Chinese distribution practitioners' attitudes towards Italian quality foods

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Abstract

Purpose: Food products' ultimate destination is intended for the general public, but those who supply the international markets are usually composed of a relatively small group of businessmen including international buyers, purchasing agents and importers. Understanding the motivation behind their purchasing decisions and the perceptions they have of the source countries can be considered a key factor in developing a successful marketing approach. This study focuses on understanding the position of such a powerful minority towards imported Italian, high-quality agro-food products in China, as well as the current communication, marketing, strategic and organizational approaches of Italian producers, especially compared to other European competitors.

Design/methodology/approach: An exploratory approach based on qualitative interviews is adopted, with the aim of highlighting Chinese perceptions regarding Italian food suppliers’ relevant strengths and weaknesses. The primary data were collected through personal interviews with 25 key informants in Shanghai, Beijing and Guangzhou.

Findings: Survey results indicated that while Italian products are appreciated, current market shares remain inferior to other countries due to inadequate marketing strategies and low investments in promotion. Price sensitivity of Chinese consumers, less-established distribution channels, and competition with local products hindered further the market penetration.
1 Introduction

In terms of market expansion, China’s economic development holds potential that no business would ignore. The population size, the increasing consumer affluence, and a strong momentum of economic growth make China a market in which many foreign companies are attempting to gain a foothold. Its value is strategic for gaining global market share and increasing competitiveness (Reuvid and Yong, 2003), especially for the EU, as China represents the EU’s second largest trading partner since 2003. With such rising influence of China in EU trade affairs, it becomes extremely important to determine whether the factors that influence purchase in Western markets are of similar importance in the Chinese market.

Primary goods are by far the most important trading category for China. The rapid growth of the food industry in China, as well as the growing demand for cheaper foodstuffs in the EU markets is strengthening and intensifying the trade relationships between the two trading blocks. The rise in exports from the EU to China reflects the country’s growing interest in European food and drink products which are often perceived as stylish, elitist, status-building, and of good quality. In this article we focus on Italian agri-food products, considered to be a fundamental component of the so-called “Made in Italy” consumer marketing strategy. This strategy utilizes a group of high-quality products, primarily exported by Italian producers, that are considered to be influential in shaping the country’s image. While Italy generally is perceived as having a very positive image for Chinese consumers, the market share for Italian products in China is surprisingly small.

The ultimate destination for agri-food products is intended for the general public, but those who actually supply the market belong to relatively small group of businessmen: international buyers, purchasing agents, retailers and representatives from large-scale distribution chains. The importance of such a powerful minority is often underestimated. These suppliers are, in fact, the gatekeepers who decide the range of imported products available to consumers (Sternquist, 1994). Understanding the drivers that influence consumer purchasing decisions, and the perceptions consumers have of the source countries, is therefore a key factor in establishing a well-developed marketing channel. The present study aims to classify Chinese distribution practitioner’s attitudes towards imported Italian quality food products, as well as the perceived effectiveness of the current marketing strategies of Italian producers, in comparison with other competing countries.

Aside from updating the available knowledge on import and distribution of Italian food products in China, this market-oriented study aims at pointing out the strengths and weaknesses of Italian food manufacturers in China with the purpose of providing a cognitive basis on how to satisfy customer requirements as efficiently as possible.
For this purpose, an exploratory research approach was adopted. The primary data have been collected through personal interviews with key informants of trading and distributing companies in 3 major cities of Peoples’ Republic of China: Shanghai, Beijing and Guangzhou. This information has been augmented with available literature and secondary data. The interviews have been administered as conversation-like dialogues, with the help of a semi-structured interview outline. The responses have been evaluated in accordance with such framework, performing a qualitative content analysis.

The paper is structured as follows: first we provide an outline of the theoretical background and a short discussion of the most relevant literature. Then, China's market for Italian food products is briefly depicted, the research methodology is described and data and results of the analysis are examined. Finally, some conclusions and managerial implications are discussed.

2 Theoretical background: factors influencing purchase

The review of previous literature allowed us to define a framework for our research. The following includes a non-exhaustive summary of the current main reference works with the most relevant elements taken into consideration for this qualitative study.

Buyers make decisions about quality of products on the basis of a process of acquisition, evaluation and integration of informational stimuli or cues, which can be intrinsic or extrinsic (Rao and Monroe, 1989). When intrinsic cues cannot be easily assessed (e.g., by tasting fruit before purchase), then consumers make greater reliance on extrinsic cues (e.g., price, brand, and country of origin). This is particularly true of low-involvement products since the cost of evaluating intrinsic cues may greatly outweigh the benefit (Zeithaml, 1988). Extrinsic cues are usually mentioned as key factors used in evaluating foreign food products (Gao and Knight, 2007). Liefeld’s meta-analysis indicated that purchasing agents place even more importance on country of origin in their product evaluations than do consumers (Liefeld, 1993). Figure 1 shows Knight et al.’s (2008) contextual representation of factors influencing purchase of imported food products by Chinese distribution channel gatekeepers.
A very relevant factor in purchasing decisions about imported food is psychic distance. Psychic distance can be defined as “The sum of factors preventing the flow of information from and to the market. These include difference in language, education, business practices, culture, and industrial development.” (Johanson and Vahlne, 1977)

The Chinese historical heritage continues to represent a strong presence within the country. A tension between pride for their own culture and the interest in imitating and integrating into the western way of life exists. However, in this respect, economic development is of utter importance and gaining entrance into the ‘club of First World Nations’ is urgently sought after (Hooker, 2003). Due to the complexity, diversity, and size of the Chinese market, possessing a complete overview of the cultural aspects of this culture is nearly impossible. Therefore, even though a company should understand Chinese characteristics (guo qing) in order to deliver a product with the value, quality, and convenience that will appeal to Chinese consumers (Yan, 2004) and adapt culturally, it might be beneficial to limit the process to a certain degree and
choose familiar aspects from the home country that fit the Chinese market for the rest (Mänttäri 
et al., 2007). In this respect, a flexible approach to *guo qing* has been suggested (Tseng and Foster, 2006).

Other barriers to entry include physical distance, customs regulations and other trade barriers (Lindqvist, 1991). Communication between business partners is possible within seconds, but when it comes to goods delivery, it’s not that easy. There have been improvements in the customs regulations and other trade barriers department as a direct result of China’s 2001 entry into the WTO (Wei et al., 2002). Various changes have taken place and perceivably, one of the most important changes includes the increased freedom for foreign actors to set up joint ventures. Additional adjustments include the lifting of restrictions on capital markets and the removal of trade tariffs. The WTO entry has even been described as increasing the attractiveness of conducting business in China (Wang et al., 2003). The knowledge of custom regulations, product labelling, food safety requirements, sanitary and phytosanitary rules, as well as brand protection and other relevant legal and environmental elements continues to become a vital managerial skill for the supplier to navigate. On the other side of the transaction, this knowledge represents an opportunity for intermediaries who are able to reduce the uncertainty and cost of international-trading transactions.

### 3 The Chinese market for Italian food products

The importance of China as a commercial partner for Italy has grown significantly over time. In 2007 Italy ranked 27th among foreign providers of Chinese agri-food products, with a market share calculated to be just 0.29% (see Table 1).
Table 1 | China Imports Total Agro-food-beverage by Country in 2007 (million USD)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
<th>% Share %</th>
<th>% Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>4298.21</td>
<td>4093.49</td>
<td>6235.76</td>
<td>21.49</td>
<td>19.08</td>
</tr>
<tr>
<td>2</td>
<td>Brazil</td>
<td>2959.01</td>
<td>2361.33</td>
<td>5097.25</td>
<td>14.8</td>
<td>16.52</td>
</tr>
<tr>
<td>3</td>
<td>Argentina</td>
<td>2751.33</td>
<td>3483.21</td>
<td>4522.44</td>
<td>13.76</td>
<td>14.66</td>
</tr>
<tr>
<td>4</td>
<td>Malaysia</td>
<td>1326.29</td>
<td>1699.35</td>
<td>2989.53</td>
<td>6.63</td>
<td>7.92</td>
</tr>
<tr>
<td>5</td>
<td>Russia</td>
<td>897.35</td>
<td>1228.20</td>
<td>1776.94</td>
<td>4.49</td>
<td>5.76</td>
</tr>
<tr>
<td>6</td>
<td>Indonesia</td>
<td>1113.48</td>
<td>1241.18</td>
<td>1378.33</td>
<td>5.57</td>
<td>4.47</td>
</tr>
<tr>
<td>7</td>
<td>Thailand</td>
<td>902.67</td>
<td>1200.82</td>
<td>1227.79</td>
<td>4.51</td>
<td>5.6</td>
</tr>
<tr>
<td>8</td>
<td>Australia</td>
<td>961.65</td>
<td>666.27</td>
<td>1093.47</td>
<td>4.81</td>
<td>3.11</td>
</tr>
<tr>
<td>9</td>
<td>Canada</td>
<td>466.99</td>
<td>453.57</td>
<td>836.13</td>
<td>2.34</td>
<td>2.11</td>
</tr>
<tr>
<td>10</td>
<td>New Zealand</td>
<td>750.27</td>
<td>681.07</td>
<td>618.21</td>
<td>3.75</td>
<td>3.17</td>
</tr>
<tr>
<td>27</td>
<td>Italy</td>
<td>45.60</td>
<td>68.26</td>
<td>88.68</td>
<td>0.23</td>
<td>0.32</td>
</tr>
</tbody>
</table>

Source: ICE, 2008

Table 2 shows the composition of Italian agri-food export in China in 2005-2007. Although they showed different growth trends, cocoa, beverages, fats and oils and baking-related products were the categories that generated more revenues in terms of sales.
Table 2 Composition of Italian agro-food export in China in 2007 (millions USD)

<table>
<thead>
<tr>
<th>Products</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>% Share</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cocoa (Chocolate)</td>
<td>25.40</td>
<td>24.60</td>
<td>26.04</td>
<td>55.7</td>
<td>36.04</td>
<td>29.37</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beverages</td>
<td>5.53</td>
<td>16.29</td>
<td>24.96</td>
<td>12.12</td>
<td>6.54</td>
<td>6.93</td>
<td>6.94</td>
<td>30.15</td>
</tr>
<tr>
<td>Fats and Oils</td>
<td>5.95</td>
<td>11.25</td>
<td>16.53</td>
<td>13.05</td>
<td>16.48</td>
<td>18.64</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Baking-related</td>
<td>2.98</td>
<td>4.73</td>
<td>6.16</td>
<td>6.54</td>
<td>6.93</td>
<td>6.94</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preserved Food</td>
<td>1.94</td>
<td>2.50</td>
<td>4.87</td>
<td>4.26</td>
<td>3.67</td>
<td>5.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dairy, Eggs, Honey</td>
<td>0.70</td>
<td>3.87</td>
<td>3.73</td>
<td>1.54</td>
<td>5.67</td>
<td>4.21</td>
<td></td>
<td>-3.5</td>
</tr>
<tr>
<td>Spices, Coffee, Tea</td>
<td>1.23</td>
<td>1.86</td>
<td>2.63</td>
<td>2.7</td>
<td>2.73</td>
<td>2.96</td>
<td></td>
<td>41.24</td>
</tr>
<tr>
<td>Edible fruit and nuts</td>
<td>0.16</td>
<td>0.11</td>
<td>0.90</td>
<td>0.35</td>
<td>0.16</td>
<td>1.01</td>
<td></td>
<td>741.12</td>
</tr>
<tr>
<td>Miscellaneous Food</td>
<td>1.26</td>
<td>1.90</td>
<td>1.75</td>
<td>2.76</td>
<td>2.78</td>
<td>1.98</td>
<td></td>
<td>-7.57</td>
</tr>
<tr>
<td>Misc. Grain, Seed</td>
<td>0.11</td>
<td>0.44</td>
<td>0.37</td>
<td>0.24</td>
<td>0.64</td>
<td>0.41</td>
<td></td>
<td>-17</td>
</tr>
<tr>
<td>Milling; Malt; Starch</td>
<td>0.16</td>
<td>0.30</td>
<td>0.24</td>
<td>0.36</td>
<td>0.44</td>
<td>0.27</td>
<td></td>
<td>-21.23</td>
</tr>
<tr>
<td>Other</td>
<td>1.02</td>
<td>0.34</td>
<td>0.52</td>
<td>3.15</td>
<td>0.72</td>
<td>0.75</td>
<td></td>
<td>24</td>
</tr>
<tr>
<td>Italy Total</td>
<td>45.60</td>
<td>68.26</td>
<td>88.68</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
<td>29.91</td>
</tr>
</tbody>
</table>

Source: ICE, 2008

3.1 Distribution

The distribution system represents one of the most problematic and important issues concerning the Chinese market: with factors specifically relating to ambiguous regulations, the transport and distribution system, the colossal market size, and the extreme localization of networks that heavily hinder the penetration by foreign companies into the Chinese territory (Opey, 2003).

Before the reform, all imported products used to enter into China through the only existing state-controlled channel. After the reform, thousands of distribution companies were established that, while still were officially state-owned, actually behaved as private companies. These large state-owned international trade enterprises upgraded and expanded their activity, including the distribution phase following initial import-export activities. Although their product range is often limited, they have widespread coverage. Currently, competition is further increased by the parallel development of the private sector. Private distributors are generally smaller and have a regional coverage, with connections to the local and provincial authorities that make it easier for goods to be handled and delivered.

So far, gaining access to the Chinese market as an importer means passing products through public trading corporations and, to a lesser extent, through private companies. These organizational structures include Hong Kong agents as well as the few but colossal foreign joint ventures (JV) that have obtained import-export licensure as well as permission to perform currency exchange operations. Although distribution networks have not developed as quickly as the initial import/export companies have developed, and professionalism among the
intermediate figures of the distribution chain –especially wholesalers– is still low, standards are rising very quickly.

3.1.1 Retail

The rise of modern trade -hypermarkets, supermarkets and convenience stores- has transformed food retailing in China. This transformation happened at the expenses of traditional food retail channels such as wholesale markets, wet markets and small food stalls. Numerous forces are fuelling the rapid emergence of modern trade in this category: rising incomes and expectations amongst the emerging middle-income segment; increasing ownership of refrigerators, thus eliminating the need for daily grocery shopping; changing lifestyles (Wei, 1997), with young couples both working and unable to make daily trips to the wet market; and growing concern about the proliferation of counterfeit and low quality goods following a spate of food-related scandals and health scares (USDA, 2007).

Between 1978 and 2000, the retail sector grew at an annual average rate of 13.5%, and after the 1990s development has been even more remarkable. Store ownership has diversified considerably. Today, individuals, private businesses and foreign-invested ventures are active players in China’s retail sector. The entry of foreign investments has injected new dynamics of competition, while at the same time speeding up the retail revolution process that totally altered the retail structure and competitive landscape in China. China’s retail market began to reach a certain stage of maturity in recent years in the main urban areas, and almost all the new retail formats that have been developed in western economies were introduced.

Local retailers may benefit from 3 key competitive advantages over their multinational rivals because they:

- have a good understanding of the local customer;

- enjoy strong relationships with central and local governments (essential when securing prime sites and winning permission to acquire local state-owned retailers);

- have long-standing partnerships with suppliers (one of the more difficult tasks facing foreign retailers).

Yet food retailing is one of the few categories in which foreign retailers made significant inroads, in part, because they brought more innovative formats to the market.

3.1.2 Imported food distribution channels

The food retail market is complex and multi-tiered. A combination of supermarkets, hypermarkets, department stores, convenience stores, wet markets and kiosks perform food distribution in the cities. However, imported products distribution channels are not as much specialized and diversified, mainly for two reasons:
1. Small quantities of imported products are delivered on the market compared to local products.
2. People interested in imported products are limited in number and often concentrates in specific areas.

The lack of specialization limits the number of available distribution channels which are mainly foreign Joint Venture (JV) department stores or hypermarkets that sell to foreigners who live in China or convenience shop chains.

The leading foreign retailer in China by sales value in 2005 was Carrefour (France), ranked 9th on the overall list of top chain-store retailers with sales of 2.2 billion USD. The other retailers in the top 30 were Wal-Mart (USA), Thai-invested Lotus Supercenter and Metro Jinjiang Cash & Carry Co (a JV between Metro of Germany and the Shanghai-based Jinjiang International Group). Auchan (France) and Tengelmann (Germany) are quite outdistanced in the Chinese market. Although these foreign retail chains have established significant footholds in China, Chinese retail chains are aggressively catching up to their foreign counterparts when it comes to management, logistics and marketing.

4 Methodology and data

This study explores business-to-business relationships for the agro-food sector in the international environment, analyzing the current situation that a single country (Italy) is facing for a limited range of product categories (processed agri-food products) in a foreign market (Peoples’ Republic of China). These relationships are described from the point of view of Chinese customers or prospects.

From a methodological point of view, the study explores Supply Chain Management issues (SCM), Relationship Marketing issues (RM) and Category Management issues (CM). This paper will moreover follow the trail of previous studies on Chinese distribution channels members from an international business environment’s perspective (Gao and Knight, 2007; Knight et al., 2007a, b; Knight et al., 2008).

Given the type of target population and the wide scope of the information to be collected, an exploratory research approach is adopted. The research methodology applied is qualitative and inductive in nature and utilises multiple cases (Hingley and Lindgreen, 2002). The interviews were structured as conversation-like dialogues according to a semi-structured interview outline. Therefore, the core information was collected through a series of open-ended questions introducing wide topics, so as to enable determination of what was most salient to respondents. This solution permitted both parties to understand the scope of the interview and to uncover a diversity of responses, notwithstanding whether or not specific topics were anticipated by the interviewer. Interpretation was performed through content analysis of the interview transcriptions and minutes, in order to identify important themes and patterns.
The interview outline was structured as follows:

- information regarding business characteristics of the interviewees:
  - degree of involvement with Italian companies
  - source countries for agri-food products
  - characteristics of the company’s distributive network
  - dimension of the business in terms of geographical coverage

- general information relevant to define the business operating environment:
  - customs and import-related issues
  - general problems within the sector

- interviewee’s opinions regarding:
  - attitude towards Italian-made products
  - insights on business working relationships
  - likes, dislikes, and complaints

Altogether, 25 food distribution practitioners in the People’s Republic of China were interviewed. Data were collected in three major cities: Shanghai (15 interviews), Beijing (7 interviews) and Guangzhou (3 interviews). The enterprises were contacted via personal connections, adopting a non-probabilistic snowball sampling procedure and ensuring the inclusion of different types of domestic retailers and distributors. Interviews duration ranged from 10 to 30 minutes and in most cases they were conducted entirely in Mandarin language.

Since the aim of the survey was to acquire an insight into Italian companies’ strategies in China, the sample was selected contingent on trade activities utilizing Italian products. However, it turned out that 3 of the interviewed companies were not actually dealing with Italian products, but only considering this possibility.

Given the non-probabilistic nature and the small size of the sample together with the qualitative approach adopted, although some quantitative information about the products traded was also asked the results cannot be aggregated to the wider population of food channel members. Therefore, in this context, we do not provide descriptive statistics of the sample. However, some information relevant to the nature of the interviewees may be useful to better highlight the context in which we performed the analysis.

The characteristics of the interviewed companies were the following:

- 52% were wine dealers, 48% dealt with both wine and other agri-food products.
- 84% were importers and distributors in various food sectors, while 16% were decision makers in locally owned supermarket chains. Among the distributors, one dealt with organic products only.
- 44% distributed their products all over China, 28% only in the major city centers (that is, from 2 to 5 large cities), while the remaining 28% distributed only locally (that is, in a single city).

The range of the products distributed by the interviewed companies is shown in Figure 2. Most of the respondents dealt with wine, pasta, oil, and grocery products.
Results from the survey indicated that Italian products are sold mainly to supermarket chains and to Italian restaurants. Local agents play an important role as they allow major importers access to unfamiliar or distant regions where distribution networks are not yet fully developed.

However, an important issue concerns the role of the supermarkets. Supermarkets and hypermarkets already accept imported foods, and often manage shelf space dedicated to them, including clearly marked country of origin labels. The statistical data shows imported goods are highly regarded by distributors, and their share is increasing. One of the most accepted methods to retail new products in the Chinese market consists in the payment of an “entrance fee”, which permits the product to be exhibited in supermarkets’ and hypermarkets’ shelves. The price varies depending on the product and the market chain; clearly a correlation exists between the higher fee and the possibility for a product to be retailed. As can be easily supposed, this practice implies many drawbacks including scarce selection, quality controls on products, surplus of luxury goods, and an unbalanced rate between the different types of products. Dynamic small enterprises, although offering a high quality product range, are effectively blocked entry into this market due to lack of capital; on the other hand, products that do not meet the favour of the public cannot be discarded in time. It’s likely that this barrier will be hard
to overcome given the significant contribution it has on distribution chains’ revenues. Moreover, these entrance fees are rising; hence it becomes increasingly difficult for small producers to maintain their grasp on market shares, as revealed by some of the respondents interviewed.

Regarding the competitors, it emerged that despite limited market presence relative to total products in China (Table 2), Italy is nonetheless one of the most renowned countries for processed food in China. Italy is in the top 10 list of Countries cited for wine, together with France, Australia, Spain, Germany and USA as its strongest rivals (Figure 3).

**Figure 3**  Wine – Italy’s competitors – number of times a competing country was cited

Overall, Italy’s fiercer western rivals are the USA, France, Germany and Spain (Figure 4). Italy has to compete mainly with Australia, New Zealand, USA, France and Germany for cheese imports. Italy ranked at the top among olive oil importers, followed by Spain and Greece. The situation for pasta is the most favourable for Italian companies, since Italy and the USA are the only western countries that export considerable amounts of this product; however, other Asian-Pacific countries held relevant shares of the total. Chocolate represents a significant import category where Italy ranks first. The most important coffee providers for the Chinese market are Vietnam and the USA; in this import category, Italy belongs to the spare players, along with South American countries such as Colombia as competitors. For bakery and ice cream products, Italy holds minor shares.
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Figure 4  Food products (excluding wine) – Italy's competitors - number of times a competing country was cited for a specific product category

Looking at the appeal and performance on the market for Italian products, according to the respondents' opinions, the Italian high-quality products that are currently easier to sell are in the categories of wine, pasta and oil. Price still remains a deciding factor (except for wine), so for such products distributors often seek alternatives to Italian products.

The Wine market requires special attention, since it is somehow different from the other agri-food products. Wine and spirits are often given as presents for special occasions, therefore the imported products in this category are to some extent less price-sensitive than the other agri-food products. The importance of giving presents in the Chinese culture strongly differs from the western world, especially in the business environment. It is of utter importance to present someone with prestigious gifts, for they represent the respect and financial strength of the company, and they signify a way to attract possible future relationships. The gift reflects both the status of the donor and respect towards the receiver. However, since the social status conveyed by the product relies on the product reputation, promotion plays a key role.

Presently, Italian pasta has no rivals in terms of quality within the Chinese market since it is typically produced with durum wheat that is not available in China. On the other hand, although
Italian pasta is appreciated by Chinese consumers, it is mainly perceived as a commodity. Therefore, the Italian product is not purchased by most of the potential consumers and is considered outclassed by local imitations produced with tender wheat.

Italian oil is appreciated too, but it is usually considered too expensive, so importers often turn to Spain or Greece when seeking a supplier for these goods.

Ham and cold meat are seen by the interviewees as the Italian products with best sales perspective for the future. These products have recently been granted access into the Chinese market, and marketers have indicated a strong interest in providing these products. Immediately after cold meat there are pasta products, together with candy and sweets, especially chocolate.

Given this background information, in the following sections we report a summary of the analysis on the Chinese practitioners' perception of the strategies adopted by Italian companies operating on the Chinese market. For a more complete listing of the salient quotations, see Annex A.

5.1 Marketing and organizational issues

At present, the Italian agri-food companies’ strategy in approaching the Chinese market seems inadequate under several aspects.

The worst obstacle that prevents Italian companies from successfully penetrating the Chinese market is the lack of investments in promotion and marketing.

"Italian companies do not invest in their own products" distributor of Shanghai

Furthermore, from the interviews it emerges that Italian companies’ post-sale services are sometimes perceived as inadequate.

"Italians don’t care much about what happens after the sale. Once the transaction is over nothing else matters" importer of Shanghai

This clearly clashes with the Chinese retailers long-term orientation with a supplier, that is a trait they have in common with the Japanese ones (Chung et al., 2006). In fact, most of the interviewees pointed out this issue, suggesting this may be one of the most important reasons why the market share of Italian products are gradually decreasing over time, notwithstanding their early arrival in China and their increase in volume and value. On the contrary, Germans, Americans, Australians and above all French rivals developed effective long-term strategies, investing in marketing and product/country image development, exploiting any communication channels available and constantly adjusting their offer to the market demand. That made them able to gain a better market position.
A low variability in the offer was also indicated. All Italian exporters tend to sell the same products, competing for the same niches, thus making gaining a stable foothold on the market more internally competitive. On one hand such competition ensures lower prices (a basic condition for the Chinese market), but on the other hand it gives rise to dangerous fluctuations in the supply.

According to some respondents, the Italian suppliers suffer from an organizational gap. Italian producers often approach the Chinese market individually or grouped by an Italian administrative region, promoting the image of small territories, instead of the country image. This strategy relies on an incorrect assumption that Chinese consumers are familiar with Italian geography, and that Chinese consumers are able to easily separate single Italian regions from the national context. Due to a substantial lack of information this strategy gives rise only to confusion, making the companies and the potential customers unable to refer to a strong country image. The result is that Italian agri-food products are often sent to China for spot supplies ("sold but not exported"). The lack of continuity in the product flow contributes to the products' unfamiliarity and resulting weak market penetration. On the other hand, the ability of Chinese agents is increasing as the number of agents that directly go abroad to procure the supply continues to grow as opposed to waiting for foreign agents to present their products.

Some of the interviewees finally pointed out that it's difficult to co-operate with Italian suppliers, due to their resistance to adapt to new/changing business environments.

“When they fail, Italians return home, French come the day after with a new proposal” distributor of Shanghai

5.2 Quality standards and cultural issues

Despite the progresses in opening the country to the international market, Italian and Chinese quality standards are not yet fully compatible resulting in quite common custom problems. It also seems that local producers face the same difficulties, since it appears that it can be difficult to comply with national standards.

For several Italian quality products, especially for wine products, a relevant obstacle lies in quality recognition and perception. As pointed out by many respondents about wine, confusion arise because of the complicated quality signalling and denomination systems. For instance, the Italian quality wines classification system foresees three quality/origin labelling categories. However, very few Chinese consumers are aware of such classification, or know the meaning of the acronyms used. These categories derive from an ancient tradition in quality grading, combining and linking product quality evaluations and geographical indicators for specific wine zones. These classifications can be used by all the producers in that zone, provided that producers comply with specific codes of practice. These grading concepts are not familiar to Chinese consumers. Therefore, in the Chinese wine market the establishment of popular brands
(through specific advertising campaigns made by private companies) may become more important than the quality/origin mark, because of a lack of generic promotional information from Italian public bodies or consortia.

Another important issue concerns cultural differences. Chinese have been reported having different consumption habits and different tastes, therefore the supply needs to be adjusted accordingly.

"Foreigners love to argue about how different is Chinese food from that of their home countries, but when it comes to importing they behave as if we had the same taste" distributor of Shanghai

The average Chinese consumer spends more than 40% of disposable income on food and beverages, and these overall expenses are rising. This makes the Chinese market a very potential source for future developments.

However, the composition of the traditional Chinese diet is markedly different from the western world, as well as the occasions in which foods are consumed, therefore it is necessary to adapt to the local market conditions in China (Cui and Liu, 2001). For instance, although Chinese consumers are familiar with spirits, they are not used to drinking wine. Therefore this product has great potential, but special efforts must be made to stimulate consumption.

Altogether, an important problem emerging from the interviews is the general unfamiliarity that Chinese people have with Italian products. Chinese people are interested in Italian foods, but don't possess enough knowledge to end up with a purchase.

Moreover, it is not always intuitive how to prepare foreign foods. Even products that seem apparently easy to prepare -such as pasta- turn out to be challenging for beginners (e.g., cooking time, use of the appropriate sauces). This problem may only be overcome through an effective communication and information policy. Potential vehicles for information are represented by food service and restaurant companies, as well as by the information attached to the product.

Chinese propensity to out-of-home consumption is higher than in the EU or in the USA. There are many Italian restaurants in China, especially in the large cities, which are considered to be a very powerful vehicle for promoting Italian foods. However, these businesses are not supported by communication campaigns aimed at raising the awareness and knowledge on products and ingredients and therefore such interest is not converted into consumption. As a result, most of the consumers of Italian products in China are Italians, but despite their high purchasing power, these consumers are a tiny minority compared to potential Chinese buyers.

"Italian companies export just for Italian people, not for Chinese." distributor of Shanghai
The second problem concerns the language: the labels of Italian products (except for the compulsory consumer information) are often written only in Italian, since Italians tend to simply export their products as such. Chinese consumers are not at all familiar with the Italian language. Even though Italian products are renowned and appreciated, their names are hard to remember for consumers; therefore it’s unlikely for a second purchase to follow the first.

“ Italians do not translate product names, therefore Chinese consumers do not remember them and do not buy a second time, even though willing” (Distributor of Shanghai)

Conversely, French and Germans usually provide English indications together with home-country language, so as to make easier for consumer to remember the name and acquire an insight on the product characteristics.

“ Italians use just Italian language for their products, they are not concerned if people will or won’t understand. Unfortunately understanding can make the difference between buying or not.” (Distributor of Shanghai)

For instance, information on wine product characteristics are generally not accessible to the Chinese consumer.

“Besides providing basic information, French arrange special courses to raise the awareness on their long wine production tradition and culture; Italians do not even insert a basic description of the product’s characteristic in the label.” (Wine distributor of Guangzhou)

6 Conclusions

The Italian lifestyle in food production and consumption is somehow distant from Chinese standards, but it is not completely unfamiliar. Chinese consumers still prefer Chinese cuisine, but younger people especially appreciate Italian styles and tastes.

The most appreciated Italian agri-food products are wine, pasta, olive oil and chocolate. Cold meat and ham also seem to have very good future prospects, but customs’ regulations still makes it extremely hard to import them into the Chinese markets.

Although the market share for Italian agri-food products is forecasted to grow, at present imported Italian agri-food products in China show marginal shares due both intrinsic and extrinsic factors:

- Despite the growth in the average pro-capita income, price still represents a key variable in consumers’ purchasing decisions. Imported food product prices are not considered affordable by the vast majority of consumers. Although Italian agri-food products are purchased by millions of consumers in China, they do not constitute an organized market.
Italian companies’ marketing strategies appear to be considered inadequate, for Italians do not invest in promotion and product image development and do not adjust products to local consumers' demands.

A local supply fiercely competes with high-quality imported products, since it is made up of less expensive products that are fairly good for the Chinese quality standard requirements.

The conditions of the distribution network in China hinders the penetration of foreign products, and so far only the biggest urban areas are able to offer a retail service comparable to that of the western countries.

The result is that now Italian agro-food products are mostly "sent and sold rather than exported" in the view of the Chinese practitioners interviewed, meaning that the Italian companies are adopting a strategy oriented towards the exploitation of spot markets. The lack of a strategy oriented towards long-term relationships does not allow for the generation of a stable flow of imports and thus causes a weak and unstable market penetration.

Country of origin of itself appears to play little role in product evaluation by channel members, therefore a higher effort should be made in marketing and promotion. Furthermore, since being a first-mover plays a major role in product acceptance, both due to the long-term orientation of Chinese culture and to the prevalence of counterfeit products, the earlier the approach, the higher the possibilities of succeeding.

Going back to the model developed by Knight et al. (2008), we can see that the main issues emerging are partly related to the perceived quality and value of the product features that derives back to cultural determinants. The positive country image may moderate the psychic distance between the customers and the exporters, but a more intense effort in finding a common ground and in communicating, promoting and mutually understanding the different cultural values is needed.

The main limitations of the results obtained from this study derive from the qualitative approach adopted and the narrative and anecdotic nature of the information provided.

Furthermore, the only source of information are the Chinese practitioners, therefore the voice and the point of view of the Italian exporters are not taken into consideration. Further research is needed to collect information from the Italian counterparts.

However, the analysis sheds some light on the perception of Chinese practitioners about the strategies of the Italian companies approaching the market environment, and it may represent a useful starting point for further research based on a descriptive approach and quantitative data.

7 References


