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STARBUCKS AND ILLYCAFFÈ:
different strategies to successfully enter the Chinese coffee market

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论文撮要

在过去的二十年里，我们见证了中国经济的快速发展，中国今天被评为世界上最强大的国家。中国很快地进行了一个进程，使九十年代的新兴国家成为二十一世纪最具活力的国家之一。因此，对于愿意国际化的跨国公司和中小企业来说，中国可以成为一个非常有吸引力的市场。尽管近年来中国进行了强大的现代化，但中国仍然受到文化遗产足迹的强烈影响：现代传统二元论定义了这个国家的统一性，因此要求外国公司深刻了解国家历史和社会，才能成功进入中国市场。

我决定通过关注咖啡市场来分析这种现象：作为一名意大利学生，咖啡一直是我们生活中的日常用品。此外，咖啡在意大利有着根深蒂固的地位。因此，分析这种典型的西方产品如何进入中国消费者的脑海可能很有趣：既然中国是一个饮茶大国，那么企业是如何成功地推广这种新的苦味饮品的呢？除此之外，当今的民众接受这种饮料的程度如何？

第一章将介绍中国咖啡市场的历史及现状，而第二章将涉及中国咖啡消费者的主要人群对象：咖啡文化在十九世纪末开始在中国传播，当时中国实行改革开放政策，向全世界开放。无论如何，由于影响消费者习惯的社会和经济因素的变化，中国人从九十年代开始真正消费咖啡：个人可支配收入增加，人们愿意提高自己的生活水平。咖啡是西方国家的象征，采用典型的西方习惯可以反映较高的社会现象。

如今，速溶咖啡在中国咖啡市场占据主导地位，占零售总额的65%。咖啡更被视为一种成分，而不是最终产品：中国大部分咖啡店都使用咖啡来准备鸡尾酒和拿铁。意式浓缩咖啡并不是很受欢迎，因为很多人还没有接受它的苦味。咖啡的主要消费者是属于新一代的年轻专业人士，他们愿意尝试具有西方典型代表的生活方式的新产品和习惯。许多人寻找舒适和好的地方，和一些朋友一起放松。拥有店内体验已成为判断品牌的一个重要方面。

无论如何，市场确实充满活力，只是几年后人们就对这种饮料越来越熟悉了，而成熟的消费者群体也在逐渐崛起。优质的中国消费者寻找高品质的咖啡与

现代制备系统，他们愿意接受高价产品，以留下最好的店内体验。有鉴于此，中国市场对大公司和中小公司来说都具有巨大的潜力。

如今，中国咖啡市场确实已支离破碎，但雀巢（Nestlé）和星巴克（Starbucks）占据主导地位，这两家是中国咖啡的先驱。他们把咖啡文化带到了中国，开始影响中国消费者。他们建立了新市场的基础，从而允许中小公司进入中国，创造一个利基市场。

为了更广泛地了解这个庞大的行业，我决定分析两个成功进入中国市场的外国咖啡品牌的经验，即星巴克和illycaffè（意利咖啡）。

深刻分析这两个案例之前，第三章将涉及一篇文学总论，总论分三个部分：

1. 第一个部分是遥远文化的市场。东西方之间的文化和习惯的共同性与不同性。
当一家外国公司尝试进入一个新的文化市场，它需要调整自己的商业计划，否则对公司而言冒风险，失败的可能性较高。为了谨慎进入新文化的市场，公司应该循序渐进：为了具体地介绍这样进程，我来介绍乌普萨拉模式（Uppsala Model）。这样模式的主要概念说，外国公司进入新市场时，它越了解市场，越会降低业务风险；
2. 第二个部分涉及未开发市场。2000年开始中国对咖啡的了解不多，外国公司需要传播咖啡文化为的是让当地消费者真正觉得这个新的饮品很值得。为了开拓新的市场，星巴克及illycaffè是两个合适的范例。星巴克是一家拥有优秀的财务状况的跨国连锁咖啡店。该公司是中国咖啡的先驱之一。它在二十世纪末在中国建立了第一个合资企业。illy的战略道路不一样：当时illy是一家中型企业，如果它贸然进入中国市场，财物风险的水平太高。因此，illy决定等星巴克在中国建立了开飞市场的基础，再推广自己的产品。并且，illy的进入模式与星巴克不同的：2000年开始，illy开始通过一个中国中盘上把自己产品出口到中国。
3. 第三个部分涉及PEST分析：决定进入一个新的市场前，每个公司应该深刻了解新的市场的政治，经济，社会及技术等因素。根据这些因素，公司来决定怎么进入新的市场而怎么调整公司自己的商业计划。

第四章来介绍第一个论文的案例，即星巴克。星巴克是一家总部位于西雅图的跨国连锁咖啡店，享有全球声誉和全球影响力。该公司于1999年在北京开设了第一家门店，由于其优秀的财务状况和全球品牌的受欢迎程度，获得当地消费者和公司的信任对于该公司来说相当容易。如今，星巴克是中国最赚钱的连锁咖啡店。公司的远景和目标都集中在客户体验上，其所有战略选择都旨在提供优质体验，让消费者感到独特和特别。星巴克将自己定位在中国市场，成为一个优质而有抱负的品牌，这利用了大部分中国人民效仿西方生活方式的心理，这被认为是一个高质量的参考。

第五章来介绍第二个论文的案例，即illycaffè（意利咖啡）。illy是一家总部位于里雅斯特的微型跨国公司，该公司在中国拥有15年的业务。illy是一家家族企业，拥有意大利传统和咖啡品质。公司的核心使命是将意大利风格的咖啡传播到世界各地，并成为优质咖啡的大使。当illy进入中国市场时，它是一家中等收购的企业，在中国找到自己的位置需要时间。多年来，公司一直致力于向全世界传播咖啡文化，并加强消费者参与其核心产品，即咖啡。为此，公司于2006年在上海成立了里雅斯特咖啡大学分公司。illy仍在努力在中国广受欢迎，但它打算在其最赚钱的业务之一中改变潜在的中国市场。

为了全面了解中国企业的发展道路，我主要分析四个战略领域：

1. 公司在中国市场的现状；
2. 公司进入中国前的举措；
3. 公司进入中国的模式；
4. 公司在中国的营销策略。

本论文旨在收集证据，说明这两家公司是如何进入战略模式的打开市场，哪些是推动这两个品牌成为当今中国市场成功的案例。对于每一个想要在现代中国咖啡市场获得一席之地的咖啡品牌来说，这可能是一个很好的指南。

I. Growing coffee culture in China

I.I Millennial tea culture

Tea has been the national beverage of China for centuries and it plays a vital role in Chinese life since ancient times. Tea is largely consumed by every sector of society and, according to Food and Agriculture Organization (2018), China is the largest consumer of tea in the world, with 2.1 million tons every year, representing 38.6% of world tea consumption.

Tea is proudly presented as China's national drink: this infusion has defined traditions, history, and culture.

Sichuan and Yunnan are believed to be the first tea-producing regions in the world, and tea is said to be discovered by accident, approximately 5,000 years ago. According to the legend, the emperor Shennong (神农 shénnóng) was used to ask his servants to boil some water, because it was thought that it could prevent people from diseases. One day, while the emperor was on the way to a long-distance region, a leave of Camellia tree fell into its hot water: at that moment, Chinese tea was discovered.¹

The first record of the term “tea” appears in a Chinese dictionary dating back to Zhou Dynasty (1046-256 BC). China is known to be the first country to discover tea, which originally was used as a medicine to make people stay awake. This infusion started to be considered as a beverage during the Sui (581–618) and Tang dynasties (618-907) and drinking tea became a routine among Chinese people. An important period of the spread of tea consumption in China is the Song dynasty (960-1279): in that era, more new species appeared and the number of social tea houses (茶馆 cháguǎn) increased rapidly. Tea entered Chinese everyday life so much that the government allowed people to plant tea trees for free.

Nowadays, it is consumed by people from every sector of society, usually at home or in tea houses, many of which offer private rooms for drinking with friends or business partners. An ancient tradition which has quite remained alive in modern China is the gongfu tea ceremony (功夫茶, gōngfūchá), originated in Fujian and Guangdong

¹ Data collected from outriders.rs.

province, which usually features black, oolong or pu'er tea. It is a Chinese tea ceremony, which consists of the ritual preparation and presentation of tea.²

Apart from its consumption, tea is directly connected to the art world: many fine tea accessories have been created by expert artisans and designers, and collecting them can be very expensive. Also, some types of tea leaves can be very rare: in fact, most tea connoisseurs tend to be middle-aged businessmen, intellectuals, or artists.

In some affluent circles, engagement with tea culture represents a status symbol, and it is used as a way to “flaunt wealth and invest savings”. Knowledge about tea can be used to impress friends and gain prestige. Not coincidentally, tea is one of the preferred items when giving gifts, after cigarettes and alcoholic products (Statista 2021).³

I.II Coffee introduction into China

Coffee is a beverage obtained by brewing the beans harvested from plants of the genus *Coffea* of the Rubaceae family. The first kind of coffee that spread rapidly all over the world was the Arabica coffee, which originates on the plateaus of central Ethiopia, several thousand feet above sea level.

According to a legend, a goat-herder in Abyssinia discovered for the first time the potential benefits obtained by drinking coffee: he realized that his herd became very excited after eating some red berries. The goat-herder tried these berries himself and immediately felt really active. After reporting his discovery to his village, all the people got to know the incredible benefits of this plant, especially the monks, who realized that these berries were able to keep them awake during their long prayers. So, according to the legend, from that moment the coffee beverage started spreading (Dharmananda S., 2005).

There's a very similar legend in the Chinese tradition too: it reports the discovery of coffee benefits and this tale is known in China as “horny goat weed”. It is said that a goat herder, while grazing his goats in a field of a particular herb, realized that his

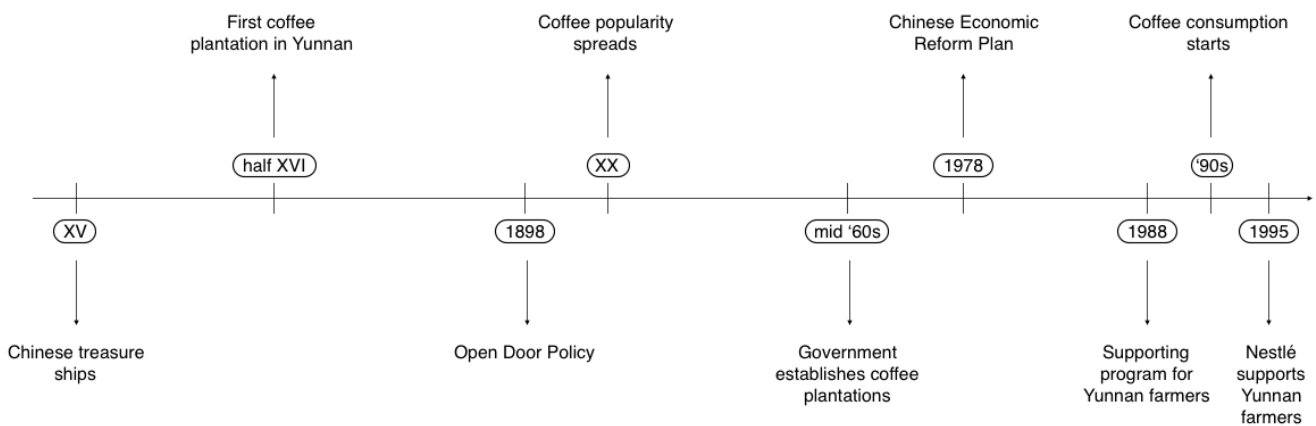
² CLI (2020): “Journey into the world of Chinese tea”, in Learn Chinese in China.

³ Ma, Y. (2021): “Leading choices preferred by high-net-worth individuals regarding gift-giving in China as of November 2020”, in Statista.

herd became very sexually active. When he convinced himself to try a tea made by this herb, he had the same results, and he tested the potential of this new beverage.

At the very first time, coffee was obtained by brewing the green unroasted beans from inside the red berries to yield a tea-like beverage. The first extensive plantation of coffee trees was undertaken in the Yemen region of Arabia from the 15th and 16th centuries. After, the use of coffee beans spread throughout the Arabian Peninsula and reached also Turkey, where coffee was used both as a medicine and ritual drink.

Figure 1. Timeline of introduction of coffee in China



Source: a personal elaboration.

In that period, the Ming dynasty was in power in China and ordered some treasure voyages between 1405 and 1433 with the aim to sustain the system of taxation of that time (figure 1): the project consisted of seven far-reaching ocean voyages coordinated by the admiral Zheng He. The Chinese treasure ships (宝船 bǎochuán) carried great amounts of treasures, with the aim to create international give and have relations and show Chinese power and wealth to the known world. The expeditionary fleet also brought to China many foreign ambassadors whose kings and rulers were willing to declare themselves tributaries of the empire. Apart from creating good relations with foreign countries, the Chinese system of taxation was a potential mean to acquire new goods and technologies. In fact, during the 15th-century, some Chinese treasure ships sailed in search of medicinal herbs from distant lands to incorporate new therapies into Chinese medicine. China had the chance to have access to coffee for the first time but,

when the float arrived in Turkey, the Chinese were unable to acquire coffee because it was strictly regulated by the Arabians.

Only in the second half of the 16th-century coffee beans were introduced officially in China with a French missionary who tried to start a coffee plantation in Yunnan, the region with the most suitable weather for the plant. Unfortunately, because of the scarce expertise, the project failed soon.

Taking into consideration coffee consumption, it started rapidly spreading in China in the first decades of the 20th-century because of the increasing presence of foreigners in the mainland after the signature of the Open Door policy in 1898.⁴

Even if the first plantation project was not really successful, in the mid-1960s the Chinese government decided to cultivate 4,000 hectares of Arabica crops: contrary to the forecasts, since the quality did not reach the international standards, the coffee crops dwindled, and by the mid-60s only the 7% of the land assigned to this project was used for the original purpose.

According to a survey carried by the International Coffee Organization in 2015, coffee production languished for a couple of decades but, at the end of the '90s, the situation improved thanks to the support of some external parties. In 1995, Nestlé provided agricultural assistance service to farmers by establishing several collection stations across Yunnan: thus, the planted area reached again the 4,000 hectares in that year. Furthermore, in 1988 the Chinese government joined a program with the World Bank and the United Nation development department to develop a coffee-growing area in Yunnan. Thanks to the collaboration in these international projects, 4,000 hectares planted area more than doubled by the end of 1998. The success of these programs can be seen in the report carried by the International Coffee Organization of 2015, which states that China is ranked as the 14th largest coffee producer in the world.

The spreading popularity of coffee in China is also supported by the social and economic changes in the eighties caused by the reforms applied to the Chinese economic system and the opening of the country towards the West. The Chinese economic

⁴ The Open Door Policy was a major statement of United States foreign policy intended to protect the rights of all countries to trade equally with China and confirming multi-national acknowledgment of China's administrative and territorial sovereignty. The big amount of Chinese concessions to foreigners made Chinese people get to know deeper the typical Western coffee culture.

reform plan (改革开放 gǎigé kāifàng), applied in 1978 under the presidency of Deng Xiaoping, made China turn the page, and the new economic liberalization policy led the country to the current large-scale economic development for which it is known nowadays. In fact, the application of the Four Modernizations and the new economic measures led to a higher efficiency in the economy, which boosted outputs and increased resources for additional investments in the domestic economy. For instance, the average city worker's wages became almost fourteen times fatter and the domestic savings consisted in 32% of the country's total GDP after reforms were initiated (Congressional Research Service 2019).⁵

The Chinese economic reform is a changing event also affecting the social dimension: workers' disposable income increased considerably, and with growing exposure to Western influence, Chinese people had a new feeling towards their personal desires, as for instance longing for a more stylish and satisfying lifestyle. Furthermore, with the increasing attention of the government towards the educational level, the country vastly developed a new wave of intellectuals, who used to gather together having in-depth discussions while having a hot cup of coffee. In other words, after the '80s the wealthier status of the country made its people have access to a wider range of personal opportunities, as get a better education or have a higher disposable income, thus people could aspire to more eclectic standards or fulfill their vices. Coffee little by little became both an occasion for socializing and a symbol of the status quo, encouraged by the spreading presence of foreign coffee brands appearing on the streets of the major cities. Nestlé and Maxwell House quickly realized the potential of this new Chinese trend and they are among the vanguards of Western companies which entered the market. Their heavy investments in marketing and production in the late eighties and early nineties saw an almost instant return: Dong Zhihua, president of the Yunnan Coffee Processing Plant, stated that Nescafé is the keyword for coffee in China (Dharmananda Subhuti 2005).

In January 1999 Starbucks, which today is one of the coffee-chains leaders in China (Euromonitor, 2019), opened its first store in Beijing and exported its Western

⁵ Congressional Research Service (2019): "China's Economic Rise: History, trends, challenges, and implications for the United States"

lifestyle model and unique coffee experience. The official entrance of Starbucks in the Chinese market leveled the path to many other foreign coffee companies that understood the high potential of this country. For instance, Costa Coffee, one of the main rivals of Starbucks, followed its competitor and opened its first store in a Shanghai outlet in 2006.

The increasing presence of coffee in consumers' everyday life gradually started influencing the drinking culture of Chinese people, sparking the interest of the upper levels too: in 2018 the Chinese government supported the I-Coffee Exposition in Hainan (海南国际咖啡大会暨咖啡及饮品展览会 *hǎinán guójì kāfēi dàhuìjì kāfēi jí yǐnpǐn zhǎnlǎnhuì*) to create a mediation bridge among foreign exporters and Chinese producers, with the aim to increase the coffee trade within and out China⁶.

Thus, coffee consumption in China is a recent trend that has found a fertile ground where to grow, but this new market has for sure a potential that has not been fully exploited yet.

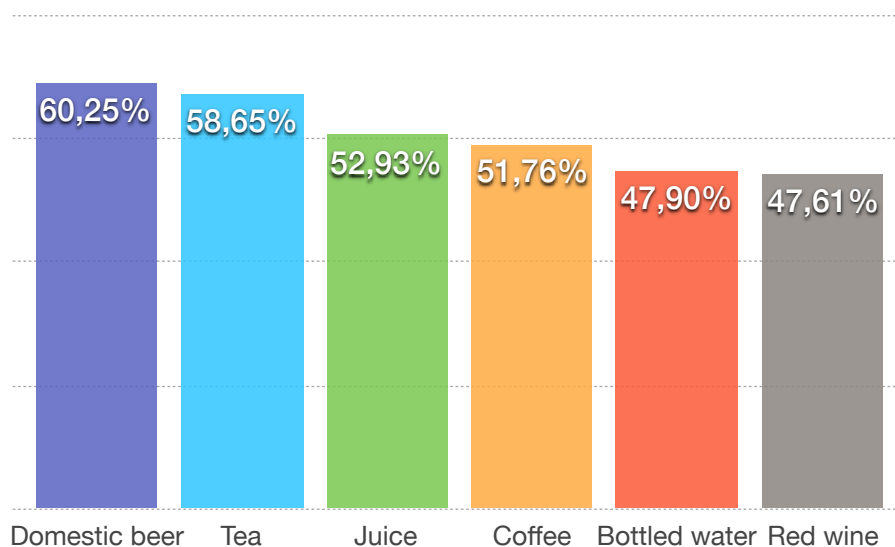
I.III General overview of coffee consumption in China

China is by now the world's most promising market for coffee growers and international coffee chains: Chinese coffee consumption has risen spectacularly with a 500% increase between 2006 and 2018. With the improvement of living standards and the rising awareness of coffee culture, the coffee bean market in China is constantly growing (Camille G., 2021).

Coffee is the fourth most drunk beverage in China (table 1): 51,76% of respondents of a report carried by Statista in 2021 declared they drink coffee regularly. Whereas the podium is occupied by juice (ranked in the third position), tea (second position) and finally domestic beer, with 60,25% of respondents (Statista 2021).

⁶ Data from I-Coffee Exposition official website <http://www.icoffeexpo.com/2019/en-en/>.

Table 1. China: which of the following beverages do you regularly consume?



Source: Statista 2021.

Anyway, Chinese consumption of coffee per capita in 2019 remains relatively low at around 7.2 cups a year, as a result of the tendency of Chinese consumers to prefer tea over coffee. In fact, Chinese per capita consumption of tea accounts for 0.57kg (StatInvestor 2016). The increase in coffee consumption maybe is not explosive, but there are some elements that bode well for the future of the coffee market in China. In fact, by looking at the report conducted by the Prospective Industry Research Institute in 2018, this last data results quite high if considering that the previous year the consumption of coffee was only at 6.2 cups, and the average number is expected to grow further in the next years.⁷

Instant coffee seems to be the most favorite kind of coffee among Chinese people, with a consumption volume of 64.8 thousand tonnes in 2019, corresponding to 97,5% of the total coffee volume⁸. The situation is different for fresh coffee, which accounts for only 1.6 tonnes (table 2). Anyway, the consumption of fresh coffee is gra-

⁷ Fu, L. (2018): “2017 Chinese Coffee Industry Report”, Prospective Industry Research Institute”, in International Coffee Organization.

⁸ Absolute value (100%): 66.4 thousand tonnes.

dually increasing as a result of the more sophisticated taste of Chinese consumers through the years, with volume growth of 18.1% between 2014 and 2019⁹.

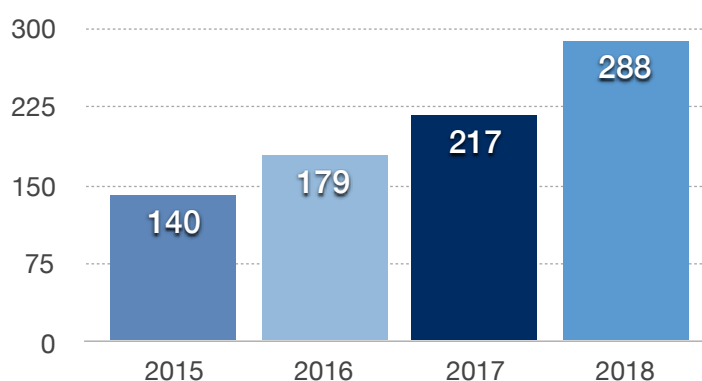
Table 2. Retail sales of coffee by category: volume 2014-2019 ('000 Tonnes)

	2014	2015	2016	2017	2018	2019
Fresh coffee	0.7	0.8	0.9	1.1	0.3	1.6
- Fresh coffee beans	0.5	0.5	0.6	0.7	0.8	0.9
- Fresh ground coffee	0.2	0.3	0.3	0.4	0.5	0.7
- Fresh ground coffee pods	0.0	0.0	0.1	0.1	0.2	0.2
- Standard fresh ground coffee	0.2	0.2	0.2	0.3	0.3	0.4
Instant coffee	60.2	62.0	61.8	62.4	63.7	64.8
- Instant standard coffee	4.7	4.8	4.9	5.0	5.1	5.2
- Instant coffee mixes	55.5	57.3	56.9	57.5	58.6	59.7
Coffee	60.9	62.8	62.7	63.5	65.0	66.4

Source: Euromonitor, 2019: "Coffee in China".

Another useful data to analyze to get a deeper understanding of the evolution of the current Chinese market is the increasing sales of the capsule coffee machines (table 3): according to the data collected by Daxue Consulting in 2018, the coffee machines market has been gradually increasing through the years registering an increase of 27.8% from 2015 to 2018.

Table 3. Capsule coffee machine market size (in million yuan)



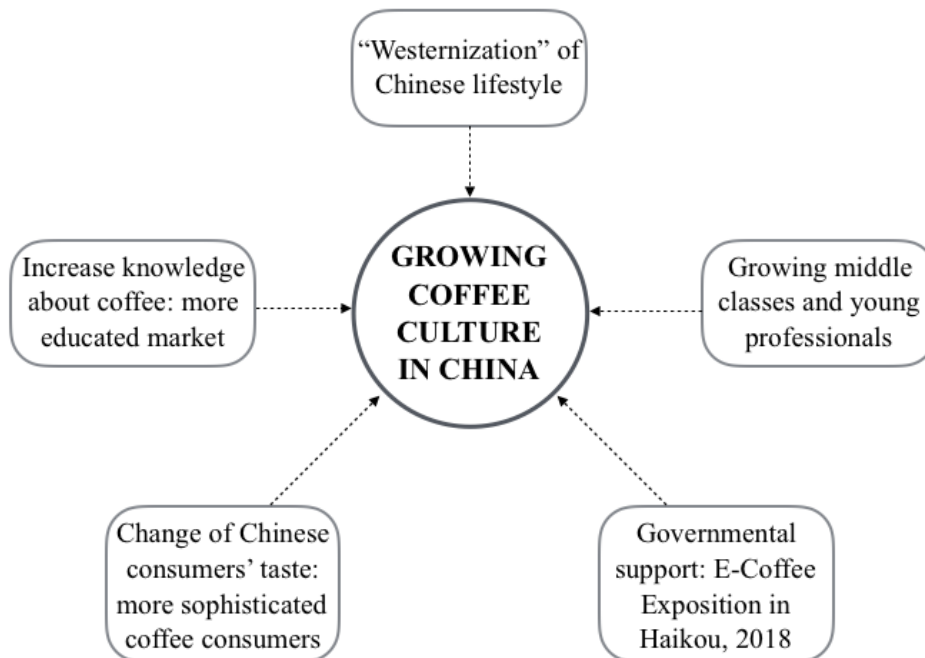
Source: Daxue Consulting (2018), "How is the coffee machine market in China responding to evolving Chinese attitude towards coffee?".

⁹ Euromonitor, 2019: "Coffee in China".

Capsules coffee machines are mini professional coffee machines that allow consumers to prepare easily a good cup of coffee at home: as the average spending power of Chinese people has increase and coffee is becoming regal activity, household consumption is though to grow fast, so the coffee capsule market is expected to boom in the next years (Daxue Consulting, 2018).

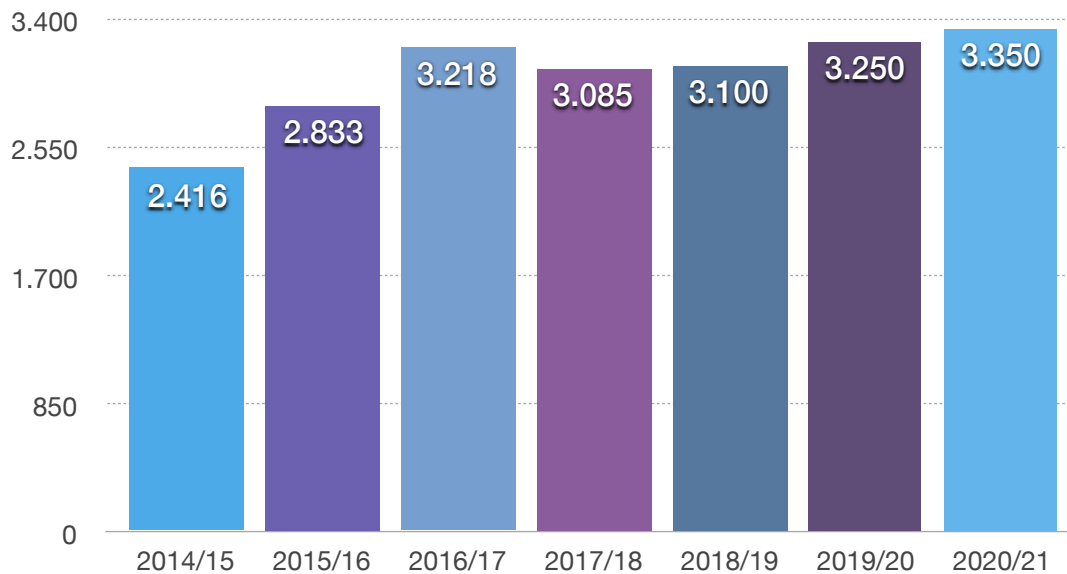
In light of these shreds of evidence, the coffee trend is thought to further increase (figure 2) as a response to the “westernization” which is affecting Chinese consumers. In fact, looking at the data collected by Statista in 2021, as of June of the coffee crop year 2019/20, the Chinese population has consumed around 3.25 million 60-kilogram bags of coffee, with a CAGR between the annual year 2015/16 and 2020/21 of 2,83% (table 4). Even if the Chinese coffee market is ranked only as the 6th largest coffee market in the world, the International Coffee Organization (ICO) states that in the last 10 years the demand for coffee has increased on average 16% against the global rate of 2% (Fu L., 2018).

Figure 2. Drivers of coffee market growth in China



Source: a personal elaboration.

Table 4. Total coffee consumption volume in China from the crop year 2016/17 to 2020/21 with a forecast for 2021/22 (in 1,000 bags)



Source: Statista 2021.

The main consumer target is the young middle-class people with an age of 20-30 years old. As Chinese urban centers and the middle class are increasingly expanding, the consumer base is also growing in size. The expansion of the coffee industry in China is followed by a dynamic changing of consumers' tastes and knowledge about coffee: if at the very beginning Chinese people considered coffee as a bitter and Western product not available because of its high price, nowadays a large portion of consumers are willing to pay a higher price just to get a good quality of coffee. Since the coffee market in China is getting more mature, coffee companies need to increase their quality standards to fulfill a wide range of consumers' requirements. For this reason, as Chinese coffee enthusiasts are looking more and more for premium products, the average price of coffee in China is expected to rise as well. Chinese consumers today accept to pay on average 16 to 35 Yuan for a cup of quality coffee, which corresponds to \$2.31-5.40 (Camille G., 2021).

The more sophisticated taste of Chinese consumers made the fresh ground coffee consumption grow up: thanks to its better taste and good scent, the new trend of freshly ground coffee is still expanding and gaining people's confidence, and from 2015 to

2019 the sales doubled: but despite its fast growth, instant coffee is still predominating representing almost the 65% of the Chinese coffee market shares.¹⁰

Another factor that strongly sustains the consumption of coffee in China is the government support: in order to promote international coffee trade and coffee drinking culture, the Chinese government in 2018 supported the I-Coffee Exposition in Haikou, which is focused on coffee production, trade, and consumption. So far the exposition has had three editions, in 2017, 2018, and 2019, and its aim is to help food and beverage exporters understand how the spreading coffee culture in China can be a great potential in the current global coffee industry. Every year hundreds of domestic and foreign enterprises participate in the exhibition, increasing the coffee trade and cultural exchange between China and the international community. The Expo hosts numerous embassies and ambassadors in China to attend all the activities, which are focused on different coffee-themed activities through forums and seminars to integrate the world coffee culture into Hainan and introduce the Chinese coffee culture to the world. The exposition also holds a series of competitions to enhance local talents, as the first Chinese barista professional skills competition and the coffee girls' brewing competition.¹¹

The Chinese coffee market is expected to witness a CAGR of 10.15% between 2021 and 2026 (Mondor Intelligence, 2021). During the COVID-19 breakdown, the strict restriction measures imposed by the country made Chinese people resort to household coffee consumption, thus increasing even more the sales of instant coffee and coffee machines. Anyway, when the country started recovering and going back to normality, the coffee shop industry got restored quite rapidly: in 2020 an average of one coffee shop was opened every day in Chengdu city, which today accounts for over 4,000 coffee shops (preceded by Shanghai and Beijing).

As urban areas continue to develop and younger professionals increase in number, the internal coffee demand continues to grow. Online retailing is likely to increase, despite the previous time when it was a minor distribution channel: it offers more convenient price to consumers, who find it also easier to choose their preferred brands from the variety of products choices available online.

¹⁰ Data referred to the "Coffee in China" report carries by Euromonitor in 2019.

¹¹ Data from I-Coffee Exposition official website <http://www.icoffeeexpo.com/2019/en-en/>.

The production of coffee in the country is again expected to not be able to fulfill the domestic demand: for this reason, the growing gap between supply and demand will give the opportunity to foreign producers to increase the amount of exported coffee and its variety.

To sum up, due to the growing middle class and the constant improvement of domestic living standards, the consumption and demand for coffee will increase steadily: according to forecasts, China is likely to become soon one of the most flourishing countries in the global coffee market.

I.IV The theory of the three waves of coffee in the world

The global coffee industry development can be framed in three stages which are called “the three waves of coffee”. This term was coined in 2002 by the director of the educational programs for the Coffee Quality Institute Trish Rothgeb, who explained in her article “Roasters Guild Publication” how these three stages brought big changes in the coffee industry and also in the global culture.¹²

The first wave of coffee dates back to the 1800s, when people fully realized the potential of this beverage, causing an exponential growth of sales in the coffee market. In this period of time, consumers are more interested in the awakening effect of the product and are not very keen on its quality, origin, or flavor. The keywords of this stage are convenience and accessibility: not by chance, during the first wave instant coffee is predominant in the coffee market scenario.

The second wave is connected to the ‘70s, when coffee consumers started appreciating coffee more, and consequently put more emphasis on the taste, the quality, and the origin of the product. Customers started requiring a more complete coffee experience, and have a cup of energizing coffee was no more enough. In this period, coffee shop chains realized the potential of this growing market and they started spreading, including the famous coffee chain Starbucks. Coffee shops began to transform into places of social encounter, where people could have a cup of coffee in comfortable and good-looking places. The change in the architecture and interior design of coffee shops could

¹² Essence (2019): “Waves of coffee explained”, in Essence.

also justify the prices, which started to rise as the quality was also getting higher. Coffee shops also created more coffee-based drinks, trying to satisfy every type of palate.

The third wave starts around the beginning of the 2000s and it is characterized by a much more sophisticated kind of coffee consumer: apart from requiring a good cup of coffee, people became more caring about the origin of coffee, the processes involved, and the brewing methods. More emphasis was put also on the figure of the barista and its formation because they became responsible for the creation of a worthy cup of coffee. This wave is defined as the specialty coffee's one.

I.IV.I The three waves of coffee in China

In 2018, Dr. Jennifer Ferreira of Coventry University applied the theory of the three ways of coffee to the timeline of Chinese coffee and coffee shop culture: she explained how the three waves also interested China, even if later than Europe.

In an article published by Business Horizons, she presents the evolution of coffee culture in China (table 5) through the model of Trish Rothgeb.¹³

Table 5. Three waves of coffee in China

Wave of coffee	Date	Phase	Features	Exemplar business
First wave	1970s	Emergence of instant coffee	First real approach of Chinese consumers with coffee.	Nestlé Maxwell House
	1990s	Arrival of ground coffee	Emergence of fresh ground coffee, expended through franchise model. Introduces the flavor of coffee to a wider audience.	Nestlé

¹³ Ferreira, Jennifer (2018): “Challenges and opportunities of new retail horizons in emerging markets: The case of a rising coffee culture in China”, in Business Horizons.

Wave of coffee	Date	Phase	Features	Exemplar business
Second wave	1999	International coffee shop chain entry	Entry of international coffee shop chains such as Starbucks to the Chinese market, introducing more espresso-based drinks. Consumers that such chains as symbols of Western lifestyles.	Starbucks
	2006	Growth of coffee shop chains	Growing number of coffee house chains (both domestic and international) creating a more competitive environment.	Costa Coffee Starbucks Mc Café
Third wave	2010- present	Independents	Rise of independent coffee houses and specialty coffee houses.	Seesaw Coffee (Shanghai) Café del Volcán (Shanghai)

Source: Ferreira, Jennifer (2018), "Challenges and opportunities of new retail horizons in emerging markets: The case of a rising coffee culture in China", *Business Horizons*.

1. The first wave of coffee: the emergence of instant coffee and ground coffee.

In the '70s, tea culture has still a strong presence in China, representing tea not only as the main everyday good for consumption but also as one of the main elements of ceremonial and social occasions in the society. Tea for sure was the national drink with a long symbolic history, but in that years the popularity of coffee was increasingly approaching the Chinese population through the new traditions introduced by the numerous foreigners who were settling down in the Mainland. This new Western beverage didn't go unnoticed: even if the bitter taste was far away from the Chinese average preferences, it was seen as an indicator of a successful lifestyle as a symbol of the Western world.

As reported by the International Coffee Organization (ICO), in the '70s the Chinese coffee market was dominated by instant coffee for 99% of the total retail volume. This type of coffee was mainly preferred because it was much more inexpensive than ground coffee: even if of lower quality, it was used as an afternoon workplace

keep-everyone-awake beverage. Furthermore, this type of coffee was more familiar to Chinese people because it was ready just by adding some hot water to the cup: since pouring hot water to cook or prepare tea is common usage in China, the proposal of instant coffee was for sure a good strategy to get the attention of new potential consumers. So, instant coffee was a product of interest since it was available to many, due to its cost and making process.

Because of the spreading popularity in China of this coffee format, some coffee shops tried to invest in high-quality advertising in order to link their products to a concept of high-quality coffee but, in the end, it was just highly-priced instant coffee. In fact, in the '80s, when people got more used to coffee and started understanding more about the product, local consumers wanted more: at that moment, coffee shops started promoting fresh-roasted and ground coffee, in order to fulfill the requirements of the more expert consumers. This new trend signed the transition from the household consumption of instant coffee to in-store consumption of ground coffee; a trend that will be supported by the spreading presence of international fast-food chains.

2. The second wave of coffee: dedicated coffee chains and espresso-based drinks.

At the end of the '90s, international coffee chains realized the potential of the Chinese market and noticed an increasing coffee demand. The market was also attractive for its social and economic situation: after the entry into force of the economic plan of Deng Xiaoping in 1978, the country was in the middle of its economic renaissance. People were attracted to a better lifestyle that could be represented by the Western one, and coffee could be a part of it.

The first international coffee chain which entered China was the US-based Starbucks (星巴克 xīngbākè), which opened its first store in the Chaoyang district in Beijing in 1999. At the very beginning, Starbucks' main target consisted of expats and tourists, who already were familiar with coffee and all its shadows, but then the company increasingly paid attention to local consumers as coffee drinking trends and coffee shops rose in popularity. Starbucks is known to have created a homogenized form of coffee shop across the globe, but it is different for the Chinese market: the company did great efforts to localized outlets in China and adapt its busi-

ness model to the new market, rather than just translating the American business model. An example of this includes promoting dine-in services rather than pushing takeout orders, as accounted for the majority of American sales. Furthermore, Starbucks made an effort in creating a comfortable environment with larger seats areas and air conditioning, since coffee-to-go was not a common use in China. Apart from offering the standard espresso-based drink, the company also adapted the menu to the local tastes, adding green tea tiramisù and Chinese moon cakes. The well-finished décor and the variety of the products made consumers treat the coffee chains like Starbucks as a symbol of the Western lifestyle since they could get a cup of coffee at an available price and spend some time in pleasant Western-style stores.

After the great success of the entry of Starbucks in China, a growing number of coffee house chains appeared in the country, creating a more competitive environment.

According to a report carried by Euromonitor in 2019, Costa Coffee (咖世家 kǎshìjiā) is nowadays the third company in China for brand shares in the chained bars sector. The UK-based Costa Coffee entered China in 2006 by establishing a joint venture in Jiangsu province; later, the company established a second joint venture with the Beijing Huilan Group, a leading Chinese retailer: entering a new market by acquiring the knowledge of a local company and its customer base revealed to be a good strategy for Costa Coffee.

Whereas in 2009, McCafés (经典咖啡 jīngdiǎnkāfēi) began appearing in the existing McDonald's restaurants (麦当劳 màidāngláo) which were already present in China since 1990. It also adapted its shops to the local tastes, adopting a less-is-more design strategy: McCafés added armchairs and more gentle colors in order to encourage customers to stay and enjoy the environment, supporting the Chinese attitude of gathering together in large groups and spend some time in pleasant places. The company also introduced a new motto which was "Make Some Room for Happiness", built upon "I'm Lovin' it" (我就喜欢 wǒ jiù xǐ huān), associating their product to a part of an enjoyable moment to spend socializing.

3. The third wave of coffee: specialty coffee shops.

From 2010 until now, independent coffee shop houses and specialty coffee houses have spread all over China, mainly in first-tier cities. In these coffee shops, the em-

phasis is put on high-quality coffee and coffee origins, including also the proposal of a wide selection of brewing coffee methods. If at the beginning of the boom of the coffee market in China there was a lack of quality equipment and expert baristas, now people are asking for higher-quality coffee and realistic experiences. In response to the increasing demand for coffee knowledge, some companies started offering some training programs in order to educate new or existing baristas: for instance, some places in Beijing offer specialty coffee courses on how to make an espresso, use different brewing methods, and how to cup. Some of these training programs also offer to the attendants an official certification issued by the Specialty Coffee Association, a nonprofit, membership-based organization that represents all over the world thousands of coffee professionals, from producers to baristas. The education towards this beverage also addresses customers: for instance, the Shanghai-based Seesaw Coffee (西舍咖啡 xīshě kā ēi), a Chinese coffee chain established in 2012, has a coffee academy with barista training programs and classes open to the public. Another example is the Shanghai-based Café del Volcán (火山岩咖啡 huǒshānyán kāfēi), a Chinese specialty coffee boutique: it initially was born as a testing space for consumers who want to try coffee, but then became a popular retail coffee outlet itself. Now, the company offers coffee training courses not only for professional baristas but also for everyone who is interested in getting to know better this new world. Another attribute characterizing the coffee third wave in China is that, in order to get a higher-quality coffee, consumers are less price sensitive. In fact, when opening the first coffee shop, the owner of Café del Volcán noticed an interesting customers attitude: initially, no prices were displayed at the shop, as they meant to sell coffee for free as a kind of advertising strategy. But, apart from a couple of inquiries, most of the consumers ordered the drink without asking the price. Together with the increasing interest in coffee knowledge, the new coffee shops have to fulfill the design standards required by the new Chinese consumers: regular trends include bookshelves jam-packed with novels, walls of post-it notes scrawled on by young couples and friends, romantic Mandarin-language ballads on repeat, stuffed toys of gigantic proportions, as well as a jumble of vintage and modern artworks and photographs. Despite the strong modern influence, it is still common to

notice signs of historical local influences (i.e. earlier 20th-century postcards on the walls).

So, the Chinese coffee culture transition from the early 2000s to the beginning of 2010 is significant: at the beginning coffee shop used to be a status symbol and a medium to express the desire for a Western lifestyle. People used to go to the coffee bar not to enjoy the specific taste of coffee, but to enjoy the comfortable environment and commodities, such as a good Wi-fi connection. At that time, people were not very interested in the origin of coffee and its features; coffee was just considered a fashionable and mysterious beverage. Now, specialty coffee is a trend, an affordable luxury, and the aim of individual coffee shops and international coffee chains is to provide the customer an overall experience as well as satisfy individual needs.

I.V Coffee supply in China

In the following chapters, I've analyzed the different channels through which coffee is traded in and out of China. Furthermore, I've also carried research on the amount and value of coffee production in the country.

I.V.I Coffee production in China

China is ranked as the 13th country for producing coffee in the world: producing 138,000 metric tons (138 billion kg) of Arabica coffee, China accounts for 1.3% of the world's Arabica production and it represents a growing influence in the world of coffee-producing nations (Milton J., 2020).

The leading coffee-production regions are situated in the south of the country: the province of Yunnan and Hainan are the more prosperous, while a smaller amount of coffee is also produced in Fujian province. Yunnan accounts for 60% of the country's total output. In fact, this is a province particularly suitable for the cultivation of coffee because of its temperate climate, height above sea level, and general geographical situation, comparable to the ones of Indonesia and Colombia. Anyway, China is not well-known as a coffee producer yet, because the coffee beans in Yunnan used to be of low quality, and they were mostly used as raw materials for instant coffee.

However, the country is making an effort to increase its production standards and take care of its domestic production. To sustain this mission, in 2009 Yunnan's local government established the Tea and Coffee Industry Bureau with the aim to promote Yunnan's coffee to the domestic and international markets. But this is not the only project aimed to make Yunnan even more flourishing.

The province is receiving considerable support from the Yunnan Coffee Industrial Corporation (YCIC): the project started in 1996 with only ten plantations, but now it is the sole purchaser of an amount of 100 plantations in the Yunnan province. The YCIC is working with every single plantation in order to improve the quality control methods and provide growers both financial and technological support. Moreover, Yunnan University's Agricultural Department is giving support to farmers in order to get rid of the country's crops damaged by the coffee virus "Dry Leaf", bringing excellent results by cross-breeding local plants with disease-free imported varieties (Dharmananda S., 2005).

Apart from the domestic support, the great potential of Yunnan province has also attracted the attention of two import foreign coffee companies: one is the Swiss Nestlé, which operates several collection stations across Yunnan to provide agricultural assistance services to farmers, and today it is the largest single buyer in the province (Daxue Consulting, 2020). Whereas in 2012, the Seattle-based company established for the first time in Asia a Farmer Support Center (FSC) in Pu'er, Yunnan province. China FSC has been sharing its agronomy expertise and resources with Pu'er farmers across the years. In addition, in 2018 Starbucks China FSC partnered with China Foundation for Poverty Alleviation launching a new support program: the aim is to create a supportive network to alleviate the Chinese coffee farming communities from poverty, providing customized agricultural inputs to local farmers and supporting local students for the improvement of their educational level. The first pilot program was launched in two villages in the Baoshan prefecture of Yunnan, and this initiative succeeded in training 50,000 Chinese farmers by the end of 2013 (Starbucks official page, 2018).

I.V.II Coffee import and export

Even if domestic coffee production is consistent, China is not able yet to fulfill entirely the Chinese demand, so the country is dependent on imports. For instance, in 2017, the United States exported 1,800 metric tons (1,8 billion kg) of roasted coffee and coffee products to China, with a value of over 22 billion USD (Mondor Intelligence, 2021).

In 2018 China imported 84,300 tons of green coffee beans, of which almost 34.5% composed of roasted coffee beans and instant coffee powder (Daxue Consulting, 2020). Chinese coffee bean imports have later increased sensibly, reaching a volume of 103,3 tons in 2020 for a value of 3,1 billion RMB. The main exporters of coffee in China are Vietnam, Indonesia, Malaysia, Brazil, and the US (ICO 2013). In 2017 imports from Vietnam consisted of almost half of all coffee imports volume. Colombia and Central America also export coffee to China, but by now they account only for 5% of the total amount. According to the International Coffee Organization's data (2018), Robusta is the main type of coffee imported by China.

Talking about export, in the crop year 2020/2021 China has exported around 1.13 million 60-kilogram bags of coffee for a value of 12.6 billion USD, recording a decrease of 45.98% compared to the previous year (Statista 2021). This may be justified by the fact that the government is strongly encouraging the farmers to produce coffee not only for export but also for domestic consumption, in order to reach a higher internal autonomy. For this reason, since the internal coffee demand is increasing year by year, a bigger amount of internal production is destined for local consumption.

According to Tridge's data (2020), most of the coffee produced in China is exported to Malaysia (25,2%), Hong Kong (19,2%), and Japan (16,3%). Focusing on Europe, among the most popular export destinations can be found Poland (3,8%), Canada (3,1%), United States (2,3%), and Germany (2,1%).¹⁴

I.VI Competitive landscape

The Chinese coffee market is quite fragmented because it is characterized by high competition among both local and international competitors which operate across the country. The dominating coffee brands are all non-Chinese, which are Starbucks Coffee

¹⁴ Tridge (2020): "Export of Coffee Extract From China", in Tridge.

Company and Nestlé SA (Euromonitor, 2019). But by analyzing the Chinese coffee market more in detail, the competitive environment can be divided into two different categories.¹⁵

Table 6. Brand shares of coffee: % retail value 2016-2019

% retail value Brand	Global brand owner	2016	2017	2018	2019
Nescafé (Nestlé SA)	Nestlé (China) Ltd	67.7	68.8	68.2	67.4
Illy (Illycaffè SpA)	Illycaffè Shanghai Co Ltd	1.4	1.7	2.0	2.4
Maxwell House (Jacobs Douwe Egberts)	Mondelez China Inc	4.6	2.9	2.4	2.2
Kopiko (Mayora Indah Tbk PT)	You Yi Jia (Shanghai) Food Trading Co Ltd	2.8	2.5	2.1	1.8
Lavazza (Lavazza SpA, Luigi)	Lavazza China Co Ltd	1.2	1.4	1.6	1.7
Nescafé Dolce Gusto (Nestlé SA)	Nestlé (China) Ltd	0.4	0.6	0.8	0.9
Absolute value: total retail value in RMB		6,859.5 million	6,975.6 million	7,197.2 million	7,417.7 million

Source: *Coffe in China, Euromonitor International (2019)*

Taking into consideration merely the coffee sales in China, the top five companies with the higher shares are all non-Chinese companies (table 6). It is a foreign company which has been detaining the biggest portion of shares since 2016, which is Nestlé (China) Ltd (雀巢 quècháo): in 2019 it occupies 67.4% of the total retail value with its main brand Nescafé (雀巢咖啡 quècháo kāfēi). Nescafé and Nescafé Dolce Gusto (雀巢多趣酷思 quècháo duōqù kùsī) enter the top ten of the most sold coffee brands in China.¹⁶ After Nestlé, there are again two non-Chinese companies which occupy a strong position: the illycaffè's Shanghai-based subsidiary (意大利咖啡上海 yìlì kāfēi shànghǎi) and the American Mondelez's subsidiary Mondelez China Inc (亿滋 yìzī) with its brand Maxwell House (麦氏速溶咖啡 màishìsùróng kāfēi). The fifth position is occupied by the Indonesian company You Yi Jia with its brand Kopiko, while the fifth

¹⁵ The following data have been collected by the report "Cafés/Bars in China" carried by Euromonitor International in 2019.

¹⁶ Nescafé is the most sold coffee brand in China (67.4% of the total shares), whereas Nescafé Dolce Gusto is ranked in the sixth position (9.9% of shares).

company in the ranking is Lavazza China Co Ltd (拉瓦萨 lāwǎsà) with its brand Lavazza.¹⁷

Table 7. Brand shares in chained cafés/bars: % foodservice value 2015-2018

% retail value Brand	Global Brand Owner	2015	2016	2017	2018
Starbucks	Starbucks Corp	38.7	46.0	54.9	59.2
McCafé	McDonald's Corp	5.7	5.9	6.3	6.4
Costa Coffee	Coca-Cola Co	-	-	-	3.5
Coffee Box	The Shanghai Lianjuan Consulting Co Ltd	0.1	0.3	1.6	3.4
Luckin Coffee	Luckin Coffee (Beijing) Co Ltd	-	-	-	2.4
Absolute value: total foodservice value in RMB		26,759.8 million	28,318.6 million	29,405.6 million	33,035.5 million

Source: Cafés/Bars in China, Euromonitor International (2019)

Focusing the attention on the chained cafés competitive environment in China (table 7), in 2018 the leader is again a foreign company: Starbucks (星巴克 xīngbākè) detains more than a half of the total foodservice value. The second biggest portion is kept for a 6.4% by the American McDonald's (麦当劳 màidāngláo) with the brand McCafé (经典咖啡 jīngdiǎnkāfēi), which is followed by the British coffee house Costa Coffee (咖世家 kāshìjiā) which accounts for 3.5%. Immediately after there's the first Chinese company ranked for shares, which is the Shanghai Lianjuan Business Consulting (海连享商务咨询有限公司 hǎilián xiǎng shāngwù zīxún yǒuxiàn gōngsī) which accounts for 3,4% of shares through its coffee shop known as Coffee Box (连咖啡 lián kāfēi). Eventually, the Beijing-based Luckin Coffee (瑞幸咖啡) occupies the fourth position with 2.4% of shares.

¹⁷ Despite Lavazza is bigger than Illycaffè in terms of company seize, Lavazza is not well positioned in the Chinese market because Chinese consumers are used to drink coffee almost outside home, and Lavazza mainly addresses to household consumption.

I.VI.I Domestic competitors

The two previous rankings point out how the Chinese coffee market is young and fragmented: in fact, it is almost dominated by well-known international coffee companies which already detain strong popularity and good knowledge about the product. Obviously, when approaching such a culturally distant country as China, foreign companies often do not have any familiarity with the new market and its consumer behavior. Furthermore, since they introduce a totally new product, they have to deal with uneducated markets and customers.¹⁸ In order to face this obstacle, many companies apply a strategy of partnership with local companies to obtain the local information they need in order to adapt and enhance their competitive advantage of being an expert coffee company.

Anyway, in recent years some Chinese companies realized the potential of this flourishing market and decided to open coffee shops with quite good results: for instance, Luckin Coffe was founded in 2017 in Beijing and it reached the number of 4,507 stores only in three years. Luckin coffee shops are not similar to the Starbucks' lounge bar where people can have relax and enjoy a well-designed place, but they're mainly blue-and-white pickup stations where consumers order and pay through the app, for both delivery and dining in. One of the main marketing strategies of Luckin coffee is to appeal to local celebrities and spreading advertising billboards all over the cities promising heavy initial discounts to new customers. The company in fact has adopted the discount strategy as one of its main key features, here some examples: First of all, Luckin coffee has applied heavy discounts on its core offerings, which are American-style coffee and bakery items, and it offers customers a free drink for every referral to the app. Furthermore, if the delivery is more than thirty minutes late, the customer the next time will get a drink for free. In addition, during 2018 all food was half price, and two-for-three and five-for-ten deals were common. This discount strategy, matched with a price that is on average 20% cheaper than Starbucks', has made Luckin close at 200 million USD funding in only one year of opening.

¹⁸ Typically consumers in uneducated markets are not ready to foreign products. Companies coming form a developed market have to invest even more to show what is the usefulness of the product and then to adapt their products to the local consumers' preferences.

Instead, Coffee Box mainly offers a service of coffee pick-up and delivery through its online platform, so the experience revolves all around the smartphone. At the very beginning, Coffee Box was established in Shanghai in 2012 as a merely coffee delivery app: it could offer popular foreign brands such as Starbucks, Costa Coffee and Gloria Jean to its customers. In four years of operations, Coffee Box had been acquiring digital data of users' habits and needs, so then the company established in 2016 its own brand Coffee Box and opened its first WeChat mini-program in 2017 to take delivery orders. The distinctive feature of Coffee Box is its marketing activities, that fully involve social e-commerce: for instance, on August the 1st, the coffee company created a "pocket café" campaign, where users by entering a shopfront on their WeChat mini-program could modify the look of the virtual shop and have access to a limited selection of drinks. For every 10 cups bought through the shopfront, the customer could get 1 cup of coffee reward. To get more digital points, users were also motivated to share their digital shops with friends and on their WeChat Moments¹⁹: this has been a good strategy not only to sell more drinks but also to promote the brand name.

It is clear the distinction between the business models applied by the foreign coffee brands and the local ones: on one side, Luckin Coffee and Coffee Box head towards a delivery service that completely turns around the smartphone, on the other side, foreign brands like Starbucks and Nestlé mainly aim to create an enjoyable physical space and offer high-quality coffee.

Currently, high-end coffee brands dominate the Chinese coffee market and are expected to continue to maintain their strong position. The reason why Chinese coffee companies haven't take over foreign brands can be linked to a social changing factor: for sure today's Chinese coffee consumers are very keen on delivery service and very familiar with the usage of the smartphone, but it is also true that middle-class consumers are increasing, and most of them share the desire to adopt a Western lifestyle that can be associated to products like coffee. So local coffee companies may be very expert on the Chinese market trends and consumers' behavior but, since the coffee culture popularity is still quite young, they should be able to pay more attention to factors as coffee origin,

¹⁹ WeChat Moments are status updates, pictures and videos that users can share with their friends (or a select group of friends) in their Moments feed.

quality, and physical consumer experience, as most of today's consumer request involve these aspects.

I.VII Main retail channels

The coffee culture has been steadily spreading in China over the last years, but where do Chinese customers prefer to buy coffee? Nowadays urban middle-class Chinese people often reach cafés and coffee shops to buy some fresh ground coffee or enjoy a comfortable place, but it is also true that in China the online food delivery has boomed (Thomala L., 2021).

I.VII.I Offline stores

Total sales of cafés and bars reached a value of 113,3 billion RMB in 2018. In the same year was registered in China a number of 43,694 cafés, with a growth rate of 47.5% compared to the year 2013.²⁰

By looking at the data collected by Euromonitor International in 2019 (table 8), taking into consideration the increasing presence of cafés and bars in China, it can be noticed that the specialty coffee shops category is currently leading the biggest portion of the total sales. In fact, specialty coffee shops registered a 173% of value growth from 2013 to 2018, and now they represent 34% of the total sales coming from cafés and bars in China.

On the contrary, cafés showed a light downward trend in development, with a negative growth rate of 8.4% from 2017 to 2018. This can be explained by the fact that Chinese coffee enthusiasts nowadays prefer to drink in specialized shops: since the coffee culture has more spread in China, Chinese coffee consumers are more pretentious, so they are looking for a more comprehensive experience that can fulfill both their needs and desires. Coffee is no more enough: specialty coffee shops offer a more deep knowledge of the product and make feel the customer more engaged with the whole experience.

²⁰ "Cafés/Bars in China", Euromonitor International (2019).

Table 8. Sales in cafés/bars by category: foodservice value 2013-2018 (in CNY million)

	2013	2014	2015	2016	2017	2018
Bars/Pubs	27,327.9	31,454.4	36,109.6	41,353.5	47,085.2	53,586.7
- Chained	-	-	-	-	-	-
- Independent	27,327.9	14.4	96.1	41,353.5	47,085.2	53,586.7
Cafés	28,349.8	29,391.6	27,741.1	25,717.1	23,133.3	21,184.8
- Chained	12,061.1	12,435	10,445.4	8,251.9	5,726.8	3,791.1
- Independent	16,288.7	16,956.6	17,295.7	17,465.2	17,406.5	17,393.7
Juice/Smoothie Bars	-	-	-	-	-	-
- Chained	-	-	-	-	-	-
- Independent	-	-	-	-	-	-
Specialist Coffee and Tea Shops	14,124.3	17,973.7	22,142.9	27,123	31,913.1	38,565.6
- Chained	10,238.8	13,156.8	16,314.5	20,006.8	23,678.8	29,244.4
- Independent	3,885.5	4,816.9	5,816.9	7,056.2	8,234.3	9,321.2
Chained Cafés/Bars	22,299.9	25,591.8	26,759.8	28,318.6	29,405.6	33,035.5
Independent Cafés/Bars	47,502.1	53,227.8	59,233.7	65,866.9	72,726	80,301.6
Cafés/Bars	69,802	78,819.6	85,993.6	94,185.6	102,131.6	113,337.1

Source: Cafés/bars in China, Euromonitor International (2019)

In fact, specialty coffee shops can offer differentiation and new experiences for the demanding consumers: this trend suggests that the Chinese coffee shop industry is not only growing in size, but it is also going differentiating with the appearance of a new consumer segment, who has both interest and buying power.

I.VII.II Online shopping

For sure the expansion of coffee culture in China attracted a lot of investors who bet on cafés and coffee chains, but the country also registered an increase in coffee online sales. In 2019, more than 18 billion users bought coffee-based products on the Alibaba-run Taobao and Tmall for a total value of 312 million EUR and registering a growth of 18% compared to the previous year (Alzila, 2018).

In China, online shopping is a trend that has been steadily increasing over the years. On the total number of Internet users, which are almost 989 billion people²¹,

²¹ <https://www.statista.com/statistics/265140/number-of-internet-users-in-china/>

99.7% has currently access the internet through its smartphone and more than 418,8 billion Chinese use it to take food orders (Thomala L., 2021). The huge mobile user base in China explains the fast growth of the mobile app sector in the country.

Furthermore, the larger portion of online consumers is composed of people from 26 to 30 years old (25,3%) and from 31 to 40 years old (33,3%). According to Statista, in 2020 about 49% of coffee drinkers in China were aged between 26 and 35 years old, and this coincidence of data can explain why many coffee companies have invested a lot in online platforms and social e-commerce. This also explains the steady growth of mobile app in China, which is driven by a very large consumer base composed of mobile users.

Luckin Coffe for instance entered the Chinese market in 2017 by selling and delivering coffee cups on their online platform. Luckin shops are only available to pick up the order, they do not offer an over-the-counter service: customers can only take delivery orders through their app. One of the company's policies is not dealing with cash: the clients pre-order the items on their smartphone and pay through mobile payments apps before arriving at the store. By proposing a smartphone experience, Luckin has been able to fulfill the needs of the highly digitalized consumer base that is taking shape in China. The feedback was very positive: the company was established in 2018 and reached the number of 4,507 stores by January 2021.

Many coffee companies have also created their own mini-program on Wechat²²: as of September 2020, daily service mini-programs on WeChat accounts for about 733 million monthly active users in China, representing a growth rate of 36.5% each year (Cassanmagnano I., 2020). In addition, due to the coronavirus pandemic restrictions, business and mobile shopping mini-program also had a considerable increment in users size, making online shopping even more appealing to brands.

In fact, WeChat mini-programs can also work as mini-commerce: this format consists in integrating social platforms with e-commerce platforms in order to create alternative shopping tools from the classic e-commerce and marketplace. WeChat mini-commerce offers an optimized shopping experience providing new functions, as produc-

²² WeChat is the most popular multi-functional app in China which accounts today approximately 956,09 million active users in the country.

ts personalization. This format offers also a wide range of shopping gifts and the possibility of doing group sales. Social commerce is a trend that is rapidly spreading in China and it attracts mainly the attention of young users who are interested in experience shopping in a much involving way.

Talking about WeChat mini-programs, as mentioned in the “Domestic competitors” chapter, Coffee Box became very famous through its digital marketing actions which led to the creation of their WeChat mini-program, whose key features are personalization and creativity.

Fisheye Café (鱼眼咖啡 yúyǎn kāfēi) is a Chinese specialty coffee café established in 2010 whose main focus is providing customers a premium drinking experience with high quality and freshly-brewed coffee. Today Fisheye has 18 stores in five first-tier cities of China but, in order to foster more clients, it created a WeChat mini-program where customers can place orders for delivery and pickups directly through the WeChat app. Apart from ordering online the products available in the physical coffee shop, the company has also added in the mini-program the availability of some coffee-related products, such as coffee beans and canned coffee, including gadgets with the Fisheye brand.

The digital trend in China is increasingly taking over: for this reason, companies should take care of expanding their online retail channels to foster as many as possible customers. WeChat mini-programs for sure are one of the main tools with catch the attention of potential consumers and that increase sale, since WeChat is the most popular mobile app in the country. The online platform environment in general is expected to expand nonstop through the next years.

I.VII.III Integrate offline and online stores

China is still in the middle of the development of coffee and coffee shop market, which is driven by a wide range of factors that create a bilateral situation: on one side customers are really committed to in-store experience and spending some time in a comfortable physical store, on the other side Chinese coffee consumers require an effective and

cheap delivery service and an adaptation of coffee companies to the ongoing digitalization trends.

Jennifer Ferreira (2018) made research on coffee shop spaces in China drawing on the work of Oldenburg (1999), who makes a distinction between the first, second, and third place. The first place is home, whereas the second is the workplace. Whereas the third place is defined as the anchor of community life where people meet together and enjoy some food and drinks. For Thomson and Arcel (2004) coffee shops seem to be the perfect description of Oldenburg's concept of "third space-that exists between public and private life and sustains a delicate balance between the moral economy²³ and the exchange economy²⁴". According to Ferreira, the concept of "third space" has been increasingly valorized in China, especially by young professionals and scholars who prefer meeting with friends and colleagues in public and enjoyable places. According to a survey by Statista, 62% of the interviewees visited cafés more than once a week, whereas 35% went to cafés a few times a week (Ma Y., 2021).

So, even if the digitalization of food services is taking place very rapidly in China, there is any way the desire of consumers to reach a nice store where order a drink and spend some time in a pleasant place.

Nowadays the two dimensions of coffee delivery and physical coffee shops are pooled by a common element: customers are looking for a special drinking experience. The mix of these two formats can allow coffee companies to extend their consumer base. In fact, a digital transformation is taking place in the coffee industry, that consists in integrating online and offline activities to entice local consumers. For instance, Luckin Coffee has applied a new business model: consumers can order coffee on the online platform and have it delivered whether they want, as long as they are within 2kms from the café shop. Luckin uses big-data analysis in order to be sure customers select the store location with the strongest potential.

Another example of online and offline integration is Starbucks, which partnered with Alibaba in 2018 to expand sales beyond its physical stores.: Starbucks can use Ali-

²³ Moral economy involves the regulation of moral or ethical behavior; an economic system in which moral issues, such as social justice, influence fiscal policy or money matters (Oxford Lexico).

²⁴ Exchange economy: an economy in which goods are exchanged for money or other goods (Cambridge Dictionary).

baba's food-delivery network, the mobile app ele.me (饿了吗 èle ma), to fulfill online orders. Furthermore, the Americana coffee company has opened special "delivery kitchens" at Alibaba's Hema supermarkets (盒马鲜生 hémǎ xiānshēng), also known as Freshippo, to support receive order fulfillment support.

China is the world's most promising country for the coffee market and it has a strong potential to become a coffee-drinking nation: the most popular coffee brands are well-positioned to fulfill offers in both aspects, satisfying both needs and desires of their customers. In this very competitive landscape, the key to success is for sure focusing both on premium artisan products and novel experiential offerings, creating a new concept of retail suitable for every kind of consumer.

II. Chinese coffee consumers target

II.I Traditional Chinese society: Hofstede's cultural dimensions theory

The advent of globalization not only influenced the global economic ecosystem but also had repercussions on society, affecting consumers' behavior and desires. The term *cultural convergence* has to do with “the growing similarity between national cultures, including the beliefs, values, aspirations, and the preferences of consumers, partly driven by global brands, media, and common global icons”.²⁵

Anyway, despite the consequences brought by this global trend, cultural differences still need to be considered: cultural variations delimit the path that companies need to follow to operate in a foreign market since culture can shape consumers' behavior and local companies' way of doing business.

Culture can be divided into two subgroups: the psychological level, which considers norms, attitudes, and behavior of individuals belonging to a particular culture, and the institutional level, which focuses on national culture embodied in institutions (Collinson, S. et al.: 2000).

Despite the heterogeneity of society, composed by different ethnic groups, religions, institutions, and patterns of behaviors, culture and nationality tend to coincide. People who are born or grown up in the same country are inclined to share similar cultural characteristics. An effective way to distinguish the various cultural differences is to identify distinct cultural groups by applying simplified national stereotypes.

Geert Hofstede²⁶ between 1967 and 1973 conducted a cultural study in management in which he mapped the key cultural characteristics of several countries according to four value dimensions:

- power distance: the extent to which a culture accepts that power in organizations is distributed unequally;

²⁵ Collinson, Simon et al. (2000): “International Business”. Harlow: Pearson Education Limited (7), 158.

²⁶ Geert Hofstede (1928-2020): Dutch social psychologist well-known for his works “Culture's Consequences” (1984) and “Cultures and Organizations: Software of the Mind” (1991).

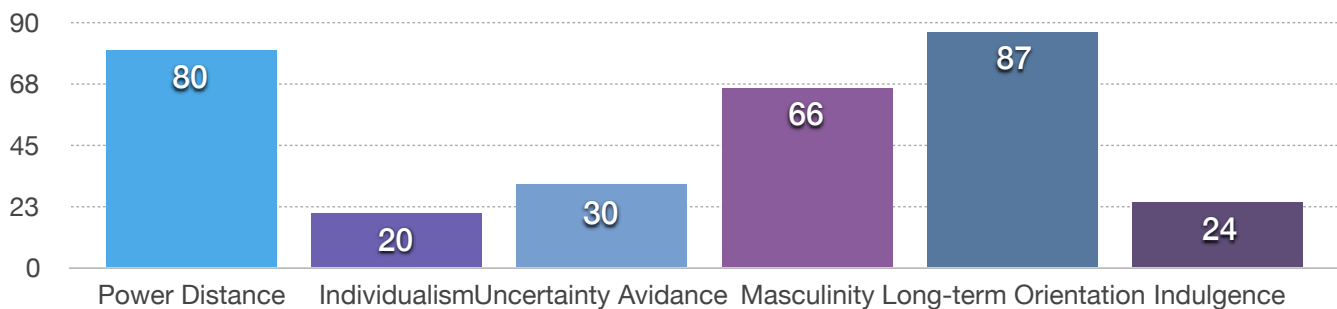
- uncertainty avoidance: the degree to which the community feel uncomfortable with uncertainty and risk;
- individualism: reference to the degree to which members of society take care of themselves and are emotionally involved with others;
- masculinity: value linked to achievement, material success, and assertiveness, whereas femininity is attributed to relationships, caring, modesty, and quality of life.

Soon after, when Geert Hofstede and his colleague Michael Minkov carried extensive research, two other dimensions were added to the model of national culture:

- long term orientation and short term orientation are dimensions referred to the degree to which people maintain links with their past while dealing with the changes of the present and future;
- indulgence has to do with how much people control their impulses and desires.

In this chapter, the six value dimensions of China are analyzed to get a deeper knowledge about the cultural characteristics that can affect the behavior of both Chinese consumers and companies.

Table 9. Hofstede's six value dimensions: China



Source: Hofstede Insights

By looking at the analysis of the Chinese culture (table 9), it can be noticed that China is a country where inequalities are almost accepted: individuals are strongly influenced by formal authorities and sanctions, thus Chinese people are in general optimistic towards the capacity of the leadership, and they should not have aspirations beyond their ranks. This strong respect for the hierarchy is surrounded by a success-oriented society, where people need to ensure their power, at the risk of sacrifice leisure and fa-

mily priorities. China is categorized as a restrained society, since is not put much emphasis on personal gratification and leisure time: people feel that their actions are limited by the social norms and that giving priority to their personal desires is wrong. This kind of society tends towards pessimism and cynicism.

In the Chinese culture prevails a predilection for the long-term orientation: these kinds of societies are very pragmatic since they show the ability to adapt easily traditions to changing conditions, giving a strong relevance to the past. A long-term orientation also shows a strong propensity towards thriftiness, saving, and perseverance in achieving goals.

Thanks to their result-oriented abilities, Chinese society is quite comfortable with ambiguity, since people are entrepreneurial and adaptable: despite Chinese people are respectful of the rules, adherence could be flexible to support the strong pragmatic attitude that they adopt in life.

Chinese society is characterized by a highly collectivist culture, where people act much more in the interest of the group. In this kind of environment, the in-group consideration prevails and people tend to be cold to the outsiders. In fact, in Chinese society, the system of *guanxi* (关系 *guānxi*)²⁷ is very important as relationships prevail over many bureaucratic processes.

This general overview of the Chinese value dimensions can establish a precise cultural image that can give some suggestions about the Chinese consumers' preferences: for instance, customers for sure would appreciate spacious physical stores where they can enjoy a break together with friends or colleagues. They would also be interested in promotions and offerings which involve groups: for instance, getting a discount if sharing among friends a particular online promotion, or have a reduction if ordering a family size.

Even if the Western influence is spreading in China, its community has not lost the old taste yet: despite the modern design, Chinese consumers still quite appreciate some traditional decorations, like ancient ideograms posters on the walls or Buddhist icons. Furthermore, apart from the famous international items, customers would like to

²⁷ Guanxi is a particular kind of interpersonal relationship or connection that serves as a form of social currency.

also have access to more traditional products, since traditions still affect a big portion of their everyday life. Eventually, the promotional advertising should focus on instilling a sense of self-improvement and personal success, so that people will consider the product involved as a status symbol and mean to gratification.

The low level of uncertainty avoidance is linked to the fact that Chinese society is a high context culture²⁸, so they are used to deal with non-verbal messages also in everyday life communication, as prices. For instance, in high context cultures is more likely to find prices that end with the digit '0', instead of low context cultures where most of the prices end with '9' or '5' (Heeler Roger et al., 2007). Anyway, the items price in many countries is also linked to ancient traditions: for instance, in China, many price tags end with '8' (八 bā) because it sounds like the word 'prosper' (發 fā), thus numbers containing or ending with this digit are considered lucky.

Hofstede's cultural model anyway has been criticized since the data collected in the model dates back to the 70s', while in the last decades many social and economic changes took place in China: in fact, it has to be considered that from the 90s' the economic reforms and the opening of China towards the West made an increase in the population a desire of self-actualization and redemption. Together with the increase of individual disposable income, people started fulfilling their little vices and shopping desires to raise their living standards. In this situation, Chinese society shows increasingly its potential, since most of the local consumers are keen on having a unique experience that can make them feel special. Furthermore, thanks to the Chinese fast-growing economy, the national per capita disposable income increased around 700% from 2000 to 2020 (Statista 2021), and in 2020 the urban areas accounted more than 51,300RMB. The increasing disposable income has provided better living standards not only to urban citizens but also to the rural ones. Anyway, despite the significant improvement of rural areas in the last 20 years, the gap is still considerable, and in 2020 non-urban areas accounted for 17,131RMB, barely one-third of the income of urban households.

²⁸ In high-context cultures there is a strong attention to implicit and non-verbal cues from routine communication such as prices. Many things are left unsaid but are nevertheless understood.

The advent of social and economic improvements made the consumer confidence index²⁹ in China grow up at 121.8 points in the second semester of 2021 (Statista 2021): even if it dropped the first half of 2020 because of the coronavirus pandemic, it recovered to its former level very quickly in the second half of 2020. Thanks to stable GDP growth, a low unemployment rate, and a consistent increase in disposable income, Chinese consumers developed a good optimism towards the national economy, thus affecting positively the consumers' spending power.

II.II Chinese consumers' buying behavior

II.II.I Traditional values affecting buying behavior

When analyzing the Chinese consumer behavior, some aspects have to be taken into consideration: first of all China has a strong Confucianism influence³⁰, which leaves a strong cultural heritage to its population. In Chinese society decisions generally are not taken by the individual, but by looking at one's own reference group, so there is a tendency of adopting a group orientation attitude towards life. Always according to Confucianism, having central planning is important: this concept is linked to the mentality of organizing one's savings, and thriftiness has remained one of the main values also in modern Chinese culture. In fact, in 2020 China's savings ratio was 35.5%, more than one and a half times the regional average.³¹

One of the other key concerns of the Chinese consumer behavior is quality: Chinese people want a product that is durable and reliable. Not by chance, they are used to test a product before buying it, and they are always quite suspicious about the appearance of an item. For instance, they want to check what is inside a package, or they collect information about the product by looking at other users' comments online. Even if China is a country that generally deals with ambiguity when buying products the situation is different: consumers want to verify if an item has some specific characteristics because

²⁹ The consumer confidence index (CCI) is an indicator which measures the degree of economic optimism among consumers.

³⁰ Confucianism is one of the most influential religious philosophies in the history of China, and it has existed for over 2,500 years. It is concerned with inner virtue, morality, and respect for the community.

³¹ Euromonitor International staff (2020): "China: country profile", Euromonitor International, p.9 (pdf).

se they are afraid of fake products or the lack of warranties. Furthermore, they require good customer service, since they feel more comfortable if having someone who can satisfy their needs also after the purchase.

The cultural similarity is another really important factor to be considered when selling a foreign product: the country is developing rapidly and millennials are already familiar with international products, but the Chinese society is still very tied to its traditions and habits. For this reason, foreign companies should adapt their products to the local language and taste to create a bridge that allows customers to approach to the novelties comfortably.

II.II.II Attitude towards brands

In terms of brand consumption, Chinese consumers are likely to adopt a show-off approach; unlike Western countries, they feel comfortable in exhibiting their purchases, as what is bought can define the social class a person belongs to. Since China is characterized by a collectivistic society, social reference brands are preferred, as they confer a sort of social status which makes a person recognizable by the surrounding group. The upper lifestyle is strongly descriptive in China, so adopting a show-off approach helps defining someone's position in society. This again underlines how the group is dominant on the individual, and how the choice of buying a specific brand is considered.

Chinese consumer choices and habits often emulate Western consumers, but their attitude is generally determined by the degree to which consumers identify themselves with the traditional cultural values, such as modesty, self-control, thriftiness, and face (面子 miànzi)³². In fact, on one hand, foreign brands have a positive association in consumers' minds because they are considered as a socially-value status display, supporting the traditional Confucian values of the face and in-group conformity. Furthermore, the global popularity of well-known foreign brands is a sort of quality assurance, so that consumers are more comfortable in investing money in these products. On the other hand, the perception of the Western culture is linked to an idea of individualism,

³² *Mianzi* is a social currency in China which has to do with the status of a person in a local community. Quite often it has to do with the title of a person in relation to an organization.

pleasure, and hedonic consumption, completely opposite to the guidelines of the Chinese collectivistic culture. In fact, in China in the last decade has been spreading a ‘homogenizing’ view of globalization, which identifies foreign brands as elements that carry the threat of Western imperialism and the decay of traditional values (Smith & Hu, 2013). For instance, Starbucks opened a coffee shop in 2000 inside the Forbidden City but in 2007 it was closed after a successful online campaign of complaint which asserted that the cafés had ‘trampled over the Chinese culture’.

For these reasons it is important adapting foreign brands to local habits and enter on tiptoes in this Chinese market: many young professionals and students are very attracted and familiar with the western lifestyle, but if companies aim to expand their consumer target they need to get the trust of West-adverse individuals. Glocalization³³ may be a good strategy to occupy a good position in Chinese consumers’ minds, as foreign brands can be used as means to access Western experiences and ideologies (Tian & Dong, 2011), making Chinese consumers perceive an intersection between the foreign and the local side.

II.II.III Chinese consumers types

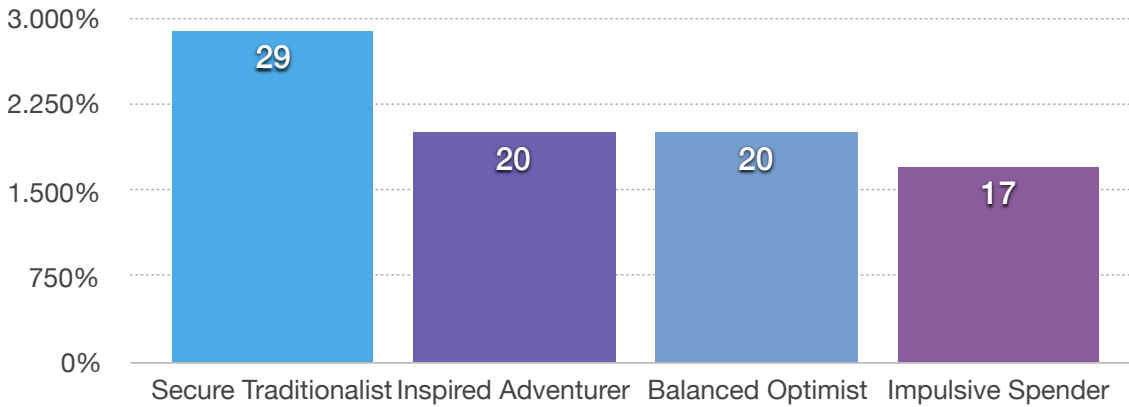
A report conducted by Euromonitor in 2020 (table 10) analyzes the key characteristics and lifestyle habits of Chinese consumer types, providing a useful tool that companies can acquire to better understand and approach the market in China. The report splits the consumer types into five categories, but this thesis will focus the analysis on the major ones, which are secure traditionalists (29%), inspired adventurers (20%), and balanced optimists (20%).

Some common elements can emerge by analyzing the first three categories: the three consumer types are all very familiar with the smartphone, and they use it both to do pre-purchase research and to purchase products (between 50% and 65% of respondents). Between 70% and 90% of the interviewees of each category consider very influential family or friends’ recommendations. Furthermore, they are all very involved

³³ Glocalization is a strategy of an international company by adapting its methods, products, or services to suit local markets. It is a global strategy that involves a combination of globalization and localization: globalization involves a worldwide marketing strategy, and localization involves adapting to local needs.

with savings, showing a considerable price sensibility since they place more value on low prices and look for competitively-priced items.

Table 10. Consumer types in China (number of respondents= 1,059)



Source: Consumer types in China, Euromonitor 2020

Now the three types we will be analyzed more in-depth to better understand the consumer behavior of most of the Chinese consumers:

- A. Secure Traditionalists are comfortable with the smartphone, but they are not much interested in digital improvement, since they are not keen on using the technology to better their everyday life. On the contrary, they still value in-store shopping and prefer to do their pre-purchase research at the shop rather than online. This kind of customer prefers quality over quantity, but Secure Traditionalists are not fully involved with the brands in specific. Eventually, they give importance to price competitiveness: this kind of consumer is strongly attracted by promotions and discounts and tend to choose the cheapest option;
- B. Inspired adventurers prefer shopping through the Internet: they prefer to do research and purchase products online, where they can have more access to services and products that are uniquely tailored to the customer. They are also willing to try new items and push the innovation, also having special consideration for well-known and premium brands. Apart from family and friends' recommendations, they take into consideration independent consumers' reviews (73% of re-

spondents). Inspire Adventurers are future-focused, so investing in a high quality product can be a good choice;

- C. Balanced Optimists are also quite involved with the brands (50% of respondents), but they put more emphasis on experiences. Balanced Optimists are mainly focused on their personal life, so even if they put much value on low price, they can spend a lot on an experience that can improve their lifestyle quality. Sometimes Balanced Optimists may make small impulse purchases, also because they are quite influenced by digital marketing (20% of respondents). This type of consumers prioritizes relationships and leisure experiences since they are looking for services and products which can simplify their lives.

II.III Chinese consumers' decision making

When a foreign company decides to enter the Chinese market, it is important to carry some researches about the local consumers' decision-making³⁴, since cultures can strongly influence the whole process. Analyzing consumers' decision-making is necessary in order to develop the company's marketing campaigns and marketing mix decisions.

In an article of 2010, the Journal of Business Research analyzes the Chinese consumer decision-making styles, making a comparison between the coastal and the inland regions³⁵. The report creates two subgroups that classify decision-making styles of shoppers according to eight categories (Sproles and Kendall, 1986)³⁶:

- A. the utilitarian shopping style is more focused on quality, price, and value. It is defined by price and value consciousness, quality consciousness, impulsiveness, and confusion due to over choice;
- B. the hedonic shopping style is mainly driven by brand consciousness, brand loyalty, novelty and fashion consciousness, and hedonistic shopping. It reflects self-expression and personal gratification.

³⁴ Consumer decision making is a process through which the customer choose the most suitable product out of several alternatives.

³⁵ Zhou, Joyce Xin, et al. (2010): "Chinese consumer decision-making styles: A comparison between the coastal and inland regions". Journal of Business Research 63.1: 45-51, pdf.

³⁶ Sproles George & Kendall Elizabeth (1986): "A methodology for profiling consumers' decision-making styles". J Consum Affairs 1986;20(2):267-78, pdf.

Evidence shows that coastal and inland consumers do not differ on utilitarian shopping styles, since they both belong to the same cultural value of long-term orientation³⁷. This dimension is closely related to thriftiness and foresight, so the Chinese consumer is strongly concerned about the money spent and the value received. They tend to gather information on products and brands before purchasing since they are mainly interested in buying a good quality product that can provide long-term benefits.

Nevertheless, talking about the hedonic shopping styles, the trend in the coastal and inland regions is different. The research highlights that coastal consumers are more cosmopolitan and individualistic than inland ones, and these factors affect consumers' decision-making. The openness of coastal areas to other cultures makes their inhabitants more likely to emulate Western consumption habits, encouraging the spreading popularity of Western icons. Being cosmopolitan and globally connected make consumers more open towards novelties and innovation, fostering a sense of individualism. As a more individualistic society, the coastal regions tend to maintain a more active lifestyle, keeping in particular an eye on luxury goods. Individualism has also been linked to greater consumer innovativeness and fashion consciousness. For instance, when a new product is introduced in China, the coastal regions are the first in spreading new trends in fashion and lifestyle. Eventually, a strong individualistic factor makes consumers desire to feel more involved with the brand, and they have a high tendency to stick to popular brand names.

II.IV Coffee consumer target in China

Today the majority of coffee drinkers are students and young professionals, with no distinction of gender, who associate coffee with the Westerner lifestyle and economic growth. In fact in China coffee is almost consumed by people aged 20-30 and belonging to the medium-to-high class (Statista 2020).

Since the coffee market is getting mature, consumer expectations have increased: now the quality is the key factor to choose one brand instead of another. In fact, on average consumers are willing to pay from 16RMB to 35RMB for a cup of good quality coffee.

³⁷ <https://www.hofstede-insights.com/country/china/>

In fact, according to Statista, in 2019 the most consumed kind of coffee is the single-origin coffee³⁸ (35%), which is largely preferred over blended coffees with multiple origins. This data highlights how consumers are looking for a product with unique characteristics and quality assurance since single-origin coffee puts much more emphasis on the producer and the origin.

³⁸ Single-origin coffee is a kind of coffee grown within a single known geographic area.

III. Literature overview: entry modes in an emerging market

III.I Uneducated market

As mentioned in the previous chapters, China is a tea-drinking nation par excellence. Coffee was introduced only in the late 1800s, but its consumption started spreading among the population only in the late 1980s. Chinese people were quite suspicious about this new bitter beverage, which was also linked to a Western culture that they were not very familiar with.

From a marketing point of view, China was an 'uneducated market' for a product such as coffee: it means that consumers were not ready for this foreign product because they lacked information and experience with coffee. In such a situation, companies from the developed world generally have to make an effort to both show what is the usefulness of the product and adapt the item to the local consumers' preferences. The lack of knowledge about a foreign product directly affects the success of the latter one in a new market, since the product value perceived by customers depends on the level of competencies and experiences that they have been accumulating through time about that specific product or brand³⁹. If the consumer has not experience enough with the brand or product, he/she cannot fully understand and appreciate the value proposition⁴⁰ offered by the brand.

For this reason generally the pioneers of new foreign products in 'uneducated markets', as the case of China with coffee, are MNEs⁴¹ because they have a large availability of resources that can be invested in order to propose a new concept and enter local consumers' minds. These companies are called 'first movers' and, by entering a new market, they start a learning process that attracts the interest of the potential consumers and gives them information about products and brands.

³⁹ Vescovi T., and Pontiggia A. (2015): "Panni stesi a Pechino". Milano: Egea.

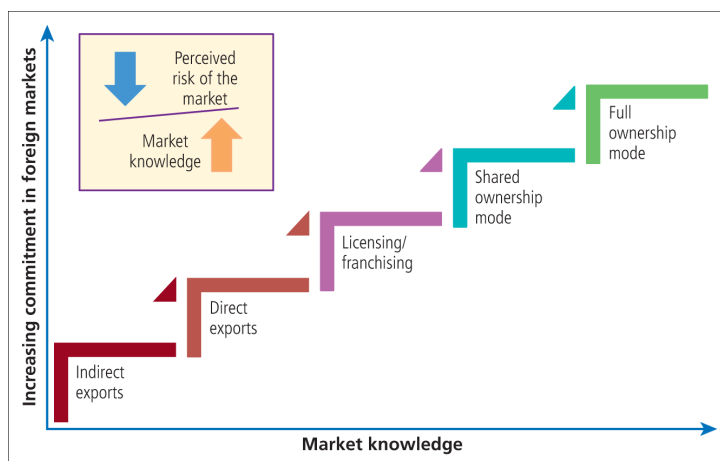
⁴⁰ The value proposition is a statement that clearly identifies what benefits a customer will receive by purchasing a particular product or service from a vendor.

⁴¹ Multinational enterprises.

III.II The Uppsala model

The key point of a process of internationalization⁴², when aiming to a new market, is to acquire sufficient knowledge about the target country by applying a learning-oriented process. According to this methodology, the more a company knows a market, the lower a company perceives the risk. When approaching a new market, especially if it is uneducated, the best strategy is taking an evolutionary approach which is composed of gradual steps: firstly companies start gaining knowledge, and when they feel more confident they move to the next phase. In this case, firms apply a learning-by-doing trajectory, which means that by gradually acquiring knowledge through experience the firm decides how to carry on its foreign operations. The steps go from indirect exports, which require low commitment, to the full ownership model (figure 3).

Figure 3. The Uppsala Model



Source: Collinson, Simon et al. (2000): “International Business”.

III.III The first mover and second mover strategies

The first mover is generally a big global company, which a global known brand and a huge number of sales⁴³, while the second mover is a hardly known brand which offer high end products but has a low availability of resources (table 11).

⁴² In the context of economics, internationalization can refer to a company that takes steps to increase its footprint or capture greater market share outside of its country of domicile by branching out into international markets.

⁴³ Point of sale refers to the place where customers execute payments for goods or services, proving to the company sales and marketing data.

The first mover builds the base of a new market and it creates the mass: for instance, in the case of coffee, big multinational corporations such as Starbucks promotes a standard offer that will allow the new born and growth of the coffee market in China. Through a long learning process and a conspicuous investment in brand awareness, these big companies start 'educating' the consumer to the consumption of the foreign product proposed. In the first phase, MNEs working in the B2C open and create new markets; by doing this they also generate profitability for the companies working in the B2B, because they develop the supply sector. Lately, through the gradual acquisition of knowledge by consumers, the demand increases, and finally, also a niche market borns, since the consumers evolve and the product standards increase quality. This event gives the possibility to smaller global companies (mMNEs)⁴⁴, such as Illycaffè, of gaining a position in the new market, since now the consumer base is wider. Second movers wait to act in the acquainted market which is more sophisticated, and they differentiate the niche market by proposing their own products.

After the entrance of mMNEs, it is the time for small and medium enterprises (SMEs), which find the portion of markets that better suits with the company's business plan and enlarge the niche market.

Table 11. First and second mover strategy

First mover (MNE)	New market
<ul style="list-style-type: none"> - Big global company - World global known brand - Huge number of POS 	Creating the mass i.e. Starbucks
Second mover (mMNE)	Acquainted market
<ul style="list-style-type: none"> - High end products - Lower resources - Hardly known brand 	Differentiating the niche market i.e. Illycaffè
Third mover (SME)	Strongly acquainted market
<ul style="list-style-type: none"> - Good enough products market - Unknown brand 	Enlarging the niche market i.e. Vescovi coffee

Source: a personal elaboration.

MMNEs find difficult to enter uneducated markets first because their products generally are too much sophisticated for the mass market, and consumers, who are not

⁴⁴ mMNEs refers to micro multinationals: small and often young business that operates globally.

very familiar with the brand, may find these companies' offers too much complicated. mMNEs generally operate in educated markets, which are developed, differentiated, and segmented. In such environments, consumers have sufficient knowledge and experience to truly understand the different qualities proposed by the various competitors. mMNEs almost operate in niche markets, where consumers are expert in the product and demand high-quality standards and customization. Furthermore, mMNEs find it difficult to enter uneducated markets first also because they are limited in terms of resources and finance to create a whole experience that can instill truly the value proposition of a brand.

For this reason, in B2C markets, second movers enter a new market when they can offer their products to the more sophisticated part of the market,

Anyway, even if the path is firstly leveled by the first mover, an important element for mMNEs to be successful is to create a new product narration. Even if the foreign consumers get more familiar with the product, this kind of companies has to deal with the cultural distance of the target market. For this reason, they cannot take anything for granted and need to work on their product in order to fully highlight the features that make their product better than the competitors' one.

So if the first mover builds the base for a new market, the strategy of the second mover is to enter the new market only after the consumers' knowledge about the product is sufficient, so that second movers can be sure that foreign consumers have enough competencies to correctly understand the value proposition inside mMNEs' offerings.

III.IV PEST analysis of China

When a company intend to approach a new market, it would be useful to create a PEST analysis defining the elements that could foster the physic distance⁴⁵ between the original market and the target one. The PEST analysis examines the political, economic, socio-cultural, and technological elements in a particular country's market. It can be extended by adding legal and environmental factors (Collinson Simon et al., 2000). Defining the distance between the two markets is important in order to choose the right first approach.

⁴⁵ The physic distance is the sum of factors preventing or disturbing the flows of information between firm and market.

Table 12. PEST analysis of China

Political aspects	Economic aspects
<ul style="list-style-type: none"> • strong Communist influence • governmental support of capitalism • role of the local government 	<ul style="list-style-type: none"> • increasing per capita disposable income • income inequality within the country
Social aspects	Technological aspects
<ul style="list-style-type: none"> • tea-drinking nation • heterogeneity within the country • city-tier classification 	<ul style="list-style-type: none"> • high Internet penetration • mobile payments
Legal aspects	
<ul style="list-style-type: none"> • gaps in intellectual property rights law 	

Source: a personal elaboration.

Table 12 displays some aspects that could be taken into consideration when coffee companies define a PEST analysis of China:

- focusing on the political aspects, China is strongly influenced by the Communist presence that can affect the consumers' buying behavior. In fact, in the Communist mindset, conspicuous consumption is considered as a lack of a nationalistic orientation. Anyway, in recent years, capitalism in the PRC supports the status-conscious population that manifests an interest in keeping up with fulfilling its desires through luxury consumption. The governmental support of capitalism can be evident in second-tier cities like Chengdu, where can be noticed a high presence of luxury stores like Cartier and Louis Vuitton in the streets (Devault, G., 2018).

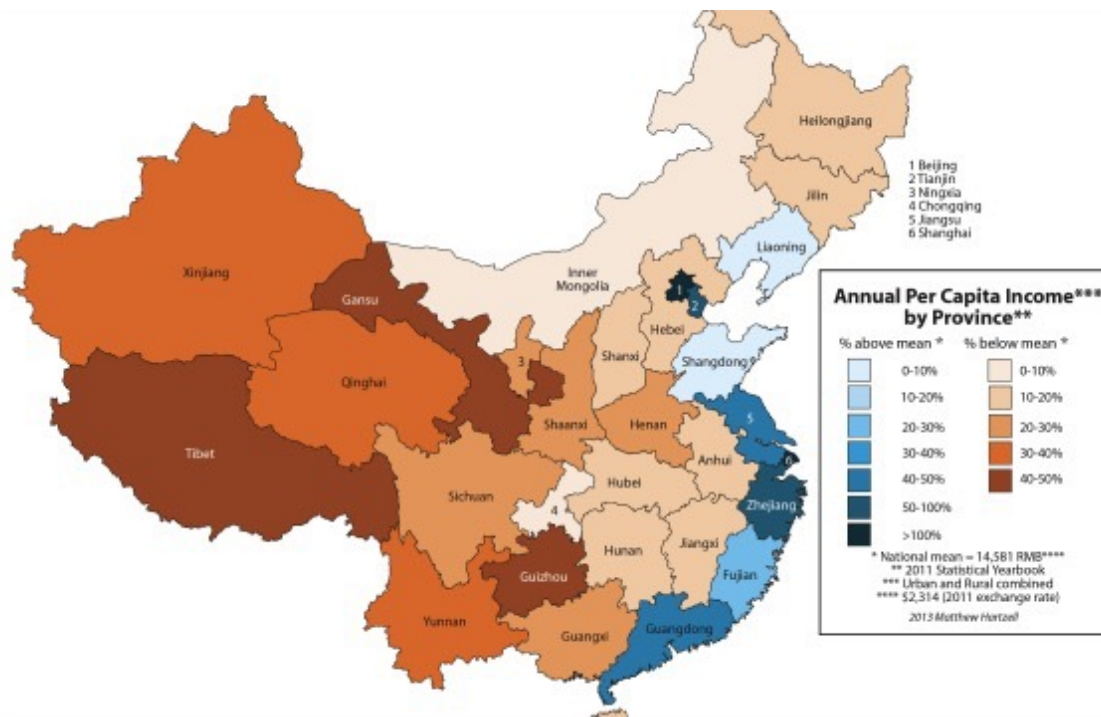
Another aspect that need to be taken in consideration is the important role occupied by the local government: the Chinese government operates under a hierarchical system of bureaucratic control, and each level has to accept the unified leadership fo the State Council. Local government officials annually have to fulfill detailed performance assessments assigned by their superiors within the Party. For this reason, local governments in China cover a crucial role in the economic development, since they have the responsibility of controlling the bureaucracy in their assigned area. Local governments own enterprises, and try to attract foreign investments in order to increase their local power (Sadioglu, U., 2016). Furthermore, local legislation is really strict,

since it has the role to implement the Constitution, creating a sort of bridge within the citizens and the Chinese law system.

- focusing on economic aspects, the annual per capita disposable income in China in 2020 is 43,834RMB (almost 6800USD), and it almost doubled compared to the disposable income in 2010 (Trading Economics, 2019). Anyway, the Chinese standards remain quite low if compared to the European and American annual per capita disposable incomes, which are relatively USD 33,492 and USD 54,854 (OECD data, 2020). Moreover, there is a strong income inequality within China: the coastal regions are the wealthier, while the population from Western part of the country is facing a difficult economic situation (figure 4);
- some socio-cultural aspects should be taken into consideration: first of all, despite the diffusion of coffee culture, China mainly remains a tea-drinking nation, and change national drinking habits can take time. In addition to that, there is a strong heterogeneity within the country, both in cultural and economic terms: for instance, the coastal areas are more developed and cosmopolitan, whereas the inland areas are less modern and tend to be more traditionalist⁴⁶. Not by chance, the most populated and modern cities are classified as first-and-second-tier cities, and they mainly consist of coastal cities. China's city-tier classification can be very useful when choosing the best location where to enter the market because it can indicate the degree of wealth, education, modernity, and familiarity with the West (Wong, D., 2019). The annual per capita income in third-and-fourth-tier cities improved considerably in the last 20 years, and in 2020 it accounted for approximately 17,131RMB. Anyway, it is roughly one-third of the disposable income of urban households, and the gap is still consistent (Textor, C., 2021);

⁴⁶ Zhou, J. X. et al. (2010): "Chinese consumer decision-making styles: A comparison between the coastal and inland regions". *Journal of Business Research* 63.1: 45-51, pdf.

Figure 4. Map of China's income inequality



Source: *The Atlantic* (2013).

- talking about technology, the Internet penetration in China is really high and 99.8% of the population surf on the internet through its mobile phone, which is also used for mobile payments by 86% of the mobile users (Thomala, L., 2021);
- considering the legal aspects, it is essential to have deep knowledge about the Chinese intellectual property rights laws. China has not fully designed some legal aspects about this issue, and foreign companies have complained for a long time that enforcing their intellectual property rights in China is difficult due to local judicial protectionism. In the last years there have been some signs of progress, and on November 1, 2019 the country revised trademark law, anti-unfair competition law, and drug administration law to further punish IPR infringement to up to five times the amount of actual losses, higher than global standards (CGTN).

IV. Coffee chains: the case of Starbucks

IV.I Introduction: the evolution of Starbucks in China

Starbucks was founded in Seattle, Washington, in 1971, and it opened its first store in China in January 1999, in the China World Trade Building in the Chaoyang district of Beijing. Today, China has become the fastest-growing market for Starbucks, with a new store opening every 15 hours. In 2021, 5,100 company-operated Starbucks stores are opened in 200 Chinese cities, employing around 60,000 partners.⁴⁷ The next objective of the company is to reach 6,000 stores across 230 cities by the end of the fiscal year 2022.

When entered the Chinese market for the first time, the company decided to target young consumers, since they were expected to be more cosmopolitan and modern compared to the previous generation, so the company predicted that youth's changing lifestyle would have increased the intern demand for coffee. Wang Jinlong, the CEO of Starbucks in China at that time, defined two core objectives to reach with the attempt to attract the Chinese consumers' attention: first, create a new kind of place and propose a unique environment to the Chinese lifestyle. Second, adapting the company's products to local tastes to introduce a new offer while maintaining a level of familiarity.

After 21 years of work, today Starbucks, together with Nestlé, is the leader of the coffee market in China: considering the café and bar industry more specifically, the Seattle-based company accounts for 59.2% of the total foodservice value of chained cafés and bars in 2018, which corresponds to 33,035.5 million RMB. China comparable stores sales⁴⁸ increased 91% in 2021, supported by a 93% growth in transactions. Starbucks stores in China represent 62% of the company's global portfolio at the end of the second quarter of the fiscal year 2021 (Starbucks official website, 2021): the Chinese project of Starbucks gave profitable results to the company.

⁴⁷ Data collected from <https://www.starbucks.com.cn/en/about/history>.

⁴⁸ A measurement of how successful a company is that involves examining the value of sales in a store or stores in a particular period, compared to the value for the same period in a previous year.

IV.II Before entering the Chinese market

Starbucks firstly entered the Chinese market through franchising and joint ventures. The company decided to approach carefully this new market and to adopt an evolutionary approach, carrying on the company's operations according to the response of the target market. At the very first time, there were some doubts about the success of coffee in such a tea-drinking nation, but with the increase of profit, Starbucks realized that China had a good potential to be exploited and that the company could gain more control over the partners. For this reason, Starbucks gradually changed its business model in China. In fact, since 2017, Starbucks has no more a franchise model in mainland China⁴⁹, and all the stores are operated under a fully-owned company-operated model under Starbucks Coffee China. The only licensed stores are situated in Hong Kong, Taiwan, Macao and Singapore.

IV.II.I Market research

Before entering China, Starbucks made regionally-based market research, and the company analyzed all the possible factors that could weaken its success in the target market. In the second phase, the company chose a strategy that could fit the dominant Chinese market situation and respect the national culture.

From the analysis emerged that the target market was quite heterogeneous and fragmented since within China coexist different cultures and habits. In particular, data showed high divergence between the inland and coastal regions, displaying very different economic growth levels and consumers' tastes (Zhou, J. X., et al. 2010). Because of strong income inequality within China, the Western provinces of the country are quite economically depressed (The Atlantic, 2013): for this reason, Starbucks decided to exclude the Western areas for the first entry phase.

Another important social factor to consider is that in China in the early 2000s the Western lifestyle was already linked to a matter of social status, and luxury con-

⁴⁹ Textor, C. (2021): "Number of Starbucks stores in China 2005-2020", in *statista* <https://www.statista.com/>, available at <https://www.statista.com/statistics/277795/number-of-starbucks-stores-in-china/>, consulted in 6/9.

sumption was perceived as a sign of a high-quality lifestyle: this made the Chinese population very curious about the new trends coming from the West.

IV.II.II Approach strategy

First of all, Starbucks decided that before entering China the company had to better understand which areas were more familiar and fascinated by the Western culture, and there locate stores: proposing a Western product in a cosmopolitan area would have increased the possibility of success. Thus, Starbucks opened its first store in the modern and dynamic capital of China, Beijing.

Secondly, because of the high level of national heterogeneity, Starbucks decided to choose regional partnerships for expanding across the nation, because single partners could have provided a consumer insight into different Chinese tastes and localize every single business plan. The strategy consisted also of differing products for every region, to decrease the distance between the product proposed and the consumers' drinking habits.

Since the company's objective at the very beginning was appealing to the young consumers, Starbucks exploited its international popularity maintaining its reputation as a premium brand: despite its adaptation to local tastes, Starbucks did not change its well-known distinctive traits that were a warranty of identity (i.e. logo, colors, name, etc.). Since Chinese consumers on average were attracted to luxury consumption, Starbucks decided to position itself in the Chinese market as a luxury brand, with prices that were on average higher than the other existing cafés in China. By adopting this strategy, the company leveraged Chinese consumers' desire of living a Western and high-quality standards lifestyle.

Focusing on the law aspects, Starbucks realized that at that time the intellectual property rights laws enforcement was weak and only at its early stages, so in case of infringement it would have been difficult to fix any inconvenience. For this reason, the company decided to examine in advance the intellectual property and trademark laws to prevent any trouble. Starbucks registered all its major trademarks soon after the opening of its first store in Beijing to prevent any potential copy.

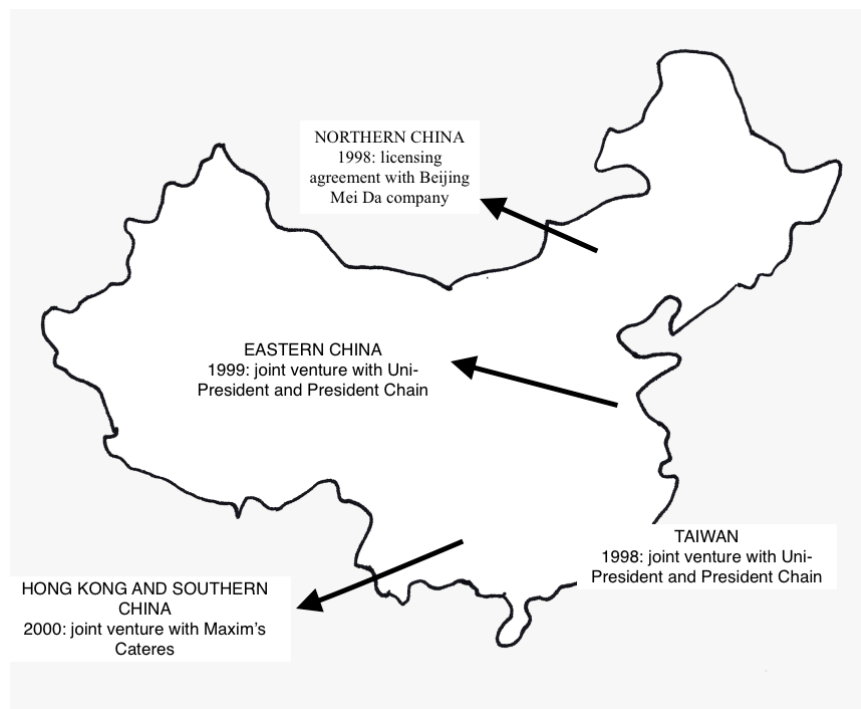
Thus, Starbucks' marketing strategy was based on customization in response to the heterogeneous Chinese consumer target segmentation. The market research did not stop at the first stage, but it is a key point that Starbucks has been taking care of since its first opening in China. The marketing strategy of the company relies on ongoing market research that lies on an extensive consumer taste profile analysis, that remains flexible to be adapted to the changing aspects of the dynamic market.

In short, Starbucks in China is mainly focused on two aspects: first, create an attractive mix of East meets West products, and second, match every single store to the right beverage portfolio to put in action a localization effort.

IV.III The market entry of Starbucks in China

Since Starbucks realized that China was a highly fragmented market, the company decided to entrust local partners to adapt customize every single business model to each macro-areas' specifications. Since China was a new target market for the international coffee chain, Starbucks decided to firstly enter the Chinese market through licensing and joint venture (Daxue Consuting, 2015).

Figure 5. Starbucks' entry modes divided into geographical areas



Source: a personal elaboration.

Starbucks decided to entrust three specific partners to enter three different Chinese areas, which were northern, eastern and southern China (figure 5).

IV.III.I Joint ventures

The analysis of the joint ventures is divided by geographic areas.

- Taiwan and eastern China:

In 1998 Starbucks established President Starbucks (台湾星巴克 *táiwān xīngbākè*) in Taiwan as result of a joint venture with the Taiwan based Uni-President Enterprise Corporation (统一企业股份有限公司 *tōngyī qīyè gǔfèn yǒuxiàn gōngsī*) and President Chain Store Corporation (统一超商股份有限公司 *tōngyī chāoshāng gǔfèn yǒuxiàn gōngsī*)⁵⁰: the first is the biggest food and beverage manufacturing company in Taiwan, while the second is the largest convenience store operator in Taiwan, managing over 5,100 7-ELEVEN stores. With an increasing expansion, President Starbucks by the end of 2021 will open 501 stores (Lock, S., 2021). The key of its success can be linked to the development of special products and marketing strategies tailored specifically to the Taiwanese market and culture.

In a separate deal, in 1999, Starbucks entered a second joint venture with its partners Uni-President Group and President Chain Store Corporation to open new stores in eastern China. After the first opening in Shanghai, the two Chinese companies opened several stores across the eastern area of China, and the joint venture took the name of “East China JV” (中国华东合资企业 *zhōngguó huádōng hézī qīyè*).

With increasing knowledge about the Chinese consumers’ segmentation and a positive response from the local market, Starbucks had been acquiring gradually shares of its operations in eastern China, until 2017, when Starbucks announced the total acquisition of the remaining shares of East China JV. The total operation accounted for about \$1.3 billion in cash, one of Starbucks’ biggest acquisitions ever. Thus, the American company assumed ownership of approximately 1,300 Starbucks stores in Shanghai, Zhejiang, and Jiangsu provinces. In 2017, Starbucks became the sole operator of all Starbucks stores in mainland China.

⁵⁰ <https://stories.starbucks.com/press/2017/starbucks-acquires-remaining-shares-of-east-china-jv/>

In the same year, the Seattle-based coffee chain announced also its intention to divest its 50% interest in the Taiwan JV started in 1998: after this announcement, Uni-President Group and President Chain Store assumed 100% ownership of Starbucks operations in Taiwan, for a value of approximately \$175 million.

- Hong Kong and southern China:

Starbucks chose the Hong Kong-based Maxim's Caterers (美心有限公司 měixīn yǒuxiàn gōngsī), a leading restaurant operator of numerous brands across Asia, in order to manage its stores in southern China: in 2000, Starbucks entered with Maxim's into a joint venture and entrusted the Chinese company the management of the stores located in Hong Kong, Guangzhou, Shenzhen, Macau, and other cities of southern China. Today Starbucks fully owns all the stores in the regions of mainland China, while Maxim's still manages the 110 stores in Hong Kong and the five stores in Macau⁵¹.

Starbucks decided to choose the joint venture option mainly for three reasons:

1. local partners have a better understanding of the current Chinese market conditions, and they can apply some adaptations that can satisfy more customers from a specific region or culture;
2. local partners know the local laws and they can help the foreign company to both negotiate with the authorities and have access to permissions easier;
3. a joint venture agreement can reduce operation expenditure since it is an equity agreement⁵². The control of the expenditure can be a good factor when entering an unknown market that is perceived risky by the company.

III.III.II Licensing agreements

- Northern China:

In 1998, Starbucks signed a licensing agreement to entrust the Beijing Mei Da coffee company (北京美大咖啡有限公司 běijīng měidà kāfēi yǒuxiàn gōngsī) the management of more than 60 Starbucks-brand stores in Beijing and Tianjin. The Chinese licen-

⁵¹ Data from <http://starbuckslocations.net/>

⁵² An equity investment agreement occurs when investors agree to give money to a company in exchange for the possibility of a future return on their investment.

see was a wholesale distribution company that supply coffee beans to prestigious local restaurants and hotels.

During the years, with the increasing success of Starbucks in China, the international coffee chain decided to pass to the next step and acquire more control over its operations in mainland China. For this reason, in 2006 Starbucks acquired a 90% stake in the Beijing Mei Da coffee company, intending to speed up the expansion of the label across the country. The remaining 10% was held by the Chinese licensee but, during the following years, Starbucks gradually quit the licensing agreement.

Starbucks opted for a licensing model because local partners have the best understanding of local consumers' habits and related laws. Moreover, local companies could have already established good relationships with the local government, and this can allow foreign companies to overcome some bureaucratic steps and obtain more easily way the permissions required to start and operate a business in China.

Another factor that made Starbucks chose a licensing model is that it is more flexible compared to the franchise model. The licensee, in fact, has fewer restrictions about the management of the operations, and he can better exploit the brand and adapt it to the local market.⁵³

IV.IV Starbucks' marketing mix in China

The marketing mix is a combination of factors that can be controlled by a company to influence consumers to purchase its products⁵⁴; these factors are called the four Ps, and they are product, price, place, and promotion. Marketing mix is a tool used to create the right marketing plan to reach out to potential customers and drive sales. This chapter will analyze Starbucks' marketing mix applied in China.

IV.IV.I Product

IV.IV.I.I Product characteristics

⁵³ In the licensing model the licensor grants the use of the individual brand, while in the franchise model the franchisor sells the entire business idea on which the company is based.

⁵⁴ Definition of Oxford Reference <https://www.lexico.com/>

The Chinese Starbucks menu reflects the same product categories proposed in its international menu, such as hot and cold drinks (coffees, teas, and milkshakes), food (breakfast, lunch, pastry, and snacks), at-home coffee (coffee blends and Starbucks' VIA brand of instant coffee), and merchandise (cold cups, tumblers, water bottles, and shoppers). Anyway, Chinese Starbucks stores have been added also some products specifically tailored to the local tastes:

- in the hot coffee section, customers can get a green tea latte and a fruit-flavored latte;
- in the tea category, Starbucks has introduced various new tea blend beverages such as orange grapefruit flavor herbal tea, pear light tea, and ice-shacking mango flavor herbal tea;
- to celebrate the Mid-Autumn Festival, Starbucks proposes every year the traditional mooncake (figure 6): since the mooncake market has become competitive and differentiated during the years, the US company opted for proposing an innovative range of mooncakes with different shapes and flavors, both sweet and salty;

Figure 6. Starbucks mooncakes



Source: Starbucks official website, menu section.

- Starbucks has proposed in the Chinese menu its line of VIA products, Starbucks' brand of instant coffee. But instead of proposing a wide range of roast coffee flavors, like in the European and American menu, the company decided to opt for more delicate blends, such as mocha coffee, vanilla latte, and caramel latte to appeal also to the consumers who are not very used with the bitter and strong roasted coffee taste;
- in the home coffee section, the company introduced Starbucks South of the Clouds, a medium-roast blend: it was first released in 2009, and it is the first blend composed exclusively by coffee beans from Yunnan province;
- the menu Starbucks Reserve section, apart from offering the standard international line of products, proposes to consumers two blends which are 100% made in China, which are its first Reserve Yunnan blend coffee bean- Yunnan Pu'er Baoshan- and its first single-origin Reserve coffee- Yunnan Qinghai Farm. The introduction of these two local products reflects the long-term commitment that the US company is willing to take with the hosting market and its population. These two Chinese blends were born thanks to the support of Starbucks to the rural Chinese coffee communities (Starbucks official page, 2018).
- in 2020 Starbucks announced its aspiration to become a resource-positive company, giving more than it takes from the planet. Its strategy involves expanding plant-based options, reduce wastes and develop eco-friendly stores. The international coffee chain expanded its new plant-based products also to China, under the movement "Starbucks GOOD GOOD: eat good, feel good and do good". With the partnership of three plant-based innovators, Starbucks invites the Chinese consumers to explore a new lifestyle good for the planet, by offering a new plant-based food and beverage menu, featuring compostable packaging and merchandise made from recycled materials. Collaborating with Beyond Meat Inc., a US company that produces plant-based vegan meat, Starbucks created three dishes inspired by the most demanded international dishes in Chinese Starbucks stores, which are pesto pasta, classic lasagna, and spicy&sour wrap. Additionally, the US company also launched OmniPork products, a line belonging to Omnifood, a San Francisco-based company that produces plant-based proteins. The collaboration created two

new dishes specifically tailored to the Chinese tastes, revisiting some typical Asian dishes, which are the Vietnamese-style noodle salad and the mushroom sauce grain bowl. Eventually, Starbucks introduced for the first time oat milk in all its stores thanks to the collaboration with Oatly, a Swedish oat milk-based products company. For the occasion, Starbucks created an oat milk version of three best sellers of its beverages portfolio, which are Oatmilk latte, Oatmilk matcha latte, and berries Oatmilk black tea macchiato (Starbucks, 2021).

IV.IV.I.II Brand and logo

In China, Starbucks was renominated 星巴克 (xīngbākè). When entering this new market, the US company decided to translate the original brand name into Mandarin and creating a new meaning under the Chinese name: 星 xīng means stars, while 巴克 bākè sounds like the English word ‘bucks’ (dollars). The meaning “stars” and “dollars” contained in the Chinese brand name refer to Starbucks Reward Program: the company gives bonus stars to customers in the base of their purchases, and they can redeem this bonus in rewards, such as free products or gift cards, so new purchases.

In 2011, the coffee chain unveiled a new, nameless logo in China, that later substituted the old logo worldwide (figure 7). The company decided to opt for a symbol-based logo without any text to be immediately recognizable at the international level through the same nameless logo.

Figure 7. Old and new Starbucks logo



Source: AYTМ, 2012.

Starbucks had some trouble in China with its trademark, because in 2004 a Shanghai-based coffee company copied its logo and brand name (figure 8). The Chinese company declared that it had registered the brand name 星巴克 (xīngbākè) in 2000 before Starbucks had secured its trademark in China. However, Starbucks argued that it had registered its logo and name in 1996, and after a two-year legal fight, the Shanghai court in 2006 concluded that the Chinese Xingbake company had violated Starbucks' intellectual property rights, so the Seattle-based company won the case (BBC News, 2006).

Figure 8. Xingbake Chinese company copies Starbucks name and logo



Source: a personal elaboration.

IV.IV.I.III Packaging

Starbucks opted not to change the design of its packaging in China since the original logo Starbucks of its items is already iconic and it symbolizes a quality warranty in Chinese consumers' minds.

Anyway, the company decided to adapt its packaging for special national festivals. For instance, during the Mid-Autumn Festival, Starbucks has launched special mooncake packages with traditional Chinese style elements, such as lotus leaves, lanterns, full moons, and lakes (GMA, 2020).

Starbucks has also proposed a second option for mooncake packaging appealing mostly to the young generation: in 2018, the Shanghai-based Design Bridge Studio created for the coffee chain a special packaging for Starbucks Mooncakes that combines bold design choices and cultural sensitivity to create an emotional connection with younger consumers. They chose a contemporary color palette of rich orange, lime green, and purple to challenge traditional design cues. The packaging also includes circular wood-cut designs, inspired by the hand-cut wooden mooncake molds, which tessellate and create a circular pattern when boxes are put side by side: this feature symbo-

lizes the idea of harmony among people when celebrating the Mid-Autumn Festival (Packaging of the World, 2018).

Traditionally, mooncakes are shared among friends and relatives while celebrating the festival: for this reason, Starbucks created special gift boxes of different sizes containing various mooncakes to propose to Chinese consumers an original alternative of gift to buy for their loved ones.

Together with the 'GOOD GOOD' movement, Starbucks introduced a new sustainable packaging in its stores in China to carry out its commitment to reduce environmental impact and become a 'positive' company. The coffee company introduced coffee ground straws, which are 90% biodegradable, made of coffee grounds and Poly Lactic Acid. They are not only eco-friendlier, but the material is also more compact than paper straws, which are gradually phasing out in the stores, so these straws also offer a better coffee experience for consumers. To replace single-use plastic cups, consumers can opt for reusable for-here cold beverages cups, made from food contact resin. Furthermore, Starbucks is trying to replace plastic cutlery by introducing new biodegradable wooden flatware for to-go consumption. Starbucks is strongly committed to foster an eco-friendlier lifestyle, so the company offers a 4RMB discount for customers who bring their cups or tumblers in store (Starbucks, 2021).

IV.IV.II Price

At Starbucks', the average price for a cup of medium coffee is 28RMB, corresponding to around 4.30USD. As shown in table 13, if comparing the price of Starbucks's with the other main competitors' in the Chinese market, it emerges that Starbucks' price range occupies a medium-premium target.

Starbucks decided to position itself in the Chinese market as a premium brand, in order not to lose the reputation of quality coffee that the company has been boasting for years at the international level. For this reason, Starbucks has followed in China a demand-oriented pricing strategy, that is prestige pricing: the price is the measure of quality and prestige, and the high standards provided by the company's products and

services justify the high price. Of course, as stated in the Veblen Effect⁵⁵ concept, companies should not increase too much the price, since it can cause the reduction of quantities. In fact, by positioning and pricing itself as a luxury brand, Starbucks raised some backlash.

Table 13. Comparison of coffee price among the most famous coffee chains in China

Brand	Average price for a medium size coffee
Costa Coffee	¥ 31
Starbucks	¥ 28
Coffee Box	¥ 26
Luckin Coffee	¥ 26
Mc Café	¥ 22.5

Source: a personal elaboration.

In 2013, the China Central Television (CCTV), a Chinese state-controlled broadcaster, ran a negative campaign against the high price of a Starbucks tall latte, accusing the company of overcharging Chinese customers and being discriminating (Parker J., 2013). A cup of latte coffee costs 27RMB in China, whereas in Chicago is 19.98RMB and in London 24.25RMB, the report says.

John Culver, Starbucks' China and Asia Pacific region manager of that time, declined the accusation claiming that Starbucks pricing in China is "competitive". In other words, the company defines the price based on its market position: Starbucks cannot be put on the same level of a lower brand, such as Mc Café, but it also has to be in line with the pricing of main coffee market competitors. Culver says that the demand in China for Starbucks is more "price elastic", it means that the pricing strategy applied depends on its current position in the Chinese market, and in 2013 Starbucks' popularity was already well-known.

⁵⁵ The Veblen Effect is the positive impact of the price of a commodity on the quantity demanded of that commodity.

However, the public sided with Starbucks, claiming on the Internet that Starbucks' high prices are the reflection of its international reputation. Moreover, most consumers recognize that, apart from good quality products, Starbucks offers a nice place where to spend time and good service, so its uniqueness cannot be compared to lower quality labels as KFC (Chang G., 2016).

In China may be a lower disposable income compared to Europe and the USA, and this may limit the number of consumers who can afford to drink daily a cup of Starbucks coffee, but it is also true that in the highly populated China the consumer base of medium-upper class that Starbucks appeals to is quite large. Moreover, Starbucks enjoys a strong brand reputation, and its worldwide name indirectly justifies the price. Starbucks has also positioned itself not just in terms of brand, but also in terms of exclusivity: the brand offers comfortable locations where people can spend some time alone or among friends; it is also in step with the times and it is continuously expanding its services. For all these addition services of course the client is expected to pay an extra price.

IV.IV.III Place

IV.IV.I Physical stores

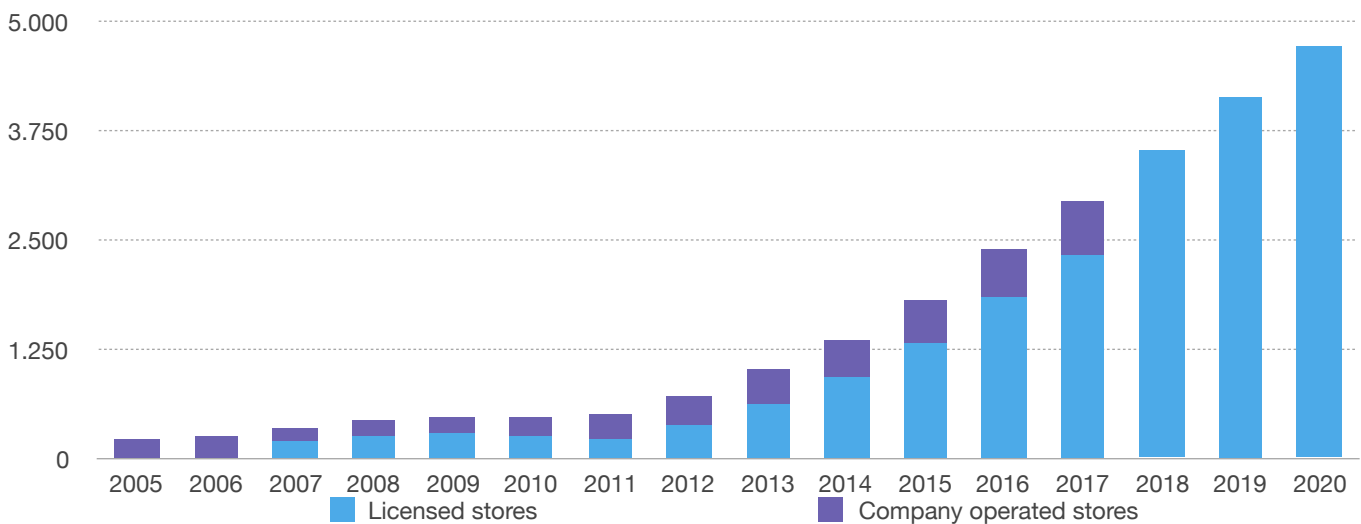
Starbucks opened its first store in January 1999 in the China World Trade Building, in Beijing. When entered this new market, the coffee chain was conscious of the cultural distance with China, so it decided to apply a new in-store ordering system to give some guidelines to new consumers: Starbucks handed out some mini coffeecup keychains on which were drafted all the product choices, from the flavor and seize to the extras. Every keychain had some layered cylinders: the consumers could spin the choices into the desired position and hand the keychain to the barista to order.

In 2021 Starbucks has opened almost 5,000 stores in 200 cities in mainland China (table 14), employing 60,000 partners, while in Taiwan there are 410 stores, in Sin-

gapore 130, in Hon Kong 174 and 5 in Macau. Today China is the second country with most Starbucks stores worldwide⁵⁶ (table 15).

Starbucks stores in China have been creating following the company’s global mission: “inspire and nurture the human spirit- one person, one cup and one neighborhood at a time”. Leo Tsoi, senior vice president and chief operating officer of Starbucks China Retail, declared: “Over the past 20 years in China, Starbucks has constantly pushed ourselves to innovate and reimagine the third-place experience, to bring people and communities closer together”.⁵⁷

Table 14. Starbucks’ stores in China from 2005 to 2020



Source: Statista 2021, “Number of Starbucks stores in China 2005-2020”.

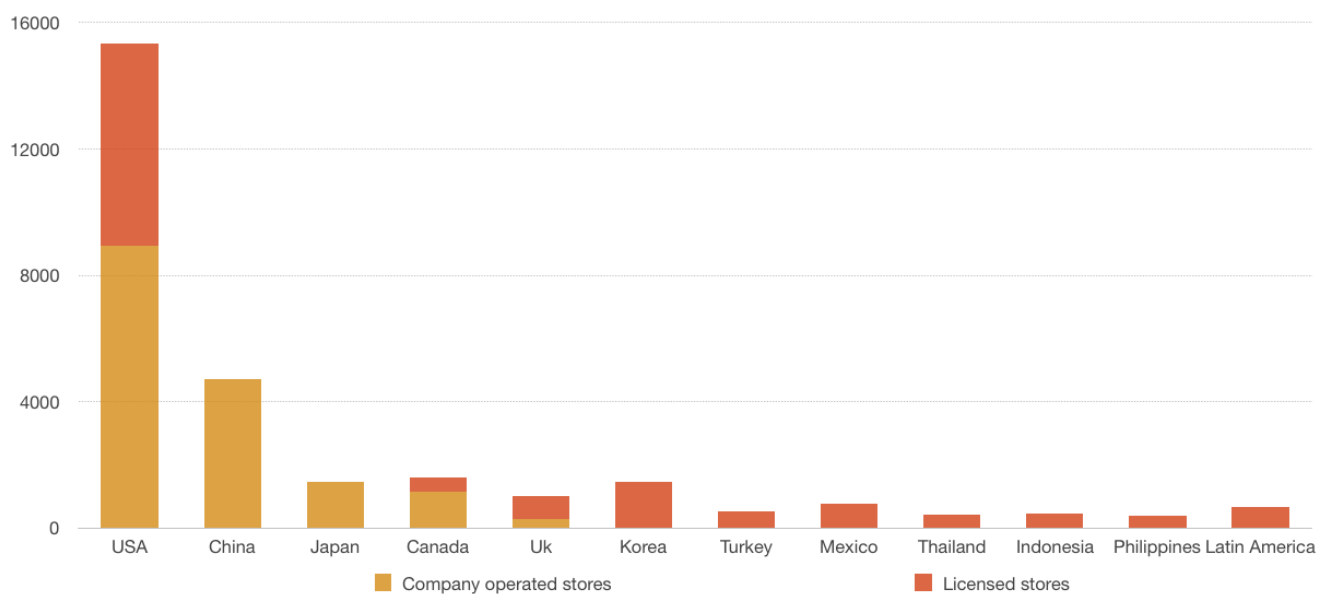
One of the key drivers of the spreading success of Starbucks in China is its strong location effort: compared to other locations, Chinese stores offer a wider lounge area, since Chinese consumers prefer moving in groups and spend a long time in bars, working on their laptop or enjoying some time with friends. The coffee chain also pushed the dine-in service rather than the take-out, unlike the American average habits (Ferreira J., 2018).

⁵⁶ Lock., S (2021): “Countries with most Starbucks locations globally as of September 2020”, in *statista* <https://www.statista.com/>, available at <https://www.statista.com/statistics/306915/countries-with-the-largest-number-of-starbucks-stores-worldwide/>

⁵⁷ Starbucks official website (2019): “Starbucks Preserves Heritage Site in China to Open Flagship Location in Tianjin”.

But the adaptation effort was not just modeled on China, but also within China: for example, when Starbucks first opened in Beijing, it tried to reproduce an old-fashioned and very traditionally Chinese design in its stores, since in the capital teahouses were strong competitors and they were still considered by the citizens almost as sacred places, where historical characters have always gathered together and discussed the classics. So Starbucks could not move away too much from this reference point, because a modern style would have not reflected the average consumers' values of that time.

Table 15. Starbucks' stores worldwide



Source: Statista 2021, "Countries with most Starbucks locations globally as of September 2020".

The situation was different in Shanghai: teahouses were popular but they were situated in other sorts of establishments, such as cafés with walls displaying experimental art, or stores designed to evoke the fashionable Shanghai of the 20s and 30s. Since Shanghai citizens were already familiar with modernity and art, Starbucks opted for a more artistic and modern design, following a trend that has always characterized the city of Shanghai (Wasserstrom J., 2008).

Another successful attempt of store adaptation was made in Jiufen, a mountain area in the north of Taiwan: since the store is close to some old gold mines, it was converted into a home-like space, including the use of stones, tiles, and other building ma-

terials. The aim of this design is to reflect the culture and story of Jiufen, increasing the empathy with local consumers and also visitors.

Starbucks not only targets first-and-second-tier cities, but it is also aiming to strategic small cities and villages: in 2019, the company opened a store in the Yuanjiacun village, in Shaanxi province. It is a remote and scarcely populated village, with less than 300 permanent residents. But, since 2007 the government has been provided financing support to rural areas in order to increase internal tourism, and Yuanjiacun is of the villages joining the project. In fact, in 2019 the village had 6million visitors, bringing a high demand for food ad beverages. Moreover, most of the visitors come from the surrounding bigger cities, so they have for sure more familiarity with the brand Starbucks. The opening of the Yuanjiacun store was successful (New China TV, 2020).

Anyway, despite its high commitment to respect the Chinese culture, the US coffee chain had some backlash along its path: in 2000, Starbucks opened a licensed café in the Forbidden City, and it caused a negative reaction by a large part of the population. An online campaign started against Starbucks, declaring that the presence of the café had “trampled over the Chinese culture”. While in 2007, the nationalist CCTV defined Starbucks as “low-class” and described the presence of the brand in the Forbidden City as “obscene”, representing an affront to Chinese civilization. After years of resistance, Starbucks was forced to close the store. Years later, in 2012, the coffee company opened a new café next to the historical Lingyin Buddhist Temple, in Hangzhou: this choice opened another round of protest condemning the “foreign invasion” and “crass commercialization” of the Chinese cultural symbols, but this time the unwelcoming behavior was less shared. The store is still open, and it may be a proof of the increasing acceptance in China of the brand, which had been increasingly working on bettering its business model to local consumers’ needs and values (Lu R., 2013).

- Flagship stores

Starbucks has currently six flagship stores⁵⁸ in mainland China: the first two were opened in Beijing in 2013 (in Beijing Tai Koo Li and Beijing Kerry Center), while the re-

⁵⁸ Flagship stores are core stores for brand name retailers, larger than their standard outlets and stocking greater inventory, often found in prominent shopping districts.

maining are located in Tianjin, Shanghai Disney Town, Chengdu Tai Koo Li, Suzhou Center, and Shenzhen MIXC World.

They are all located in popular places where they can attract more consumers' attention, and in order to better reach this objective, the flagship stores try to propose Starbucks products winking at the Chinese culture.

The first opened store in Beijing Kerry Center is situated in the cosmopolitan Sanlitun district of Beijing, an iconic area for modernity and consumption in the capital. It was designed by the joint cooperation of the Starbucks Global Design team and the local Starbucks China Design Studio: the store reflects a new bold design concept, enriched by locally relevant design elements. On the walls are displayed virtual images which illustrate the long journey from bean to coffee, executed through a modern interpretation of Chinese brush painting. The contemporary furniture of the store features artifacts of local artists, such as Chinese blue ceramics and mooncake molds. The store shares Starbucks coffee knowledge while paying considerable respect to the culture of the hosting country.

The Tianjin flagship store was opened in 2019 in the leading commercial street of the city in a renaissance-style building that dates back to 1921. Starbucks collaborated with local historic experts to bring back to life a piece of Chinese heritage and enrich it with the coffeehouse culture, elevating the third-place experience of coffee.

- Starbucks Reserve store

In 2017 Starbucks launched in Shanghai for the first time another store format: the Starbucks Reserve. These locations are an immersive coffee experience, where consumers can taste rare and small-lot coffees, brewed by using the finest methods.

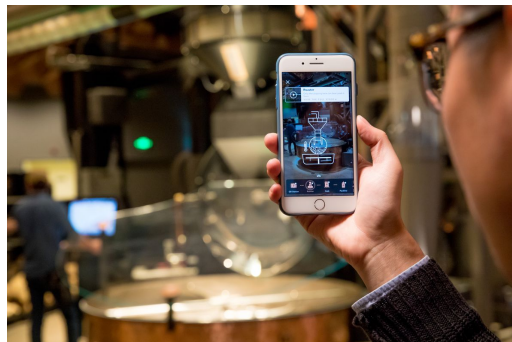
The Shanghai Reserve Roastery is the company's largest retail space worldwide, with a 30,000 square-foot surface: it is composed of three coffee bars, an Italian bakery-Princi, and a Teavana bar, a Starbucks-owned tea brand. The stores offer an extensive menu, with daily specialties and pairing options. A part from coffee, it also holds traditional tea sections where consumers can taste, smell and buy tea.

The Starbucks Shanghai Reserve Roastery design is unique and impactful: the ceiling is built with 10,000 handmade wooden hexagon-shaped tiles. It can be found

also a 40-tons copper cask with more than 1,000 hand-engraved Chinese stamps, telling the story of the company. Consumers can moreover witness the roasting methods of the coffee beans, which are then sent into a massive copper silo in the center of the Roastery and then transported through copper tubes to the different coffee bars.

Anyway, the peculiarity of this store is its new technology: since Chinese consumers are more advanced compared to the US and Europe in terms of digitalization, Starbucks tried to tie together physical stores and augmented reality. The company partnered with the Chinese tech giant Alibaba creating for the first time an in-store augmented reality experience. First of all, if downloading the Reserve Roastery mobile app, customers can point with the smartphone different features to the store and learn more about information about them (figure 9). In the app, clients can also enter a digital menu and unlock virtual badges. Starbucks also gives Alibaba users a special Shanghai Roastery photo filter, that they can share among friends on WeChat. Furthermore, if customers have Alibaba's Taobao app on their phone, as soon as they step into the Reserve Roastery a page pops up showing the map of the store and the digital menu. Of course, mobile payments through Alibaba's Alipay and Tencent's WeChat are accepted.

Figure 9. Starbucks Shanghai Reserve Roastery and the augmented reality



Source: Eater (2017), "The World's Biggest Starbucks Lands in Shanghai With Augmented Reality".

IV.IV.II Online and offline integration

Starbucks CEO Kevin Johnson at the 2017 GeekWire Summit in Seattle announced the company's goal to elevate the in-store consumer experience by tying together physical stores with digital innovation, investing in the digital-mobile connection that Starbucks has with its consumers. Johnson adds that the traditional brick-and-mor-

tar retail model is getting outdated since digital tools have changed the way people shop. Anyway, the in-store Starbucks experience cannot be ignored yet, because one of the core values of the US company is creating a human connection with its clients. By taking into consideration these two aspects, Starbucks created a cloud-based “digital flywheel” with the aim to provide a more personalized customer experience worldwide, in which the client is put in the middle (Soper T., 2017).

In 2018 Starbucks announced its strategic “New Retail” partnership with the Alibaba ecosystem, which includes Ele.me (饿了么 è le ma), Hema (盒马 hé mǎ), Tmall (天猫 tiān māo), Taobao (淘宝 táobao) and Alipay (支付宝 zhī fù bǎo) in order to bring the coffee-drinking experience to the next level. Michael Evans, president of Alibaba Group, described the “New Retail” as a new operating model where the boundaries between online and offline commerce vanish as the core aim is to fulfill the personalized needs of every consumer. According to Evans, this New Retail concept can give benefits to both consumers and retailers, because on one side, thanks to the digital tools, the store can be more flexible on the basis of the clients’ request, on the other side, the store efficiency is maximized since everything is connected and data are plentiful (Bird J., 2018). “New retail” was introduced in 2016 by Alibaba, and Starbucks decided to join the innovative project.

Starbucks, apart from the collaboration with Alibaba in the Shanghai Reserve Roastery, launched two partnerships with the tech company⁵⁹:

- in 2018, Starbucks announced that Alibaba’s Ele.me, today China’s leading on-demand delivery service, will be the exclusive delivery partner for the Chinese market. The US company chose Ele.me since the core objective of Starbucks’ delivery experience is to uphold the same product quality that consumers expect in-store. The first launch was tested in 150 stores in Beijing and Shanghai, but by the end of 2018, it was extended to 2,000 stores in 30 Chinese cities. To guarantee the best-quality delivery service, Starbucks designed a spill-proof lid for the beverages, tamper-proofing packaging, and special Ele.me delivery containers.

⁵⁹ Starbucks official website (2018): “Starbucks and Alibaba Group Announce Partnership to Transform the Coffee Experience in China”.

- Starbucks is the first retail brand that established dedicated “Starbucks Delivery Kitchens” in Alibaba’s Hema supermarket, also known as Freshippo, as support for order fulfillment. Hema is a blend of online and offline retail: it is powered by data and technology, since every product has a barcode that can be scanned through Hema’s mobile app to learn information. In addition, the supermarket works also as a logistic center, and if the customer lives within 3km from the store he can purchase the items online and get delivered at home within 30 minutes. The US company will serve the “Starbucks Delivery Kitchens” to exploit Hema’s fulfillment and delivery capabilities for the delivery of beverages offered through the existing Starbucks stores. This partnership also wants to benefit from Hema’s extensive consumer analytics in order to better penetrate and fulfill consumers’ individual needs.

IV.IV.III Online stores

- Tmall

In 2015 Starbucks launched its official Tmall store and it had a great success: by the end of the first year, Starbucks became the most popular store among the food and beverages brands in the platform, with more than 300,000 users in only two months (China Social media, 2016).

The Tmall e-Flagship store is an extension of the Starbucks in-store experience, since it proposes the elements of the physical stores by adding a higher level of personalization and convenience. Apart from selling coffee beans, teas, and Moka pots, the store features unique designed e-cards, coffee vouchers, and Starbucks gift cards. The Tmall store leverages on the concept of human connection, so it fosters consumers to share gifts of well-wishes for any occasion with their loved ones. Starbucks also enhances various campaigns during the most important celebrations, such as the Mid-Autumn Festival and Christmas, creating new levels of personalization and offering extra promotions.

- Starbucks Mobile App

Consumers can shop online through the Starbucks Mobile App, which is part of the company’s project of creating a cloud-based “digital flywheel” available to customers.

Starbucks Mobile App can be described in four keywords, which are personalization, ordering, payment, and rewards (Richman D., 2016):

- Personalization: through the digital menu consumers can customize their orders and have access in advance to the newest products. Thanks to a personalization engine, which is driven by an AI algorithm based on the users' preferences and behaviors, Starbucks proposes in real-time personalized offerings trying to anticipate the clients' desires;
- Ordering: Starbucks Mobile App provides a delivery service, so customers can order the products online and get them delivered at home. Alternatively, customers can place an order in advance through the mobile app and pick up the product at the selected store, so he/she avoids wasting time in the store while waiting for the fulfillment of the order.

As an alternative to the classic digital menu, users can place an order through the app feature "My Starbucks Barista", an innovative conversational ordering system that uses artificial intelligence: users can place orders via voice command or messaging with a digital Starbucks employee as if they were at the store (Bishop T., 2016);

- Payment: customers can pay through the app when placing orders online but also in stores, by paying with cash or credit/debit card at the register and then record the payment in the app through the user's QR code;
- Rewards: with the Starbucks Reward Program, which is called 用星享受 (yòngxīng xiǎngshòu), the more users buy, the more bonus stars they collect in the Starbucks card (星享卡 xīngxiǎngkǎ) in the mobile app. These stars can then be redeemed in rewards that can be free drinks, food, or merchandize. With the Reward Program users can also unlock exclusive benefits: for instance, customers can get a free drink or snack the day of their birthday, or they can get an extra refill for specific drinks in promotion. In order to attract new clients, Starbucks has created special member-only games where users of the Starbucks Mobile App have the opportunity to win prizes or free products.

- **Starbucks Official Website**

Starbucks created a new official website in Chinese where users can check the digital menu and learn information about the brand and its stores (image 5). The homepage of the website displays the Chinese slogan “心情惬意，来杯咖啡吧” (xīnqíng qièyì, lái bēi kāfēi ba), which translated means “In a good mood? So come and have a coffee!”. The Chinese website has a more minimalistic and monochrome design, unlike the international one which is rich of colorful images placed in a creative way. In addition, the Chinese Starbucks website has an extra section where users can learn information about the coffee origin and brewing methods, in order to provide more knowledge about a product that still many Chinese people do not properly know.

Through the Starbucks official website, users can also enroll in the Starbucks Reward Program and access directly to the Starbucks Tmall e-Flagship store.

- WeChat

Starbucks has an official account in WeChat where the brand shares articles and videos, sponsoring its products and main events. For instance, for the first day of school in September, Starbucks' WeChat official account published a group of posts wishing the students good luck, but also attaching discounts dedicated to scholars or proposing them Starbucks brand bags to use to go to school.

After the beginning of its collaboration with Tencent in 2016, Starbucks launched its WeChat mini-program (figure 10): through the mini-program users can check the digital menu and place orders to get delivered, but they can also check the closest Starbucks stores on the basis of the location, timetable and active offers. Users furthermore can send coffee to friends as a gift, so that they can get coffee for free at the store or just order it online. The mini-program is also connected to the Starbucks Rewards Program so that the members access and enjoy their benefits also through the WeChat platform (Bonaccorso E., 2020).

Figure 10. Starbucks' WeChat mini-program



Source: WeChat.

- Weibo

Starbucks has an official account in Weibo (微博 wēibó), one of the biggest social media platforms in China, accounting for around 566 million monthly active users⁶⁰.

The Weibo home page is really updated: at the beginning of autumn, the home page is tinged with orange and brown colors, leaves falling on the ground and writing saying “恰一杯秋味” (qià yībēi qiū wèi), which translated can be translated “take a sip of autumn”. In this season the brand launches a strong campaign about its mooncakes, fixing also on the top of the home page a post about the uniqueness of their mooncakes and packaging.

Starbucks in its posts uses special hashtags that also users can add to their posts: in fact, the brand re-shares also some consumers' posts about Starbucks experience, showing empathy and affection to its fans. In its campaign Starbucks involves also Chi-

⁶⁰ Statista (2021): “Number of monthly active users of Sina Weibo Q1 2018-Q2 2021”.

nese VIPs, such as the member of the well-known boyband MIC Tan Jianci (檀健次 Tán Jiàncì), who posts a picture of him trying a Starbucks mooncake.

IV.IV.IV Promotion

- Merchandising

On the wave of the “GOOD GOOD” movement, Starbucks has added to its merchandising products furniture made from recycled coffee grounds collected from the Starbucks stores, such as tumblers and notebooks. This initiative aims to engaging customers with the environmental topic and inspire them to take small actions that can improve the planet (Starbucks, 2021).

- Tasting sessions

Soon before the launch of the mooncake campaign to celebrate the Mid-Autumn Festival, Starbucks organized pastry tasting sessions during the peak hours in the morning, evening, and midnight. This pre-sale activity consisted in making consumers taste Starbucks mooncakes for free, offering also a recommended coffee to match with the pastry. Moreover, Starbucks asked all its stores to display the mooncakes in a creative way: these unique “works” attracted in store many customers who wanted to take a picture, causing an increase in sales. In addition, if consumers had shared on the social media the pictures, they would have got a mooncake for free (GMA, 2020).

- Advertisement

Starbucks spread an advertisement specifically tailored to the Chinese consumers’ values⁶¹: the video shows a typical working day, where a man is put under pressure because of thousands of emails, calls, and meetings that he has to undergo during the day. Eventually, his mood changes when he reaches his wife at the Starbucks store, where they can finally have some relaxation in a comfortable environment and dedicate some time to their loved ones.

⁶¹ Source: https://v.youku.com/v_show/id_XOTU5NDY5Njg0.html?spm=a2h0c.8166622.PhoneSokuUgc_5.dtitle.

This advertisement appeals to the core values of Chinese consumers, which are hard work and family. The communication strategy chosen leverages the ideological lifestyle that Chinese people aim to, such as a good wife, a successful job, and a good-looking environment where to stay. Anyway, the advertisement digs deeper into consumers' psychology, giving them an alternative place where to stop for a break focusing on human connection. The emphasis is not much more put on the product itself, but on the senses and feelings that the product can provide.

- Newsletter

Starbucks has elaborated an email program that aims to provide to each consumer unique tailored offers. The company uses a real-time AI-based personalization engine that elaborates the Rewards cards' spending data and automatically creates personalized variants: the engine can reach 400,000 variants per week. Thank the newsletter service, customers receive weekly Starbucks highly personalized promotions that make every single user unique (Richman D., 2016).

- Social gifting feature on WeChat

In 2017 Starbucks, in collaboration with Tencent, launched "Say it with Starbucks", ("用星说", yòngxīngshuō), a new social gifting feature on WeChat. Users can have access to an accurate section of Starbucks gifts and add a personalized message, that can be a text, image, or video to cheer up the day of a loved one. Once the addressee receives the gift, he can save it on WeChat and redeem it at a Starbucks store in mainland China.

This WeChat feature is the first online-to-offline social gifting innovation in China, and it encourages consumers to share actions of love by providing them the occasion to send Starbucks drinks or digital gift cards in an instant and convenient way.

During the launch period, WeChat has opened also access to "Say it with Starbucks" in the WeChat wallet function, in order to incentivize its use (Starbucks official website, 2017).

V. MMNEs: the case study of illycaffè

V.I Introduction: illycaffè goes international

Illycaffè S.p.a. was founded in 1933 in Trieste by the Hungarian Francesco Illy who settled down in Italy after the First World War. The company belongs to the Illy Group, the holding established by the Illy family, and today illycaffè is run by the third generation, currently lead by Andrea Illy. The company's core objective is to carry on the original vision of illycaffè, which is “be a reference standard for coffee excellence and culture worldwide” and “become a leader in high-end coffee”⁶². Illycaffè is popular for its production of a unique high-end coffee blend, composed by nine types of pure Arabica accurately selected: unlike the Robusta coffee, Arabica is sweet and soft, characterized by a sour note and an aromatic flavor.

The company boasts an innovative growing path that has been standing out illy through the years: in 1935, Francesco Illy invented the first espresso coffee machine, called “Illetta”, and a revolutionary conservation method, the pressurization, created to maintain the coffee quality to export products also out of Italy. The second generation of the family, lead by Ernesto Illy, designated an internal chemical laboratory to carry on scientific and technologic research to study and develop new methods for coffee production and conservation. Furthermore, in 1974 illy started producing coffee pods, the first single portion system in the market, with the aim to bring a good quality coffee also at home and at the office⁶³. The company expresses its high-end coffee not only through technologic tools but also through art: Francesco Illy had the idea to communicate not only the quality but also the beauty of coffee, and in 1992 were born the first illy Art Collection coffee cups, designed by artist Matteo Thun. The illy Art Collection in the last thirty years has involved various artists and emerging talents, and today it is the biggest art collection daily used in the world. These original cups want to be a synonym of the Italian style and excellence all over the world.

Apart from its attention for the quality product, illycaffè is highly committed in increasing the quality lifestyle of its stakeholders, from producers to final consumers. In

⁶² Data collected from illy official website, in “mission and values” section.

⁶³ Data collected from illy official website, in “in viaggio attraverso la storia” section.

2021 illycaffè has been ranked for the consecutive ninth time in the list of world's most ethical companies. Every year the Ethisphere Institute, global leader for the definition and development of company ethical standards, nominates the companies that represent a positive model and constantly express their moral integrity through a decision making based on strong values. Illy has been the first Italian company which entered this international rank.

Currently the 56% of the company's volume sales comes from foreign markets, since illy has been expanding constantly out of the Italian borders: the company today runs directly and indirectly 11 enterprises with more than 700 employees; it supplies 140 countries in 5 continents and it has 240 point of sales in 39 countries (Cecchinato F., 2011).

During its international expansion, that began with the establishment of the company's first foreign branch in Germany in the '50s, illy decided to re-adopt the original company's products line composed by a full range of colonial products, which include not only coffee, but also chocolate and tea. In fact, the Illy Group also owns the Italian chocolate brand Domori, the French tea brand Dammann, the Montalcino wine producer Mastroianni and the Italian ice-cream brand Agrimontana.

At the very beginning Illy operated only in the business-to-business market, targeting professionals belonging to the catering and hospitality industry, such as hotels, restaurants and cafés. During its evolutionary path, the company decided to expand its sales also to final consumers, firstly through retail channels and lately through a new international franchising model, called *Espressamente Illy*, with the core objective of exporting and promoting illycaffè's culture, style and products all over the world.⁶⁴

V.II Illycaffè in China

According to the Euromonitor report "Coffee in China", the leader of the Chinese coffee market is Nestlé, that accounts for 67.4% of the total retail value in 2019⁶⁵. With 2.4% of shares (equivalent to around 178 million RMB), illycaffè occupies the se-

⁶⁴ Cecchinato, F. (2011): "Tre imprese italiane nel mercato cinese: le esperienze di Illycaffè, Irsap e Faam. Intervista a Giovanni Loser, Fabrizio Rossi e Federico Vitali".

⁶⁵ Absolute value (100%): 7,417.7 million RMB

cond position in the ranking, followed by the Chinese Maxwell House that accounts for 2.2% of shares. The big gap between the first and second position can be explained by the fact that Nestlé was the pioneer of coffee in China: it entered for the first time the Chinese market in 1987 and, since that moment, it has been exploring and educating by itself the Chinese consumers, facing uncertainty and new local consumption habits. Its strong investments and educational work towards the Chinese market has allowed other foreign companies to later join the new acquainted market. Despite the increasing number of competitors since the 2000's, Nestlé remains the reference brand in Chinese consumers' minds.

Illycaffè followed an evolutionary path for entering the Chinese market: through the establishment of relationships with local distributors, illy arrived in Hong Kong in '92 and in mainland China in '98, supplying professionals belong to the Ho.Re.Ca. segment (AGI China, 2018). After the creation of strong relationships with luxury restaurants and hotel chains, in 2005 illy established a branch in Shanghai, which took the name of Illycaffè Shanghai (意利咖啡商贸上海有限公司 *yìlì kāfēi shāngmào shànghǎi yǒuxiàn gōngsī*), responsible for the distribution of illy's product across all China. As a second step, in 2007 the company entered joint venture agreements with two Chinese companies in order to open franchising stores across the country.

Currently illy Shanghai is responsible for the distribution channels in mainland China, whereas the management of Hong Kong, Macau and Taiwan markets is appointed to a Hong Kong-based business office belonging to a sister company (appendix 1): this business office consists in an Italian team that manages all the operations in the Asian markets, including also Singapore, Japan, Vietnam, South Korea and Malaysia. Since the entire production capabilities has remained in Trieste, the illy Shanghai company and the Hong Kong-based business office monitor the transactions between the parent company and the local distributors and provide supporting activities.

China represents one of the most dynamic foreign market for the Italian company, and the business in China has been growing at a steady speed. Andrea Illy, illycaffè CEO, has declared that “the demand for high-end consumer goods and a developing coffee culture in China provide solid ground for illycaffè to expand its presence in the country” (Zhihao T., 2011). Despite the pandemic, Illy had a positive feedback from the

Chinese market in 2019 and 2020, thanks to the company's local distributors network and its investments in the e-commerce. An additional element that demonstrate the relevance of illy in China comes from the fact that, in 2020, Illy accounted for 30% of the total imported roast and ground coffee of China (Daxue consulting, 2020).

V.II.I Distribution channels

Illycaffè Shanghai at the very beginning mainly addressed the business-to-business market (table 16), in particular catering and hospitality industry (Ho.Re.Ca. segment), such as featured cafés, Western restaurants and five-star hotels. Illy supplies more than 1,000 Chinese hotels, restaurant and cafés, among which stand out famous names such as Park Hyatt Shanghai, Shanghai Peninsula Hotel, and Shanghai World Trade Center Royal Emmy Hotel.

Table 16. Illycaffè Shanghai's retail channels

B2C	B2B
Franchising model (Espressamente illy, illy Caffè and illy Shop)	Ho.Re.Ca. channel
Modern trade (supermarkets)	E-commerce: Tmall, Taobao, Jingdong
E-commerce: Alibaba	

Source: a personal elaboration

With an increasing refinement of the Italian company's distribution network in China, illy Shanghai has also addressed its products to final customers, selling the brand in some high-end retail stores, such as Carrefour, Metro, Urban supermarkets and Kyushu supermarkets. Later, thanks to the spread of coffee knowledge through the Chinese population, illy decided to entered the business-to-consumer market addressing its products also directly to the final consumers. To fulfill this objective, since 2007 illy have been opening mono-brand stores across China under a franchising models: the stores are divided into coffe bars, initially called Espressamente illy, and retail outlets, known as illy shops (the name of Espressamente illy was changed in 2019 in illy Caffè). The franchise chain Espressamente illy is an international model through which the Trieste-ba-

sed company aims to spread all over the world the traditional Italian coffee and café service. Today Illy has more than 160 Espresso Illy stores in the most important cities of 34 countries⁶⁶.

V.III Approach strategy

Illycaffè entered the Chinese market gradually by acting as a ‘second mover’: it firstly waited for big companies to create a new market and start educating Chinese consumers to a new concept of consumption, and only after enter the scene. In the case of the Chinese coffee market, the pioneers has been the multinationals Nestlé and Starbucks, which entered the Chinese market correspondingly in 1987 and 1998: after considerable investments in financial resources and adapted business plans, these big companies found a suitable way to introduce coffee to Chinese consumers and establish a standard offer.

This situation recalls the first and second mover strategy: in new business-to-consumer markets, since mMNEs have not enough resources to invest to create a brand new market abroad, MNEs are the first that gain an initial position in the new market and start spreading knowledge about the brand and the product. This dynamic influences the consumer behavior, that act in response to the companies’ offering. For instance, Starbucks and Nestlé, by introducing a standard coffee offer to approach the Chinese market, created a mass market in China, a simple basis from which build a more articulated market.

Thanks to this step, smaller companies were able to enter the new acquainted market, since they could offer their products to the more sophisticated segment and differentiate the niche market: this possibility was enabled by the fact that with this new situation these companies could identify niches to which sell their products at a higher but accepted price, since consumers had acquired more competences to really understand the value proposition behind different products.

When entering a new market, the second mover has to re-design the narration of its products: this is the key to differentiate one product from the competitors’ one and create brand preferences in consumers. Second movers should pursue two core objecti-

⁶⁶ Data collected from in-franchising.com

ves: the first is eliminate unnecessary details and focus on the basic features of the product, thus favoring a direct and clear communication with the final customer. The second is find a suitable way to align the products with the local core values of the new market.

For instance, Lavazza in China has decided to target the family segment, building its products around the concept of household consumption and familiar environment. Illycaffè meanwhile wants to propose a synthesis of the Italian lifestyle, thus becoming an international ambassador of Made in Italy. For doing this, the company decided to harmonize the original Italian blend with art and design, in order to attract the attention of more sophisticated consumers. Apart from the Ho.Re.Ca industry, Illy extended its products line for all the occasions, including household consumption, but always targeting the wealthier part of consumers through sales in single-brand stores.

Illy set as main consumers' target in China expats and the middle-higher Chinese class who loves eating and drinking good, so mainly the élite. Illy produces high-end coffee with a considerable price, and the acceptance of these products in the Chinese activities and households has been possible thanks to the evolution of the coffee culture in China, because it created more sophisticated consumers across the country: without this market evolution, Chinese consumers would have maintained a preference towards low-quality and instant coffee.

Before entering the Chinese market, illycaffè pointed out some characteristics which later influenced the operational choices of the company in the new target market (Cecchinato F., 2011):

1. despite the educational process about coffee carried on by Starbucks and Nestlé during the years, Illy realized that there was still a need to invest more in the development of the espresso culture in China: despite the increasing consumption of coffee registered in China at the beginning of the 2000s, a large part of the population still considered the coffee taste too bitter and did not know all the benefits coming from the beverage. Some consumers also considered the coffee noxious to their health, based on erroneous beliefs about coffee properties.

To make Chinese consumers better understand coffee benefits and characteristics, Illy in 2006 established in Shanghai a branch of illy's University of Coffee. The

University of Coffee was set up by illycaffè in Trieste in 1999 with the aim to be a reference coffee ambassador around the world. Today the university has 25 branches all over the world: it trains expert baristas and coffee lovers to communicate the true values behind coffee (Beverfood, 2006);

2. Until the end of the '90s, the consumption of coffee was almost absent in China, and when multinationals introduced the beverage for the first time, they also introduced a brand new product category that before was not contemplated in the Chinese market. So when a company enters a new market where the product category itself is completely new, it must consider that the consumption behavior is going to be different compared to the domestic market one. Western countries have been consuming coffee for centuries and they witnessed a gradual evolution of the coffee offer, from the standard coffee powder to the more sophisticated coffee capsules. When coffee was introduced in China, the product category proposed had already reached important evolutive steps in terms of technology and modernization so, apart from an initial educative phase, Chinese consumers had an immediate access to sophisticated coffee offerings. In light of this, the purchase and approach process of a coffee brand for Chinese consumer is different: unlike the Western countries, where the process went from coffee powder to more advanced products, in China was created immediately an advanced consumption because consumers could since the beginning purchase modern products, such the coffee capsule machines.

By taking in consideration these findings, Illy decided to maintain its international products line, offering also coffee capsules with the correspondent capsule machines;

3. Currently, instant coffee accounts for the 97.5% of total coffee retail value⁶⁷ (Euromonitor, 2019), whereas fresh coffee consumption is still low. Fresh ground coffee is the core business of illy but it is not one of the most consumed coffee types in China. Today, coffee is more considered as an ingredient rather than a final product: a large part of coffee shops provide consumers some “coffee cocktails” and coffee-based drinks, such as latte and cappuccino, whereas the real Italian-style espresso is not very common. Currently, the most popular coffee formats in the Chinese market are

⁶⁷ Corresponding to 6,904.8 CNY.

drip-on coffee, instant coffee (both soluble and liquid), and ready-to-drink coffee. The coffee beans market is expected to increase in the next five years with a growth of 18% every year. But, since China is a price-driven market and the country size is huge, fresh coffee market is highly segmented. Even if illy is a leader brand in the international fresh coffee field, the company would not reach in a short-time the popularity that it aims to reach. For this reason, illy keep on growing in the fresh coffee market (the iconic 250 gr. can is the most sold article in China by illy Shanghai), but it has decided to bet also on other products, such as instant coffee and drip-on coffee, to have a stunning growth in China and be in line with the Chinese tastes as much as possible (appendix 1);

4. To create brand knowledge and increase brand awareness, Illy decided to make a considerable investment in its online presence. Internet penetration in China is high (Statista, 2021), affecting the shopping behavior of its users. For this reason, the company made a strong effort in having a strong presence both in the Chinese e-commerce and social networks;
5. Illycaffè assumed that an important element to be successful in the Chinese market was having a deep knowledge of every specific location and environment where operating, because of the high heterogeneity which characterizes the country. For this reason, the company strategy was to find the right partner city by city to un-charge the co-run of the franchising stores. Every franchisee is allowed by Illy to manage and be responsible for the store since the local partner can provide precise consumer insights and develop successfully the brand awareness desired.

After this depth analysis of the Chinese market, Giovanni Loser, global general manager of illycaffè, stated that “the consumer behavior, the development of coffee culture and reliable partners” are the key aspects to be successful in the Chinese market (Beverfood, 2006).

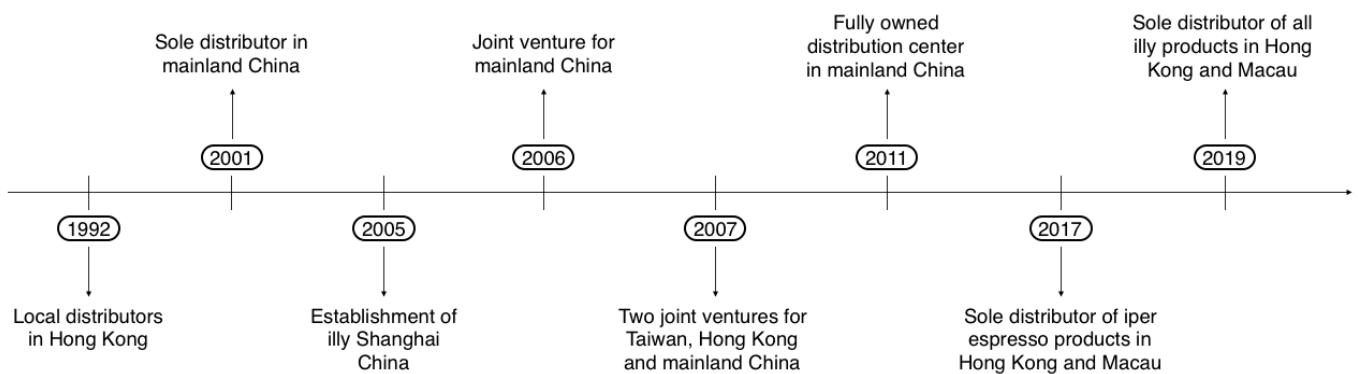
V.IV Market entries of illycaffè into China

Illycaffè produces high-end coffee and sophisticated coffee machines, so entering an uneducated market not able to understand the value proposition of its products would had been a risky choice. Anyway, between the end of the 90’s and the beginning of

2000's, international companies, such as Starbucks and Nestlé, had already step into the Chinese market testing its high potential. Illy was fascinated by the possibility of dealing with this new country, but it had not enough resources and knowledge to face such a new market. For this reason, the company since the 90's has started a gradual entering path, changing the operational models on the basis of the market results obtained by the company through the years (Cecchinato F., 2011). In 2018, during an interview for AGI China Giacomo Biviano, general director of illycaffè's EMEA⁶⁸ markets, declared: "Today we are a big Group, but when we started stepping into China we were not, so we operated with far-sightedness, since we had not many resources".

The following timeline will describe step by step the expansion of Illy in the Chinese market (figure 11).

Figure 11. Timeline of Illy strategic expansion in China



Source: a personal elaboration

1) Indirect export in Hong Kong and mainland China

Since Illy had never experienced the Chinese market before, the company decided to opt for indirect exports, operating through the intermediation of local third parties. In 1992 the company started exporting its products to Hong Kong. These exports were coordinated by local distributors, who were accurately chosen by the company to verify their ability to communicate correctly the quality and characteristics of illy coffee.

⁶⁸ Acronym of "Europe, Middle East, and Africa".

Illy did not immediately address its products to mainland China since they wanted to reduce the risk by exporting in the most westernized areas of the country and Hong Kong was a good first choice.

After the pilot project in Shanghai, illy decided to extend its operations to mainland China. In 2001, illy appointed the Shanghai Meiji Food Co. Ltd. (上海美吉食品有限公司 *shànghǎi měiji shípǐn yǒuxiàn gōngsī*) as sole distributor for mainland China. The Meiji company was founded in 1995 and it operated in the food industry, in particular it managed the production and distribution of a wide range of products. It was already present in Asia, Middle East and Australia, so it could have had the best resources to support illy's expansion project. The distribution was concentrated for the 45% in the area of Shanghai, since it was one of the cities with the higher presence of expats and that particularly follows the Western habits and consumption trends.

In 2006, after the establishment of illy's branch in China, illy interrupted its agreement with Meiji company.

2) Establishment of a foreign branch

In 2005 illycaffè established a company branch in Shanghai, which took the name of illycaffè Shanghai Co. Ltd. (意大利咖啡商贸上海有限公司, *yìlì kāfēi shāngmào shànghǎi yǒuxiàn gōngsī*). Illy Shanghai is both responsible for the distribution of all illy brands' products across China and for spreading the Italian-style espresso coffee culture across the target market.⁶⁹

Apart from distributing illy brand's coffee and coffee machines, the company also provides black tea and chocolate of the Sri Lanka company Dilmah and the French company Monbana. The wide range of products managed by illycaffè Shanghai also includes a large variety of imported coffee machines, belonging to brands such as Marzocco, La Cimbali and Jura.

The company in addition provides to customers specialized services, such as business consulting, market information, product planning, personal training and equipment installation.

⁶⁹ Data collected from liepin.com.

Illycaffè's choice of opening a new subsidiary in China came from the need to increase the control over its international operations: being closer to the final market allowed Illy to better monitoring all the distribution, pricing and branding activities, getting a better insight of the Chinese market trends. Acquiring a pre existing local company could create integration problems, such as different management styles and business models. In this way, Illy could apply the experiences gathered during the years and choose by its own the best operating path.

3) University of Coffee of China

Thanks to a deeper presence of illy in the Chinese market through its new branch in Shanghai, the company in 2006 established in Shanghai a branch of the University of coffee of Trieste, a training center set up in 1999 by illycaffè with the aim to spread across the globe the Italian coffee culture. The Chinese branch, which takes the name of University of Coffee of Shanghai (上海意利咖啡大学 shànghǎi yìlì kāfēi dàxué), is the result of the company's strategy of global expansion, and it is a mean to access those emerging markets that gravitate towards the Western consumption trends.

The classes are hold by Chinese teachers, all trained in Italy, who provide theoretical and practical formation on every aspect of the production line: from the coffee cultivation and the preparation to the typical service of Italian cafés. The educational offer is addressed to present and future baristas and hospitality professionals, but the university also offers discovery activities linked to connoisseurs and coffee lovers. In only one year of opening, the Chinese branch trained almost 1,500 coffee experts.

The University of Coffee is part of a completely new internationalization model: Roberto Morelli, the director of the University of Coffee, declared that, through this initiative in Shanghai, the company avoids moving abroad the production by just 'delocalizing' the culture: it is not useful moving the producing capabilities if the market is not ready to truly appreciate the product, so illy's strategy is to move to China the necessary knowledge that makes local consumers fully appreciate the Italian coffee (Beverfood, 2006).

4) Joint ventures

- **Mainland China**

In 2006 illy Shanghai entered a joint venture agreement with the Hong Kong-based Bonny Foodservice Product Co. Ltd. (环进餐饮设备香港有限公司 huánjìn cānyǐn shèbèi xiānggǎng yǒuxiàn gōngsī), importer and distributor of food supplies in Hong Kong and mainland China. This joint venture established 10% of shares belonging to illy and the remaining 90% belonging to Bonny Foodservice. In August 2011, illy acquired the shares of Bonny Foodservice, creating a new fully-owned branch distribution for illy in China.

- **Hong Kong, Macau, Taiwan, and mainland China**

In 2007 Illy entered a strategic partnership with the Hong-Kong based Cafè de Coral Group (大家乐集团 dàjiālè jítuán), one of Asia's largest publicly-listed restaurant and catering group that owns and operates one of the most famous fast-food chains and restaurants in China. Through this partnership, Illy opened 30 cafés in Hong Kong and Macau through its franchising *Espressamente Illy*.

In the same year, Illy established a second joint venture with the Shanghai-based Dachan Great Wall (大成长城企业股份有限公司 dàchéng chángchéng qīyè gǔfèn yǒuxiàn gōngsī), a diversified group in the food industry, for the opening of 17 *Espressamente Illy* stores in Taiwan and 58 in mainland China.

This strategic choice aimed to reduce the risk perceived by the company and have access to the capabilities of local partners. In fact, the joint ventures relied on a concept of sharing assets: on one side, illy had marketing and branding capabilities, boasting the success of its international business model *Espressamente Illy*, on the other side, Cafè de Coral Group and Dachan Great Wall had managing capabilities and knowledge about Chinese consumers' trends.

5) Sole distributor in Hong Kong and Macau

In 2017 Illy joined a partnership with Kerry Logistics (嘉里物流 jiālǐ wùliú), a Hong Kong-based logistics company whose core competence is providing customized solutions to international brands which are willing to increase in Asia their supply chain.

Through this partnership, Kerry Logistics became illy's sole distributor⁷⁰ of iPerEspresso coffee machines and capsules in Hong Kong, providing them a total integrated logistics service.

After their first partnership, Illy realized that concentrating its full product selection under one operator could be a successful way to facilitate the brand building and market penetration: for this reason, in 2019 the Kerry Logistics became the sole distributors of illy's complete range of products in Hong Kong and Macau, under the new name of Kerry Coffee (Hong Kong) Limited (嘉里咖啡股份有限公司 jiālǐ kāfēi gǔfèn yǒuxiàn gōngsī). Kerry Coffee now provides to illy logistics, sales and marketing services to strengthen the Italian company's position in Hong Kong and Macau.

With the establishment of a new company, Kerry Logistics started a long-term commitment to extend its business into the trading of coffee and related products. Also this agreement is oriented towards a business mutual support: on one side, the experience of the new Kerry Coffee enhances the cost efficiency of the distribution and sales operation, allowing illy to increase its market recognition in Hong Kong and Macau. On the other side, Kerry Coffee exploits the popularity of the illy brand to grow rapidly in the Chinese food services business, capitalizing on the growing coffee market in China (ACN Newswire, 2019).

V.V Marketing mix

V.V.I Product

V.V.I.I Characteristics

Illycaffè's main purpose is to spread high-end coffee all over the world: to be coherent with this mission, the company almost did not change the range of products proposed to the Chinese market. Illy proposed to the Chinese customers coffee powder, instant coffee, coffee capsules, coffee capsule machines and coffee-based products.

⁷⁰ The sole distributor is the only distributor with whom the supplier deals with for that defined territory. The supplier can not sell their products to other distributors for that same territory for which sole distributor is already appointed, but the supplier is at liberty to sell their products directly to customers on their own viz. through their own outlets.

Anyway, if comparing the Italian and Western offer with the Chinese one, it can be noticed that Illy introduced one new coffee category for the Chinese market, which is soluble coffee and coffee filter (figure 12), in Chinese correspondingly called 挂耳咖啡 (guà'ěr kāfēi) and 滤挂式滤泡 (lǜ guà shì lǜ pào). This product choice was driven by the fact that coffee filter is a preparation method that is close to the Chinese drinking habits: the Chinese population is used to pour hot water directly in the infuser to prepare teas and other hot drinks. The coffee filter preparation can be a strategic way to approach new consumers since this preparation method leverages on a sense of familiarity.

Taking into consideration coffee capsules, at the very beginning Illy provided coffee capsules only applicable to its own machines. In China the sales of fresh ground coffee capsules have been increasing during the years, and the two brands of Nestlé Nespresso and Dolce Gusto are currently dominating the market. In light of this, Illy decided to develop compatible capsules to exploit the prevalence of the existing Nespresso and Dolce Gusto machines in the Chinese households (Euromonitor, 2019).

Figure 12. Illy's soluble coffee and coffee filter



Source: 意大利咖啡官方旗舰店, Illy Tmall official flagship store.

Illy introduced in the Chinese market its line of cold brew coffee products, which takes the name of illyissimo. Illyissimo borns in 2008 from the partnership between illycaffè and Coca Cola: this coffee-based cold drink shows the intention of the the Italian company to enter the ready-to-drink beverages market, appealing to a fresh taste that can attract the attention also on those consumers who are not very attracted by the traditional espresso. This new canned coffee had a good feedback from the Chinese

market, and Illy decided to add some extra flavors in order to further attract also those people who are not coffee-lovers: apart from the standard three variations of intense, smooth and standard coffee flavour, Illy has introduced sweeter ingredients, such as coconut mojito, grapefruit, watermelon, pineapple, litchi and ginger-flavor cold brew coffee. Since illyissimo has registered good results in terms of sales, the company decided to make a further step: in order to remember its Italian origin, illy decided to match this innovative cold brew coffee with a typical Italian drink, which is Aperol Spritz (figure 13). The mission of illy was to create a sort of bridge between the Chinese consumers' tastes and the very original identity of Italian drinks with the creation of the Spritz cold brew coffee (黑金气泡冷萃 hēijīn qìpào lěngcuì).

The introduction of this spritz-flavored product in China is the result of a thoughtful process: taking into consideration the cold-brew coffee product in question, the company firstly introduced it as an alternative to the traditional espresso. In a second phase, illy modified the product to further adjust the flavor to the local tastes, which tend to appreciate fresh and fruity beverages (as the Taiwanese bubble tea). Only at the end, when the product created a good profit proving the approval of consumers, illy introduced a very Italian flavor, completely distant from the local one. This was possible thanks to the previous work that the company had been carrying on for the product management.

In China the tradition of sending gifts to colleagues and the loved ones is really common: the occasion can be the celebration of a national festival or the demonstration of esteem and gratitude. For this reason illy proposes to the Chinese customers some gift boxes containing soluble coffee packages, a tea collection or a set of branded cups (figure 13).

Figure 13. Illy's gift boxes (礼盒系列 lǐhé xīliè)



Source: 意利咖啡官方旗舰店, *Illy Tmall official flagship store*.

V.V.I.II Brand and Logo

Illy translated its brand in Mandarin in 意利 (yìlì), appealing to a sound similarity with the original Italian name illy. The translation relies also in a meaning creation, since the characters used for the Chinese version of the brand are the same contained in the the word Italy (意大利 yìdàlì).

The illy's signature red-and-white square logo has been maintained the same for all the foreign markets, with the aim to rely to its international presence and be recognizable at a worldwide level. In the case of the Chinese market, the colors of the logo are particularly suitable, since the red is the national color of the country.

The international slogan of illy is "live happily": it plays with the name of the brand and it associates its products with a sense of well-being and high quality life. The strategy for the Chinese market is different: the brand slogan in Mandarin is "因为专业，所以好喝" (yīnwéi zhuānyè, suǒyǐ hǎohē), which can be translated in "since we're experts, you'll drink good". In this case the company wants to underline the high preparation process and accuracy behind its coffee blend, commutating to Chinese consumers that illy distinguishes itself for the professional high quality.

V.V.I.III Packaging

Illycaffè has not changed the packaging design for the Chinese market, maintaining the red and white colors that characterize the brand.

Illy has decided to switch the labelling of the packaging in Chinese, but also to maintain the product name in Italian and the front-product description in English (figure 14).

Maintaining the labelling in a Western language can be a marketing strategy linked to the country of origin effect⁷¹: since the Chinese market is not fully expert about coffee yet, Chinese consumers consider particularly important visualizing and experiencing a brand, looking for a sort of sense of reassurance. The large part of Chinese customers look for details that give a first good impression of a brand, such as the packaging design, the stores' layout and the brand name. All these elements can link a product to a particular country-image in consumers' minds: if the country-image in question is positive, it can facilitate the acceptance of the product and represent a warranty for the customer, thus reducing the purchasing risk perceived when buying the item (Vescovi et al., 2015).

Figure 14. Illy's packaging design



Source: Jingdong.

⁷¹ It is a psychological effect that can influence consumers' buying behavior on the basis of the products' country of origin labeling.

The country sound branding for instance can be a strategy to link one product to a specific country of origin: since illycaffè wants to be an international ambassador of the Italian espresso, it decided to maintain an Italian-sound labelling to communicate the “Made in Italy” quality to the final consumer. The Italian sound branding can facilitate the creation of the country of origin image even for consumers who do not have already a specific perception of the country. This works especially in particular industries already dominated by strong Italian brands, such as fashion, furniture and food and beverage industries. Elements of the product that recall Italy suggest and build in the Chinese consumer's mind a spontaneous link between the product category and the country.

Anyway, in the Chinese market Italy is not one of the most well-known foreign countries, because of the cultural distance and the minor role of Italian multinationals in the global market. For this reason, is quite difficult for Chinese customers to clearly distinguish Italian features from for instance French ones, so Chinese people tend to build in their minds a comprehensive image that embed all the specific countries in just one macro-area: they tend to gather all these countries firstly under a “Western image” and then more specifically under a “European” one. Applying a label both in English and Italian can have a double strategy: even if not every consumer identify the Italian origin of the product, the large part of the remaining consumers will probably link illy to the Western culture, which can be a sign of reassurance anyway. First of all, illy would be mentally collocated in the same macro-area of the Chinese coffee market's leader, which is the American Starbucks, and secondly, the West is largely seen as symbol of high-quality standards and modernization, which work as a proof of warranty.

Anyway, illy has to fight against those foreign Italian sound brands which try to suggest an Italian image which is erroneous. In the case of not totally educated markets such as China, consumers have not enough knowledge to identify and understand an original offer from the ambiguous one, and this only contributes to create more confusions in local consumers' minds.

The ability of consumers of identifying a specific country-area, such as Italy, will be reached after a long-time learning process and affective communication strategies applied by foreign companies. For instance, illy has been trying contributing to the

spread of the Italian espresso culture and the typical Italian café service, by providing unique experiences in its modo-brand stores and at the University of Coffee of China.

V.V.II Price

By comparing the price of illy's products with the other competitors', it emerges that illy occupies in China a premium position. By looking at the table 17, it can be noticed that Illy has prices which are equal or higher than the Nestlé's brand Nescafé, which is the leader of the coffee market in China.

Illy collocated itself in the rising specialty coffee category that has been gaining popularity in China in the recent years. The elaborated brewing methods and modern technologies that characterize the specialty coffee have a premium connotation in Chinese consumers' minds, so this new kind of coffee is a synonym of high accuracy, premium quality and uniqueness. Since illy has positioned itself in China as premium brand, the company follows the pricing philosophy of high quality-high price: applying the prestige pricing strategy, the price becomes the measurement of the product value, thus making the high price more acceptable for the customer.

Table 17. Comparison of coffee prices among the Chinese coffee market's leaders

Coffee category	Brand	Price
Classic coffee powder (250 gr.)	Illy	75RMB
	Nescafé	72RMB
	Maxwell House	50RMB
Instant coffee (95 gr.)	Illy	80RMB
	Nescafé	50RMB
	Maxwell House	50RMB
Coffee capsules	Illy (10 pz.)	69RMB
	Nescafé(16 pz.)	59RMB

Coffee category	Brand	Price
Capsule machines		
	Illy	800-1000RMB
	Nescafé	700-110RMB

Source: a personal elaboration (data collected from Jingdong).

V.V.III Place

V.V.III.I Physical stores

To extend the distribution of its products also to final consumers, illy decided to expand its presence across China through a franchise network (figure 15) that consists in two different formats: mono-brand coffee shops (Espressamente illy and illy Caffè) and retail outlets (illy shops).

Figure 15. Illy stores in China



Source: a personal elaboration.

- **Espressamente Illy**

Illy's international franchising model *Espressamente Illy* has the core objective of exporting and promoting *illycaffè*'s culture, style and products all over the world. The international project of *Espressamente Illy* consists in creating an international franchising network to offer an authentic Italian espresso and Italian café experience all over the world.

These mono-brand stores offer the wide range of *illy*'s high-end coffee products, which are matched to a selection of pastry and snacks, both Italian and international. In these stores customers can also have the possibility to buy *illy*'s coffee accessories, such as coffee pods, capsules, coffee filters and collection cups. All the baristas are regularly trained to guarantee to clients the best Italian café experience; the University of Coffee of China offers also a special course which deals with managing an *illy Caffè*.

In addition to the traditional *illy*'s products, the mono-brand stores offer exclusive drinks that cannot be taken from the other distributors, such as orange-scented coffee flavored with almond milk and orange jam.

The stores are generally located in strategic points where there is a high flow of people, such as airports and big brands's shopping centers. *Espressamente Illy* offer a multi-sensorial experience targeting premium customers who are willing to pay a higher price for an acknowledged higher quality.

The *Espressamente illy* franchise model had a great success in China because it can be a great occasion for people or professionals who are willing to open a coffee bar: the competitive advantage of *Espressamente illy* is that franchisee is given a complete format, comprehensive of equipment, products, store, and training. Apart from the physical resources, *illy* provides to all franchisees training courses both on *illy* products and coffee shop management (AGI China, 2018).

In 2019 *illy* Shanghai decided to re-brand *Espressamente Illy* stores with the name of *illy Caffè*: the concept of the store is the same and it lies on a mono-brand offer, but the target location got changed. *illy Caffè*s are positioned in strategic points, such as museum and cultural centers, that aim to attract the attention of the more sophisticated consumers.

The first illy Cafè in China was opened in 2019 in Shanghai (figure 16), and it is located on the first floor of the Glass Museum on the Taikang Road. The store faces Tianzifang (田子坊 tiánzǐfāng), the most famous cultural district of the city. This position has been chosen in order to locate the store in a place that would have attracted with high probability the most sophisticated consumers' segment of the city. The design of the store is really distinctive and artistic: before entering the illy Cafè, visitors can see the background wall which is entirely decorated by illy-branded classic coffee cups. The chandelier inside the store is a combination of 96 cups belonging to the exclusive Illy Art collection. The walls recall the colors of the company's brand: the red walls are realized with the intersection of illy products' imagines, while the white ones are realized with marble imported from Italy. The coffee shop is enriched by different electronic screens which display every step of the coffee production chain, from the cultivation to the preparation.

Figure 16: Illy Cafè in Shanghai



Source: "illy Caffè意大利咖啡馆 上海琉璃博物馆开幕" in sina.com

Today the company has 105 point of sales all over China: under the name of *Espressamente Illy*, there are 105 stores across China, more specifically 58 in mainland China and 47 among Hong Kong, Taiwan and Macao. Instead, under the name *illy Cafè*, can be found four stores in Beijing, Shanghai, Guangzhou and Jiaxing (Zhejiang province).

- **Illy shops**

Illy provides a unique shopping experience to the Chinese consumers through its franchising retail outlets “illy shops”. The mono-brand stores are entirely dedicated to the sale of its coffee products and accessories.

Currently there are nine illy shops spread across the country, more specifically in Beijing, Shenzhen, Jiangmen (Guangdong province), Fuzhou, Anhui, Hongkong and Baoji (Shaanxi province).

- Future projects

Illy Shanghai wants to be a dynamic brand and keep up the latest trends: the company has decided to renew its point of sales and surprise its customers with a more modern concept. For this reason, in 2021 the company is planning to close all the existing *Espressamente illy* and *illy caffè* in mainland China to launch a brand new format that is fresh and highly digitalized (appendix 1). Illy Shanghai will inaugurate a new master franchising that will open 30 new coffee stores in premium locations. The coffee company wants its stores to be more friendly towards the young customers: illy’s point of sales will be highly digitalized and up-dated following the latest technologies that are largely known by the youngest generation.

Apart from offering the same line of food and beverage products of the previous illy cafés, this format will introduce new offerings specially tailored for different times of the days, from breakfast to the after tea snack.

This new master franchising wants to communicate the same illy’s values, such as genuineness, beauty and high quality, but in a more friendly way towards the young generation who is going to stimulate the future national coffee consumption.

V.V.III.II Online stores

China is characterized by a high Internet penetration (Thomala L., 2021) and illycaffè understood that one strategic key to be successful in the Chinese market is being present in as much digital platforms as possible. The Italian company’s products are available in the most popular Chinese e-commerce platforms and today, illy Shanghai’s 60-65% of the total profit originates from the online retailing (appendix 1). The online retailers

chosen by illy are all medium-high positioned, in order to be access the right consumers' target that the company aims to.

In the case of Tmall, that is one of the biggest online retail platforms in China, illy Shanghai has opened a flagship store that is directly managed by one company's team (appendix 1) who monitor the sales and the offerings. In the case of other online platforms, such as Alibaba and Taobao, illy does not manage directly the sales but provide its products to local distributors who sell them on the online platforms. The only exception is JD.com (京东 jīngdōng)⁷²: since it is one of the most well-liked platforms among Chinese consumers, illy sells its products directly to JD.com which has opened an online flagship entirely dedicated to the Italian brand.

- **B2B**

- **Alibaba**

When illy entered for the first time the Chinese market, its first objective was the business-to-business market, addressing its products to the catering and hospitality industry. For this reason, it has been present in the Alibaba platform for years, where it provides to professionals high quantities of illy's products.

- **B2C**

Unlike other marketplaces where illy operates, the company does not have an online direct sales channel in China: in the Chinese market companies' website are generally dedicated to branding activities and companies' information, sales activities mainly happen through external digital platforms that deal with online retail.

- **Taobao and JD**

Illycaffè's wide range of products is available on both the Alibaba-run Taobao (淘宝 táobao) and the Fortuna Global 500-run JD (京东 jīngdōng). Customers can buy all the items available at the illy Cafés and have access to daily and weekly discounts on selected items.

⁷² One of the Chinese most famous B2C online retail channel; it is owned by Fortuna Global 500 and it is the major competitor of Tmall.

The product info sheets of Illy's items on these two online platforms follow the same model: every product's info sheet provides the basic information about the item in question, such as price, size and characteristics, but it is enriched also by visual and explicative contents which evaluate consumers' online shopping experience. Info sheets consist in a series of infographics and videos that show in a very detailed way the product composition, usage and possible match. For instance, the Illy standard capsule info sheet introduces also the full variety of coffee capsules that illy offers, with a detailed explanation of each taste and consistence. In addition, customers are shown the coffee machine suitable for the capsule selected, together with the instructions of its usage and working method. All this information are explained through colorful demonstrative infographics which better show the products. The ease of preparing a coffee is also shown through a video, that explains step by step how to use the coffee machine. Every product sheet ends with a brand introduction and some pictures of the Shanghai Illy Café.⁷³

- Tmall

Illycaffè in 2014 opened its official flagship store in the Tmall platform with name 意大利咖啡官方旗舰店 (yìlì kāfēi guānfāng qíjiàn diàn). Through the official page, illy provides its full range of products, which goes from the coffee powder and the coffee machines to the branded merchandise and gift boxes.

The flagship is constantly updated and it keeps up with the Chinese festivals and recurring events (figure 17): for instance, before the arrival of the Mid-Autumn Festival, the company has modified its front-page by uploading a picture where each color of the autumn is matched with a single type of Illy aluminum capsule; the image title is "Colorway of Autumn- Coffee" (秋天, 被咖啡调色 qiūtiān, bèi kāfēi diào sè).

The homepage collects different occasions, proposing buy more-pay less offers. This offerings also try to push Illy newest products: for instance, if buying a large number of coffee capsules or instant coffee, customers are given for free some cans of the innovative Illy's cold brew coffee.⁷⁴

⁷³ Data collected from the mobile app Taobao

⁷⁴ Data collected from the Illycaffè Tmall flagship store, <https://illy.tmall.com/>

Figure 17. Illycaffè Tmall flagship store during the Mid-Autumn Festival



Source: Illycaffè Tmall official flagship store.

Since the Italian company's main mission is to spread the Italian style coffee all over the world, it decided to join the Made in Italy platform "helloITA", which in Chinese is translated in 意大利国家馆 (yìdàlì guójiā guǎn). "HelloITA" is a virtual hub, born in 2018 from the collaboration between ICE (Italian Trade and Investments Agency) and Alibaba Group, with the aim to export to China the culture and quality of the Made in Italy. Users can also find this portal on the Alibaba-ecosystem, which consists in Aliabab, Tmall, Tmall Global⁷⁵ and Taobao. This project is comprehensive of more than 80 Italian companies, more than 50% small and medium enterprises, that are willing to expand or increase their sales in the Chinese market: they belong to a wide range of industries, such as the fashion, make-up, home&design, lifestyle and food&beverage. Apart from being a virtual shop, the helloITA is thought to be a central hub enriched by personalized and high-quality contents, trying to educate the Chinese users to the value and uniqueness of the made in Italy (ICE, 2018). Apart from showing users all the brands registered on the digital platform, helloITA proposes weekly some "hot products" which can be representative of the Italian taste and culture. In the wine-week, Chine-

⁷⁵ Tmall is a direct marketplace, while Tmall Global is a cross-border platform.

se visitors can read a story about the Italian wine and get to know the bestsellers: while reading the article, they can simply click on the image of the bestseller to immediately enter the direct product link and purchase the item. The platform is a cross-border channel and the logistic is directly managed from Italy, but this has never been an obstacle for sales: even if this logistic system protracts the delivery time, the Chinese consumer recognizes the product value since it is directly shipped from Italy to China.

- Kerry Coffee's online platform

Kerry Coffee has realized an online platform where users can access the wide range of illy's products, which consists in coffee powder, instant coffee, coffee pods, iperespresso coffee capsules and coffee machines. The platform also offers a large variety of illy 'Art collection' coffee cups realized by different international artists. The cups are classified under the category of "gift boxes", together with other gift ideas such as coffee-to-go cups and coffee powders. In order to guarantee to its professional customers the best coffee quality ever, illy has introduced a section that explain in detail how the coffee has to be treated before serving it to the final client: the company gives some technical tips that can elevate the in-store coffee experience of customers.⁷⁶

Apart from the selling section, the website is enriched by extra contents that aim to provide consumers a better understanding about both illycaffè and coffee culture: the website gives information about the peculiarity of illy responsible supply chain, communicating the hard involvement of the brand with planet sustainability and high quality standards. Moreover, there is a section dedicated to "illy receipts", where coffee professionals belonging to the University of Coffee of Trieste have recorded some instruction videos, showing for instance how to use a coffee moka, how to make an espresso in a bar or how to prepare a good cappuccino. Since the Chinese market is not fully educated to the coffee world yet, the website has added some illustrative guidelines that can allow Chinese users to explore new coffee accessories and formats: in the iperespresso coffee machine section, there are some infographics that show both the product dimensions and the coffee machine usage. The concept of an easy and intuitive way of using

⁷⁶ Data collected from Kerry Coffee official website.

this machine is also communicated through a video, that shows how it can be practicable prepare a cup of coffee at home (figure 18).

Figure 18. Instruction for the usage of iperespresso coffee machine



Source: Kerry Coffee official website

V.V.III.III Online and offline integration

- WeChat mini-program

Illy has realized its official WeChat mini-program (figure 19) which has the aim to simplify the consumers' in-store experience and bring it to an upper level thanks to a digital evolution. Once a client has entered an illy Café, he/she can use the mini-program to place an order and receive it directly at the table: once selected the right store on the mini-program, the user choose the items through the digital menu. Before paying the order, the QR code on the table must be scanned. After have paid through the app, the user has to wait to get the drink or snack delivered directly at the table.

Users have the option to get a free membership card (illy咖啡会员卡 kāfēi huìyuán kǎ) which can provide them some benefits: the more they pay through the app, the more points they get. These extra points can be later be redeemed in illy products and merchandizing for free. Once entered the private area, users can check on the mini-program the number of points gathered and the available of coupons obtained.

Figure 19. Illycaffè's WeChat mini-program



Source: WeChat.

V.V.IV Promotion

V.V.IV.I Social media

- Weibo

Illycaffè has an official account on the Sina's Weibo platform characterized by a colorful and funny design, targeting the larger segment of Weibo's users, which consists for the 80% of under 20 years old and 20-39 years old users (Statista 2021).

Illy's Weibo account publishes different posts launching its newest products and seasonal offers, enriched by creative figures which make each post more attractive. For instance, for the celebration of the Teacher's Day on the 9th of September, illy has published a post wishing all the Chinese teachers a good day. The post suggests them to remind how school was difficult when they were students, in order to push them to better understand today's Chinese youth. In the same post, five subjects are linked to a funny anecdote, and every teacher is recommended an Illy product on the basis of the sub-

ject that he/she teaches. For instance, Maths teachers are told to drink American style medium roast coffee, since they need high results in a short time, and this kind of coffee can provide the necessary energy to face a strong school day (figure 20).

Figure 20. Illy Weibo official website: Teachers' Day



Source: illy意大利咖啡, Illy Weibo official website.

Illy has also involved KOLs⁷⁷ to promote its products on the social medias: Illy on its Weibo official page has involved the influencer Moli (錫墨 xīmò), who can boast almost 1.6 million followers, for the sponsorship of some skiing equipment together with illy's new cold brew coffee.

To maintain a strong Italian feature, the Trieste-based company has been highlighting the most successful events of Italian national football team: for the classification of the Italian team in the final round of the European Cup, illy raffled off an iperepresso coffee machine: the user who had ordered on Tmall the highest amount of products between the 7th and the 10th of July would had won the coffee machine.⁷⁸

- WeChat official account

⁷⁷ KOL is the acronym of Key Opinion Leader, also known as influencer.

⁷⁸ Data collected from Illy Weibo official website.

Illy's WeChat official account contains different posts that shows to WeChat users the latest news ad events.

For the celebration of the Mid-Autumn Festival, Illy published a post wishing all its users a happy Mid-Autumn Festival through romantic and classic poems dedicated to the recurring event. Additionally, the post combines three styles of mooncakes with a Illy coffee receipt. For instance, the cantonese-style mooncake, characterized by an egg in the middle of the filling, is matched with a drink composed by some Illy cold-brew coffee combined with soda, Shoxing wine and preserved plum. The purpose of the Italian company is to introduce a new concept of coffee not only tailoring it to the local cooking traditions, but also to the local typical ingredients.

In the WeChat official account illy carries on its educational process towards the Chinese consumers: through a funny illustrative post, illy explains the different steps of the coffee production chain as it was a road trip with different stops, from the coffee cultivation to the service at the illi Cafè. The design of the illustration is young and dynamic, trying to find a creative way to increase the users' engagement with the brand and the company's history.

V.V.IV.II Advertisement

For the promotion of the its soluble coffee and corresponding coffee filter, illy realized an advertisement specifically tailored to the Chinese consumers⁷⁹: it is set in a rural background, where a father and its son are collecting water from the well of the village. After have collected the water, the son prepares some Illy soluble coffee to offer to his father, explaining him all the preparation steps. Once took a sip of coffee, the father was not very convinced of the bitter taste, but the son suggested him to add some sugar to make the flavor sweeter. The advertisement ends with a statement: "once tasted different flavors, just give him the best quality ever" ("品尝过不一样的味道，只带最好的给她"), pǐncháng guò bù yīyàng de wèidào, zhǐ dài zuìhǎo de gěi tā).

The aim of the advertisement is to compare the old and young generation's attitude towards coffee: the large part of old generation is skeptical about the bitter taste typical of coffee, but it does not know that today there are different flavors and prepa-

⁷⁹ Video source: soluble coffee info sheet on Taobao.

ring methods that can suit their tastes. The encounter between the old and new generation can be a bridge to help the spread of coffee culture and satisfy every single consumer's need. In addition, if someone wants to approach coffee for the first time there are no doubts: illy coffee is the best quality they can opt for.

The background of the advertisement was strategically chosen to target not only the city citizens, but to extend its message to the total Chinese population, small villages included. To make the setting more realistic, there were added some dialectal lines in the dialogue. The familiar bond between the two characters recalls also a positive context, appealing to the strong family value that characterizes the Chinese core values.

V.V.IV.III Public events

- Illy Gallery

In October 2012, illy opened an edition of the Illy Gallery for the first time in China, in the Parkview Green FangCaodi building in the Central Business District of Beijing. The event hosted various international experts in arts, literature, science, design, food and wine industry: the Illy Gallery is tough to be a cultural gathering focused on the coffee culture in all its aspects. The main guest of the event is the University of Coffee, which hold classes and testing sessions for the visitors during the three days of the duration of the Gallery.

The symbol of the gallery was its huge Chandelier, representation of the historical engagement of illycaffè with art. It weights 2 tons, it is tall 5,2 meters of height and it has a diameter of 8 meters. The chandelier is composed by five spirals on which lay 66 cups, accurately selected from the 300 autographed cups that have been realized in the previous 20 years for illycaffè.

Among the guests that hold a conference opened to the public, there were the Chinese artists Liu Wei (刘韡), Lin Tianmiao (林天苗), Fang Lijun (方力钧) and Lü Peng (吕澎). Another special host was the Portuguese photographer Sebastião Salgado, who presented the reportage that he created together with illy in the Chinese coffee plantations.

In the occasion of the illy Gallery, it was shown the new number of Illywords, an art and culture magazine which is distributed when illy joins important occasions all

over the world. The new number was called “Go East!”, and it contained graphics and pictures realized by the China Central Academy of Fine Arts (CAFA) of Beijing.

The event of the Illy Gallery wants to express the high quality of its coffee through artistic tools which appeal to the more sophisticated part of the Chinese population, without losing the focus on the territoriality of the hosting market. The gallery has been hosted by different cities through the years, and Beijing revealed to be a perfect destination: in the heart of the millenary Chinese culture and new cosmopolitan metropolis, illy found a suitable cultural crossover and artistic contaminations that are part of its DNA.

CONCLUSIONS

In light of the evidence collected, it can be drafted a list of the most important guidelines a coffee company should follow to be successful in the Chinese market:

1. Foreign companies cannot expect to replicate the existing business model in an uneducated market such as China: the business model applied in the domestic market, and in those culturally close, is built on social and administrative elements that are culturally far away from China. The best strategy is to directly collect experience in the target market and, by gradually acquiring knowledge about the local market trends, decide how to carry on the management operations. Apply a Western business model can be risky: the best option is to adjust company operations to the hosting market thanks to a learning-by-doing experience. Organizations will alleviate their risk level by undertaking an evolutionary approach that will allow the company to get enough knowledge and decide step by step the best strategy to apply.

The Uppsala model can be a useful guideline to understand how gradually approach China, but the first step must be pondered based on the company's resources and popularity: if an SME⁸⁰ faces an entry mode that it cannot financially sustain, its attempt is thought to fail and provoke consequent damages;

2. Before entering the Chinese market, companies need to analyze all the elements that differ the target market from the domestic ones: different political, economic, social, legal, and technological factors can help the company to adjust the business model on the Chinese market. In addition, it is important to carry on market research on the company's core product: in the case of coffee, companies should verify in which way coffee is sold and considered. The disclosure of these details can define the success or failure of product marketing in China. Proposing a brand new product is riskier: before creating a differentiation, the company has to gain the trust of Chinese consumers;
3. Companies have to know the local culture before make their first entry in the Chinese market: China has to this day a strong heritage footprint that influences consumers' buying behavior and consumption habits. Also, the business relations have to follow

⁸⁰ Acronym of small-medium enterprise.

- specific cultural norms: knowing the Chinese business etiquette can be a winning move to close a business deal;
4. It is important to find reliable local partners and establish good relationships: having a trusted linkage in China can reduce operational costs and increase efficiency. Anyway, before reaching an agreement, foreign companies' representative needs to visit numerous times the local company and show his reliability. This process can take time but it can safeguard the company's expansion project;
 5. Foreign companies need to invest in social media and e-commerce: in light of the high Internet penetration, the mobile phone has become an important tool for shopping and living in China. If companies do not develop their online presence, they will lose a large portion of market potential. In addition, Chinese consumers are very suspicious, so they like to verify the quality and characteristics of the product in question by checking information online: a virtual presence of the company can be a sign of reassurance for the users in search of warranty proofs;
 6. It is fundamental investing in branding activities: Chinese customers do not buy a product based on its characteristics but based on its popularity and first impact. Foreign companies have to invest in online and in-store campaigns, public events and advertisement. The West origin of the product cannot be enough: it has to be enriched by a good customized marketing strategy and the right design. The brand's first mission is to communicate to Chinese consumers the right value proposition, gaining their trust and attention.

In conclusion, the Chinese market is attractive for those companies which want to expand their internationalizing project, since China can provide good opportunities. But, this cannot happen if companies do not leave their Western mentality or do not accept to make an adaptation effort on a culture that is distant from the Western one: ignore this main factor will limit the opportunity of the company in China. Instead, if the internationalization project is managed in a thoughtful and suitable, China can represent a great growth opportunity for both MNEs and mMNEs.

APPENDIX 1: interview with Mr. Walter Lumino, general director of illy Shanghai China.

Interviewee: Walter Lumino (WL)

Interviewer: Giulia Bisello (GB)

GB: How would you describe the current Chinese coffee market?

WL: Currently, instant coffee accounts for around 74% of the Chinese coffee market, whereas fresh coffee consumption is still low. In fact, China is still a small market for illycaffè in terms of both size and profit: fresh ground coffee is the core business of illy but it is not one of the most consumed coffee types in China. Today, coffee is more considered as an ingredient rather than a final product: a large part of coffee shops provide consumers some “coffee cocktails” and coffee-based drinks, such as latte and cappuccino, whereas the real Italian-style espresso is not very common. Currently, the most popular coffee formats in the Chinese market are drip-on coffee, instant coffee (both soluble and liquid), and ready-to-drink coffee. Moreover, the demand for single-portion packaging has increased: many young consumers like to have coffee during special occasions, such as pick nicks and trips, so the single-portion coffee is the better solution to fulfill their needs.

The coffee beans market is expected to increase in the next five years with a growth of 18% every year. But, since China is a price-driven market and the country’s size is huge, fresh coffee market is highly segmented. Even if illy is a leader brand in the international fresh coffee field, we would not reach in a short-time the popularity that we aim to reach. For this reason, we keep on growing in the fresh coffee market (the iconic 250 gr. can is the most sold article in China by illy Shanghai), but we also have to think local and act local. For this reason, we have decided to bet also on other products, such as instant coffee and drip-on coffee, to have a stunning growth in China.

To sum up and give you an overall vision of the current Chinese coffee market, I can say that tastes are very local and distant from the Italian culture. In addition, the market

is led by young consumers who are increasingly involving coffee consumption in their every life.

GB: How is organized illy for the management of the Chinese market?

WL: Illy Shanghai was established in 2005, it belongs to illy S.p.a. and it covers all the retail channels in mainland China (B2B and B2C, offline and online). Instead, the management of Hong Kong, Macau, and Taiwan markets is appointed to a Hong Kong-based business office belonging to a sister company: this business office consists of an Italian team that manages all the operations in the Asian markets, including also Singapore, Japan, Vietnam, South Korea, and Malaysia. Since the entire production capabilities have remained in Trieste, illy Shanghai company and the Hong Kong-based business office monitor the transactions between the parent company and the local distributors and provide supporting activities.

GB: How does illy Shanghai position itself in the Chinese environment?

WL: Illy has positioned itself as a premium luxury brand, but China is a price-driven market and, since the ground coffee beans market has not developed yet, we cannot sell ground coffee at high prices, we would have a loss. For this reason, we have decided to focus on the most sold coffee formats, which is instant coffee, maintaining our distinctive quality and premium position.

The premium price of our products is also affected by our company's production chain. Many foreign coffee companies working in the B2C market in China buy coffee blends from local roasters and put their own label on the final product: the quality decreases but the price becomes more affordable. Illy does not do private labeling: the coffee is produced in Trieste and then shipped to China under the illy brand. This long process undoubtedly affects the price. Moreover, the headquarter does not intend to delocalize its production capabilities, because it is really committed to guaranteeing the top quality that characterizes all our products.

To sum up, to comply more with the Chinese coffee environment, we have decided to focus our marketing strategies mainly on drip-on and instant coffee, together with a more friendly concept that aims to attract the attention of the young generation (i.e. single-portion coffee). Some domestic competitors are adopting the same strategy path: for instance, the Chinese Yong Pu company is launching single-portion instant liquid coffee, while the Changsha-based Saturnbird is proposing small cups, that recall the Starbucks' design, for instant coffee-to-go.

GB: What are the main challenges for illy Shanghai in the Chinese market?

WL: The main challenge for illy Shanghai is to make China illy company's second-biggest market. Currently, the US is the second most profitable business for illy, but the approach has been totally different. In the USA people are very welcoming towards the made in Italy and the Italian-style espresso, it was quite easy to penetrate the market. China is completely different: our company realized that we need to understand the market and make some specially tailored offers. We need to decrease the price and propose more friendly products that have to be adjusted to the main consumers' base, that is young consumers. The prices of Nestlé have a low-medium position, they are more affordable for customers. We have a background as a premium brand characterized by high prices, but we need to apply some adaptations if we want to be successful in China.

GB: How does illy Shanghai manage the online retail channels? Why illy does not have a direct online sales website in China?

WL: Companies' websites in China are generally dedicated to branding activities and companies' information, they do not deal with direct sales; most of the companies' online sales in China happen through external online platforms. We have decided to target online retailers that occupy medium-high positions to reach the most sophisticated segment of users. Anyway, we do not manage directly the online sales: we provide our products to local distributors who sell them on the online platforms, without a specific official account. But there are two exceptions: JD.com and Tmall. Since JD.com is one of

the most well-liked online platforms among Chinese consumers, we sell our products directly to the JD team which has opened an online flagship store entirely dedicated to the Italian brand. The team set the design of the online store and all the offerings related. Taking into consideration Tmall, China's most popular online retail platform, we decided to open directly an e-flagship store and appoint the management to a special team inside our company. In this way, we can directly monitor the sales and decide the marketing activities to follow.

GB: Illy has started selling a product specially tailored to Chinese customers, which is drip-on coffee and ground coffee. Why did you take this decision and which are the projects related?

WL: We created the drip-on coffee to find a preparation method that could be close to Chinese people's habits. In fact, when coffee consumption became spreading in China, people used to prepare coffee using a funnel filter where they put some grounded coffee together with hot water. We took inspiration from this traditional preparation method and created the drip-on coffee. We sell packagings of five or seven single-portion bags in order to facilitate direct usage.

This product is one of the most sold in the Chinese market since it is really close to the local habits and tastes. We would like to expand the sales but, as I mentioned before, the Chinese territory is so vast that it is difficult to reach every single corner. Supplying big cities can be easier since we can sell directly or provide products to the distributors we are collaborating with. But, reaching second-and-third-tier cities is more complex because we have to pass through different distributors and sub-distributors. In this case, the value chain would be too long and we would lose margin: since the production capabilities are all located in Trieste, if we want to supply a client in a second or third-tier city, we have to wait three months before receiving the products from the parent company and then deliver them to the final client through a very long chain of distributors. Apart from the trade costs and the duty, which today is around 16%, the total value chain would consist of at least three or four passages: it would be long and expensive.

In order to cut this value chain and reduce the price of our drip-on coffee, in January 2021 we modified the last production step of this product: now we import the Italian beans from Trieste, through 600kg bags, and we produce and package the final grounded coffee here in China with an accurately selected Japanese machine. Thanks to this new system, we have shortened the value chain, reducing costs and increasing profitability. In addition, we have immediate availability of the product since there is no shipping time to wait. This solution gives us more flexibility for the packaging: we can diversify the packaging on the basis of the target channel. For instance, we can create 5 single-portion packagings for final consumers, whereas producing 18 or 16 single-portion packagings for hotels and restaurants.

There are two factors that could look like disadvantages but, actually, they are not. Firstly, since the product is assembled in China, drip-on coffee has a Chinese barcode: the product may lose in terms of Made in, but the quality remains high and the product is fresher. Secondly, products with a Chinese barcode have a shorter shelf life compared to the Italian ones (in China is 12 months, in Italy 18 months). But, considering that with this new system we avoid the shipping time of three months for the import of coffee beans, we lose in total only three months.

GB: Illy has launched in China its line of cold-brew coffee “illyissimo”, how was the feedback of the Chinese consumers?

WL: The idea of making cocktails with coffee is already common in China and many coffee shops have been proposing this format already for three or four years, so illyissimo was not an innovation in China.

Since illy in China has not a vast distribution network and nor many points of sales, I cannot measure exactly the profitability of this line of products. Anyway, I can state that, despite the potential of ready to drink coffee market, illyissimo did not give great success in China because of its high price, which is around 45RMB. In fact, domestic competitors produce the same product at a lower price since they buy the coffee beans from local roasters.

Anyway, illyissimo was not proposed to China for a business purpose but only to get the attention of Chinese consumers: the product was firstly launched by the University of Coffee of Shanghai that suggested retailers and customers how to use coffee to prepare special cocktails and drinks. In this way, illy contributed to stimulating coffee consumption and coffee knowledge in China. Even if these marketing activities have not increased the sales of illyissimo, they have been useful to get the attention of a wider range of potential coffee consumers.

GB: Which are the future projects of illy Shanghai in China?

WL: This year we have been designing an aggressive five years plan that will be put in action in next 2022. The project aims to further penetrate the online and offline retail channels after the Covid-19 breakdown, addressing also second-and-third-tiers cities: currently, our main targets are big cities like Beijing, Shanghai, and Shenzhen- Shanghai is the city with the highest number of coffee shops in the world- but we want to expand our business to the entire Chinese territory.

This big plan consists mainly of three projects: firstly, we want to focus again on the Ho.Re.Ca channel that accounts for the major ground coffee consumption of our sales. Our target clients are international hotels and restaurants, with a high-medium position, but the distribution had been partially interrupted during the Covid-19 breakdown: the main target of these structures are international guests but, during the pandemic, the country closed its borders and there were not many foreign visitors. For this reason, hotels and restaurants had to address local guests and lower the coffee quality standards: they were supplied by local companies in order to decrease costs. Since today the situation has softened, we want to propose again our products to our Ho.Re.Ca. clients.

The second project is to realize a new digital acceleration plan: the aim is to double the online turnover with the objective to penetrate also the second-and-third-tier cities. Since China is a very vast and heterogeneous territory, it is difficult to cover the entire country only through the physical distribution: we should sell directly, that is improbable, or address to our distributors, who would again address to other sub-distributors.

This process would be long and expensive. In order to accelerate this procedure, the best solution is online penetration.

The third project consists in improving our format of physical stores: in 2022 we will launch a new master franchising with the opening of 30 new illy coffee shops in premium locations. Before accomplishing this goal, all the existing illy stores in China will be closed: some of the previous *Espressamente illy* and *illy café* were positioned in good strategic points, but others were located in popular but not sophisticated spots, such as highways and standard shopping malls. The new master franchising will be highly digitalized and more friendly: we intend to create a cool and fresh environment, especially attractive for young consumers. We will introduce some events specially tailored to particular moments of the day, such as breakfast, lunch, dinner, and after tea-time. This new format will not forget illy's core values, such as sustainable coffee chain, design, art, genuineness, and made in Italy.

As mentioned before, we want to focus on instant and ready-to-drink coffee, which is the current coffee trend in China. Apart from adapting our products to the local tastes, we want to address to young consumers: we will introduce single-portion sizes and cooler packaging.

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