and delicious, which are characteristics that still today represent the essence of the product into question[159]. The creator of Coca-Cola at that time would have never thought that today such brand could have become the 6th best global brand with a yearly turnover equal to USD 56,894 million following colossus such as Apple, Amazon, and Google. It is interesting to stress the fact that by looking at such classification provided by Interbrand, only two among the first twenty brands operate in the food and beverage sector, which is to say Coca-Cola at the 6th place and then McDonald's, which ranked nine[160].

The Coca-Cola company, owner of the Coca-Cola brand, was then founded in 1892 in the USA. Nowadays the enterprise is mainly focused on the production and selling of Coca-Cola, which is a cultural symbol for the country. However, the product portfolio offered by the company comprises also other soft drinks: thanks to its 2,800 different products distributed in more than 200 countries all over the world, the Coca-Cola company is the biggest beverage producer at international level and one the most important corporations within the United States[161]. The company's mission statement, which can be defined as "a sentence describing a company's function, markets and competitive advantages"[162], is based on three main pillars, namely refreshing the world, bringing moments of happiness and optimism into people's lives and creating value[163]. While its vision, that as opposed to the mission describes the goals a company has set in a long-term perspective[164], is represented by the desire of providing an inspiring workplace for its employees, offering high-quality products able to meet the final consumers' needs and desires, creating a profitable network together with suppliers and customers themselves, committing to the philosophy of sustainability, and guaranteeing a long-term profit for all shareholders by being a highly effective and productive organization[165].

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[159] https://www.coca-colacompany.com/company/history/the-birth-of-a-refreshing-idea
[160] *Best Global Brands 2020*, Interbrand, 2020
[161] https://www.britannica.com/topic/The-Coca-Cola-Company
[162] https://www.entrepreneur.com/encyclopedia/mission-statement
[163] https://www.coca-cola.com.sg/our-company/mission-vision-values
[164] https://corporatefinanceinstitute.com/resources/knowledge/strategy/vision-statement/
[165] https://www.coca-cola.com.sg/our-company/mission-vision-values

Figure 32 – Coca-Cola in China

| | 8th May 1886 Creation of Coca-Cola | 1949 Closure of the company's facilities | 2008 Coca-Cola is the main sponsor of the Olympic Games |

1927 Establishment of the first bottling facilities

13th December 1978 Official permission to enter into China
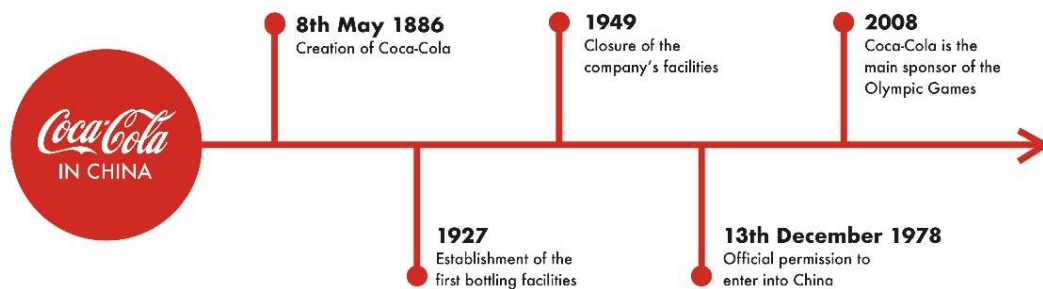
Source: personal elaboration

For what concerns the history of the brand Coca-Cola within the Chinese market, the company represents the first foreign firm ever, which was allowed to enter into the country and sell its beverages within the soil of the People's Republic of China after the Mao's era. The company previously had already established some bottling facilities in the cities of Tianjin and Shanghai back in 1927, which however have been closed after 1949. Then in conjunction with the initiation of the opening-up policy and the economic reforms of Deng Xiaoping, on 13th December 1978 Coca-Cola officially obtained the permission to sell its products in the country. At first sight this event was seen as quite controversial due to the fact that in the years before the achievement of this agreement, the company Coca-Cola had connected its strategy and business with the main purpose of the American government, which is to say fighting against the communism in the world and promoting the democracy. This is why during the years of Mao's government Coca-Cola was considered as one of the major symbols of the American imperialist power. In 1950, Mao Dun, the Chinese minister of culture, stated in the newspaper '*People's Daily*' that Coca-Cola was an instrument used for spreading American civilization, that needed to be deemed as dangerous as the army of the country itself, against which China was at that time fighting in a proxy war in the Korean territory. Chinese journalists also coined the term 'Coca-Colanization' in order to give an idea of how the drink into question was damaging the local culture. As we can easily deduce, Coca-Cola became one of the most representative arguments used by the Chinese government against the capitalist system and during Mao's era it was considered as a product without any utility from the productive point of view. According to the Chinese perspective, the success achieved by the brand worldwide was mainly due to the implemented marketing strategies, which were so powerful that they managed to convince people to buy an unhealthy and unproductive product: one of the best evidence about the concept of waste to be found in all the capitalist societies. Coca-Cola on the other side saw in a very positive

way this fact of being directly connected with the American fight against the communist systems. As a matter of fact, during a convention of bottlers from all over the world, the company created a placard, which read as follows:

"When we think of Communists, we think of the Iron Curtain, BUT when THEY think of democracy, they think of Coca-Cola[166]"

As we can understand by reading the above sentence, Coca-Cola considered this correlation as an effective form of advertising for the company, which in this way was well-known at international level for a battle that of course it agreed to support. Now, after having considered all these elements, one thinks spontaneously that with the opening up of the country, Coca-Cola should have been one of the last brands to be allowed to target the market. So, why on the contrary was it the first one? In part because the company had already been defeated by the competitor Pepsi in the fight for selling their drinks in the USSR. As a direct result, the company focused all its resources for the establishment of good governmental relations and shifted them towards the Chinese market. The main board representatives of the company started to visit very frequently the country by bringing with them huge quantities of Coke and moreover, the firm also offered financial support on the occasion of many cultural exchanges involving the two countries. This fact at the same time is a clear evidence of the importance and mutual independency that characterize the relationship between the Chinese and American economic systems. The Chinese authorities thanks to the achieved agreement were able to gain many benefits but among them, the most important ones were for sure the transfer of foreign exchange and foreign technology. Coca-Cola on its side had no objections in exchanging its know-how in return for the market access in the country, since this was the condition of all the countries that the company had already targeted. Moreover, being able to be the first foreign company to enter the market would have given huge prestige to the company and as a consequence, it was worth it. Nowadays it is possible to easily find Coca-Cola everywhere in China, it belongs to the citizens' daily routine. The brands' advertisements are plastered all over the country and the company even was selected as the main sponsor of the 2008 Olympic Games, that took place in the Chinese capital Beijing[167].

As far as the performance of the company Coca-Cola China Ltd is concerned, according to the data provided by the Euromonitor International the firm has ranked second in the category of soft

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[166] https://chinachannel.org/2019/02/06/coke-in-china/
[167] https://chinachannel.org/2019/02/06/coke-in-china/

drinks' companies operating within the Chinese market (Figure 33) with a total amount of 7,258 million litres of retail volume and a market share equal to 8.9%.

Figure 33 – Top 5 Companies in Soft Drinks: Retail Volume – Litres
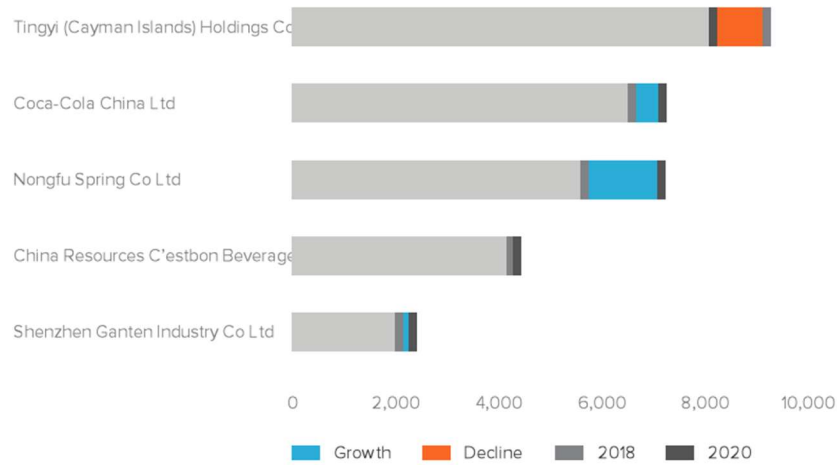
Source: *Coca-Cola China Ltd in Soft Drinks (China)*, Euromonitor International, October 2020

If the performance of the Coca-Cola China Ltd is compared to all the others operating in the Chinese soft drinks industry (Figure 34), it is possible to notice how starting from 2018 the results of the firm under consideration has always witnessed a higher growth than its competitors. However, both the lines of the graphic clearly show that the companies have suffered a general decrease due to the COVID-19 pandemic in 2020.

Figure 34 – Company Performance vs Market: % Growth 2011-2020
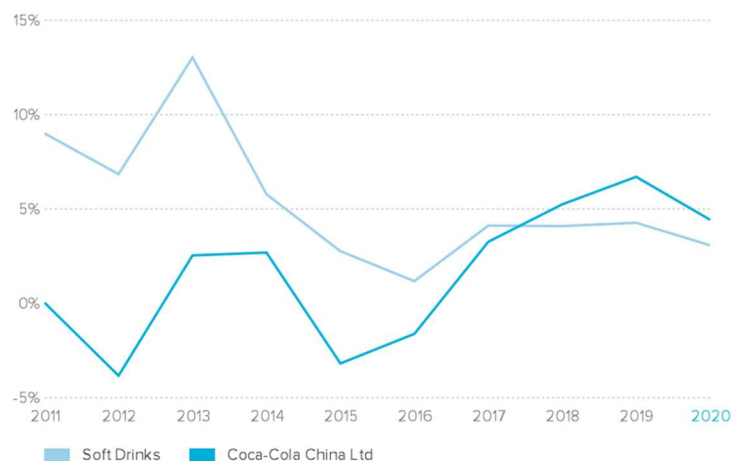
Source: *Coca-Cola China Ltd in Soft Drinks (China)*, Euromonitor International, October 2020

As far as the future expansion plans of the enterprise are concerned, Coca-Cola China has already made an announcement regarding its intentions of building new production facilities in the Chinese cities of Hubei and Guizhou thanks to an investment equal to USD 75,3 million. Even though in 2020 carbonated drinks' sales recorded a general decline, according to the forecasts by 2023 the category is going to return to the pre-Covid situation. Moreover, high-tech and cutting-edge equipment, smart production and the large consumer base will guarantee to the brand Coca-Cola a prosperous future within the Chinese market. Such facilities will also allow the company to increase the degree of efficiency, reduce the waste, make every needed change within a short period of time and adapt the packaging process more easily. Moreover, another positive aspect that the company has for sure taken into consideration when planning such investments is the fact that Chinese consumers if compared to the other countries appear to show a way more optimistic attitude for what concerns the economic situation and future recovery of their own country. As a matter of fact, only 34% of the Chinese citizens admitted to be quite concerned about the above-mentioned problem: a percentage, which is significantly lower than the one obtained through the surveys in other economies. As an example, 54% of UK consumers and 55% of US citizens gave the same answer: more than a half of the total population[168].

As already mentioned before, the Coca-Cola China Ltd company's product portfolio does not only include the brand Coca-Cola, which however is one of the most renowned symbols of the firm at international level. Other brands, which are distributed by the company within the Chinese soil, are represented by for instance Sprite, Fanta, Schweppes, that can be found in our market as well. While other products, that are new to us, are for example Ice Drew Water, Minute Maid, Authentic Tea House.

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[168] "Coca-Cola is smart to build new production lines in China", *Global Data*, 2020

Figure 35 – Brand Shares in Soft Drinks: Retail Volume 2020
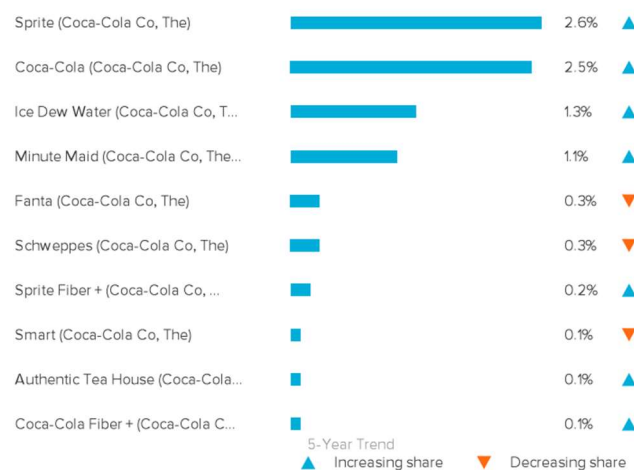
Sprite (Coca-Cola Co, The)	2.6%	▲
Coca-Cola (Coca-Cola Co, The)	2.5%	▲
Ice Dew Water (Coca-Cola Co, T...	1.3%	▲
Minute Maid (Coca-Cola Co, The...	1.1%	▲
Fanta (Coca-Cola Co, The)	0.3%	▼
Schweppes (Coca-Cola Co, The)	0.3%	▼
Sprite Fiber + (Coca-Cola Co, ...	0.2%	▲
Smart (Coca-Cola Co, The)	0.1%	▼
Authentic Tea House (Coca-Cola...	0.1%	▲
Coca-Cola Fiber + (Coca-Cola C...	0.1%	▲

5-Year Trend
▲ Increasing share   ▼ Decreasing share

Source: *Coca-Cola China Ltd in Soft Drinks (China)*, Euromonitor International, October 2020

As the above table clearly shows (Figure 35), Coca-Cola though is not the brand leader of the company. Indeed, it is overcome by the brand Sprite, whose brand shares exceed the Coca-Cola ones, even if only by 1%.

The big success achieved by the brand Coca-Cola is also a result of the Chinese consumers' perception about the product, that deeply influences their decision making process: Coca-Cola has been able to defeat many local and foreign competitors being it considered also as an iconic symbol of US modernity: this is a typical result of the so-called country of origin effect[169].

The brand Coca-Cola in China is well-known for another aspect as well: it represents one of the best examples of foreign brands operating in the country's market for what concerns the choice of the brand name. Adapting and translating the latter into the local language requires a significant effort in every country other than the domestic one but particularly in China due to the bigger specificities and complexity degree from both linguistic and cultural points of view. Being coherent with the cultural characteristics of the country a company is willing to target assumes a strategic importance in the Chinese market. The brand is composed by numerous elements, which is to say the name, the logo, the colours, the lettering, the graphics, to mention but a few. Moreover, the choice of the brand name in its turn is influenced by other factors, namely the communication of the benefits and technical features of a product or service, the characteristics of the manufacturing company, the desired positioning and the promised level of quality, the relation with the logo and the packaging, the country of origin effect, the traditional values of the final market, the habits and beliefs of the local consumers. Then in the case of China, an additional element that plays a role in

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[169] Kotler P., Keller K. L., *op. cit.*

the level of complexity of the process into question is represented by the fact that when choosing the Chinese characters to put together a company needs to take into account numerous aspects, namely for instance the sound created by their combination, the meaning of each character but, especially, the associated meanings, which can have a strong impact on the consumers' perception of the brand. Once having explained this, marketers worldwide have come to the conclusion that when having to deal with China they have three strategies at their disposal: the direct translation, which is the case of a brand name translated into Chinese characters that are similar sound-wise without any attention paid to their specific meaning. Then the second approach is called free translation and it consists of translating the brand name by considering only the Chinese characters' meaning and not their sound similarity. Lastly, a company can also opt for a mixed translation: as we can deduct from the name, in this case the company pays attention to both aspects of the previous approaches and as a consequence, chooses a translation with a sound affinity and a coherent meaning with the message it wants to convey[170]. The latter represents the case of the translation of the Coca-Cola's brand name into Chinese language. Its translation is '可口可乐' that means 'delicious and happy' and according to a large number of articles and papers the general conclusion is that such term is able to leave a feeling of cleanness and coolness and attract the final consumers' attention. From a theoretical point of view, the company opted for the traditional techniques of assonance and alliteration in order to produce similar sounds and moreover, it was also able to come up with a solution that is rhythmed and fluent and satisfies the psychological need of Chinese people. In this sense the role played by culture has no equal: indeed, "culture impacts and constraints translation"[171] and moreover, language cannot be considered as a single and independent entity but rather as an integral element of culture. The major part of Chinese people hearing and describing the translation of Coca-Cola puts great emphasis on the concepts of beautifulness and appropriateness characterizing the term, since the latter is in the position to create a good imagination to the product under consideration. Moreover, what has been highlighted is the simplicity to be found in the translation: the word is composed by four characters, that are commonly used, understandable by everyone and alone they are able to communicate the desired message of the company. The above-mentioned translation is a representation of the cultural tendency of Chinese people of looking for happiness and tasty food and drinks. In conclusion, what is important in every firm's strategy is taking into consideration the final consumers' socio-cultural

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[170] Pontiggia A., Vescovi T., *Panni stesi a Pechino. Esploratori e pionieri nei nuovi mercati internazionali*, Egea, Milan, 2015
[171] Ran S., "Chinese Translation of Coca Cola: Analysis and Enlightenment", page 110, in *Asian Culture and History*, Vol. 2, No. 1, 2010

dimension, since what a brand name's translation must be able to do is transfer a rich cultural connotation and this is for sure the case of Coca-Cola in China[172].

4.2 The first P: Product

As already explained inside the first chapter of this thesis, developing and implementing the most suitable marketing strategy represents a huge challenge for a company aiming at targeting a foreign market. What it needs to do is to coordinate and structure all the components of the so-called marketing mix in a coherent way, which is to say make sure that they do not appear to be independent one from the others. The first of the four components, to which academics refer as the 4 Ps, is the product: what kind of products a company includes in its own portfolio? Product is for sure the most important component and the basis of the marketing mix, since without a product there would be nothing to distribute, nothing to price or promote and as a consequence, the three other Ps of the marketing mix would have no sense to exist at all.

The Coca-Cola company in general is the largest beverage company existing worldwide, which counts in its portfolio 3,500 different products distributed all over the world and designed according to the company's biggest strength, which is to say guaranteeing an enduring quality.

Even though soft drinks in general are considered to be quite a standardized product in which the main difference companies can introduce is represented by the beverages' flavour, Coca-Cola products in the worldwide market appear to be sweeter or less carbonated in certain countries if compared to the products to be found in others. This is because of the fact that total standardization is not possible to be obtained due to the unbridgeable differences existing among cultures. As a consequence, a company should not take for granted the possibility of introducing the original product as it is in another market but it should better take into account elements such as product characteristics, colours, materials, packaging, to name but a few and then understand which one if adapted would bring to the company more revenues than costs[173].

As far as Coca-Cola China Ltd company is concerned, the drinks it has launched into the Chinese market over the years are numerous and cover different soft drinks' categories as we can see in Figure 36.

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[172] Ran S., *ivi*
[173] Kotler P., Keller K. L., *op. cit.*

Figure 36 – The product portfolio of Coca-Cola China Ltd

Source: https://www.coca-cola.com.cn/brands/CCCChina

By focusing our attention solely on the brand Coca-Cola, it is possible to notice that in the Chinese industry it can be found in three different formats (Figure 37).

Figure 37 – The product portfolio of Coca-Cola China Ltd

Source: https://www.coca-cola.com.cn/brands/CCCChina

The first is represented by the classical Coca-Cola (可口可乐), which can be found in every country of the world and is one of the best known drinks at international level. In the Chinese market it is distributed in the typical plastic bottle and its traditional and classic flavour has been maintained.

The second product offered by the company belonging to the Coca-Cola brand is the Coke Zero (可口可乐零度), which was introduced in the Chinese market in 2005. It was created in order to

sell a drink with a limited quantity of sugar without renouncing to the original taste of the classical Coca-Cola.

Last but not least, the third Coca-Cola product is represented by Diet Coca-Cola (可口可乐健怡). This latter was launched in the country before the previous product: indeed, its first appearance in the Chinese market can be traced back to 1995, ten years before. This version of Coca-Cola is thought to meet consumers' need of buying healthy drinks as well, since its peculiarity is the fact that the quantity of sugar is reduced if compared to the classical one. However, the difference with the Coke Zero consists of the taste: in this case, it deviates a bit from the original one and appears to be more delicate and lighter[174].

If we compare the offer of the brand into question in China and Italy, it is interesting to stress the fact that the Italian market offers to its consumers five different versions of Coca-Cola, namely Coca-Cola Original Taste, Coca-Cola Sugar Free, Coca-Cola Light Taste, Coca-Cola Sugar Free with Lemon Flavour, and Coca-Cola Caffeine-free[175]. Moreover, another relevant difference that caught my eye is the way the two different websites are structured: as a matter of fact, the Italian version of the Coca-Cola site includes all the information regarding the nutritional values and ingredients, which on the other side cannot be found when visiting the Chinese version.

The above-mentioned products' names are a clear evidence of a new tendency of the last few years shared by all the companies operating in the soft drinks industry, which is to say the commitment of offering products able to meet the consumers' new needs. As already mentioned in the previous chapter of this thesis, Chinese consumers but, generally speaking consumers worldwide, have developed an increased awareness for what concerns health and fitness. This is why, as we have seen, the major part of the products offered by the brand in China and also in Italy make references to the reduced quantity of those components, which are considered to be harmful for one's health and body, namely sugar or caffeine. Moreover, faced with the exponential growth of obesity rate in China, Coca-Cola had to react to this situation in order to prevent its sales from suffering any type of negative consequences.

In 2011 the Chinese citizens suffering from obesity or overweight accounted for 42.3% of the total Chinese adults: a rate that in 1991 was equal to only 20.5%. As it is possible to understand, in 20 years the quantity witnessed a tremendous spike in the country. Coca-Cola with its carbonated and, according to many people, unhealthy drinks could be considered as one of the causes of such situation also due to the impressive growth the brand's sales have recorded during these years: this is why in order to safeguard its performance in the market the company adopted the strategy of

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[174] https://www.coca-cola.com.cn/brands/product-description
[175] https://www.coca-colaitalia.it/brands/coca-cola/prodotti

encouraging and pushing Chinese citizens to exercise rather than focusing on the diet. According to the statement of Harvard Professor Susan Greenhalgh, "presenting itself as an advocate of 'healthy active lifestyles', Coke promoted the message that all foods and drinks are part of a healthy diet; to avoid obesity, what matters is how much you move"[176].

Coca-Cola has been able to exert pressure on this aspect starting from 1999 thanks to the presence of an office within the Chinese soil of the US institute called the International Life Sciences Institute (ILSI), which had been founded by the former vice-president of Coca-Cola. This body has been subject over the course of time of numerous criticisms for having only promoted the important role played by a regular physical activity underestimating in this way the need for people willing to lead a healthy life to reduce the consumption of sugary drinks as well. Given these critics, Coca-Cola started to recognise the problems a high quantity of sugar can cause to people and, in this way, to develop new ways to reduce the number of calories contained in its drinks all over the world. "In China we are committed to offering a full and growing portfolio of diverse beverage choice that cater to evolving consumer needs"[177], so said the representatives of the company.

4.3 The second P: Price

After having explained the first of the four Ps constituting a company's marketing mix, now the attention will be shifted towards the second, namely the price a firm decides to set for its products. This latter represents one of the most challenging decisions managers need to make, since contrary to the other elements of the marketing mix pricing has a strong impact on the company's revenues rather than on its costs. Moreover, it is one of the first elements the customers take into consideration in order to make a comparison between different brands. The price of a product or service represents the value that the seller thinks the product or service is worth in terms of money. It is an essential tool of competition and consequently, being able to set the right price is a factor that will determine the acceptability, profitability and the future of the product into question[178].

For what concerns the pricing strategy adopted by Coca-Cola, the multinational has always maintained a high level of consistency with its prices. As a matter of fact, in the countries in which it operates Coca-Cola tends to maintain more or less the same level of price if compared to its main competitors in order for the Coca-Cola brand to be perceived by the final consumers as affordable. On the other hand, in the case of new markets to be targeted, Coca-Cola opts for a different

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[176] https://www.cnbc.com/2019/01/10/coke-junk-food-companies-have-been-shaping-chinas-obesity-policy.html
[177] https://www.theguardian.com/business/2019/jan/10/coca-cola-influence-china-obesity-policy-protect-sales-bmj-report
[178] https://www.economicsdiscussion.net/pricing/importance-of-pricing/31838

strategy, which is to say it sets lower prices than the other companies with the aim of penetrating the market into question. Then once its products have been accepted within the country, Coca-Cola implements a repositioning of them as premium. As we can easily deduce, the pricing strategy of the company is strongly influenced by the ones adopted by the other competitors. In the case of China, the most dangerous one is for sure Pepsi, even if during the years Coca-Cola has always been able to maintain a better position. Nowadays the price of Coca-Cola still represents the most relevant benchmark in the market and its products are on average 15 to 20 cents more expensive than Pepsi. This is especially due to the fact that Coca-Cola has worked hard in order to develop a strong brand image within the market and a strong brand equity that characterizes all of the drinks offered by the company[179].

Coca-Cola when setting the prices of its products also implements a so-called price discrimination, which "occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs"[180]. Such strategy can be divided into three different degrees. In the first-degree price discrimination, also called perfect price discrimination, the seller sets the maximum possible level of price for each unit of product. The second-degree price discrimination consists of the seller charging different prices according to the quantities of product consumed. Then the third-degree, which is the case of Coca-Cola and the most common price discrimination strategy, occurs in the cases in which the seller sets different prices for each consumer group[181]. There are different approaches of third-degree differentiated pricing, which is to say customer-segment pricing, image pricing, product-form pricing, location pricing, time pricing and last but not least, channel pricing. This latter is the strategy adopted by Coca-Cola, which defines different price levels depending on the channel of distribution: buying a Coca-Cola in a fine restaurant, in a vending machine or in a fast-food will impact the price you will pay[182].

4.4 Third P: Place

In addition to defining product and pricing strategy, another decision a company has to make when developing its own marketing mix regards place, which is to say determine where to sell its product or service and how to deliver it to the final consumers. The main purpose of the marketers

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[179] https://globalmarketingprofessor.com/coca-colas-marketing-strategy-in-china
[180] Kotler P., Keller K. L., *op. cit.*, page 506
[181] https://www.investopedia.com/terms/p/price_discrimination
[182] Kotler P., Keller K. L., *op. cit.*

is to ensure that their goods are able to arrive in front of the right consumers' segment, meaning those who are more likely and interested in buying them[183].

"We are a global business that operates on a local scale, in every community where we do business"[184]: this is what can be read when visiting the official Coca-Cola Company's website in the section dedicated to the firm's system in general. As a matter of fact, even though many people tend to consider the company as simply 'Coca-Cola', which is to say as a single entity, its system actually works through numerous local distribution channels (Figure 38).

Figure 38 – The Coca-Cola System

Source: https://investors.coca-colacompany.com/about/coca-cola-system
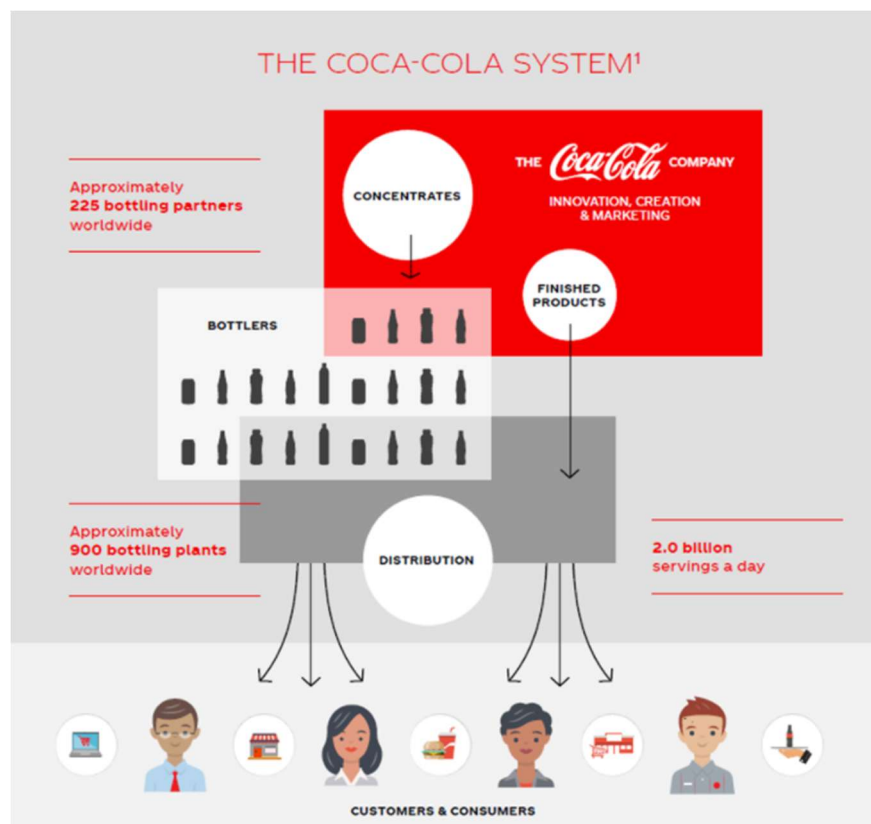
One of the most commonly used ways for the company's products to reach the market begins with Coca-Cola itself producing and selling concentrates, syrups and drink bases to the authorized bottling partners collaborating with the company, that amount to 225 companies located all over the world in more or less 900 bottling facilities. Coca-Cola in this case remains the one owning the brands and accountable for the marketing strategies to be implemented. On the other side the

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[183] https://www.investopedia.com/terms/f/four-ps.asp
[184] https://www.coca-colacompany.com/company/coca-cola-system

bottling partners have the task of producing, packaging, merchandising and distributing the finished branded drinks to the vending partners, who then have to sell the products to the final consumers.

Another possibility for the company is represented by the finished product operations that consist of bottling, sales and distribution operations owned or controlled by Coca-Cola itself, which are directed towards retailers, wholesalers or also distributors, who then for their part sell them to retailers. This is the case for example of sparkling soft drinks, juice and dairy beverages, sports drinks, tea and coffee[185].

Coca-Cola, which is considered one of the top marketing companies at international level, implements both a push and pull strategy in the management of its intermediaries. The difference between the two approaches consists of the fact that a push strategy should be adopted when the company is characterized by low brand loyalty in the industry, when the product under consideration is impulsively bought and the purchase decision is made in the physical store. In this case the company uses its sales force, finances and other means in order to convince the intermediaries to promote and sell the product or service to the final consumers. The opposite situation, namely the pull strategy, occurs when the company uses its forms of communication with the purpose of persuading the final customers to ask for the product to the intermediaries, so that in this way the latter will place a bigger order. This strategy is mostly suitable in all the cases in which the brand loyalty and the level of involvement in the sector are particularly high, the consumers make their purchasing decisions before going to the store and they are able to perceive the differences between the different brands. Coca-Cola is able to mix these two approaches in a balanced way: as a matter of fact, a push strategy works better if employed together with a well-executed pull approach and vice versa[186].

In 2020 the five largest bottling partners of Coca-Cola, who together accounted for 40% of the company's total unit case volume, were Coca-Cola FEMSA operating in Latin America, Coca-Cola European Partners plc (CCEP) serving Western Europe, Coca-Cola HBC AG (Coca-Cola Hellenic) whose target is represented by Eastern Europe, Arca Continental working in Latin America and some areas of North America and lastly, Swire Beverages operating in other areas of North America as well and in the Asian countries[187]. On November 19, 2016, the Coca-Cola Company signed a definitive agreement together with its three most important bottling partners in China, which is to say the above-mentioned Swire Beverages Holdings Limited, the Coca-Cola Bottling Investments Group China, and COFCO Coca-Cola Beverages Limited. According to the achieved transaction,

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[185] https://investors.coca-colacompany.com/about/coca-cola-system
[186] Kotler P., Keller K. L., *op. cit.*
[187] https://investors.coca-colacompany.com/about/coca-cola-system

the company's bottling system in the country resulted to be divided between two of the three partners, namely COFCO and Swire. This event represented a new milestone for the company's history in China and "marks the latest important chapter in the ongoing transformation of our business to refocus on our core strengths of building great brands and leading a strong, global franchise system"[188], stated Muhtar Kent, CEO of the Coca-Cola Company. China represents the third-largest market as for volume of Coca-Cola and consequently, the company has long-term growth plans for itself and its bottling system in the country. Such plans for the future result in Coca-Cola and its partners willing to increase their investments in local supply chains with the purpose of improving the efficiency degree, guaranteeing continuous supply and satisfying the local consumers' demand. Despite the negative consequences derived from the impact of the COVID-19 pandemic, the beverage leader has achieved good results in the Chinese market and keeps on building new production facilities all over the country. In addition to this, the firm has also boosted the digital evolution due to the increasing demand for shopping online following the outbreak of the pandemic[189].

4.5 Fourth P: Promotion

"Coca-Cola is a carbonated water and sugar syrup, 99.61%. Without advertising, who would drink it?"[190]: these are the words pronounced by the company's former chief Wood Ralph.

The above sentence is a clear evidence of the importance played by advertising in the company's strategy. Indeed, this aspect has always represented a significant investment of Coca-Cola in all the markets in which it operates.

Nowadays, it is possible to find a Coca-Cola in every corner worldwide: regardless of the fact that you are in a remote village or in a metropolis, you will find a vending machine selling it. This is also thanks to the successful advertising strategy adopted by the brand, which is unmatched in comparison to all the other companies operating in the industry into question. Nowadays, Coca-Cola's advertising expenditures are equal to USD 600 million every year. As already mentioned, the success of the company strongly depends on its advertisements. In the course of time starting from its establishment, Coca-Cola has created countless commercials and even if their style has been changing and evolving, they have always maintained the same purpose, which is to say reaching an increasingly high number of consumers.

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[188] https://www.coca-colacompany.com/press-releases/the-coca-cola-system-in-china-completes-definitive-agreement-to-reshape-bottling-operations-in-china
[189] http://www.xinhuanet.com/english/2020-08/17/c_139297443.htm
[190] https://daxueconsulting.com/coca-cola-in-china-development-and-competition-with-pepsi/

Generally speaking there are some elements to be found in all the Coca-Cola advertising contents that allowed the company to become one of the most important global marketing successes. First of all, its communication strategy has always been based on simplicity. As a matter of fact, even though Coca-Cola grew into a global leader of the industry with numerous products, it has always been consistent with its basic values and ideals, which is to say communicating a message of pleasure. The company has always opted for catchy and easy slogans like for instance 'Happiness' or 'Enjoy', which can be easily translated and understood across the world.

Another element that played a relevant role in the success Coca-Cola has managed to achieve is represented by the personalization of its advertising contents. Indeed, despite the fact that the firm is to be considered as a global icon, Coca-Cola was able to understand the necessity of finding a way to speak to the final consumers of the different markets in a more personal and customized way. The offer of a company needs to be adapted to the local language, culture, and consumers' requirements.

Coca-Cola's success is also shaped by its strong emphasis on the brand rather than the product: when you see a Coca-Cola advertising what most people perceive is the fact that the company does not sell a bottle of drink but instead a bottle of happiness. Indeed, due to the huge amount of different products to be found in its portfolio, it would be challenging for the company to manage them all with specifically designed marketing strategies. On the contrary, what Coca-Cola tries to do is to sell an experience and a specific lifestyle to its target customers.

It goes without saying that in nowadays' world, in which we are more and more interconnected through the spread of the Internet and its tools, social media represents one of the fastest-growing instruments for the implementation of an effective marketing strategy at international level, since it is in the position of offering a single platform to companies in order to reach all the connected consumers across the globe. Through such tool the company's purpose is mainly represented by the increase in its customer engagement and brand recognition. Coca-Cola also uses social media to engage the users, encourage them to interact with the brand, and share their experiences related to the product with the other people. An example of initiative aimed at achieving the latter goal is the popular 'Share a Coke' campaign[191]. This latter was launched for the first time in Australia in 2011 and it consisted of changing the wrapping around the bottle with the writing 'Share a Coke with...' followed by a name. This campaign was developed with the aim of creating a closer relationship with final consumers and helping them to live and share moments of happiness. This initiative achieved such a big success that it was then adopted in many other countries across the world,

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[191] https://www.smartling.com/resources/101/what-can-we-learn-from-coca-cola's-global-marketing-success/

including China, in which in addition to the first names, Coca-Cola decided to print nicknames as well making in this way the campaign even more personal[192].

In addition to social media, another common platform in which Coca-Cola operates in order to spread its branding is represented by the television. TV commercials, indeed, play an essential role for the company in its purpose of reaching as many potential consumers as possible. Moreover, Coca-Cola in many cases also opted for the strategy of sponsorship, which is to say becoming the sponsor in occasion of several sports events: the brand has been one of the most important sponsors of the Olympic Games for many years so far. Thanks to this approach, the company has been able to become recognizable everywhere and to come into contact with millions of potential consumers. However, the Coca-Cola advertisements can be found in the so-defined print media as well, like for instance newspapers and magazines all over the globe and posters or stickers in stores and outlets. In the list of advertising media adopted by Coca-Cola, we have to include outdoor advertising too. Indeed, in order to be connected with every place of the world, the company places its commercials on several billboards. Even during the COVID-19 pandemic period, Coca-Cola has created an advertisement in relation to its carried out social works: the company used the billboards of Times Square in order to spread a message encouraging everyone to maintain social distancing. Such initiative is a clear evidence of the commitment of Coca-Cola for social battles and of its power: as we can deduce, the company by now does not need any more to use advertisements in order to promote the products, which are already known by everyone. But on the contrary, Coca-Cola is in the position to use the powerful tool of advertising for sending positive messages[193].

As already mentioned before when analysing the first P of the marketing mix, namely the Product, Coca-Cola needs to implement a little bit of adaptation in the drinks it sells in the different markets. The same argument can be used when talking about Promotion as well: indeed, the company changes and adapts the communication contents for each targeted market. This process is defined as communication adaptation and it can be implemented in different ways. The first strategy is to use one common message everywhere adapting only the name and the language to be used. The second alternative consists of maintaining the same message and theme worldwide but changing the execution. The third possibility, which is the case of Coca-Cola, is to develop a global set of advertisements and let each country decide which one is the most suitable for its characteristics[194].

[192] https://www.coca-colacompany.com/au/faqs/what-was-the-share-a-coke-campaign
[193] https://www.thestrategywatch.com/advertising-strategies-coca-cola/
[194] Kotler P., Keller K. L., *op. cit.*

Once having analysed in general the advertising strategy of Coca-Cola in the international market, now the focus will be shifted towards China in particular. After an initial phase following the entry of the company in the country in which Coca-Cola tended to maintain the typical American style in the commercials released in China, the firm significantly changed its strategy and started to incorporate elements coming from the Chinese traditional culture.

Coca-Cola also decided to entrust its message and communication to local Chinese celebrities through the technique of the celebrity endorsement and tried to set its commercials in daily situations with people cooking or having parties with the final purpose of developing and building a youthful and simple brand image.

On Chinese social media Coca-Cola offers to its users several functions on its WeChat account, in which it provides the direct link to Coca-Cola's JD store, relevant information concerning its products, and the available advertising involving celebrity endorsement. In 2010 Coca-Cola also opened its account on Weibo, which enjoyed great success among Chinese consumers[195].

Coca-Cola has an overall presence in all the channels offered by the Chinese market even if of course with different degrees of intensity and usage frequency. The company starting from 2018 began to focus especially on localization marketing through the launch of an initiative called 'Faces of the cities', through which it celebrated the many diverse city cultures to be found in China. The idea, on which the campaign is based, is the fact that Chinese cities are easily recognizable by their landmarks but what makes them unique is the character of the people living there. With the purpose of highlighting and celebrating this aspect of the country, Coca-Cola China launched a set of 23 limited edition bottles with special labels representing iconic cultural symbols of each selected city used in order to express the personality of its citizens through the traditional Coca-Cola iconography. As Richard Cotton, head of content, creative and design at Coca-Cola China, stated:

> "No matter where we grow up, where we go to university or where our careers take us, each city that we live in leaves an impression that is embedded in us forever. Each has its own culture and flavour, its sights and sounds. But above all, cities are made of people. While we may live in a city, it's the city that also lives in us[196]"

Coca-Cola tried through this campaign to capture the essence of each city's culture, food, landmark and to personify these elements on each can by making them become a face (Figure 39).

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[195] https://daxueconsulting.com/rtd-market-china/
[196] https://www.marketing-interactive.com/coca-cola-china-celebrates-city-cultures-through-faces-of-the-cities

Figure 39 – 'Faces of the cities' Coca-Cola campaign

Source: https://www.marketing-interactive.com/coca-cola-china-celebrates-city-cultures-through-faces-of-the-cities

Moreover, the company also established a collaboration with Baidu in order to allow users to have an AR experience and interact with each of the 23 cans. People only needed to frame the product's label and then an animation involving the can itself appeared on the screen so that the users could share it in the social network and let others know they were drinking Coca-Cola[197] (Figure 40).

Figure 40 – 'Faces of the cities' Coca-Cola campaign

Source: https://www.marketing-interactive.com/coca-cola-china-celebrates-city-cultures-through-faces-of-the-cities

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[197] https://www.marketing-interactive.com/coca-cola-china-celebrates-city-cultures-through-faces-of-the-cities

Coca-Cola's main mission in China is to become the most well-known and loved soft drink among Chinese teenagers and in order to achieve this goal the company has been launching in the last few years one 'Share a coke' campaign each summer. This latter is a successful component of Coca-Cola's marketing strategy in the country and helped the brand to connect and engage with its target audience, namely young people. The campaign has been evolving over the years through different forms: the company created cans' labels, in which every year something different was printed, from movie quotes, to people's names or nicknames. Then another year the brand also created a campaign solely focused on the Olympic Games.

Another example of campaign belonging to this 'Share a Coke' series is an initiative entitled 'Lyric Coke' launched by Coca-Cola in 2014. This latter's target consumer was represented by the Chinese youth and the main focus is to be found in their tendency to communicate through social media. A tendency that led to a strong difficulty faced by them in entering into contact face to face with other people in the real life, away from the screen. So, Coca-Cola tried to find a way to help Chinese young people to express these unexpressed feelings, connect with others and share more not only in the virtual world but rather in the physical one: the solution Coca-Cola came up with is represented by music. The company printed 50 popular song lyrics on Coca-Cola labels in order to inspire Chinese youth to talk in lyrics. 50 lyrics to express 50 different feelings. How did it work? People only needed to scan QR codes on the labels, grab the music clip that appeared on the screen and share it digitally. Such campaign created a brand new kind of emoticon, that Coca-Cola described though a play on words calling it 'Musicon', an icon made of music. These latter were designed by the company in order to be easily shared on Chinese most famous social networks allowing in this way users to express their feelings with a single lyrics. The campaign results have been impressive with more than 2,100,000 musicon viewers and over 1,800,000,000 social impressions. In this way, Coca-Cola managed not only to offer refreshment to all those who decided to drink its products but also to express one's self in a whole new way. This initiative appeared to be such a huge success because the company managed to make it easily accessible to the target consumers, namely Chinese young people, through the use of social media. Coca-Cola was able to deeply understand this aspect of the nowadays' Chinese culture affecting especially the youngest generation and offer accordingly a suitable solution to them. The campaign represented a way for the company to reach and get closer to the target and become part of its daily communication[198].

Another successful project belonging to the 'Share a Coke' campaign, which was designed specifically for the Chinese market, is the second blockbuster film titled 'Battlefield', which was created for Coca-Cola by the advertising agency McCann in 2015. Coca-Cola has always been

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[198] https://www.youtube.com/watch?v=Oqt9BdEaBQk&ab_channel=Isobar

known for its freshness and ability to make people quenched and satisfied. These characteristics have been highlighted in many of the company's advertisements and the commercial into question is one example. This latter depicts an iconic battle happening between two armies, which are fighting for a mysterious red box. In the moment in which the battle is ready to begin, a young boy interrupts the scene without caring about what was happening around him and approaches to the red box in order to get an iced Coca-Cola. All of the soldiers seem to be quite jealous of the boy in front of the image of him enjoying the refreshing taste of Coca-Cola under the sun. He drinks it all in one sip and then says 'There is enough for everybody'. The clip then concludes with all the soldiers rushing towards the product creating the shape of a Coca-Cola (Figure 41).

Figure 41 – 'Battlefield' campaign by Coca-Cola

Source: https://www.youtube.com/watch?v=Jvwj71Lxx1Q&ab_channel=RobinHicks

Through this campaign, Coca-Cola was able to communicate the message that its product is able to create a moment of sharing, happiness, and conviviality thanks to its good taste and freshness[199].

Another remarkable campaign part of this series is the one released in 2017, which was called 'Code Bottle'. This initiative consisted of creating new packaging aimed at appealing Chinese young people through the use of codes and symbols commonly used by them in their daily communication. As a matter of fact, nowadays in China teenagers have developed a brand new modern way to communicate and express themselves, that goes beyond the simple words. Coca-Cola wanted to go deeper and find a real point of connection with them other than the common passions of all young people around the world, like music and film, which had already been used by the company in the previous campaigns. Coca-Cola thanks to the cooperation of the advertising

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[199] https://www.youtube.com/watch?v=Jvwj71Lxx1Q&ab_channel=RobinHicks

agency McCann created a set of 35 different bottle labels, which were composed by a mix of numbers, emoticons, graphics, and characters. For example, among the Chinese youth the numbers '521' mean 'I love you', or also '88' is a way to wish good luck. This way of communicating online used by teenagers in China is unique to the country and in this way Coca-Cola was able to show an ability to deeply understand its target and an awareness of the necessity to adapt the marketing strategy. So, even in this case it is possible to see how Chinese teens' life is mainly based on the virtual world and how this aspect can bring benefit to companies if exploited in the right way. A common element that is shared in all the advertising contents that have been analysed is the willingness of Coca-Cola to show how drinking its product can create a moment of joy and happiness together with other people, which is the core of the company's philosophy.

The main goal of the company with this campaign carried out over the years is to build a strong brand, which will inevitably lead to a higher brand consumption in the market, and to show the commitment of the company towards the satisfaction of the consumers' needs and desires[200].

4.6 Chinese New Year in Coca-Cola's advertisements

An interesting aspect that should be taken into consideration when analysing the advertising strategy implemented by Coca-Cola in China is for sure the series of advertisements that every year are released by the company on the occasion of the Chinese New Year, also called Spring Festival. This latter represents the most popular festivity among Chinese citizens, an occasion to go back home and reunite with the family: it is a milestone for the Chinese population and a celebration, which is based on tradition and culture. And of course, given the huge importance played by such event, Coca-Cola could not lose the chance to seize the opportunity of exploiting this occasion to get closer to its consumers and become more and more part of the Chinese New Year's traditions as well.

When creating these commercials, Coca-Cola decided to set them in a Chinese traditional situation and include symbolical Chinese arts, like for instance puppets, couplets, and paper-cuts. These latter were used in order to give a strong feeling of local Chinese flavour. Many other companies besides Coca-Cola develop specifically designed communication campaigns and products as well. In all of them the colours red and gold dominate, since according to the Chinese culture they symbolize prosperity[201].
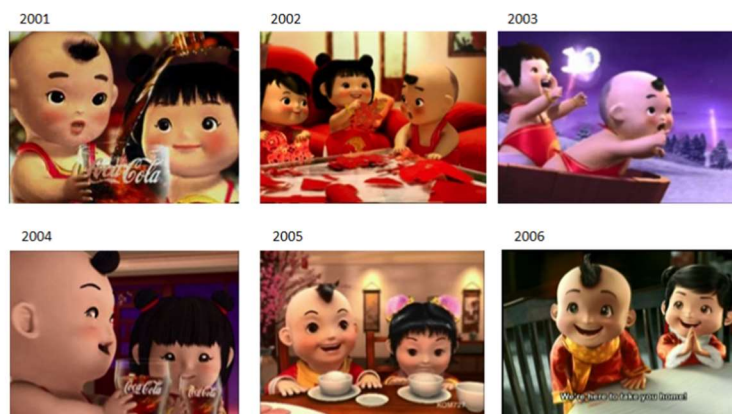
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[200] https://www.thedrum.com/news/2017/06/28/how-coca-cola-targeting-chinas-355-million-teens-share-coke
[201] https://www.wired.it/economia/business/2021/02/11/capodanno-cinese-apple-coca-cola-investimenti/?refresh_ce=

In the following part of this chapter some of the most famous Coca-Cola commercials created for the Chinese New Year will be analysed by focusing the attention on the common features and the evolution that they have been made over the last few years.

The first advertisement that will be taken into account is the one created by the multinational in 2007. By watching it, the first thing that caught my eye is the different level of quality of the images and techniques used to shoot it. However, if we look at the main theme of the commercial, the core of the video is for sure the fact that this festivity in China is considered as an occasion to stay with the family and go back home to rediscover one's origins. Coca-Cola in this sense is seen as an element that reminds people of home and makes those, who did not manage to reunite with their loved ones, feel less lonely[202]. An important element that needs to be considered when analysing the advertisement into question is the presence in the video of the two clay-doll characters, called A Fu and A Jiao (Figure 42).

Figure 42 – The evolution of the Coca-Cola's dolls

Source: https://www.campaignlive.com/article/coca-cola-gives-chinese-new-year-characters-santa-treatment/1329332

They have originally been created by the advertising agency McCann Guangming China in 2001 in an attempt to bring to the Chinese consumers a figure echoing the corresponding Santa Claus of the Western world. The main purpose of these characters was to embody the traditional festivity's customary rituals. In the film they are seen to help the protagonist to go back home and they were also used by the company in product packaging, designed specifically for this period of the year. So, what Coca-Cola tried to do is to use these clay-doll characters in order to let Chinese people associate them, and consequently the company, with the Chinese New Year and in this way become

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[202] https://www.youtube.com/watch?v=5Ith7KvAESI&ab_channel=yangyangicb

active part of this celebration's symbols and traditions, just as it did with Santa Claus over 80 years ago.

However, the above analysed dolls in the years after 2007 have been deleted in the commercials of the company and only reintroduced for Chinese New Year 2015. They are seen in the video helping the protagonists to hang up the traditional preparations and decorations and were printed in specifically designed labels with 10 different greeting messages for the Chinese New Year to use in order to send wishes in a special way, through a Coca-Cola. Moreover, in 2015 Coca-Cola also introduced the possibility for Chinese users to download these dolls via WeChat and share them with others as emoticons. What the marketing department of the company aimed to do was to let its communication get closer the most important value of the Chinese culture, namely family[203].

The next commercial that will be analysed in this thesis is the one created for Chinese New Year 2017, in which the role of the famous dolls still is essential for bringing a smile in these festive days. Indeed, they helped the protagonist of the commercial, a young boy, to bring happiness to a lonely snowman in the garden. After having jumped off the bottle's label, the dolls build a family for it and create new snowmen: the core message of the video is that nobody deserves to be alone during such an important festivity, which is based on the family.

Figure 43 – Coca-Cola commercial for Chinese New Year 2017

Source: https://www.marketing-interactive.com/coca-colas-new-cny-campaign-celebrates-family-reunion

The whole film is based on the theme of 'Sticking Together', which is the core of the company's 'Taste the Feeling' communication strategy and, as a matter of fact, what the young boy's mother says to him at the end of the video is 'Chinese New Year is to stick together'. With the pleasure of tasting a Coca-Cola, the protagonists have been able to make that simple moment special by toasting the unbreakable relationship that is family. The dolls have been not only included in the

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[203] https://www.campaignlive.com/article/coca-cola-gives-chinese-new-year-characters-santa-treatment/1329332

video but also incorporated in the brand's packaging together with some tailor-made greeting messages (Figure 44), in-store, OOH, digital and cinema[204].

Figure 44 – The packaging strategy for Chinese New Year 2017

Source: https://www.marketing-interactive.com/coca-colas-new-cny-campaign-celebrates-family-reunion

A similar dynamic can be found in the Coca-Cola advertising for the Chinese New Year of the following year, which is to say 2018. Also in this case, there is the presence of the two iconic dolls, whose role again is to bring back happiness. The initial scene of the film is quite sad and sees the protagonists doing their own things and staring at their phones without caring about the fact of being together. But then the two dolls take the initiative and through Coca-Cola make the members of the family get closer one to the other inspiring some fun. The main slogan remains also in this year 'Chinese New Year is to stick together' following the style of the previous one. An innovation, which had been introduced in this year's marketing campaign for the festivity, is represented by a high-tech element, namely an augmented reality animation shared through Alipay, the most important mobile

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[204] https://www.youtube.com/watch?v=hJKtvB3Rm2A&ab_channel=AdvertisingChina

payment app used in China. During Coca-Cola's campaign for the New Year, Chinese people could scan the dolls' characters wherever they could find them, like on advertisements or packaging, and by doing this they could unlock some cartoon animations involving the dolls sending holiday wishes or throwing snowballs. After having watched the animation, the user received a red envelope containing from 1 to 99 Renminbi, which is to say from 1 cent to 15.50 dollars: this is because bringing such red envelopes containing money is part of the holiday's traditions and Coca-Cola wanted to embrace as much of the tradition as possible. People then could use this amount of money as they preferred through Alipay: on one side Coca-Cola's message managed to be delivered at a higher speed thanks to an app that Chinese people use daily and on the other side Alipay was able to get an advantage in its competition against its rival WeChat payment thanks to an extra exposure due to the Coca-Cola campaign[205].

The last example of Coca-Cola campaign realized on the occasion of the Chinese New Year that will be analysed is the last one, which was released in 2021 with the title 'CNY Confessions'. This short film lasting four minutes shows the celebration through the eyes of three young citizens living in the country. The campaign is based on their real life stories and explores the real meaning of the Chinese New Year in this world, which has been totally revolutionised by the COVID-19 pandemic. The first protagonist is Meiling, a young girl living in a bustling house, which during the festivities welcomes all the relatives belonging to the family making her craving for a little bit of privacy. Then there is Xiaoming Wang, who is a young boy that would like to stay at home and play videogames but instead is continuously asked to go around and run errands. The third story is about Little Piggy, a man who lives in the city far from his home town, where his grandmother lives alone and who every year for the Spring Festival has to take a long journey on a bumpy bus. Every time the protagonists tended to take for granted moments like these and to consider such tasks as a burden. But it has been like this until 2020, the year that changed everything. After the COVID-19 pandemic all three these young people had the occasion to truly understand and realise the true meaning of this festivity, which is to be found in that little things they used to see as a burden but that rather are a real treasure. What is interesting in my opinion to highlight is the fact that in order to create this campaign, the brand decided to speak directly with some Chinese young people in order to be sure to tell authentic stories. A positive aspect of this difficult period is represented by the fact that now young and elder people witnessed a shift in their ideas of what really matters, namely friends, family, love. Coca-Cola in its side seized the opportunity and being it positioned as a brand that stands for optimism, happiness,

[205] https://adage.com/creativity/work/coca-cola-clay-dolls/53705

and togetherness it decided to create this little film to raise even more awareness on this aspect of life and position its product even more precisely[206].

The analysis of all these commercials created by Coca-Cola are a clear symbol of those values and ideals the brand stands for. Indeed, this latter has been so skilled and successful in its communication over the years that nowadays thanks to its strong brand recognition it does not even need to show the logo in its commercials: people recognise that the advertisement they are watching is of the brand without having to read it on the screen. This is the result of a company, that has become a colossus and a symbol worldwide also and above all thanks to its advertising strategy: an achievement that is the final goal of all the brands in the market.

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[206] https://www.thedrum.com/news/2021/02/02/coca-cola-uses-real-life-stories-2021-chinese-new-year-ad

CONCLUSIONS

The idea of dedicating my final thesis to the analysis of this particular topic stems from the interest raised up by the numerous cases of global brands and leaders at international level, that failed with their multimillion advertising campaigns and marketing strategies. The question that arises is: how is it possible for a company that has at its disposal infinite resources to make such mistakes? One of the cases, that in the last few years has made the most sensation, is represented by the advertising campaign realized by Dolce & Gabbana for the Chinese market in order to promote its fashion show in Shanghai. After the launch of the videos into question, the brand has been subject to a huge amount of criticism: they were considered to be too stereotyped. Then the situation got even worse with the publication a few days later of a conversation with Stefano Gabbana, the owner of the brand, in which he expressed extremely racist opinions against the Chinese population. This failure in the marketing field had numerous consequences on the performance of the company and its results in terms of sales as well: the fashion show in Shanghai was cancelled because the Chinese population appeared to feel offended by the publicity stunt of the iconic fashion brand.

The research I made for this thesis allowed me to find a possible answer to the above question. When a brand, regardless of its dimensions and resources, makes such serious mistakes in the marketing strategies to be implemented in a foreign market, then probably the analysis it made for what concerns the country's cultural aspect is not deep enough. During the internationalization process a company has to take into account numerous aspects but however, in many cases, something is missing. And this 'something' is represented by culture and its connection with the final consumers and their purchasing behaviour. If a company wants to actually be successful in a market other than the domestic one, it is necessary for it to comprehensively know the country, its traditions and beliefs. The world we are living in today is shifting towards a new mindset as far as the meaning of culture is concerned and people are changing together with it: they are required to abandon the previous ethnocentric approach and adopt a new polycentric point of view. Every country in the world, whether near or far, has a minimum degree of cultural distance from the others and this, if not considered in a proper way, may lead to serious misunderstandings in the business.

Consequently, the importance of culture in the Chinese market applied to the specific field of advertising is the core of this paper. It is well-known that China is not an easy market to target: not only for us due to the huge difference existing between the Eastern and Western world but also for the neighbouring countries. This fact is due to the essential role played by culture and traditions in the country: a characteristic that is inherent in the whole population. They are deeply patriotic and like to feel part of a community. Indeed, China appears to be a highly collectivistic country. As a

direct result, when a company starts to develop the advertising strategy for such a unique and peculiar country, all these elements must be taken into consideration.

I then decided to apply these reflections to a deeply cultural sector, which is to say food and drinks and, in particular, the soft drinks industry in China with a case study focused on the strategies adopted by the global leader Coca-Cola in the country into question. This latter puts a huge emphasis on the above mentioned aspects and tries to include in its advertising contents as many local cultural elements as possible in order to allow the Chinese consumers to feel the brand as their own.

The analysis I carried out made it possible to highlight how the consumers' culture influences their perception of the brand and the product and, consequently, how it impacts a company's policy. In the Chinese context making a comparison between the consumers' values and their purchasing behaviour in order to understand how it is possible for a company to adapt to such needs and desires appears to be more necessary than ever. It is an obligatory path for all those who want to have success in the Chinese market.

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