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PETER B. GUSTAVSON
School of Business

The world looks different from here.



Photo: Shine Huang on exchange at Neoma Business School, France

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**BACHELOR OF COMMERCE
BEST BUSINESS RESEARCH PAPERS**

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Note from the Editor

It is a goal of the UVic Peter B. Gustavson School of Business to deliver a Bachelor of Commerce (BCom) program that provides our students with critical skills and essential knowledge to be successful business leaders with a global mindset. Our graduates receive a quality education that enhances their ability to be 'brilliant by nature, international at heart, have a different point of view, enjoy a vibrant learning culture, and who consider their footprint.' COM 470 is one tool for which students achieve a HIGH LEVEL of international awareness, UNDERSTANDING OF cross cultural issues, and a sophistication of SCHOLARSHIP to make sense of today's complex business world.

Our international exchange program is the largest in Canada with 85 active partner universities in over 40 countries, and we continue to expand steadily into new regions. Every year, more than 70% each BCom cohort partake in an international exchange and spend a semester studying in another country. Students attend classes at a partner university, engage in the local society, and develop their own international business perspectives through the experience of living there. While abroad, those students enrolled in COM 470 – the International Business Research course – are able to fully explore a business topic or issue of their choosing that is specific to their host country. This assignment significantly strengthens research and writing skills, but is also an opportunity to apply some fundamental business tools for analysis to learn more about a piece of the country's diverse economy.

The top COM 470 papers continue to be showcased (since 2008) in a published collection titled Best Business Research Papers. The topics cover a very wide range – in this issue, you will find topics from candy marketing, and chocolate and automobile manufacturing, to Chinese credit cards and Czech telecommunications. Past papers have discussed subjects such as Chinese language strategies, Germany's manufacturing advantages, global tourism, venture capitalism, and consumer purchasing behaviour. Regardless of the focus, these best-in-class papers highlight the experience our students gain through significant and thoughtful research with a focus on business around the world.

The UVic Gustavson School of Business is proud to present these best research papers from our 2014 COM 470 students. Thank you to the team of people behind the scenes that make this international exchange and research opportunity such a success: the International Programs team of Dr. A.R. Elangovan, Director; Brian Leacock, Associate Director; Jane Collins, Manager, International Exchange; Elsa Yan & Radhika Nair, Outgoing Exchange Student Advisors; Allen Sun, International Recruitment Officer and China Specialist; Christina Hernandez, International Student Advisor; Fiona Sehmi, International Programs Clerk; Audrey Audebert, BCom Advising Officer; and to Shannon Perdigao, Academic Projects Officer, for coordinating and compiling Volume 8 of the BCOM Best Business Research Papers.



M. Carmen Galang, PhD
Associate Professor, Human Resources & Cross-cultural Management
Director, PhD Program
Editor, *Best Business Research Papers, Volume 8*

Dispensing Strategic Marketing Decisions:

An analysis of PEZ Inc.'s marketing decisions and key success factors

Chris Dimoff
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ABSTRACT

The objective of this paper is to determine how PEZ Inc. reinforces their two key success factors through marketing mix decisions. These two success factors are: widespread product appeal to a diverse market and strong brand awareness. This paper will focus on how PEZ continues to reinforce these success factors by identifying the decisions made at each level of the marketing mix and analyzing their subsequent effects on the success factors. For this paper the marketing mix will consist of four elements: product, promotion, price, and place/distribution decisions. Kotler's augmented product model will be used to examine how PEZ strategically makes candy and dispenser product decisions to fulfill the needs of both adults and children. Next, the different areas of PEZ's promotional decisions will be identified and analyzed. Following this, PEZ's pricing strategy will be identified and explained. Finally, PEZ's place/distribution decisions will be carefully broken down and analyzed. For every decision made in each marketing mix element the effect on the corresponding success factor(s) will be analyzed and explained. The secondary sources used for this paper were obtained from a variety of sources including business magazines, newspapers, academic journals, books, and websites. The primary evidence was gathered through a Facebook survey of 36 international respondents aged 18-35 and a personal interview with Mike Schmidt, an independent marketing consultant whose name has been changed to preserve anonymity.

INTRODUCTION

PEZ candy, and of course their iconic dispensers, are linked with special memories for almost everyone born in the last sixty years. Whether it is a sense of nostalgia brought about by a favourite childhood cartoon character, superhero eternally personified on a plastic dispenser, or the sparkling novelty of the latest fad available in a toy dispensing delicious candy, PEZ Candy Inc. are masters at appealing to diverse groups of people in different demographic and psychographic segments. When marketing to children this becomes increasingly important, because as any marketer will tell you, to sell to children the parent must first be convinced. Through an expertly crafted marketing mix and strategic brand management, PEZ has cracked the code for selling to parents and children at the same time.

However, Eduard Haas III did not have children in mind when his Haas Manufacturing Corporation sold the first PEZ "candy" in 1927 in his hometown of Vienna, Austria. The candy originally had one flavor: peppermint, very unlike the cherry, orange, and lemon flavours of today (Pederson, 2001; Joice, 2012). Eduard Haas III had a habit of sucking peppermints, and he considered it a healthier alternative to the ever-popular smoking. He named the product "PEZ", from the German word for peppermint: Pfefferminz. Thus, PEZ the famous children's toy/candy of today was born as a means to help adults quit smoking (Pederson, 2001; Joice, 2012).

Although PEZ did not target children at the beginning, they have always been masters of marketing. Eduard Haas III knew he had to make his smoking alternative cool, sexy, and appealing to as many people as possible. To do this, he adroitly manipulated the marketing mix and branding of PEZ to target people with different needs. For example, he first created a dispenser resembling a cigarette lighter so smokers wouldn't have to part with this "cool" accessory, while adding to the novelty of his product (Pederson, 2001; Joice, 2012). This was PEZ's first

experiment with package design, and it was enormously successful. PEZ did not forget this lesson, which has ultimately allowed them to successfully expand to worldwide markets and solidify their brand in the hearts and minds of children and adults alike.

PEZ's commercial success can be distilled to two success factors: 1) a broad targeting strategy/mass product appeal 2) a high degree of brand awareness among parents and children through novel products that evoke feelings of nostalgia. This paper will analyze how PEZ has utilized marketing mix decisions to achieve and reinforce these success factors.

OVERALL THEORETICAL PERSPECTIVE

According to PurelyBranded.com, the marketing mix of a company is: "the ingredients that combine to capture and promote a brand or product's unique selling points, those that differentiate it from its competitors" (2014).

These ingredients are the four Ps of marketing: product, price, promotion, and place (PurelyBranded, 2014). Since this paper will be examining how PEZ makes business decisions to support their success factors of mass appeal and brand awareness, and since marketing mix decisions affect consumer perceptions, it follows that a careful analysis of the marketing mix is the most appropriate theoretical framework for answering this question.

PRODUCT

Does PEZ sell nostalgic memories of childhood, candy, toys, entertainment, or the chance to be part of a community? To explore this rather complicated question in an analytical fashion, this paper will utilize marketing guru Kotler's "Augmented Product Concept" (LearnMarketing, 2014). In this framework there are three levels of a product: level one, the core product/benefits; level two, the actual physical product; and level 3, the augmented product (LearnMarketing, 2014). This framework is most appropriate for determining how PEZ utilizes product decisions to support their success factors of mass appeal and brand awareness, because it explores how every level of the product - both tangible and intangible - contribute towards PEZ being a desirable brand in the minds of the masses. These product levels are explored in the next section in their respective order.

LEVEL ONE: The Core Product

Product level one looks at the specific benefits the product provides to the customer: the need(s) it fulfills (LearnMarketing, 2014). Since the focus of this paper is PEZ's core strategy of appealing to diverse groups of both adults and children it follows that the core product - the benefits - of PEZ can be divided into these two respective groups: adults and children.

Benefits provided to children

PEZ is popular among children because it fulfills so many of the needs children have: entertainment, keeping current with trends/playground fads, sugary sweets, and even the need to feel sophisticated. These will all be elaborated on and explored at product level two: the actual product.

Benefit provided to adults

The core product for adults when purchasing PEZ for themselves, or for their children, is a happy nostalgia. According to PEZ's current CEO, Joe Vittoria,

[PEZ] is one of those brands that you just remember. If you think about PEZ, you typically think about your childhood. And the brand is strong enough that people typically say, 'Oh I remember when...' (Michel, 2012, pg. 2).

Furthermore, Vittoria says that parents “don’t remember the candy as much as the great memories attached to every dispenser they bought” (Michel, 2012). Primary research from an online survey of people who had purchased PEZ in the last year supports this statement: over 44% of people purchased PEZ because of the sense of nostalgia it evoked in them (Appendix 1). PEZ is currently utilizing this core product characteristic to convince parents of PEZ’s worth by evoking this sense of nostalgia. Convincing parents to buy is a necessary hurdle for candy companies, and PEZ successfully leaps over it by eliciting nostalgic memories and positive emotions from parents. By doing this, PEZ is able to turn its dispenser into a meaningful product for the parent as well, thereby increasing the willingness of even the most health-conscious parent to buy the candy for their child. Therefore, PEZ reinforces their success factors of mass appeal and brand awareness through the provision of nostalgia.

LEVEL TWO: The Actual Product

While the company is called PEZ *Candy* Inc., it could justifiably be called PEZ *Dispensers* Inc. As PEZ marketing director Peter Vandall says, “We don’t necessarily sell candy; we sell dispensers” (Debruge, 2006). PEZ pioneered the field of “interactive candy” through their fun, playful dispensers and yummy candy flavours that tap directly into the sweet tooth of kids (Weaver, 2002). This section will explore how both the physical candy and iconic dispensers provide the benefits mentioned in the above section, and ultimately how PEZ has designed them to reinforce their success factors of mass product appeal and strong brand awareness.

The Candy

After PEZ’s foray into the American market in the late 50s, it was apparent they needed to adjust their product. PEZ was originally positioned as a panacea for common health ailments claiming the ability to: restore confidence lost to bad breath, allow users to lose weight, and fight infections (Pedereson, 2001). This strategy ultimately failed in the U.S. market, and plans were enacted to convert PEZ into a children’s product. The first change to the candy saw the original, sophisticated adult flavours of peppermint, lemon, chlorophyll, coffee, and eucalyptus transmuted into flavours compatible with the sugary cravings of children: orange and wild cherry (Pedereson, 2001).

PEZ’s new candy flavours were an immediate success with children and forever became engrained in the memories of every child who ate them. By changing the flavor of their candy, PEZ was able to make their product novel and special in the minds of children. PEZ’s penetration into the minds and taste buds of children can be seen in a quotation from the 1986 movie *Stand by Me*, where a main character says that “PEZ, cherry flavor” is his favourite food (Pedereson, 2001). This simple flavor change helped achieve their success factor of high brand awareness among children because it made PEZ into a novel treat. Although PEZ changed their flavours, they kept the familiar shape and candy packaging (Pedereson, 2001). By retaining these key elements parents were familiar with as children, PEZ preserved its sense of nostalgia among parents; therefore, this supported their success factors of high brand awareness and mass appeal.

PEZ never forgot this lesson of balancing continuous product innovation with preserving key features necessary for brand awareness and retention. Currently, they are in the works of developing a pressed gum for use in their dispensers (Pacyniak, 2010). However, the general shape of this new candy is sure to be the same. This creation of new products, resembling the old product, strengthens brand awareness among children while preserving the nostalgia necessary to appeal to parents. Therefore, it strengthens both of their success factors.

PEZ has also experimented with altering another familiar product characteristic: the styling of candy refill packs. In 2010, PEZ altered their package labeling with “bolder, more dynamic graphics and colors” (Pacyniak, 2010). This move was designed to make PEZ stand out as a “new” candy product to parents - even though they had been familiar with it their entire lives (Pacyniak, 2010). Through this simple change in candy packaging PEZ was able to keep their candy relevant, and seemingly novel, in the eyes of both children and parents. However, the change

was minor enough to preserve the necessary nostalgia among parents. This packaging change is a good example of how PEZ altered its product to increase its success factor of mass appeal among both children and adults alike.

The Dispenser

In 1955, PEZ made arguably the most significant alteration to their product: they put a head on the dispenser (Pederson, 2001). This seemingly minor change drastically changed the future of PEZ. The candy was now designed to appeal directly to children. With this change, PEZ learned a valuable lesson about their packaging: their unique value *is* the packaging. As James Joice from marketing magazine says, “[PEZ] was the first brand to offer a sweet that doubles as a toy... the sweets are almost incidental. With PEZ, the packaging is the product” (2012).

I will now discuss how PEZ uses the value created by the dispenser to fulfill the core needs of children first mentioned at product level one, and ultimately how these product decisions support PEZ’s success factors. First, dispensing the candy from the flip-top head of the dispenser is an easy form of entertainment for children (Joice, 2012). The dispensers are personified into the action figures, dolls, and toys kids would normally play with, thus creating infinite playtime scenarios for smaller children. Second, dispensing candies using PEZ’s ergonomic design creates a sense of sophistication for children (Joice, 2012). Third, it is an easy and inexpensive way to keep up with the current playground trend - a critical thing for children. By providing these core benefits to children, and thus making their product desirable to many children, PEZ has reinforced their success factor of mass appeal. Additionally, a toy/candy fulfilling so many childhood needs is sure to produce strong memories to come back as nostalgia, and thus high brand awareness, when these children become adults. For the same reasons it appeals to adults: a single purchase fulfills the many needs of their child. Therefore, fulfilling the multiple needs of children reinforces their success factor of mass appeal among children and adults.

As mentioned, PEZ provides a convenient way for kids to keep up with playground trends. This is an important factor for PEZ to consider when making product decisions, because if their product doesn’t seem novel to children it will soon be off their radar. Thus to strengthen their success factors of brand awareness and appeal among children, PEZ continuously adds minor innovations to their dispensers. For example, PEZ’s first dispenser innovation - since the addition of the head - was to modify the “body” of the dispenser to allow more characters to be created and stand out. An example of this would be Superman, who under the original design would have been “just a guy with a nice curl on his forehead” (Loria, 2012). With this willingness to alter their traditional head-and-stem style dispenser, PEZ began a series of dispenser innovations designed to keep their products novel and appealing to children.

Additionally, PEZ added accessories to some dispensers like detachable wings on the Disney Fairies PEZs (Loria, 2012). Furthermore, they have recently made another drastic innovation leap with the replacement of the classic PEZ head with “pull n go” magnetic detachable cars (Loria, 2012). Through this constant dispenser innovation PEZ has been able to keep their products new and appealing to children, but according to current PEZ CEO Vittoria, “Somewhat traditional looking” at the same time (Loria, 2012). By keeping this balance between brand familiarity and novel innovations, PEZ is able to strengthen their success factors of mass appeal and brand awareness. This is because the newly innovated products will appeal to children who lack brand recognition and the retained, familiar elements will keep the brand in parents’ minds through nostalgia.

PEZ’s strategic ability to turn packaging into a product itself does not stop with dispenser alteration. PEZ found success in creating “new” products through the packaging of the dispensers themselves. For example, they experimented with a PEZ collectors set which came in a container doubling as a lunchbox (Loria, 2012). By simply adding a handle to their previous collector tins, PEZ was able to create a whole new “product” in the eyes of children and expand into a new demographic: 3-to-8-year-old lunch box carriers (Loria, 2012). Once again this is a

perfect example of PEZ adding a minor change to its existing product in order to make it seem novel amongst children, and thus strengthening their success factor of a product with mass appeal.

However, PEZ's brilliance lies in its ability to create dispensers that fulfill the core needs of not just children, but adults as well. As mentioned in product level one, PEZ provides nostalgic memories for the casual adult purchaser/parent. According to Olly Raeburn of Marketing Magazine, "there is something about PEZ that makes grown men stare into the distance and say: 'PEZ... they were great'" (2001.) One way PEZ creates this feeling among adults is through the use of characters/figures from their childhood. For example, recent years have seen PEZ creations of the 1964 Beatles, Norman Rockwell, Andy Warhol, and a discussion is currently taking place about the creation of an "Elvis PEZley" (Debruge, 2006). These nostalgic characters strengthen PEZ's success factor of mass appeal among adults because the diversity of characters produced reaches diverse market segments. The brand awareness success factor is strengthened as well because of the happy memories linked with the characters and the PEZ brand.

In summary, in regards to the physical aspects of the PEZ product, PEZ has supported their success factors of mass appeal and brand awareness in few ways. First, they have mastered balancing continuous, minor product innovations with retaining familiar product aspects. This allows them to keep their product new while still retaining its branding and nostalgia, and thus allowing them to reach both novelty and nostalgia seekers. Second, they are competent at creating value in their packaging for consumers indifferent to PEZ or even candy; therefore, they can expand their appeal and brand awareness to people who don't usually buy PEZ. Third, they strategically choose, and alternate between, characters evoking nostalgia among adults and novelty among children. This allows them to increase their demographic appeal and brand awareness.

LEVEL THREE: The Augmented Product

According to Kotler's product model, level three includes "the additional non tangible benefits that a product can offer" (LearnMarketing, 2014). For most types of products this includes warranties and service plans. However, PEZ offers a unique benefit through the collection of its dispensers: an identity and the chance to be a part of a community. PEZ uses this to strengthen their sales strategy of appealing to as many people as possible. According to Elsner and Cardinal in their book "*The Cultures of Collecting*",

As one becomes conscious of one's self, one becomes a conscious collector of identity, projecting one's being onto the objects one chooses to live with. Taste, the collector's taste, is a mirror of self (Elsner & Cardinal, 1994, pg. 3).

Another scholar suggests that people collect to fill a void in their personal life and that the objects they collect fill the void with a quest for identification (Theroux, 1998). This quest for identification and fulfillment in personal life becomes interesting when applied to the collecting of PEZ dispensers: objects that are personified with human characteristics and usually linked to childhood memories. The company has only recently tapped this additional benefit: the fulfillment and satisfaction of collecting PEZ.

Through the active sponsoring of "PEZ Head" community events, the recent development of a PEZ museum and visitor center, and the creation of many limited-edition collector packs, PEZ has strengthened this augmented benefit. By strengthening this sense of community and identity, PEZ has been able to further expand their market reach beyond nostalgic parents and fad-obsessed children: they have now made PEZ a product for adults again. Therefore, they have reinforced their success factors of mass appeal and brand awareness. This full circle development from an adult smoking-prevention mint, to a children's "interactive candy", and finally back to a collectible for adults, will be discussed in the next section: promotion.

PROMOTION

Licensing

PEZ uses licensing to their success factors in two ways: through the licensing of their own brand name and dispensers to companies, and by licensing the use of popular characters for use as PEZ dispensers.

PEZ has opened up a limitless supply of market extension opportunities through a product evoking nostalgia and lending itself to innovation and novelty. This winning combination is attractive to outside companies wanting to cash-in on PEZ's strong brand, and according to Raeburn, has "promotional partners queuing up" to license PEZ's brand name (2001). For example, PEZ extended its branding reach into the lady's perfume industry by licensing their popular dispenser design to Parlux Fragrances in 2000 (Pedereson, 2001). When Parlux put their adult fragrances in PEZ-inspired dispensers, it strengthened PEZ's brand awareness because they were able to reach people who had positive memories of PEZ, but no longer thought of it.

Additionally, large corporations have sought PEZ dispensers for use as advertising novelties. For example, BP and Shell have both had "service station attendant" PEZs made, and General Mills' Lucky Charms gave away a promotion with PEZ inside (Weaver, 2002). By associating with these large brand names, PEZ gains credibility and brand recognition, which allows it to reinforce both of its success factors.

A further example of PEZ licensing their dispensers to tap markets, and support their success factor of brand awareness, is seen with a partnership PEZ formed with an MP3 player manufacturer. In 2005, PEZ licensed the creation of an MP3 player shaped like a PEZ dispenser (Staples, 2005). The CEO of the MP3 company wanted to tap the market of baby-boomers who had fond memories of PEZ, but might have been skeptical of modern MP3 players (Staples, 2005). For PEZ, this meant they could get their brand name back into the minds of older consumers with nostalgic brand memories. This combination of an adult-targeted product with a familiar nostalgic aspect is a prime example of how PEZ supports their success factor of brand awareness through licensing.

In addition to providing licenses, PEZ adroitly obtains licenses for popular characters with an eclectic demographical appeal. As Keith Whitaker, vice president of marketing at PEZ, points out, "with licensing confectionary products, it helps to latch onto a rising star, be it a blockbuster movie or pop culture icon" (Pacyniak, 2010). PEZ strengthens their success factor of mass appeal by obtaining licenses for popular characters with diverse appeal, because they reach out directly to the fans of that character. Additionally, PEZ's brand awareness is strengthened through the association of strong, nostalgic memories with favourite childhood characters.

Although PEZ still recognizes the appeal of producing dispensers with nostalgic characters for parents and collectors, they know they must stay current with today's trends among children. According to PEZ CEO Vittoria,

We try to take what's popular and adapt it to PEZ. If you can do it in a way that's consistent with the company's clean, wholesome, well-designed reputation and make something not controversial yet something people talk about, that's a win (Loria, 2012).

According to Pacyniak (2012), this 6th sense PEZ has for what is going to be popular has developed through close working relationships with big brands like Disney, Warner Bros., NASCAR, MLB, and others. The CEO echoes this sentiment by stating that it is all about finding that one particular character that will bring kids back to the brand (Loria, 2012). In this process PEZ has started to aggressively expand their licensing, which has resulted in a shift of

sales strategies: in the past seasonal sales accounted for 70 percent of revenues, and now licensing accounts for 60 percent (Michel, 2012).

This aggressive licensing strategy allows them to reach more types of people in two ways. First, with more characters appealing to different types of people they gain access to more demographics. A Hello Kitty PEZ reaches an entirely different market than a NCAA football PEZ. Sometimes even PEZ doesn't know what markets will latch onto a certain character; they are big advocates for testing the waters with small production runs (Debruge, 2006). For example, they designed a PEZ motorcycle from the TV show "Orange County Choppers" in the attempt of reaching boys aged 8-14. However, they ended up reaching young women: the show's number one demographic were women 16-45 years old (Loria, 2012). Secondly, through the creation of many different characters with limited production runs, they increase the collectability of every PEZ dispenser produced (Peterson, 2008). This opens up a market completely separate from people with attachments that are character-specific: collectors.

Collectors/Collectability

PEZ was quick to discover the sales power of a collectable item. After observing the sales success of collectable baseball cards when paired with candy, PEZ flipped the concept around and paired their candy with a collectable: the dispenser (Pez Power, *Saturday Evening Post*, 1 Nov 2010, editorial). At first, PEZ was passively involved in the collector community; however, the community of rabid collectors began to grow because of the rarity of many dispensers. In the mid-90s so-called "PEZ-heads" began launching PEZ-related websites, pricing/collecting guides, and holding national collector conventions. The buzz about PEZ was even so big that it prompted the creation of an online auction website to specifically buy and sell PEZ: eBay (Pedereson, 2001). All PEZ did to create this brand buzz, free advertising, and tremendous name recognition, was to make their products memorable, nostalgic, and in limited editions. However, it wasn't until later on that PEZ began to manipulate this promotional aspect of their marketing mix to significantly capitalize on a product with a large collector community.

Despite the collectability of their product and the rabid community of collectors, PEZ erred by initially spurning this community. It wasn't until their recent CEO arrived that PEZ began to use this unique aspect to support their strategy of appealing to as many people as possible. Current CEO Vittoria says that before he arrived, if collectors showed up at the factory police promptly escorted them off the premises (Loria, 2012). Therefore, the first move PEZ made to appeal to as many people as possible, and thus strengthen their success of factor mass appeal, was to support their collector base and enhance the collectability of their products.

As mentioned in the product section, PEZ promoted their support for collectors through "PEZ Head" community events, developing a museum and visitor center, and developing collector sets (Fogle, 2014). These collector sets have proven critical for strengthening both success factors of mass appeal and high brand awareness. As CEO Vittoria fully understands, "the only way to create collectability is to create scarcity" (Loria, 2012). While PEZ fully anticipated their first production of a collector set would appeal to the collector community, they were not expecting the buzz and word-of-mouth advertising from the general public.

Therefore, the collector sets, and support of the collector community, reinforce both of PEZ's success factors in two ways. First, brand awareness is strengthened through the media buzz created by the rare and popular collector sets. Second, the market to which PEZ appeals to is increased by enticing collectors through scarcity, as well as enticing people who associate with the particular characters in the set.

Advertising

According to Peterson (2008), PEZ does very little advertising and relies mainly on impulse purchases from parents for their kids "on a nostalgic whim". However, before they had solidified their nostalgic association with

parents, PEZ had to build its brand. As a smoking alternative, PEZ faced the marketing challenge of making mints “cool”. In an ironic marketing effort - when compared to the fun, apolitical brand of today - PEZ first sallied into the market with the old adage “sex sells.” PEZ used attractive “PEZ Girls,” often featured topless, to associate sex with their breath mint (Pedereson, 2001). Since this was a niche marketing strategy, aimed at targeting smokers wishing to quit, it is a far stretch from their current strategy of mass appeal. However, they were later able to apply the lessons they learned from this initial marketing foray to their success factor of mass appeal.

One such lesson learned from advertising their breath mint was the power of associating emotions with a brand to increase brand awareness. With the breath mint they associated their brand with sex, and with their launch into the American market as a children’s brand they associated with fun. To do this they first removed all of their old, adult flavours and completely removed the cigarette lighter-style dispenser from shelves. They ran silly TV commercials on children’s shows, and featured PEZ promotions where customers could get “PEZ guns” to shoot their trademark, oblong candy (Pedereson, 2001). This new advertising strategy paved the way for a new marketing strategy of mass appeal, because as PEZ learned: only some people are interested in attractive “PEZ girls,” but everyone likes fun.

Children growing up began to associate fun with PEZ through its advertising and later this developed into a fond sense of nostalgia for them as adults. PEZ had ingratiated them to their brand as children, and therefore advertising became less necessary for PEZ. As CEO Vittoria says, “everyone remembers PEZ” (Loria, 2012). By advertising solely to children, PEZ was able to reinforce its current strategy of mass appeal through nostalgia and novelty. For children, they enjoy the novelty and fun of PEZ. For adults and parents, they enjoy being able to buy a piece of their childhood for their own children and themselves.

Public Relations

Managing public relations is of the utmost importance to PEZ. This is because a cornerstone of their success is their strong brand recognition and association with positive memories. PEZ manages public relations to reinforce their success factor of mass appeal in two ways. First, they painstakingly take efforts to create apolitical characters producing only positive emotions. Second, they work to produce innovative products that keep their brand in the minds of the consumer.

PEZ’s first goal of public relations is to ensure all dispensers are apolitical and evoke positive emotions. For example, they have turned down offers to produce a Warren Buffet PEZ. According to CEO Vittoria, “he doesn’t have the edge [to be a successful dispenser]”, and that selecting characters is all about staying true to PEZ’s mission: all dispensers should reflect positive emotions (Michel, 2012). Vittoria said he chose to produce the Geico Lizard instead because, “he is more fun” (Michel, 2012). By carefully ensuring only positive, apolitical characters are produced, PEZ is supporting its success factor of mass appeal; they don’t dissuade anyone from purchasing a PEZ dispenser because of possible negative associations they might have with a controversial character.

These positive emotions carefully personified into their dispensers don’t necessarily have to be “fun” for PEZ to reinforce their strategy of mass appeal though. PEZ has begun experimenting with something unheard of with candy companies: educating children. A recent venture involves the production of the complete set of U.S presidents along with an informative guidebook of each president’s achievements (Loria, 2012). The series will be released in sets of five, and will follow CEO Vittoria’s goal of producing a “product that teaches” (Loria, 2012). In this case PEZ wants customers to associate their brand with an innovative company that cares about educating children. In addition they are working to invoke a sense of nostalgia by structuring the release of this collection by following the old-time concept of encyclopedias: releasing a new one every few months until everyone had the same set (Loria, 2012). This will tap into the nostalgic emotions of parents who remember having encyclopedias and therefore strengthen their mass appeal success factor. Although Vittoria knows this will not be a profitable

venture, it is more important to him to “get the PEZ brand back in the minds of consumers” (Loria, 2012). Therefore, reinforcing brand awareness is more important to PEZ than making money and at the focus of all PEZ’s promotional decisions.

In conclusion, PEZ uses public relations management to support their success factors of mass appeal and brand awareness in a few ways. First, they only produce apolitical characters associated with positive emotions. These types of characters allow PEZ to maintain the strong sense of nostalgia and fun necessary for high brand awareness and mass appeal. Additionally, brand awareness is reinforced through the creation of revolutionary concepts and products.

PRICE

PEZ’s original inception as a high-quality smoking alternative and panacea dictated a premium/prestige pricing strategy be used. PEZ was originally priced much higher than other candies, and in 1953 PEZ sold for 25 cents while other candies sold for 5 cents (Pedereson, 2001). According to Richards (2014), this prestige pricing strategy is especially effective when there is something unique about the product. In this case, the uniqueness of their product lay in its claimed abilities as a cure-all: especially smoking.

Currently, PEZ is following their original prestige pricing strategy to reinforce their marketing strategy of mass appeal. By keeping their product priced above other similar candies, they are ensuring people still see the quality and uniqueness of the PEZ candy experience. This reinforces their marketing strategy of mass appeal because it conveys to parents that PEZ is still the special candy they remember and is something to be shared with their children.

PLACE/DISTRIBUTION

To reinforce both success factors of mass appeal and brand awareness, PEZ takes considerable efforts to ensure they sell through as many channels as possible. As mentioned in the promotion section, a main way of doing this is through licensing. With more licenses PEZ obtains, and the more they license to external companies, their brand name and product placement proliferates. This proliferation strengthens both of their success factors. Furthermore by nurturing licensing relationships with large, respectable companies they associate themselves with the credibility and emotions of that company, thus increasing their appeal and brand awareness. A prime example of this is PEZ’s long lasting relationship with Disney: Walt Disney himself signed the partnership contract with PEZ in the 1950s (Michel, 2012).

Maintaining close relationships with large distributors is also vital for supporting both success factors. A recent strategic distribution decision has been the development of a relationship with Wal-Mart (Michel, 2012). This has allowed PEZ to increase their brand awareness by exponentially increasing the number of people who see a PEZ product each day. Furthermore, relationships with big distributors strengthen their targeting strategy of mass appeal by transferring some of the credibility from the distributor to PEZ and by making buying PEZ more convenient for the consumer.

Finally, PEZ has recently begun updating its website to promote online sales. This move is not to increase revenue, but to reinforce their strategy of mass appeal. According to PEZ’s marketing president, online sales don’t account for a large percentage of revenues: updating the website is all about appealing to collectors and parents planning themed parties (Pacyniak, 2010). This priority on increasing access to more types of consumers through more channels, instead of maximizing revenue, reinforces their success factor of mass appeal by providing more interactions with their product. Primary evidence gathered from an interview with Mike Schmidt, an independent marketing consultant, reinforces the logic behind PEZ’s prioritization of increasing the quantity of channels rather than specializing in a few, key channels. He states that,

...if you are a company and your goal is to target as many people in a market as possible, you have to make it easy for your consumer to access your product. A large component of your product being desired by many people is that those people see your product and brand everywhere they look (Schmidt, 2014).

Therefore it can be concluded that PEZ's distribution decisions are strategically made to reinforce their success factor of mass appeal and brand awareness.

CONCLUSION

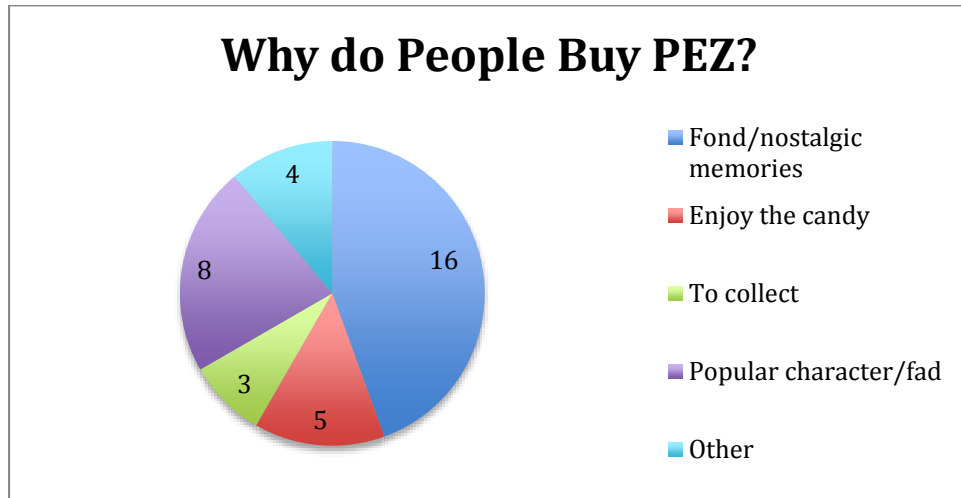
PEZ has sweetened its position as a top candy company through two success factors: a targeting strategy of mass appeal and strong brand awareness. To reinforce these factors PEZ carefully manipulates its marketing mix of product, promotion, price, and place/distribution decisions. PEZ's key product decision is to ensure a balance of product innovation with familiar brand characteristics in order to appeal to both novelty and nostalgia seekers; this strengthens the success factor of mass appeal. In promotional decisions, PEZ aggressively licenses its dispensers and obtains licenses for popular characters in order to appeal to as diverse a market as possible. They also associate themselves with positive emotions, support their collector community, and carefully choose characters in an effort to increase the appeal of their product. In pricing decisions, PEZ maintains a prestige pricing strategy in order to convey its uniqueness and convince parents to share the specialness with their children. In place/distribution decisions, PEZ prioritizes mass appeal over profit maximization by ensuring they sell through as many channels as possible.

PEZ tells the story of a product initially marketed only towards adults, then to just children, and then finally to an extremely diverse market made of multiple demographics and segments. PEZ has unwrapped the secret of making a product appeal to the masses, digested the lessons of strong brand awareness, and is sure to continue dispensing both happiness and dividends for many years to come.

APPENDIX 1

Why do People Buy PEZ?

Sample size: 36. Age range: 18-35. Facebook Survey.



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Wayfinding in Madrid:

A study of pedestrian wayfinding in respect to tourism

Ciara Glen
Fall 2014

ABSTRACT

Madrid is one of Europe's leading tourist destinations, attracting millions of foreign and domestic visitors every year. In a struggling Spanish economy, the tourism industry is, and will continue to be, a crucial component in the nation's growth and development. This study explores the significance of wayfinding systems and their importance to the tourism industry. The ability for a tourist to easily navigate through a city has an influence on their overall experience and level of enjoyment. In a progressively competitive and demanding market, satisfying tourists' needs will be of heightened importance. Research will demonstrate that Madrid is failing to provide its visitors with the resources to effectively navigate the city. A market analysis has shown that the opportunities and strengths of implementing a new wayfinding system outweigh the weaknesses and threats. An updated wayfinding system will aid in Madrid's effort to remain a progressive and attractive tourist destination.

INTRODUCTION

It is easy to feel lost and overwhelmed when exposed to new and unfamiliar environments, resulting in a need for wayfinding. Wayfinding can be defined as "the cognitive conceptual process of finding and planning a route from an origin to a destination through a known, partially known, or unknown environment" (Klippel, 2010). Understanding wayfinding as it applies to tourism management is critical for creating an accessible environment for travellers to explore, discover and learn. The city of Madrid attracts millions of tourists every year and boasts an abundance of attractions ranging from historical monuments and world-renowned museums, to arguably the most successful football club in history, Real Madrid. But how does the city accommodate its visitors and create an accessible, welcoming and efficient environment?

The first goal of this paper is to highlight the significance of wayfinding systems and their impact on, and relationship with tourism and subsequently, economic growth. This concept is particularly relevant to Madrid as tourism is Spain's leading industry accounting for 10% of the nation's total GDP and creating 11.9% of the country's jobs (UNWTO, Working Together in Europe, 2014). Madrid itself is on course to receive record-breaking tourism numbers, welcoming over 5 million visitors in the first 8 months of 2014, a cumulative growth of 12.3% (tourism-review.com, 2014). The second goal of this paper is to examine Madrid's current wayfinding situation and its impact on the accessibility of the city in regards to the tourism industry. As on-foot travel is the most common mode of transportation for tourists, the focus of this research will be specific to pedestrian wayfinding. Establishing the importance and relevance of wayfinding systems to tourism in Madrid raises the question as to what makes a successful wayfinding strategy. Therefore, the final goal of this paper is to make suggestions, based on primary research, case studies and literature, for a wayfinding strategy that can assist Madrid in its future and longevity as a prominent tourism destination.

PART I: THE SIGNIFICANCE OF WAYFINDING TO TOURISM

While wayfinding is not specific to the industry, given the nature of travel, it is an inevitable part of every trip. Wayfinding happens not only for local residents travelling domestically, but also for international visitors during initial or repeated visits to foreign countries. How tourists approach wayfinding depends on their experience with travel, familiarity with an environment and their psychographic personality. Tourists who tend to be adventurous and spontaneous might feel a sense of relaxation or happiness when travelling in unfamiliar environments. For others, an unfamiliar destination will generate fear and anxiety, and this feeling of disorientation is linked with negativity (Chang, 2013). Wayfinding signage systems are key tools used by tourists to navigate through these unfamiliar environments. Signage and wayfinding systems are not entirely new concepts, but have, and will continue to become of increasing importance due to the growing tourism industry, shifting tourist behaviours and urbanization.

Trends in global tourism

The past six decades have seen international tourism develop into one of the world’s largest industries, and while the global economy is seen to be in ‘low gear,’ demand for international tourism continues to exceed expectations (UNWTO Tourism Highlights, 2014). The world’s economic balance of power is shifting with the once poor developing countries such as Brazil, China, India and Russia accelerating out of recession (Yeoman, 2012). With travel being strongly linked to GDP, the emergence of this new middle class is expected to fuel continued growth in international tourism. The shift in economic power has not only increased the number of global travellers but, combined with an expanding network of transportation infrastructure, facilitated a growth in destination choice (UNWTO: Global Report on Aviation, 2012). Travellers now have the opportunity to explore nearly every corner of the world, at any given time.

Figure 1: History and forecasted growth in international tourism (UNWTO, 2014)

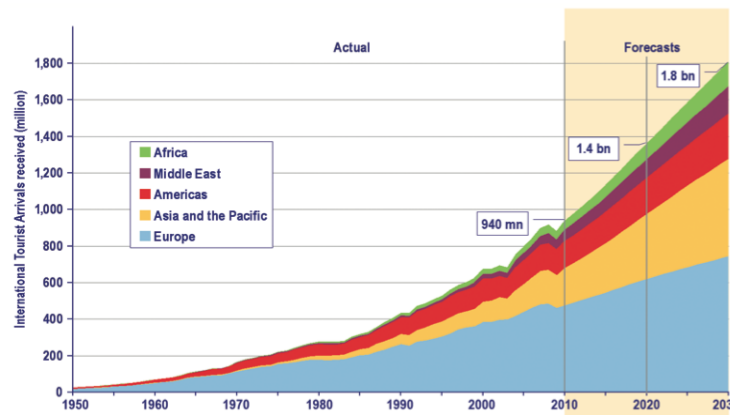


Table 1: Outbound departures from source country (,000)

Nation	2000	2001	2002	2003	2004	2005	2006	2007	2008	2000-08 outbound increase
Brazil	3,228	2,674	2,338	3,225	3,701	4,667	4,625	4,823	4,936	53%
China	10,473	12,133	16,602	20,222	28,853	31,026	34,524	40,954	45,844	338%
India	4,416	4,564	4,940	5,351	-	7,185	8,340	9,783	10,868	146%
Russia	18,371	18,030	20,428	20,572	24,507	28,416	29,107	34,285	36,538	99%

Data source: UNWTO

Technology altering tourist behaviour

There is a continued need for accessible wayfinding as the shift in power combined with the opaqueness of the Internet and speed of technology has tourists demanding “better experiences, faster services, multiple choices, social responsibility and greater satisfaction” (Yeoman, 2012). Technology has given travellers the ability to conduct their own research, make their own arrangements and bookings, and share first-hand experience with a global audience. Travel patterns and expectations are evolving as changes in the digital landscape are altering traditional relationships with time and place (Dickenson et al., 2012).

The smartphone revolution has been influential in altering perceptions and behaviour in regards to navigation as the device provides a convenient way for people to conduct research and receive instantaneous results. A study from the United States shows that between 2011 and 2012 the number of smartphone owners increased from 35% to 46% with the percentage of those owners accessing real-time location-based information, increasing from 55% to 74% (Zickuhr, 2013). Smartphones may have reduced the reliance on wayfinding signs, to what extent is unknown, as evidence still suggests that signs remain the most basic form of pedestrian wayfinding for tourists (Kokko, 2011). Access to instantaneous mapping information and location-based data is easily accessible on a domestic scale, however many tourists do not have the luxury on international data plans. Furthermore, while access is improving, readily available, dependable free Wi-Fi is still a challenge. The ability to receive location-based data on smartphones may have increased the ease of navigation; this instant gratification has come at the cost of decreased patience (Muther, 2013). People have become accustomed to instantaneous mapping information increasing the expectation and demand for efficient and informative wayfinding systems.

The increase in technology has also given tourists the ability to access and contribute to travel information on online social networks. Websites like Trip Advisors and Orbitz have an average of 315 million (Trip Advisor, 2014) and 139 million (Yelp, 2014) visitors per month. The ability for travellers to instantly share experiences has increased both the vulnerability of cities and specific attractions and the competition within tourism industry. The importance of a city’s reputation, of which pedestrian accessibility plays a vital role, has been heightened by the hyper connectivity and exposure of the Internet. With the choice of tourist destinations expanding as well as expectations and demands increasing, tourism meccas, such as Madrid, are more vulnerable and their effort to satisfy customers more prevalent.

Urbanism and its implications on tourism

Managing tourism, in terms of effective wayfinding, will be of continued importance as the world population continues to shift to urbanization. Cities are tied to a better quality of life, and provide people with opportunities and services that are not available in rural areas. According to the United Nations, in 2014, 54 % of the world’s population lived in urban areas with this figure projected to increase to 66% by 2050. Increased urban density places a greater stress and appreciation on the concept of space and the need for land use and transit planning (WHO, 2010). Urbanization heightens the importance of managing tourism to ensure that cities respond to the needs of both their visitors and members of the community.

As the world continues to urbanize, sustainable development challenges will be increasingly prevalent. With the number of people living in urban areas increasing, governments will be placed under great pressure to provide services such as health care, education, public transit, and access to water and electricity. Governments will need to adopt sustainable urbanization efforts and implement policies that generate better income and employment opportunities (United Nations, 2014). Wayfinding systems can serve as tools to direct visitors, promote commercial zones and subsequently strengthen the economy. Pedestrian signage can manipulate tourist routes and play significant roles in developing both small and large businesses districts which in turn, enhances the real-estate value resulting in high tax revenues for the city (The Signage Foundation, 2013).

While the level of urbanization is more severe in Asia and Africa, the phenomenon is also a concern for the city of Madrid whose urban population is predicted to reach 6.7 million by 2030 (United Nations, 2014). The challenge will be to create a friendly, accessible environment in an increasingly dense city and remain attractive in a progressively competitive global tourism industry. Signage and wayfinding systems will be at the forefront of efforts to manage tourism activity and ensure long-term success and sustainability of Madrid’s leading industry.

Table 2: Urbanization, Madrid (,000)

Population				Average annual rate of change
Year:	1990	2014	2030	
Madrid	4 414	6 133	6707	1.4%

Datasourced: World Urbanization Prospects, UN, 2014.

PART II: ANALYSIS

Madrid today:

Having proven the prominence and importance of tourism in Madrid, it is somewhat surprising to see the lack of effective wayfinding efforts. Mario Barcelo, a professor of Urban and Regional Economics at Carlos III University in Madrid, compares the city’s current wayfinding system to “more of a quest” than a system which helps tourists to navigate. Barcelo believes that the current signage does “nothing at all” to help tourists explore the city. Through my own observation it appears that Madrid’s current wayfinding system consists of approximately five main competing or conflicting street signage systems across the city. The majority of the signs have being installed by the City of Madrid at different points in time – or for different purposes, the intent and reason for the variety is not entirely clear. To fully understand the existing wayfinding systems, I will reflect on each signage type separately before determining the effectiveness of the systems as a whole.

1. Pedestrian Tourism Signs

I am labelling this system of signage as the “Pedestrian Tourism Signs” for it seems to be specifically planned for tourists who navigate the city by walking. The signs are found on large posts and feature a brown background with white writing or symbols. The signs were part of a municipal initiative submitted in 2005 whose intention was to make Madrid more accessible. The City designed six walking routes through the city’s most emblematic locations. The system includes 10 vertical panels, three meters in height, featuring mapping, route, and distance information; 250 color-coded directional arrows in English and Spanish; and 50 monument signs in Spanish, English and Japanese (Sanchez, 2013).

Figure 2: Pedestrian Tourism Signs (2014)



Good condition directional arrow



More typical vandalized directional arrow



(Source: Sanchez, 2013)

Vertical panels



Monument sign

Eight years after the establishment of these routes and it is clear that this signage system is failing. It is more common than not to find these signs littered with stickers or paint, illegible and inadequate of their primitive function to inform. Along with the signs, the walking routes have seen better days for even the municipal informational services do not know of their existence (Sanchez, 2013). There are several hypotheses as to why these signs and their accompanying walking routes have failed: Perhaps it is the placement and design of the system, for the directional arrows and monument signs tower above pedestrians, far above any human's line of sight. Not helping this situation is the fact that the brown background and small white writing, while non-invasive of the historical cityscape, do little to attract the attention of tourists.

Perhaps instead it is the lack of awareness, inconsistency and scope of the project as 10 information boards seem somewhat inadequate for a city of Madrid's size, while the color-coded nature of directional signs, lack meaning without a legend. Monument signs while supposedly trilingual are often solely in Spanish or feature a symbol of no relevance to a foreign visitor. The most obvious hypothesis however is that the system failed due to the upkeep of the signs for even if a tourist was aware of their existence and understood their intent he or she would likely struggle to make out any information.



Figure 3: Vehicular Signs, (2014)

2. Vehicular Signs

Located on busy motorways, intersections and roundabouts are larger directional arrows which often communicate directions to popular tourist destinations such as museums and plazas. Due to their size and location these signs appear to be intended for vehicular traffic although they are often used by pedestrian tourism traffic. Although attention grabbing, simple in design and easily legible, these signs are not specifically intended for pedestrians and thus, lack detailed information such as distance or travel time. There also appears to be a system of color coordination however, the meaning is unclear and inconsistent throughout the city.

3. Madrid City Map and Directory Signs

Large city maps presented on freestanding signs are located on sidewalks and plazas throughout the centre of Madrid. These maps act as directories, numbering attractions, plazas, parks, stations and streets, and providing a corresponding legend. They also feature a “you are here” spot so that pedestrians can locate their position and plan a route. The sheer amount of information and detail featured on these maps makes them difficult for many pedestrians to comprehend. While these signs do provide users with the ability to orientate themselves, they do little for directional navigation or route planning.

4. Bici Madrid Booths

BiciMAD is a new initiative to promote cycling in Madrid. The program includes 123 bike stations which use an interactive platform to communicate real-time information on the availability of bikes and stalls (BiciMAD, 2014). Concentrated in the centre of the city, the stations are often located a few meters away from the entrance to major tourist attractions or popular plazas. Modern in appearance, the bike stations feature several self-illuminating route maps. It is not uncommon to find tourists approaching the stations and attempting to use the maps for general wayfinding purposes. Chelsea Mosgrove, a recent visitor to Madrid, commented on her attempt to use a BiciMAD station as a tourism map: “I spent ten minutes trying to figure out if the numbers [on the map] corresponded with tourist attractions before realizing that they were indicating bike stations.” Perhaps it is the poor identification or a lack of available tourist signage that has visitors turning to the BiciMAD stations for assistance. Regardless, the confusion has the potential to further discourage tourists as they attempt to navigate Madrid.

5. Mobile Information Booths

Mobile information booths such as the one shown in Figure 6 are located outside major tourist attractions and transportation hubs. These booths provide tourists with face-to-face navigation assistance and often distribute paper maps to aid with wayfinding. These mobile information booths tend to reduce in number during the winter months, adjusting to the high level of seasonality in Madrid’s tourism industry. While mobile information booths may serve to be useful when present, they do not offer 24/7 assistance, are expensive to staff and are irrelevant if tourists become disoriented travelling between locations.



Figure 4: Directory Sign (2014)



Figure 5: BiciMAD station (2014)

Figure 6: Mobile Information Booth, (2014)



Madrid's overall wayfinding

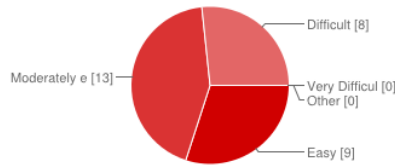
While the five signage systems described above are the most prominent sources of wayfinding in Madrid, these are not the only directional signs present in the city. As a pedestrian, it is not uncommon to come across an indiscriminate sign that does not appear to be a member of any particular signage system. The variety of signage systems throughout Madrid has resulted in visual and informational inconsistency. The existing signage types may individually have some benefit to wayfinding but the lack of connectivity between systems combined with a general absence of upkeep fails to provide tourists with an adequate and comprehensive wayfinding system. Recent reports indicate that the state of the city's signage is on the agenda for Madrid's City Council (Sanchez, 2013). In the meantime, the city appears to rely on the Internet providing visitors with tourist maps, transportation information and audio guides.

Survey results:

A recent survey I conducted uncovered some interesting information regarding tourism and wayfinding in Madrid today (Appendix 1). Using Google Forms, 30 individuals were asked to anonymously provide feedback on the accessibility of Madrid. Respondents were foreigners to Spain, having either recently visited as a tourist or in the process of completing a 4 month university semester in Madrid. When asked how easy it was to navigate the city during their first week, 30% of participants responded they found the process "easy", 43% answered "moderately easy" with 27% finding the city "difficult" to navigate. The same respondents were then asked how easy it was to find the main tourist attractions. 50% responded "easy", with 37% and 13% responding "moderately easy" and "difficult" respectively (Figures 7 and 8). The possible difference in these results could be that the general accessibility of Madrid is more challenging to navigate than finding the physically large attractions such as Plaza Mayor and the Royal Palace.

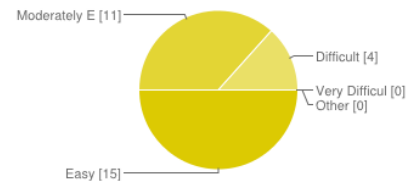
Figures 7 and 8: Survey Results (2014)

3. In general, during your first week here, how easy was it to navigate around the city?



Easy	9	30%
Moderately easy	13	43%
Difficult	8	27%
Very Difficult	0	0%

4. In general, how easy was it to find the major tourist attractions?



Easy	15	50%
Moderately Easy	11	37%
Difficult	4	13%
Very Difficult	0	0%

The survey continues by asking participants what their primary resource was for navigating the city. 50% answered “Cellular data or Wifi,” reaffirming the prominence of technology as a tool for wayfinding. As the majority of respondents are university exchange students, who typically have cellular plans while in Madrid, one might expect this result to be different amongst tourists who stay in Madrid for a shorter period. 33% of respondents indicated using either a city or tourist paper map, and only 2 out of 30 people referenced using street signage as their primary resource of navigation. When specifically asked questions about the “Pedestrian Tourism Signage,” 27% of participants said they noticed the signs within their first day in Madrid. Another 53% responded that they had also seen the signs “but not at first” possibly indicating that these signs are inadequate at grabbing the attention of pedestrians. Additional survey results confirm the ineffectiveness of the “Pedestrian Tourism Signage”: 6 of the 30 respondents have never noticed the signs in Madrid and 60% have never used the signs for navigation. Although less common than not, the survey results did indicate that 37% of respondents have used the signs for navigational purposes and 30% of people found them to be useful.

The final portion of the survey asked participants to reflect on the general accessibility of Madrid. Respondents were asked how they would rate the overall accessibility of city if they did not have cellular data or Wi-Fi. The results were as follows: 13% - “very accommodating,” 53% - “somewhat accommodating,” and 30% - “needs improvement.” Participants were then asked to rate Madrid’s overall tourist-friendly nature. 43% of the participants rated the city as “very accommodating,” 47% as “somewhat accommodating,” and only 7% of respondents thought that the city “needs improvement.” One possible reason for the difference between the two results is that people are willing to overlook poor wayfinding when evaluating the tourist-friendly nature of Madrid, because of other qualities the city offers. At the time of the survey, many participants had lived in Madrid for a few months and therefore, may not consider wayfinding in their evaluation, as they no longer struggle with it.

Although survey results show a general lack of signage usage in navigating in Madrid, this may not necessarily affect tourists’ general opinion of the city. The following SWOT analysis provides a brief analysis of the potential benefit of a new wayfinding system.

SWOT Analysis:

Table 3: SWOT analysis of a potential wayfinding system

Strengths	Weaknesses
Strong existing tourism industry Walk-able city centre with high concentration of tourism sites Government support for continued investment in tourism	Large number of existing signage systems Presence of vandalism & graffiti in Madrid
Opportunities	Threats
Projected increase in global tourism Society becoming more visual than verbal Ability to direct pedestrian flow to commercial areas Advances in signage design & capabilities Nationally expanding the wayfinding system increases the connectivity between Spain’s tourist centres	Competing or conflicting motives of stakeholders Lack of upkeep Changing information causes out-dated signage Expanding network of tourist destinations increases competition More demanding tourists

Strengths

A pedestrian wayfinding system would go to good use as Madrid has an impressive history of hosting tourists. The city features a large number of spatially concentrated tourist attractions making a tourist’s exploration of the city accessible by walking. This creates potential for a pedestrian wayfinding system to guide and inform tourists as they discover the city. The national government of Spain is aware of the importance of tourism and has voiced continued investment and support in the industry. This support serves as a strength in regards to a future wayfinding system as government backing can be crucial for a project’s funding and for the system’s long term upkeep and success.

Weaknesses

As previously presented, Madrid’s current wayfinding system consists of several different signage types. These contrasting systems serve as a weakness for they fail to unite as a cohesive and effective wayfinding system. The lack of wayfinding cohesiveness could be a factor in why there appears to be a general lack of unification in the tourism industry in Madrid. The survey I performed indicated that 53% of respondents felt there was an absence of a tourism network and instead that Madrid offered a set of separate attractions.

It is clear from the existing signage and the general appearance of Madrid that vandalism and graffiti is a weakness of the city. As demonstrated on the current “Pedestrian Tourism Signage,” this vandalism causes the signage to become illegible and thus fail to inform the user.

Opportunities

As global tourism continues to rise, there is potential for Madrid to exploit the growing number of foreign travellers. One such way that Madrid could take advantage of the influx of visitors is to create a wayfinding system which influences pedestrian traffic towards commercial areas in the hopes of strengthening the economy.

There is also potential to extend the pedestrian wayfinding system to other Spanish tourism centres in an attempt to improve between-city connectivity and strengthen the Spain “tourism brand”.

The process of wayfinding is becoming increasingly more visual than verbal and recent developments in wayfinding systems have made significant improvements to the user-friendly, aesthetic and informational aspects of maps. State-of-the-art pedestrian signage systems now feature a wide variety of self-illuminating sidewalk furniture and signs which boast additional information such as walking distance and time. Wayfinding systems can also be translated digitally and provided to pedestrians on mobile phones or tablets.

Threats

As global tourism continues to rise and the economic and social developments of many countries increases, the number of tourist destinations will continue to multiply. The increasingly competitive tourism industry is a threat to Madrid’s ability to attract international tourists. In addition, tourists are becoming more choosy and critical, using the Internet and social platforms to gain information and opinions, increasing their decision-making powers.

There are many stakeholders who would be affected by a pedestrian wayfinding system such as museums, restaurants, stores, and local residents. Each stakeholder has a conflicting motive regarding whether they want to encourage or discourage pedestrian traffic. These conflicting motives could serve as a threat to developing and implementing an effective wayfinding system that would benefit the city at large.

The future wayfinding system is threatened by the lack of upkeep and attention from the City of Madrid. The existing tourism signs have not been cleaned or maintained and the risk of this happening to future signage systems would compromise their success. As information such as traffic patterns or attraction locations change the signs risk becoming out-dated and irrelevant. Failure to understand the importance of a wayfinding system resulting in a lack of commitment would threaten overall success.

PART III: THE FUTURE OF WAYFINDING IN MADRID

Spain’s “Tourism Brand”

The Spanish government is aware of the influence tourism has on the national economy and has pledged its dedication to the industry’s continued investment. In 2012, the Ministry of Industry, Energy and Tourism released a document with outlined measures for the period of 2012 – 2015, in an attempt to boost Spain’s competitiveness in the global market. The document highlighted the importance of Spain’s “tourism brand” as a key asset in the economy but also, pointed out a declining trend in the nation’s “tourism brand” in recent years (2012). My survey results also indicate that Madrid as a city, fails to convince the majority of visitors of a unified “tourist network” (Figure 9).

Figure 9: Survey (2014): “Did you feel that there is an effort to unify tourism in Madrid?”



As noted, pedestrian wayfinding systems can serve as tools to link tourists to services, attractions and businesses, but they can also serve as a marketing tool, helping to create a city or national “tourism brand.” A consistent, comprehensive pedestrian wayfinding system can help Madrid, and Spain as a whole, increase the overall connectivity and unification of the tourism industry. In addition, the visual appearance of a wayfinding system can help portray Spain’s image, mission and ambition.

In 2012, Dublin, Ireland implemented a new wayfinding system consisting of a variety of signage structures, billboards and hand-held as well as online maps. Designed in a consistent scheme the wayfinding system collectively delivers a unique identity befitting to the city (Fwdesign, 2014). The wayfinding system has since been extended from Dublin city centre to the Dublin Docklands. The docklands are still relatively new to visitors and the extension of the citywide system is important to ensure understanding of linkages across Dublin (Dublin City, 2012). In 2014, signs of a consistent design were also installed in the neighbouring town Don Laoghaire, once again expanding the wayfinding network. A consistent signage system throughout Spain would help build connectivity between the major tourist centres and provide a sense of familiarity and ease of use for tourists. Consistent signage would also provide Spain with a sustainable competitive advantage, as elements, such as design, factory production and upkeep would be simplified.

Miami Beach, Florida combined their need for a tourism signage system with an effort to portray the city’s brand and image. A design team worked in conjunction with several stakeholders to develop both directional signs, helping tourists navigate across the city, and, gateway signs, defining the entry into a distinct location. While the signs served their functional purposes, their visual design has since become iconic, communicating the identity and brand of Miami Beach (Hillier, 2004).

Figure 10: Miami Gateway Signs (Signage Foundation Inc., 2013)



Planning, Design and Maintenance:

In order to create an effective wayfinding system it is key that the city undertakes an extensive and comprehensive planning process. The project should begin by developing a clear mission statement including rationale and specific goals (The Signage Foundation, 2013). During the planning stage, particular attention should also be focused on understanding both pedestrian movement and the spatial orientation of the city. As society is becoming more visual (Lupton, 1993) and tourist expectations and demand are increasing, it is crucial that Madrid designs a wayfinding system that is informative, legible and attractive. In the past 10 years a series of cities across the United Kingdom and North America have installed wayfinding systems that while unique, are somewhat consistent in their contemporary design and appearance (Appendix 2).

These signage systems feature a variety of street furniture, customisable to each city’s specific need. The majority of projects use a consistent



Figures 11: Contemporary Wayfinding (fwdesign, 2014)

system of fingerposts, wayfinding panels, and wall mounts with internationally recognized directional and mapping elements (Figure 11). Map-based graphics are orientated in the direction the user is facing and provide a walking distance radius (Figure 12) so that pedestrians have a better understanding of the time it should take for them to reach their desired destination. Incorporating an element of sustainability, these multipurpose panel fixtures are often solar-powered for eco-friendly self-illumination.

The largest of these municipal wayfinding system, Legible London, contains a comprehensive system of more than 1,300 signs (Appendix 2). The extensive scope of the project creates a sense of organization and improves the flow of pedestrian travel (Legible London, 2010). Specific studies have been performed on London’s wayfinding initiative and confirmed the use of, and validated the increased urban understanding by visitors and residents (Steer Davis Gleave, 2014). In order to further provide the wayfinding consistency needed to be successful, many of these systems incorporate additional applications such as paper maps and mobile maps.

Figure 12: Distance Radius (Billing Jackson Design, 2014)



Stakeholders and Management

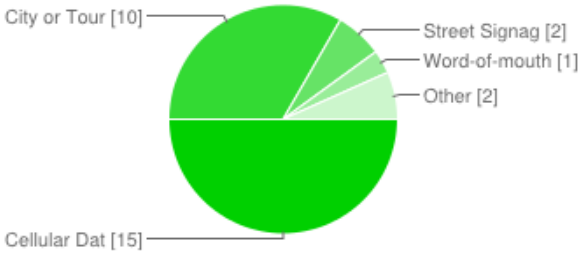
Like the majority of city planning initiatives, wayfinding systems affect a number of constituencies. It is vital that each stakeholder is consulted during the planning, design and implementation process to insure the success of the project. The inclusion of stakeholders will also help the seamless infusion of the wayfinding system into other aspects of the city. It is particularly important that Madrid integrates the design of the wayfinding system with the various transportation networks as these are often used by visitors to the city. While stakeholder dialogue, planning and development of the wayfinding system are imperative, proper management of the system will be the catalyst to its success. As previously noted, Madrid’s current wayfinding system has been subject to vandalism and a general lack of attention. Madrid must manage the streetscape environment by removing all unauthorized and out-dated signs so as to reduce clutter. The city must also be prepared for constant updating, changing and maintaining signage as the wayfinding system adjusts to the needs of pedestrian travel in a dynamic industry.

CONCLUSION

Tourism signs affect the ability for tourists, both domestic and foreign, to navigate and explore a city, otherwise known as the ability to wayfind. We understand that signs contribute to a tourist’s overall experience and perception of a tourism destination. A well-planned, executed, and maintained wayfinding system leads to increased visitation of tourist centres and attractions thus, increasing the economy. It is clearly in the best interest of Madrid to revitalize its current signage system and develop a wayfinding strategy that would aid in the city’s attempt to remain a top tourist destination in rapidly expanding and competitive global tourism market.

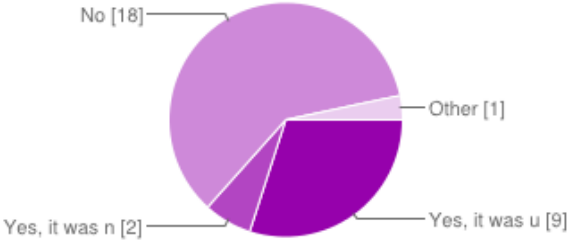
APPENDIX 1: ADDITIONAL SURVEY QUESTIONS AND RESULTS

1. What was the primary resource to navigate around the city?



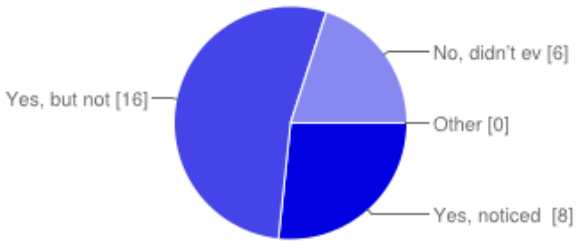
Cellular Data or Wi-Fi	15	50%
City or Tourist paper map	10	33%
Street Signage	2	7%
Word-of-mouth (spoken directions)	1	3%
Other	2	7%

2. In Madrid, have you ever used a tourist sign (not a street name) to guide you in the direction of a tourist attraction?



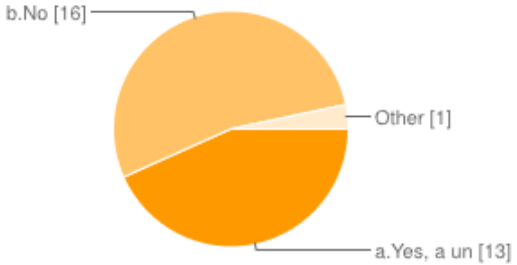
Yes, it was useful	9	30%
Yes, it was not useful	2	7%
No	18	60%
Other	1	3%

3. Have you ever noticed the tourist signage in Madrid?



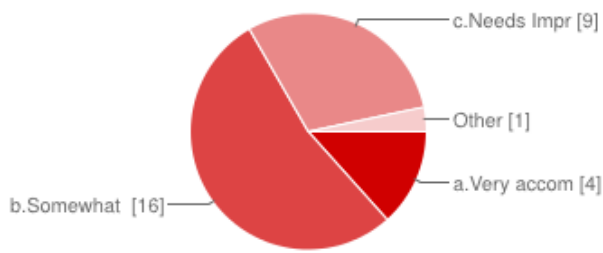
Yes, noticed it within the first day	8	27%
Yes, but not at first	16	53%
No, didn't even know they existed	6	20%
Other	0	0%

4. Did you feel that there is an effort to unify tourism in Madrid? Do you feel like the city has a tourism network?



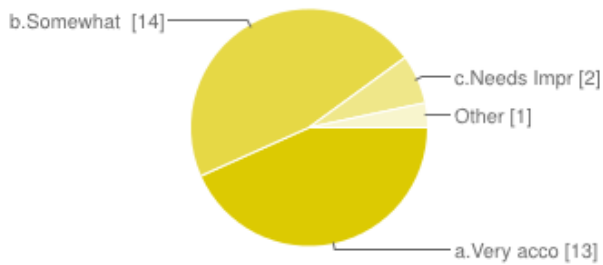
a. Yes, a unified feeling	13	43%
b. No	16	53%
Other	1	3%

5. Without the use of Wi-Fi or cellular data, how do you rate the overall accessibility of Madrid? Is the current tourism signage effective?



a. Very accommodating	4	13%
b. Somewhat accommodating	16	53%
c. Needs Improvement	9	30%
Other	1	3%

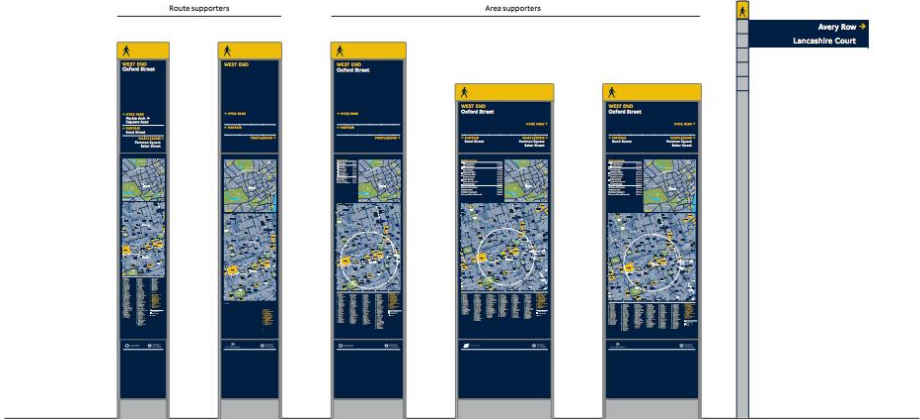
6. How do you rate the overall tourist-friendly nature of Madrid?



a. Very accommodating	13	43%
b. Somewhat accommodating	14	47%
c. Needs Improvement	2	7%
Other	1	3%

APPENDIX 2: CONTEMPORARY WAYFINDING SYSTEMS (UK AND N. AMERICA)

1. Legible London, London UK (Legible London, 2010)



2. WalkNYC, New York City (Billing Jackson Design, 2014)



3. Dublin Docklands, Dublin (fwdesign, 2014)



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The Sweet Secrets of the Swiss:

An analysis of the Swiss chocolate industry

Leah Hanvey
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ABSTRACT

Since the chocolate industry officially established itself in Switzerland in 1819, it has become an institution and ubiquitous with Swiss culture and Switzerland's international reputation. The purpose of this paper is to delve into the secrets of the Swiss chocolate industry and answer the simple question, why and how has Switzerland become the producer of arguably the best chocolate in the world? To do this, I will conduct an industry analysis of the Swiss chocolate industry utilizing a modified model of Michael Porter's Five Forces Model and will include discussing the Swiss chocolate industry's current market make-up and domestic manufacturers, the substitutes of Swiss chocolate, international and domestic consumers, suppliers and supply chain, and of course, what the future holds for the industry. This analysis will be based on research collected from secondary sources and statistics-based data, in addition to first-hand marketplace price data collection, and primary consumer data collected through means of a price elasticity experiment to gauge to what degree Swiss chocolate is substitutable with other competitive products.

INTRODUCTION

The chocolate trade has been around for thousands of years and the history is well known. Starting with the Aztecs in South America who harvested, ate and smoked it, chocolate began its journey overseas to Europe with Cortez and his Conquistadors in the 16th Century. There, in Europe, chocolate began to become more refined and more akin to what we know it to be today and slowly it melted into European culture over the centuries. Of all of the European states where this exotic cocoa bean took hold, chocolate seemed to find a special home in a small, landlocked country, with rolling hills, thousands of grazing cows, fresh water, and a dedication to the finer things in life – Switzerland.

Chocolate production came to Switzerland in 1819, and shortly after, through a collaboration of two Swiss chocolate pioneers, whose names would become synonymous with chocolate prestige worldwide in the future, came the invention of proper milk chocolate thus solidifying the prevalence of chocolate in the country. This paper strives to dig deeper into the secrets of the Swiss chocolate industry, starting with a brief historical overview and then an industry analysis utilizing a modified framework modeled after Michael Porter's Five Forces Model in order to give proper insight into all facets of the industry and to draw significant conclusions as to how the Swiss have become the makers of some of the best chocolate in the world. Specifically, the industry analysis will be divided into six parts, the first being an overview and explanation of the chosen framework, the second will be an analysis of the existing state of the industry, i.e., market competitors and current manufacturers of Swiss chocolate, their brands, and products; the third section will discuss the degree of substitution of Swiss chocolate and will test whether or not they actually do exist by means of a price elasticity and perceived quality experiment of a sample of a dozen participants by comparing taste test results and consequent willingness to pay for Swiss versus a foreign substitute. The fourth section will analyze the international profile of Swiss chocolate consumers, the future trends in consumer preferences, and potential emerging markets for Swiss chocolate. The fifth section will discuss the suppliers of the Swiss chocolate industry and will comment on the effects of the size

of a given supply chain relative to the perceived quality of the final good. Finally, the sixth section will discuss the barriers to entry of the Swiss chocolate industry and in addition, will discuss the future of the chocolate industry.

Research gathered for this paper include mostly secondary data collected from sources such as the International Cocoa Organization (ICCO) and Chocosuisse, the Association of Swiss Chocolate Manufacturers, but also, primary data was collected in two fashions: the first through surveying in-store prices at two, mid-range Swiss supermarkets in Zürich, Switzerland (Migros and Coop), the second through conducting a price elasticity and perceived quality experiment and surveying a sample of twelve (n=12) volunteers and their change in preference and willingness to pay when comparing a Swiss and non-Swiss chocolate product.

For the purposes of this paper, the definition of chocolate production does not simply consist of the making of conventional tin foil wrapped bars that come to mind when we think about chocolate. The Swiss chocolate industry also includes everything in the manufacturing of cocoa products such as powders, butters, liqueurs, artisanal chocolates and ingredient-added confectionaries such as pralines and bonbons, and chocolate for food manufacturers and commercial use (see Appendix 6 for examples).

HISTORICAL CONTEXT & THE INVENTION OF MILK CHOCOLATE

The first factory

Chocolate was not always the sweet, milky, solid treat we know today. In fact, before the Swiss got their hands on it, chocolate was an extremely dark and bitter hot drink that one would mix with sugar. It was also extremely expensive and only affordable for the European aristocracy. All of this was to change when in 1819, almost 300 years after Cortez and his Spanish Conquistadors brought the first cocoa from South America to Europe, François-Louis Cailler opened one of the world's and definitely Switzerland's first mechanized chocolate production facilities in the small town of Vevey just outside of Lausanne.¹ Cailler's example was soon followed by many promising Swiss chocolatiers such as Charles-Amédée Kohler (the inventor of nut chocolate) in 1830 in Lausanne, Rudolf Sprüngli in 1845 in Zürich, Philippe Suchard in Neuchâtel, and Rudolf Lindt and Jean Tobler (creator of Toblerone) in 1899 in Berne.² Many of these visionaries are now brand names and companies that we know and love today (although, many are not independent companies anymore as the Swiss chocolate industry has undergone significant consolidation over the last two hundred years). Further discussion of these brands and their family trees will take place in succeeding sections.

The invention of milk chocolate

After the establishment of the Cailler chocolate factory, a candlestick maker, Daniel Peter, married into the Cailler family and was subsequently submerged into the world of chocolate making. After years of experimenting, Peter decided to add milk to the chocolate substance to make it less bitter, but regular milk was too watery. It was not until he tested and succeeded with thicker, condensed milk that he created what we know today as milk chocolate.³ Not coincidentally, this newfound condensed milk was being made by an up-and-coming baby formula and dairy products business in a neighbouring town founded by a German migrant, Henri Nestlé. The resulting combination was cheaper to make, more pleasurable to eat in larger quantities, and uniquely Swiss. From that moment on, a new partnership was formulated that would go on to make one of the largest chocolate manufacturing companies in the world, but most of all, the whole concept of chocolate production had changed and the Swiss chocolate industry had begun to bloom.

INDUSTRY ANALYSIS

¹ Chocosuisse (2013), *History*. <http://www.chocosuisse.ch/chocosuisse/en/chocolate/history.html> Accessed November 24, 2014

² Bewes, D. (2010)

³ Chocosuisse (2013)

Analysis Framework

To fulfill an industry analysis of the Swiss chocolate industry, I will utilize a framework derived from Michael Porter's Five Forces model. The framework will be constructed as follows: first, I will analyse the current state of the existing marketplace of Swiss chocolate by looking at existing brands and producers and their competition dynamics; the second phase will consist of an analysis of the market of substitutes for chocolate in Switzerland; third, I will perform a demographic analysis, both internationally and domestically, of who in fact is buying Swiss chocolate in order to gain further insight into the current and future demand for the product; fourth, I will look at suppliers, the supply chain and the production of Swiss chocolate; and finally, the fifth phase of this industry analysis will consist of looking at the future of the Swiss chocolate industry with particular concentration on potential barriers to entry with an overall focus on the future growth, stagnation or decline of the industry.

Part I: Existing marketplace for Swiss chocolate

The Association of Swiss Chocolatiers, recently renamed Chocosuisse, is the authority of Swiss chocolate manufacturing and represents the interests of all chocolate manufacturers in Switzerland. The association is made up of 18 independent company members and together they represent the entire community of Swiss chocolate manufacturers. All of the 18 members carry out manufacturing operations in Switzerland but four members actually are not originally Swiss companies and have acquired or moved their way to the world's chocolate epicenter, specifically, Storck® (Germany), Mars (USA), Mondelez International (demerged from Kraft Foods, USA in 2012), and Barry-Callebaut (Belgium and France, now officially headquartered in Zürich). See Table 1 for an extended list of all Swiss chocolate manufacturers currently operating in Switzerland.

Table 1: Comprehensive List of Swiss Chocolate Manufacturers

Company	Swiss Headquarters	Year Established
Chocolat Alprose SA	Caslano	1957
Barry Callebaut Schweiz AG (originally: FRA/BEL)	Zürich	1996*
Chocolat Bernrain AG	Kreuzlingen	1925
Chocolats Camille Bloch SA	Courtelary	1929
CSCC Compagnie de chocolats et confiseries AG (formerly Pfister)	Illnau	1951
Chocolats et cacao Favarger SA	Versoix/Geneva	1826
Max Felchlin AG	Schwyz	1908
Chocolat Frey AG	Buchs	1887
GYSI AG Chocolatier Suisse	Bern	1931
Chocolats Halba	Wallisellen	1933
Confiseur Läderach AG	Ennenda	1962
Chocoladefabriken Lindt & Sprüngli (Schweiz) AG	Klichberg	1845
Maestrani Schweizer Schokoladen AG	Flawil	1852
Mondelez Schweiz GMBH (formerly Kraft Foods) (originally: USA)	Glattpark	1903*
Nestlé Suisse SA (Cailler of Switzerland)	Vevey	1819
Confiserie Sprüngli AG	Zürich	1836
Chocolate Stella SA	Guibiasco	1925
Villars maître chocolatier SA	Fribourg	1901
Mars Schweiz AG (originally: USA)	Zug	1882*
Storck (Schweiz) GMBH (originally: GER)	Zürich	1903*

**Year of establishment of company in country of origin, not date of establishment in Switzerland*

Source: Chocosuisse (2013), Association of Swiss Chocolate Manufacturers

The competitiveness of the Swiss chocolate industry is complex and difficult to analyse. First of all, each of these brands has been able to differentiate their product offerings according to very different market segments. For instance, Nestlé SA has become an exceptionally diversified player in the global industry through means of acquiring one of Switzerland's most historical and highest quality producers, Maison Cailler, while also owning and producing international favourites such as KitKat and Aero. This is one example of how the Swiss chocolate industry has evolved over time. Many of Switzerland's current chocolate manufacturers have been derived from collecting brands over the years in effort to gain market share and attract a wider customer range. This is a trend happening all over the world. Larger manufacturers such as Nestlé are purchasing artisanal brands and marketing them as separate entities in an effort to have a personal story to tell and add emotional value to their products. As this happens in the aftermath of the financial crisis, consumers are increasingly looking for affordable products (provided by Nestlé's economies of scale) that go on to exceed expectations (Cailler's charming brand, history and commitment to quality). For a more in-depth look into consumer behavior and preferences, please see the following section. In order to get a sense of how the chocolate industry is structured and the scope of the brands and products offered by this industry, please see Appendix 1 for a map of the relative prices of chocolate brands in Switzerland as collected from two local mid-range Swiss supermarkets in Zürich, Migros and Coop. Unfortunately regarding consistency, the prices could not be collected from the same supermarket as both sell different brands however, the two supermarkets are at very similar price points, generally, and there is very little discrepancy between the price of a chocolate bar at Migros or Coop.

Regrettably, Chocosuisse is unable to disclose information on the composition of the market share of its 18 members within Switzerland. However, the international make-up of market share is interesting in of itself (see

Appendix 2). It is important to note that all three of the world's largest vendors of chocolate around the world hold major operations (Mars Inc. and Mondelez International Inc.) or are fully incorporated in Switzerland (Nestlé SA), and furthermore, two fully Swiss manufacturers are in the top ten, Nestlé SA and Lindt & Sprüngli AG. Together, the top three market leaders generated USD\$44,262 million in net sales in 2013 and compose 51% of the market share.⁴

Part II: Substitution and imports

The Swiss consume more chocolate per capita than any other nation in the world, coming in at just under 12.0 kg per person per year.⁵ But how much of that is actually Swiss chocolate? It is safe to say, according to this author's opinion that there truly is no substitute for anything but Swiss (which will be tested and verified later); however, neighbouring European states such as Belgium, Austria, Germany, United Kingdom, and even the United States across the Atlantic produce chocolate that is also bought and consumed in Switzerland. Unfortunately, there is little to no information from credible sources that present statistics on how much chocolate Switzerland imports or how much the Swiss demand foreign chocolate. In an effort to come to some conclusions regarding the extent to which Swiss chocolate is substitutable, an experiment with volunteers was conducted to see if any more valuable information could be obtained to generate conclusions.

When compared to purchasing decisions made in other countries, such as Canada, a consumer's price elasticity is fairly high – there is not much difference between a Hershey's milk chocolate bar (USA) and a Cadbury's milk chocolate bar (USA/UK). However, this experiment with a random sample of chocolate buyers in Switzerland demonstrates that a consumer's price elasticity when it comes to chocolate decreases rapidly when faced with a decision between Swiss chocolate and an imported brand after being given an opportunity to taste the difference.

The experiment followed the following design (see Table 2 for results):

The total sample consisted of 12 individuals (students with constrained weekly grocery budgets, particularly with the added pressures of living in Zürich, a city with high living expenses), each from different national heritage. Each participant also specified the frequency they purchase chocolate, which appeared to range from once every few days to once a week (each admitted they have started to consume much more chocolate since they moved to Switzerland). They were presented with two chocolate bars, the first, a milk chocolate bar from Maison Cailler priced at 2.10 CHF; the second, a Cadbury plain milk chocolate bar priced at 1.40 CHF (neither had added ingredients such as nuts, berries, etc.), making a difference in price of 0.70 CHF. All agreed that one pays a premium for the perceived higher quality Swiss chocolate.

Phase 1: the participants were asked to choose, without tasting the chocolate, which one he or she would buy (Response: Y) given that they were in the market for a bar of chocolate and they could only buy one?

Phase 2: the participants were allowed to taste the chocolate and then were asked the same question as in Phase 1: which chocolate bar would you buy (Response: Y)?

⁴ ICCO (2014), *The Chocolate Industry*. <http://www.icco.org/about-cocoa/chocolate-industry.html>. Accessed December 2, 2014

⁵ Chocosuisse (2013)

Table 2: Price Elasticity & Perceived Quality Experiment Results

n=12	Phase 1: Before Taste Test		Phase 2: After Taste Test	
	<i>Maison Cailler (CH):</i> 2.10 CHF	<i>Cadbury Milk (UK):</i> 1.40 CHF	<i>Maison Cailler (CH):</i> 2.10 CHF	<i>Cadbury Milk (UK):</i> 1.40 CHF
Participant 1	Y		Y	
Participant 2		Y	Y	
Participant 3		Y	Y	
Participant 4	Y		Y	
Participant 5		Y	Y	
Participant 6		Y		Y
Participant 7	Y		Y	
Participant 8		Y	Y	
Participant 9		Y		Y
Participant 10	Y		Y	
Participant 11		Y	Y	
Participant 12		Y	Y	
Total:	4	8	10	2

As you can see in Table 2, the results are very clear: after the taste test, those who would buy Maison Cailler (premium brand) increased from 4 to 10 out of 12, with the first four remaining consistent in their decision and the two hold-outs maintaining they did not experience enough extra value to pay the additional 0.70 CHF. Some participants recognized the Swiss chocolate brand or had previous experience with the Swiss chocolate before and therefore knew their decision based on their previously established preferences, while others, who would have bought the Cadbury (and who are evidently more price sensitive) in the first round, changed their minds in the second round after experiencing the (objectively) better quality of the Swiss chocolate. Not only did they acknowledge the quality, but also after experiencing it, they were then willing to pay 50% more (+0.70 CHF) of their previously established chocolate budget for that quality. This signifies that these converted consumers' price elasticities have gone down as they realize that there are actually fewer substitutes for Swiss chocolate than previously thought. These consumers are now much more likely to repurchase Swiss chocolate rather than an imported substitute.

Admittedly, there are some constraints and drawbacks to this social experiment and it would have been more representative with a larger sample, but the conclusion that can be drawn is still clear: there really is no substitute for Swiss chocolate and consumers are willing to pay more for its high quality – even when their financial situation is strained.

Part III: International consumption and consumer profile

Since Switzerland exports an increasing portion of their chocolate abroad (109,662 tonnes in 2013, a 5.5% increase from 2012)⁶ and much of the industry's prosperity depends on international consumer preferences, I will discuss chocolate consumption within a global context and conduct a profile of international consumers. Additionally, it is safe to assume that Swiss chocolate preferences do not differ much from other major consumers of Swiss chocolate, i.e. Germany, United Kingdom, the Netherlands, Austria, Denmark, Finland,

⁶ Chocosuisse (2013)

Sweden, etc. (see Appendix 3 for per capital consumption levels by country).⁷ An industry overview report published by KPMG in June 2012 categorizes chocolate buyers into three groups: the convenience buyer, the value buyer and the luxury buyer. I will discuss each of these in turn.

According to a 2012 KPMG study, convenience is increasingly becoming a major driving force of consumer buying habits. In fact the study has found that as convenience becomes more important to time-sensitive shoppers, the sales of tablet bars have also grown (up by 37% in the United Kingdom).⁸ The prevalence of the convenience shopper is also demonstrated where consumers are buying their chocolate. 45.3% of all chocolate buyers are purchasing chocolate in supermarkets and discount stores with a “grab-and-go” mentality.⁹ Furthermore, now even premium chocolate manufacturers such as Lindt are beginning to alter products and presentation in order to cater to this emerging segment, specifically by introducing smaller bars, individually packaged bite-sized bonbons, and re-sealable packaging.

Value for money is another characteristic demonstrated by chocolate buyers where 79% of American chocolate buyers say they look for good value when choosing chocolate, while 70% still want a name brand – essentially, consumers are wanting to pay less for the same high quality and name brand guarantee.¹⁰ As the middle class becomes more well-defined in developing nations, a greater percentage of the global population is able to afford small luxuries like chocolate and are constantly seeking for a good option that gives them very high value relative to the amount of money they are willing to spend. For instance, in the United States, a 45g chocolate bar represents less than 1% of an average weekly shopping budget; however, in India, the same 45g chocolate bar can count up to as much as 18%.¹¹ This means that effectively communicating extremely good value for money is becoming vitally important for chocolate manufacturers around the world. These value-seeking buyers are also a part of the aforementioned 45.3% of consumers who go to discount stores for their chocolate as these stores are increasingly offering brand names and private labels for highly discounted prices. Low prices and greater choice are two competitive advantages these stores have over their smaller scaled competitors and are attracting more and more time-poor, and value-oriented chocolate consumers.

Additionally, for many chocolate buyers, luxury is still a very important and powerful aspect in making purchasing decisions. Chocolate has always been associated with decadence and luxury but most importantly, it is a luxury that most of us can still afford. With conservative spending remaining very much a dominant paradigm in post-recession years, the psychology is that even expensive chocolate is an affordable luxury and premium chocolate makers have embraced the fact.¹² This emotional value attributed to luxury is even more emphasized when it comes to Swiss chocolate: it is the most premium of the premium and everyone wants a piece as world income gradually increases over time. As such, major Swiss chocolate manufacturers are “premiumizing” their products and making an effort to create “everyday glamour.”¹³ This is being done by major Swiss manufacturers such as Lindt and Frey but additionally, the much larger, multinational manufacturers are keen to gain entrance into this luxury market through purchasing premium, artisanal brands with a story to tell: e.g., Nestlé SA through Cailler and Mondelez International through Suchard (was originally Swiss but now the brand is managed in Austria). What is vital to note, however, is that for these brands to continue to gain market share, these large manufacturers with artisanal brands must maintain their high quality, uniqueness, and independence.

There are important implications of consumer buying habits domestically, too. As previously said, the Swiss themselves are the world’s largest consumers of chocolate at 12.0 kg per person per year, and are therefore a major market segment for Swiss chocolate makers. How much chocolate the Swiss consume can be attributed to

⁷ Chocosuisse (2013)

⁸ KPMG (2012), ‘The Chocolate of Tomorrow’ *Consumer Markets*, June 2012, p.6

⁹ KPMG (2012), p.6

¹⁰ KPMG (2012), p.6

¹¹ KPMG (2012), p.6

¹² KPMG (2012), p.7

¹³ KPMG (2012), p.7

several factors: they can buy some of the best chocolate in the world for relatively lower prices than the rest of the world, chocolate is more readily available, chocolate is more prevalent in Swiss identity, history and therefore supermarkets, and what is most interesting of all is to what extent Swiss purchasing decisions are derived from cultural norms. According to Geert Hofstede's Six Cultural Dimensions, the Swiss score relatively high in the "Indulgence" category at 66 out of 100.

People in societies classified by a high score in indulgence generally exhibit a willingness to realize their impulses and desires with regard to enjoying life and having fun. They possess a positive attitude and have a tendency towards optimism. In addition, they place a higher degree of importance on leisure time, act as they please and spend money as they wish.¹⁴

- Hofstede (2014), *Switzerland Country Profile*

A very appropriate profile for the land of chocolate.

The implications of this consumer profile for Swiss chocolate makers is an increasing emphasis on the underlying theme that international buyers are increasingly time-sensitive, determined to find the highest ratio of value to percentage of income spent, and the growing international middle class is shifting bargaining power and demanding luxury quality for less.

It may sound counterintuitive, but what's happening in the [global financial] crisis a quest by consumers for value, for more affordable products, but also for products that overtake their expectations.¹⁵

- Laurent Freixe (2013), head of Nestlé's European business, KPMG p. 7

Part IV: Suppliers and supply chain analysis

According to Chocosuisse, the term, "Swiss chocolate" can only ever be used to refer to chocolate products produced exclusively in Switzerland.¹⁶ The industry has been successful over the years in protecting the label and therefore, Swiss chocolate has remained a "badge of quality in its original sense, and enjoys an excellent reputation throughout the world."¹⁷ This section will go deeper into what truly makes Swiss chocolate, Swiss chocolate, and will discuss in detail the components of the supply chain of Swiss chocolate manufacturers from the cocoa beans to the packaging to the workers who make it.

The Swiss chocolate industry has left very little of its process to outside, uncontrollable hazards. The industry has internalized almost every step of the chocolate manufacturing process; in fact some manufacturers even make their own cocoa butter, powders, and other necessary inputs for production.¹⁸ However, the Swiss chocolate industry does (relatively) depend on two very important imports: cocoa beans and sugar.

In 2013, the world harvest of cocoa amounted to close to 4 million tonnes and only about 1% of this was imported to Switzerland.¹⁹ The international cocoa harvest is centralized in countries along the equator with the major producers being the Ivory Coast, Ghana and Indonesia (see Appendix 4). The Swiss chocolate industry obtains most of its cocoa from the Ivory Coast, Ghana and Ecuador.²⁰

¹⁴ Hofstede (2014), *Switzerland Country Profile* <http://geert-hofstede.com/switzerland.html>. Accessed December 1, 2014

¹⁵ KPMG (2012), p.7

¹⁶ Chocosuisse (2001), *Chocology*

¹⁷ Chocosuisse (2001)

¹⁸ Barry Callebaut (2014), *Chocolate for food manufacturers*. <http://www.barry-callebaut.com/foodmanufacturers>. Accessed November 16, 2014

¹⁹ Chocosuisse (2013)

²⁰ Chocosuisse (2001)

As a commodity and a major factor of production, the prices of cocoa, as well as sugar, and other imports have a great effect on the profitability of the Swiss chocolate industry (Appendix 5). In the past, the trade of cocoa was controlled by states and as a result volatile prices were often attributed to political instability and corrupt governments.²¹ Later in the 20th century, the cocoa market experienced liberalization and now independent harvesters and farmers deal primarily with private corporations and the states are decreasingly involved; this has reduced the volatility in cocoa commodity prices. However, according to the International Cocoa Organization (ICCO), today the cocoa trade faces different kinds of pressures: pressure for fair trade and organic, increasing overall global demand for cocoa, and changes in climate.²² These pressures are having negative effects on the cocoa production and could have significant implications on the manufacturing and price of Swiss chocolate – a discussion of the uncertain future of cocoa as a barrier to entry of the Swiss chocolate industry will occur in subsequent sections of this paper (see Appendix 5 for the most important raw materials for Swiss chocolate and their average import prices over the last three years).

Sugar is of course also one of the most important ingredients for chocolate, be it Swiss or any other kind. However, where most major manufacturers in other countries depend almost entirely on sugar imports from the major sugar production countries such as Brazil (31% of global sugar production) and India (21%), Switzerland does not.²³ In fact, Switzerland has been growing its own sugar, particularly sugar beets, since 1898 and protectionist policies have secured production ever since. Moreover, despite the liberalization and internal reforms in the 1980s, self-sufficiency in sugar production in Switzerland has increased from 55% in 1990/92 to 85% in 2002 and has remained steady between 65% and 95% over more recent years.²⁴ Gross national sugar consumption in Switzerland amounted to 392,657 tonnes in 2001, of which 45% was imported and the remainder (55%) was produced domestically.²⁵ Of course not all of the sugar consumed goes directly into chocolate manufacturing but the statistic does demonstrate the autonomy of Swiss sugar production.

The final, main ingredient is probably perfectly obvious coming from the home of milk chocolate and cheese. The dairy input of the Swiss chocolate supply chain is a major one and of course one that the Swiss do not have to depend on external sources or go very far to get. If there is anything that differentiates Swiss chocolate manufacturers and their products it is their unobstructed and consistent access to some of the best milk and dairy products in the world. For instance, back in the 1898 when Mr. Cailler began looking for the perfect place to set up his first chocolate factory, he looked no further than Broc, in the Gruyère region in the heart of the Swiss Alps. This choice was mainly due to its access to glacial clean water as well as 1775 cows, which all graze within a 30-kilometre radius of Broc. Cailler currently has partnerships with 56 local farmers and to this day derives 100% of their milk requirements for production from these local sources.²⁶ But Maison Cailler, albeit, a luxury brand that maintains a commitment to locally derived inputs as part of its brand, is no exception. In 2011, some 590,000 cows on 32,000 farms produced over 4 million tonnes of milk in Switzerland, of which 73% is manufactured into cheese, yoghurt, butter, and of course, chocolate.²⁷

Naturally, mere production is not enough, but both domestic milk and sugar production in Switzerland have to undergo rigorous and regimented quality control before their output can be sold to added-value manufacturers or end users. The quality of sugar, for example, is determined using the EU rating, which is based on a scale from 1 to 40. Switzerland only produces first grade sugar (rating 1-6) and mostly imports second grade sugar (between

²¹ Chocosuisse (2001)

²² ICCO (2012), *The World Cocoa Economy 2012: Past and Present*, July 2012, p. 4-5.

²³ FOA (2002), *Sugar and Beverages*, <http://www.fao.org/docrep/006/y4343e/y4343e05.htm>. Accessed November 24, 2014.

²⁴ Gerster, R. & Jenni, R. (2002) 'Sugar Protection in Switzerland' *Swiss Development Cooperation and the National Sugar Institute in Maputo (Mozambique)*, December 2002, p. 1.

²⁵ Gerster & Jenni (2002)

²⁶ Cailler (2014), *Milk*. <http://cailler.ch/en/about-cailler/the-brand-cailler/milk/>. Accessed November 22, 2014.

²⁷ Swiss Confederation (2013) 'Milk Production in Switzerland' *Federal Statistical Office News*, February 2013, pp. 1-4.

80-90%), although only up to a maximum rating of 10.²⁸ This difference in grade is linked to price as Swiss sugar producers can therefore charge a premium for their higher quality and can readily compete with cheaper imports.

The commentary that must be made is regarding the shortness of the Swiss chocolate industry's supply chain. Despite having the international reputation of some of the world's best chocolate, the Swiss account for 1% of the world's consumption of cocoa beans²⁹ and 0.175% of sugar imports.³⁰ Together with this minimized dependency, the remainder of inputs used to create arguably the world's best chocolate is done completely "in-house." This finding of the Swiss chocolate industry's supply chain length begs the question for further research, what is the relation between the length of a supply chain and the level of quality perceived and experienced by the end-user. Sadly this question extends beyond the scope of this paper but should be addressed in future literature. Furthermore, the Swiss have always been icons for efficiency and world-class quality and this could be no more evident than in how they make their chocolate.

Part V: Barriers to entry and the future of chocolate production

The Swiss chocolate industry, and the chocolate industry as a whole, for that matter, is an attractive one. As discussed in Part I, it is evident that there is a relatively small number of producers (18 in total) in the Swiss chocolate industry, so naturally one must conclude that the market is not necessarily saturated. Moreover, the overall global chocolate industry is expected to have a compounded annual growth rate (CAGR) of 2.7% between the years of 2011 and 2016.³¹ In fact, both domestic and foreign demand for Swiss chocolate has grown steadily over the past decade, there is no shortage of raw materials (with the exception in cocoa forecasts, to be discussed later in this paper), and start-up costs are not so astronomically high that they pose as a significant barrier (many prominent chocolate brands were started in someone's kitchen); all of these factors would lead to the assumption that this is a relatively attractive industry for new entrants. Moreover, considering the high demand of Swiss chocolate, the question is how come this industry has not undergone economies of scale and mass production? It will be presented in this section that not just anyone can simply become a Swiss chocolatier; it is in fact the essence of Swiss business culture that has made Swiss chocolate so special but is also one of the industry's major barriers to entry.

First of all, a direct barrier to entry and major threat to the global chocolate industry is the depleting annual cocoa harvest. Within the last year, major chocolate manufacturers, including Swiss chocolate manufacturer, Barry Callebaut (headquartered in Zürich), have claimed that the world is running out of chocolate.³² Chocolate deficits, where farmers produce less cocoa than the world is current consuming are becoming more and more the norm and today the world currently sits in what could be the longest streak of consecutive cocoa deficits in more than 50 years, where each succeeding deficit is larger than the last. For instance, in 2013 the world ate approximately 70,000 metric tonnes more cocoa than it produced and in 2020, this could increase to 1 million metric tonnes.³³ The reason for this huge discrepancy in supply and demand is two-fold. First, there is surging demand in emerging markets, particularly in Asia (China and India), where not only is the population increasing but also income and living standards whereby the growing middle class can more readily afford small luxuries such as chocolate.³⁴ The second smoking gun is undoubtedly the increasing rate of climate change. The Ivory Coast and Ghana, two of Switzerland's major cocoa suppliers (Appendix 4), have experienced prolonged unseasonably dry weather and a corresponding bout of fungal disease known as "frosty pod." According to the ICCO, the weather combined with

²⁸ Gerster & Jenni (2002)

²⁹ Chocosuisse (2001)

³⁰ 0.175% = Swiss imports of 177,200 tonnes (Gerster & Jenni, 2002) ÷ global production 101.2 million tonnes (FOA, 2002)

³¹ Rohan (2011)

³² Javier, Perez, M. and Almeida, I. (2013) 'Chocolate eaters drive record cocoa output deficit: Commodities' *Bloomberg Businessweek*, 13 December 2013. <http://www.bloomberg.com/news/2013-12-17/chocolate-eaters-drive-record-cocoa-output-deficit-commodities.html>

³³ Javier, Perez, M. and Almeida, I. (2013)

³⁴ Javier, Perez, M. and Almeida, I. (2013)

the disease is believed to have wiped out 30 to 40 per cent of global cocoa production.³⁵ Given that cocoa makes up about 10 per cent of the average price of a chocolate bar, these shortages will have major implications for the future of the chocolate industry; for example, in August 2013, Switzerland's Nestlé SA reported a six-month ended fall in profit margins attributed to the 29 per cent increase in cocoa prices as of that June.³⁶ Since 2012, cocoa prices have climbed by more than 60 per cent and these trends are fully expected to continue.

The other barrier to entry might not be as clear and direct as the global decreasing stock of cocoa but just as powerful for any who looks to do business in Switzerland. As a country, Switzerland is known for its unwavering commitment to quality and it is represented in everything that it produces from its watches to its chocolate. Furthermore, this quality is at the expense of quantity and the Swiss like it that way. In fact, the Swiss actually put a cap on level of production for many products, such as wine. Even if the season is spectacular, Swiss vigneron (winemakers) are only permitted to make a certain number of bottles of wine each year for the sake of quality. Although there might not be the same quota placed upon chocolate production, the same mentality applies. The global brand of Swiss chocolate is a trademark of world-class quality and Chocosuisse, the guild of Swiss chocolate makers, have worked exceptionally hard to keep it just so. As it is the definition of a luxury good (high quality, high price, relative scarcity) it is probably just so that the Switzerland only produces 2% of the world's chocolate sales.³⁷

CONCLUSION

The Swiss chocolate industry is one of quality, consistency and luxury. Every brand, every company, every product is connected to the country in some way, whether through its supply channels, its cultural norms, its commitment to quality, or its history. As we have seen through this industry analysis and brief historical overview, chocolate truly flows freely in Switzerland and in its essence represents everything that Switzerland stands for. From this we can draw significant conclusions not simply about the economics of chocolate but about Switzerland itself and its implications on doing business there.

By using a modified version of Michael Porter's Five Forces model for industry analysis, we were able to analyse the industry from several perspectives. First, by analyzing the existing marketplace and competitors within the Swiss chocolate industry it was clear that although they compete for market share and prestige, they also work cohesively through their association, Chocosuisse, to maintain the unofficial brand recognition of Swiss chocolate worldwide as a trademark for quality and luxury. We also saw that of the largest manufacturers of chocolate in the world, the top three (Mars, Inc., Mondelez International Inc., and Nestlé SA) each conduct large-scale operations and/or are headquartered in Switzerland, always pointing to the fact that Switzerland truly is the chocolate capital of the world.

Second, through a small scale, price elasticity experiment, the preferences of consumers from different preference backgrounds before and after a taste test demonstrated that there is really no substitute for Swiss chocolate and that the average consumer, even when on a tight budget, is actually willing to spend up to 50% more on chocolate if it has the promise of Swiss quality.

In part three of this paper, an analysis of worldwide consumption and consumer profile of the Swiss chocolate industry showed the rise of the convenience buyer, the value buyer and the luxury buyer in the future of global chocolate sales. It discussed how manufacturers are marketing and modifying existing products according to each

³⁵ Javier, Perez, M. and Almeida, I. (2013)

³⁶ Javier, Perez, M. and Almeida, I. (2013)

³⁷ Global chocolate sales in 2010: USD\$83.2 billion and expected to grow at CAGR 2.7% until 2016 (Rohan, 2011):

$83.2 * (1 + 0.027) = \text{USD}\90.1 billion adjusted sales in 2013

2013 Sales of Swiss chocolate = 1.683billion CHF = USD\$1.815 billion*

*Conversion at average 2013 historical exchange rate = 0.9271 CHF / 1 USD (Credit Suisse 2013)

$\text{USD}\$1.815 / \text{USD}\$90.1 = 0.02 = 2\%$ global market share of chocolate sales

of these emerging segments and the implications of such on the global industry. Moreover, emerging markets in Asia and the Middle East will put pressure on Swiss chocolate brands as their products become in higher demand with the redistribution of wealth to the expanding middle class in these emerging markets. Furthermore, the domestic market itself is vitally important for Swiss manufacturers as the Swiss consumes more chocolate per capita than any other population, which is reflected in their cultural tendency towards the finer things in life and spending a greater portion of their annual income on leisure and indulgences, i.e. chocolate.

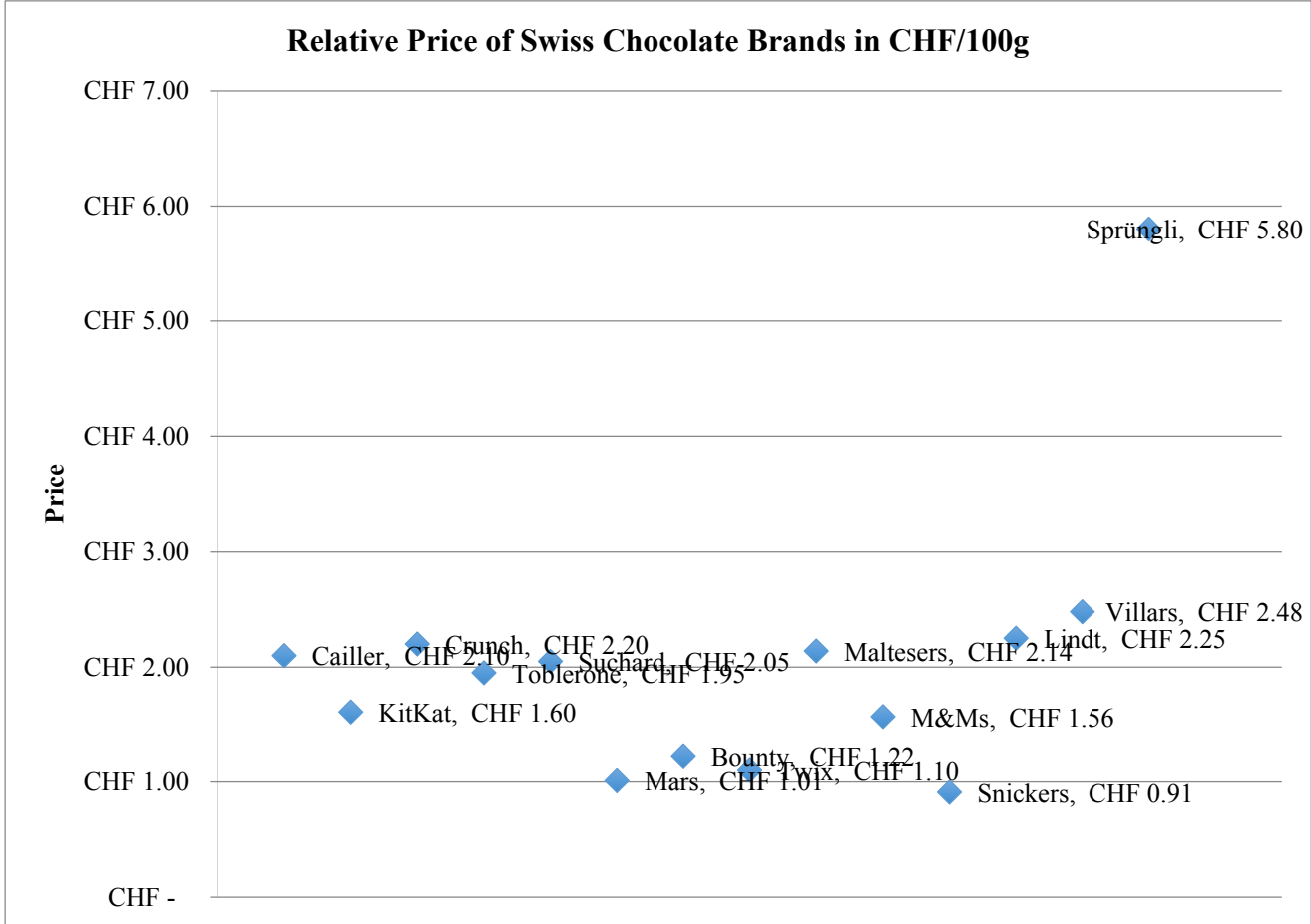
The main finding of part four when analyzing the Swiss chocolate industry's supply chain was how notably short it was and the connection made between the relative length of a supply chain and the perceived value of the finished good. This is definitely a topic for further research and I would like to explore this further, however, regrettably it extends beyond the scope of this preliminary paper but should be addressed in future literature.

Fifth and finally, this paper addressed potential barriers to entry of the Swiss chocolate industry. With the declining cocoa production, attributable to disease and climate change, and inclining global demand for chocolate, particularly concentrated in the aforementioned emerging markets (i.e., China, the Middle East, and India), the deficit in cocoa stocks is worrisome for current producers and is most definitely a large barrier to entry for any potential entrants given the future of the industry is in question. Another barrier identified was the Swiss themselves and the cultural differences as well as political agendas that have minimized the scope and scalability of chocolate production for the sake of consistent and desirable Swiss quality.

In summary, the Swiss chocolate industry is dynamic and innovative as it is solid, predictable and static, and the Swiss like it that way. New products and age-old recipes come together with always the promise of perfection, quality, and a small taste of Switzerland.

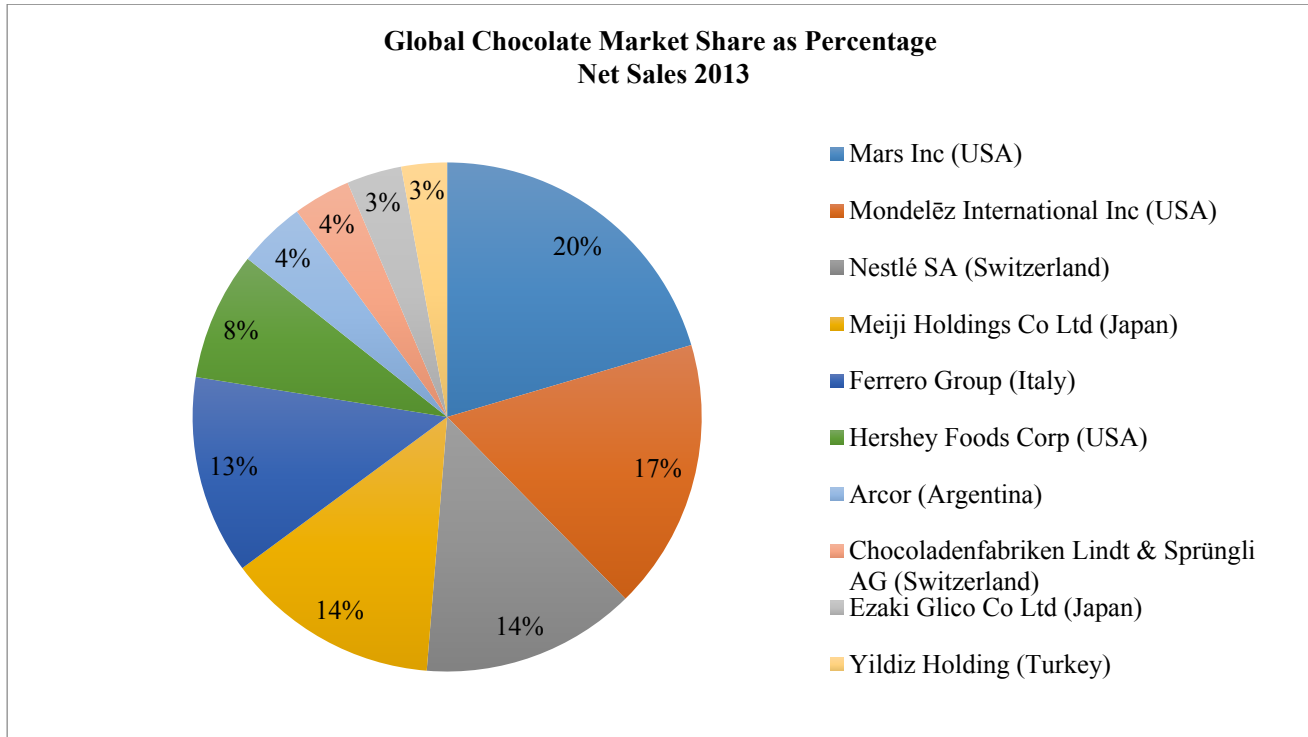
APPENDICES

Appendix 1: Price Map of Relative Prices of Swiss Chocolate Brands in mid-range Supermarkets located in Zürich



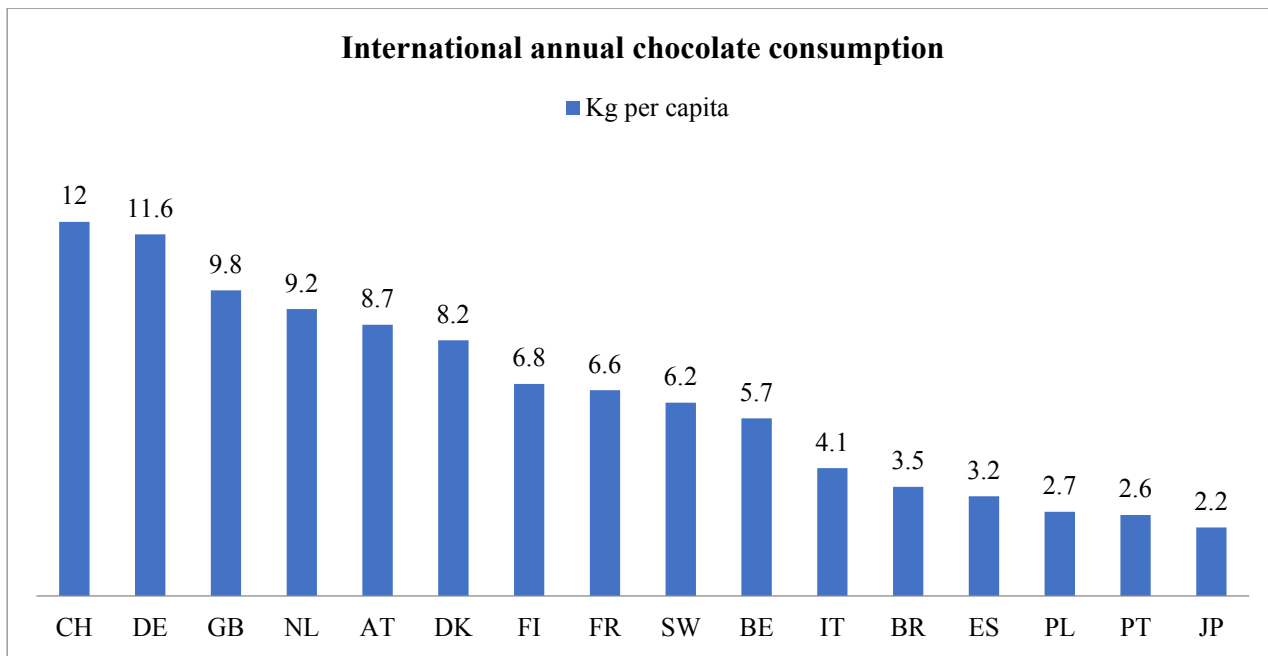
Source: primary market data collection

Appendix 2: International market share of largest chocolate manufacturers



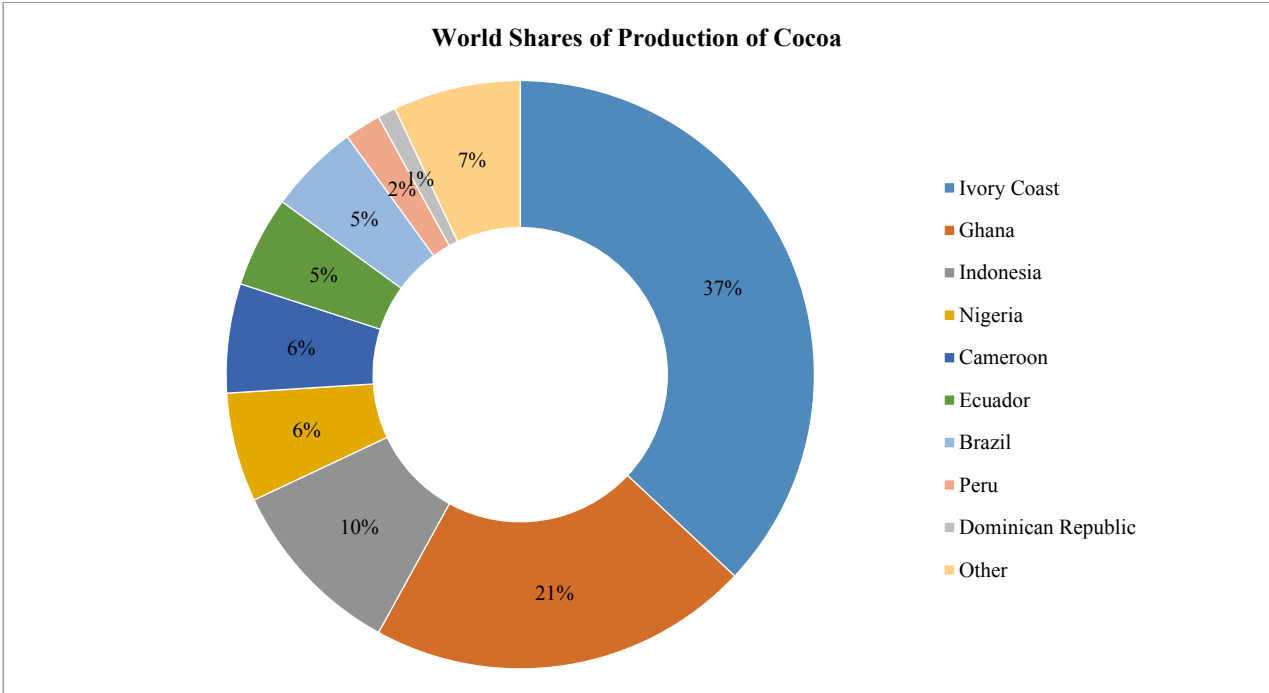
Source: ICCO, 2013

Appendix 3: International chocolate consumption (2013) per capita



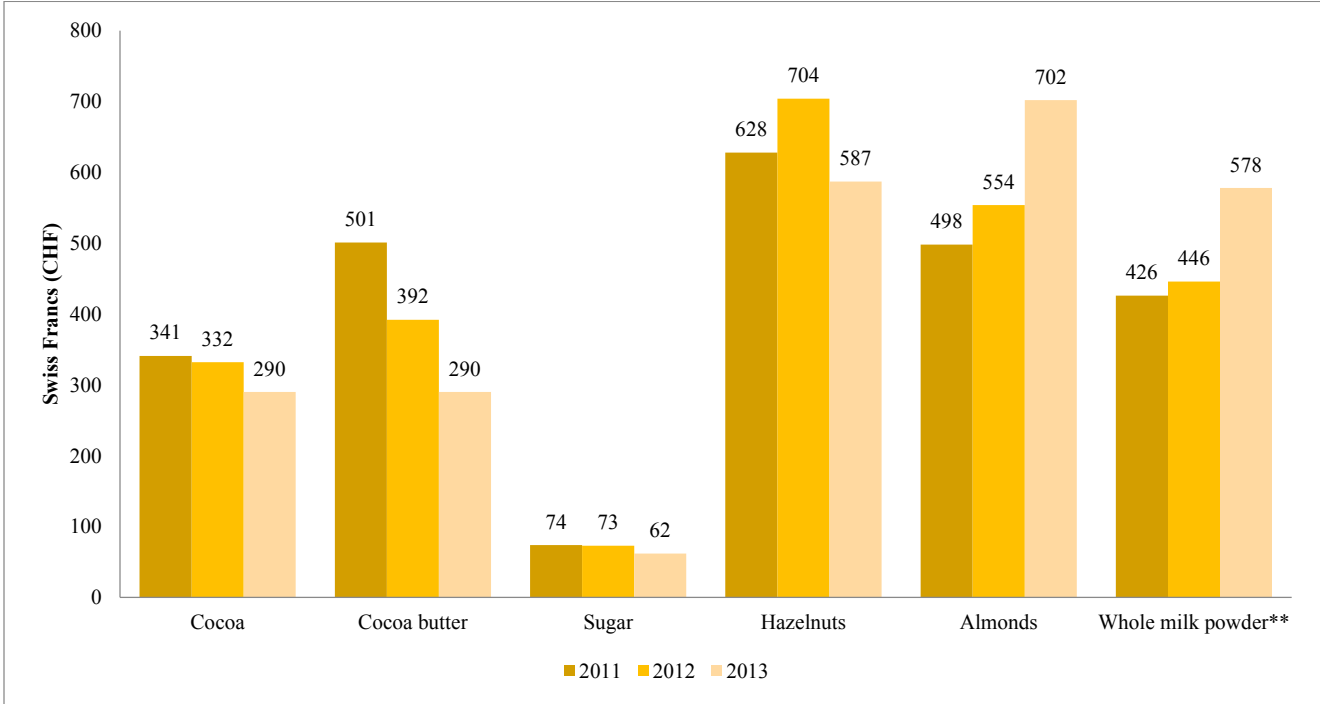
Source: Chocosuisse, 2013

Appendix 4: World Shares of Global Cocoa Bean Production (2014)



Source: ICCO, 2014

Appendix 5: Average Import Prices of Raw Materials for Swiss Chocolate, 2011-2013 (in order of importance)



Source: Chocosuisse, 2013

Appendix 6: Examples of Swiss Chocolate Products



Lindt: Truffles



Barry-Callebaut:
Cocoa butter



Nestlé:
KitKat



Frey: Pralines



Nestlé:
Cailler of Switzerland

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Opening Credit Card Clearing in China: A two-part analysis

An analysis of governmental concerns of opening the credit card clearing industry to foreign companies and the considerations of the foreign companies

Carleen Kukat
Fall 2014

ABSTRACT

Opening a country to new credit will have many impacts on the economy. Should the Chinese government decide to open the credit card clearing industry to foreign competition there are many considerations to analyze. The primary impacts are categorized by political, economic, social, technological, legal and environmental factors. In the end, China should benefit from opening the industry if the government can keep the impacts of credit under control. Once open to foreign competition, incoming companies must evaluate their own strengths and weaknesses as well as competition before entering the complicated Chinese marketplace. Foreign companies have the resources and the talent to encourage spending and spur China into faster modernization, benefitting the country as a whole.

INTRODUCTION

Credit Cards in China

A Local's Opinion

The Chinese government keeps a tight grasp on the distribution of credit cards. Currently, only formal employees in registered companies or government positions qualify to apply for the cards. Freelancers or small store owners, who make up the majority of the population, are unable to apply for credit cards as the government deems them unable to prove their cash flow, explains Jiajing Wang, graduate student at the University of Business and Economics (UIBE) in Beijing, China (November 2014).

Wang does not personally have a credit card, and finds he has no need for one, as it would provide no benefit over a debit card. Domestically, debit cards can provide the same services as credit cards. Online purchases for shopping, flights, or hotels have an option for individuals to pay online with a debit card. The main drawback, clarifies Wang, is that debit cards cannot be used for purchases internationally where trusted names, such as Visa and MasterCard, are required. China's transition towards an open economy, with increased international travel and foreign tastes, is increasing the use of credit cards which foreign credit card clearing companies have been unfairly excluded from. However, allowing increased use of credit cards would have an immense impact on the Chinese economy, and the government needs to consider many possibilities before opening the credit card clearing industry to foreign competition.

China UnionPay

The People's Republic of China has one company for the processing and clearing of credit cards: UnionPay. The state-controlled entity allowed China to realize "inter-bank, cross-region and cross-border usages of bankcards issued by associate banks," and accredits itself with the formation of an international network of banks

worldwide (UnionPay.com, 2014). The company illustrates how they have created friendly payment options for foreigners and business travellers: at present, there are 141 countries that accept cards with a UnionPay symbol.

UnionPay is held in high regard in China and gives the feeling of being more than just a company. The company undertakes obligations to assist in maintaining the economy and achieving governmental objectives. Reuter's reporter James Pomfret explains, "the card brand is often seen as an arm of Chinese state policy" (Reuters, Mar 11 2014). This may be a reason the Chinese government is protecting UnionPay by refusing to open the industry to foreign competition.

Credit Card Clearing in China

Although foreign credit cards can be used within the country, foreign credit card companies must pay the state-owned UnionPay to clear payments made on their cards in China's domestic currency. China's outstanding credit card debt increased almost 62 percent in one year to 1.84 trillion Yuan (338 billion CAD) in 2013. Credit card companies cannot easily ignore the market potential and foreign companies are eager for entry. Additionally, the percentage of retail sales made a prodigious move toward bankcard use instead of cash payments, rising from 2.7 percent of payments up to 35 percent from 2001 to the third quarter of 2010 (UnionPay.com, 2014). A reason for this may be China's nascent consumer class, who are the dominant users of credit cards. In a study on the link between consumer attitudes and credit card usage, Kaynak and Harcar (2010) reveal that the emerging middle class and expanding middle age population forms a perfect market for credit card companies. If the middle-class continues its current high growth rate, the credit card industry will also increase significantly. Foreign credit card clearing operations must be feeling a vast injustice from UnionPay's monopoly.

The WTO

In 2012, the World Trade Organization (WTO) warned China that UnionPay's monopoly violated obligations required as a member of the WTO, and the government needed to open their policy to allow entrance for foreign firms (WTO.org, 2013). As China is struggling to build a more open economy and progressive reputation, one would assume they would comply with WTO regulations. Nevertheless, few changes have been made and the issue is a source of friction for China's international relations. Competitors are eager to gain access to China's rich marketplace and are putting pressure on the WTO to aid their struggle (Bloomberg, 2014). This pressure from corporations may be attributed to the announcement released recently.

The Announcement

On October 29th 2014, China's Cabinet announced that credit card clearing operations would be opened to foreign companies for application to operate in the country (Miami Herald, 2014). The Chinese government declared the desire to open up the market was to make the "slowing state dominated Chinese economy more efficient and productive" (ABC News, 2014). However, another fundamental reason was likely to improve international relations. The announcement was a small victory for companies such as Visa and MasterCard, who have already begun preparing for entry into China.

Nonetheless, Nasdaq reporter Grace Zhu explains, "the statement didn't set out a timeline or release further details, so the speed and scope of any move to open up China's credit card market isn't clear" (Nasdaq.com, 2014). Furthermore, the Wall Street Journal's Dinny McMahon emphasizes that the cabinet announced foreign companies can "apply". This means there is a potential for lots of red tape, a long application process, and unequal treatment (Wall Street Journal, 2014).

PART I: EXTERNAL ENVIRONMENT AND CONSIDERATIONS

In addition to strengths, weaknesses, opportunities and threats the foreign credit card clearing companies will encounter in China, in order to operate in the country they also need to first be granted access to the market. The macro-environment will be analyzed first in terms of PESTLE to display the opportunities and threats in China's marketplace in a logical, comprehensive manner. PESTLE splits the macro-environment into political, economic, socio-cultural, technological, legal and environmental aspects and these sections will be reviewed in terms of the Chinese government's considerations regarding opening the market and the foreign companies looking to enter.

Political considerations

The People's Republic of China has a single political party, the Chinese Communist Party (CCP), with Xi Jinping as their leader. Unlike North America, there is no opposition and little lead time necessary to implement new laws or regulations. Therefore, if Xi and the CCP decide to open the credit card clearing industry to foreign companies, it could happen almost instantaneously. Yet, it is not an easy decision illustrated by China's failure to meet the WTO's request and timeline to open the industry. The Party must consider its reputation, whether they want to instigate change at the current time, and if they are willing to sacrifice power obtained through UnionPay's monopoly.

Cheng Li of the Brookings Institution reveals, "Image clearly matters to Mr. Xi. Unlike previous presidents, he has a big team looking after it" (Economist, Sep 20th 2014). Xi has a reputation as a strong leader attempting to rule in favour of the average citizen. Opening the credit card clearing industry could have two effects on his reputation: he could be seen as a more laissez-faire leader modernizing the country and enforcing international relations, or as excessively open with a disregard for his people. A lot will depend on how the Chinese handle debt, credit and the impacts each of these have on the economy.

Overall, China's payment systems are regarded well by the population, and changing anything poses a risk to the government and the population. Increased credit use could stimulate the economy and increase domestic spending, but if people misuse credit and accrue debt, they may blame the government. Moreover, local protectionism is held in high regard, and allowing foreign companies to compete with UnionPay may be viewed as betrayal. In addition to the CCP's domestic standing, Xi should consider the country's international reputation as many countries and organizations are discontented with UnionPay's monopoly. Xi could agree to the WTO's terms and advance China's international relations, or ignore the request and contend with the ramifications.

Another political consideration is the movement of China's currency across borders and attempts to control the currency. Movements of Yuan is a predominant topic in China as alarming movements of money have appeared between Mainland China, Hong Kong and Macao. The government is attempting to crack down on the movement of the Yuan by placing limits on the quantity of cash allowed out of the country and extracted at banks outside China. New credit card clearing companies may inhibit the Chinese government's attempts at restricting the inflow and outflow of the Yuan: Teo Wee Choon, a foreign exchange strategist at Nomura, explains "[Foreign credit card processing companies] would open more avenues for abuse, more ways for people to get around the rules" (South China Morning Post, 2014). If the industry is to open, there will likely be very restrictive regulations that could make the market disagreeable for foreign companies.

Nevertheless, China is currently under the leadership of someone not afraid of change and looking to make a difference. A report in The Economist reveals: "Mr. Xi has quickly become, to all appearances, the most powerful leader since Deng Xiaoping" (The Economist, Oct 24 2014). China is facing dramatic changes as it climbs the ladder towards becoming a world leader. A strong leader in favour of opening-up policy, which Xi seems to be, is certainly an opportunity for foreign companies. Yet, there is the threat he decides the domestic UnionPay's close

ties to the government are too valuable to sacrifice to meet the WTO's demands and satisfy foreign credit card companies' desire for China's marketplace.

Economic factors

There are economic factors for both the government to consider and foreign credit card companies to consider when entering the Chinese market. Economic factors for the government primarily include the impacts of increased money supply and the movement of money, whereas foreign credit card companies should evaluate the use of credit cards and the expanding middle class.

Credit cards and the money supply

Opening up the credit card processing industry to foreign companies could increase the number and use of credit cards nationwide. If we look at the economy using a Keynesian economics equation where domestic production (P) = the monetary supply ($M2$) x the velocity of money (V), we divulge that introducing new credit to an economy results in an overall increase in production (Geanakoplos & Dubey, 2009).

David Randall from Forbes reveals: "credit cards increase the amount of dollars that each household can spend at one time, thereby flooding the system with both real money (cash) and promised money (debts)" (Forbes, 2010). The new money supply in the form of credit increases $M2$. The increase in spending increases demand, which initiates price inflation due to the supply and demand model, followed by an expansion in production to satisfy the new level of demand. Increased production leads to greater labour demand and higher wages, which further raises product prices and overall capital expenditure. The process explained is called "demand pull inflation" (Geanakoplos & Dubey, 2009).

In addition to demand-pull inflation, the velocity of money would increase as well. The velocity of money is the number of times a unit of currency can be used in one year, something the government cannot easily control. Credit increases the velocity of money as the same unit of currency could be used multiple times and encourages consumption that otherwise would not occur (Kaynak & Harcar, 2001). For example, when a customer purchases a product or service on credit, the company they paid can use the same money to purchase something else, and so on, within the same period, essentially "creating" money.

The formula $P = M2 \times V$ exposes that since credit increases $M2$ and V , new credit exponentially increases production. For example, if the introduced credit increased $M2$ and V by 20 percent, there would be an almost 50 percent increase in production. That increase has the potential to be completely unmanageable and develop into a chaotic economic situation. Any government should hesitate before flooding their economy with extra credit and potentially losing control. China's domestic production is already growing over 7 percent per year; it may not be in the country's best interests to open the credit card market and increase it even more. If the government decides the risk is too great, foreign credit card clearing companies will not be allowed access to the market.

Considerations for foreign credit card companies

The Chinese economy is undergoing a period of immense change. China is still nowhere near countries like the United States in terms of quantities spent on credit, but it is catching up. The People's Bank of China publicized 1.84 trillion Yuan in unpaid credit card debt at the end of 2013, and 391 million credit cards in circulation (Barrons, 2014). Moreover, the outstanding credit card balances at the end of June this year were one-third higher than 2013 (Reuters, 2014). The growing use of credit cards and debt means growing revenue for credit card clearing companies.

China's skyrocketing gross domestic product provides another opportunity for credit card clearing companies to exploit (Table 1: Gross domestic product in China [1995-2009], App. A). Even after slowing in the last few years, China has an annual GDP growth rate of seven percent (World Bank, 2014). Furthermore, the government hopes to increase GDP even more: "By 2020 [the CCP] seeks to double not only the 2010 gross domestic product but also the per capita income that should reach \$4,000. By 2040 China is predicted to surpass the GDP level of the US and become the world's largest economy" (Economic & Political Weekly, 2013). Introducing credit stimulates spending and consumption, which in turn raises GDP. Opening the credit card clearing industry to foreign companies can support the government in achieving their GDP goals. Incoming companies should use this to their advantage in building a relationship with the Chinese government.

The increasing GDP is likely a contributor to the expanding middle class. People in the middle class usually qualify for credit cards yet tend to live outside their means if given the opportunity, making perfect candidates for credit cards (M2 PressWIRE, 2013). The rising GDP and the expanding middle class are creating more credit card users and growing the already lucrative market for foreign companies. The middle class may be expanding, but there is still a considerable income gap. Almost 70 percent of the Chinese population lives on less than five dollars a day, representing about 900 million people unsuitable for credit cards (n.d., World DataBank).

An interesting aspect elucidated by Professor Zhuang Rui is that monopolies contribute to the income gap (Professor UIBE, November 2014). China's income gap is a prevalent topic, and Rui's point begs the question why the government would keep UnionPay if its monopoly contributes to the country's inequality. Incoming companies could leverage the fact that their acceptance into China could assist in lowering the Gini coefficient.

Socio-cultural sensitivities

China is undergoing a period of rapid change from an ancient civilization to a modern society. The reform has created an interesting socio-cultural state full of opportunities for western companies. On the one hand, the Chinese people are very traditional, but on the other, they admire western products and think highly of what they bring to their economy.

Tastes are swinging towards more luxury items, and people are embracing the change. New shopping malls with name brand stores are appearing throughout the country, and travel within the country has more than doubled in the last three years. Many believe much of the growth should be attributed to the growing use and acceptance of the bankcard (MarketWire, 2013).

Even still, China is a cash society. "We don't give things for nothing. It will take a lot for families to accept a number on a screen as payment," explains Jiajing Wang, graduate student at the UIBE (November 2014). Chinese preferences are changing, but perhaps not fast enough for foreign companies. Wang believes China has a long way to go before credit cards are universally accepted.

The Chinese people have been through so much turmoil and change in their lifetime they have grown weary of governmental systems and take precautions to protect their family. Juann H. Hung and Rong Qian call the unpredictable government the "weak social safety net" and attribute China's high savings rate to it (Congressional Budget Office, 2010). They record China's savings rate at 48 percent as an average from 2000 to 2008, remarkably high compared to the United States' 15 percent. One reason the Chinese take protection into their own hands results from the lack of backing for workers' contacts, explains Professor Zhuang Rui, an expert on China's economic and social development problems at UIBE (November, 2014). Many migrant peasant workers were scammed by employers with promises of money that never came. These IOU scams led to many devastated families and a lack of faith in monetary promises. The Chinese people therefore may be opposed to unfamiliar electronic payments. Besides, many people live on the money they received that day. They do not have the ability to wait till the end of the month for their Visa receipt to be paid out.

Another integral socio-cultural consideration is *guanxi*, a society based on relationships. Christopher Warren-Gash of Languatica illuminates that the Chinese only do business with those they know and trust (Forbes, 2012). UnionPay has been building relationships with clients for over ten years and foreign companies will have a lot of work to catch up. In addition, Steve Worthington reveals the strong belief in *guanxi* means many people do not have a great need for credit as lending to friends is common (International Journal of Bank Marketing, 2005). Still, many may switch to credit if made available to avoid “losing face” in front of friends.

Technological availability

China’s technological infrastructure is underdeveloped in many regions. Although the larger cities boast 4G and widely available Wi-Fi, internet is still slow and non-existent in many smaller stores (Table 2: Internet usage and availability in China, the UK and Canada, App. A). Cash is the ruler in China and many inhabitants and small business owners do not have the means to purchase internet, computers, or point-of-sales (POS) machines.

Luckily, China would not need to develop solutions to lack of technology, as there are already solutions available. They could begin with the use of manual machines and move towards electronic machines when they are able to do so. The main reason manual machines became obsolete in most of the world was the extensive paperwork required to use them. This will likely be less problematic in China as wages are low so costs associated with using manual machines would be minimal.

Moreover, competition spurs innovation. The lack of infrastructure and technology is an opportunity for foreign companies to provide incentives for companies to begin accepting payment cards. To gain a competitive edge and win the loyalty of companies, foreign credit card clearing companies could subsidize internet connectivity or provide POS machines at a discounted price. It may be in the government’s best interests to open the industry to advance the country’s technological base.

Legal attentions

Many legal factors must be considered when altering payment systems. Some legal considerations for the credit card system in China include new legislation and regulations, increased use of western ways of doing business, fraud, and the impacts of credit on an economy.

New legislation will need to be implemented if China moved to credit cards as their primary form of payment. The government would have to determine how much credit each company could dispense, an accurate credit rating system would need to be developed to estimate the risk of clients, as would a system to deal with fraud and with people defaulting on their payments. Another factor that should be analyzed is the different laws and regulations in each of the different economic zones, as each maintain different ways of conducting business.

Although there may be a decrease in the amount of counterfeit cash as it is used in fewer transactions, credit card fraud may become a prevalent issue. The lack of technology to process payments immediately could lead to businesses being scammed with inactive cards or businesses misusing customer credit cards.

Additionally, China has been a collective economy for over three decades. Chinese custom suggests that everything be shared equally; consequently, intellectual property rights are not widely acknowledged. This could create an issue for foreign credit card companies as they have spent years perfecting their companies and systems. These systems, such as rewards programs, business plans, and even credit card design, will not likely be protected in China and foreign companies could encounter imitation domestic firms. New laws or regulations may need to be implemented to protect the foreign companies’ intellectual property rights.

Overall, China's legal system varies greatly to what is customary in North America. China utilizes a civil law of German origin, whereas Canada uses an English common law. The use of civil law means the government will have to provide explicit rules on how to deal with issues arising from new credit card clearing companies, including bankruptcy and fraud. At the current time prior to opening the market, it is likely there are few legal issues for UnionPay as the company is government controlled. Moreover, although moving away from this system, the Chinese conduct less business with paper contracts, placing value on verbal contracts instead. This could certainly create issues for foreign companies who have strict policies and will need to convince their Chinese business partners to sign contracts, and be faithful to them, instead of honouring traditional verbal agreements.

There are many legal dilemmas the government will have to clarify and many laws and regulations that would have to be implemented should the government allow foreign companies to enter the credit card processing industry. Legal concerns are both a threat and an opportunity for foreign credit card clearing companies as they have the ability to change the profitability in the market.

Environmental concerns

There are days in China's capital when it is impossible to see ten feet away clearly. Pollution is an enormous issue in China and worldwide, and anything that could add to the problem will be regarded warily.

An increase in available credit will increase spending and consumption. These increases will likely lead to more travel and money spent on unnecessary items, which means more exhaust from transportation and more waste. As explained in the $P = M2 \times V$ equation, the expanding use of credit also increases domestic production. China's pollution largely originates from factories, and an increase in production will only add to the problem.

However, incoming companies can look at the pollution as an opportunity to advertise the promotion of environmentally friendly items. Credit may allow for less stress and worries about money, which could allow individuals the time and resources to think about the environment and favour environmentally friendly products instead of cheaper, more harmful brands.

PART II: MARKET ENTRY ANALYSIS

Direct competition

Where there is opportunity, there are people competing to exploit it, and the credit card processing industry in China is no exception. Incoming credit card clearing companies will face direct competition from other foreign companies and China UnionPay, and also indirect competition from other forms of payment.

Visa, MasterCard and American Express have been lobbying for years to get a foothold in China's credit card systems and provide direct competition for the local UnionPay. As of yet, they have been denied access to the industry. If they were permitted access, each foreign company would need to focus on winning the trust of the people and differentiating themselves from the many companies who are similar to them. As discussed earlier, Visa and MasterCard have already started this process and are likely to dominate the Chinese industry in the future. A more detailed analysis of UnionPay's effectiveness would be conducted if the company's financials were released to the public.

Hai Ling, division president of MasterCard in Greater China, illuminates that competition can be beneficial as it helps implement high standards and creates superior products and services (Bloomberg, 2012). China's monopoly in credit card clearing is an opportunity for other companies to enter with superior products, lower prices, better service and added options.

Indirect competition

In addition to direct competition, foreign companies would also face indirect competition from other forms of payment, specifically cash, bankcards, and electronic and mobile payment services.

Ling divulges that cash is the biggest competition for credit cards: 60 to 70 percent of money being spent is cash (Bloomberg, 2012). Cash is accepted all over China and is the primary form of payment in the country. Most small stores, restaurants, and even some hotels and larger organizations will only accept cash. Since the incidence of many scandals, such as companies doling out written promises of money that were never fulfilled, the Chinese people have been skeptical of non-cash payment systems. Even cash is regarded with a critical eye, as many counterfeit bills are currently in circulation. First hand, I have encountered thirteen fake 100-Yuan bills of varying quality in just three months. However, local storeowners are very skilled at identifying the counterfeit currency. The skepticism of the monetary system is possibly a reason people may prefer to stay with one type of payment as they know they can collect the payment and utilize the money immediately.

Bankcards are also significant rivals to credit cards as they achieve a comparable convenience but prevent arrears. In China, bankcards can be used to make domestic online purchases while simultaneously avoiding the potentially debilitating effects of debt. As the Chinese are not accustomed to the availability of credit, the absence of its temptation could be a benefit to many users. However, bankcards limit users to domestic purchases, as the cards cannot be used internationally, illustrating an opportunity for credit card companies.

New ways of transferring money are surfacing every year. Electronic currency, such as Bitcoin and OKCoin, are currently available, yet acceptance of them is limited. The government has continually placed stricter restrictions on these online forms of payment to decrease attempts at cleaning fraudulently obtained money. An article in *The Economist* explains: "Bitcoin has not taken off as a means of payment in China; instead, it is mainly a speculative investment" (*The Economist*, 2014). Depending on future regulations, Bitcoin and OKCoin may be sources of competition for credit cards.

It has been said that China has the "greatest potential in the bankcard industry worldwide" (UnionPay.com, 2014). Such a fruitful market so offensively inaccessible to companies is a likely reason businesses are looking for substitutes to the government-supported monopoly. Recently, China's largest online commerce company, Alibaba, indicated an imposing partnership with Apple to launch a mobile payment service combining AliPay and Apply Pay (Miami Herald, 2014). Should this partnership occur, it could greatly reduce the need for credit cards.

Strengths of foreign credit card processing companies

Foreign credit card companies have various advantages over the domestic UnionPay. The most obvious is their experience, followed closely by groundwork already in action in China.

American Express and the Bank of America (renamed Visa) have been in operation since 1958 and have entered hundreds of new countries. They have decades of history and experience, as well as many veteran employees and specialists to help them succeed in China. The major companies have well-established systems on how to manage everything from setting up new accounts, to designing successful rewards systems, to handling complaints. They also benefit from an online banking system that has been successful in over a hundred countries worldwide and will undoubtedly be effective in China as well. One report expresses there will be "transparency, ease, and security in the use of these cards" (M2 PressWIRE, 2013). Incoming credit card companies and their established systems can provide clients and the government with clear and comprehensive statistics on spending habits, enhanced security, and supplementary methods to deal with and detect theft and fraud.

Some local inhabitants do not use credit cards because they do not believe the hassle outweighs the value: “Why use credit when there is no need to? They do not provide any benefit”, explains Moqing Chen of Beijing (UIBE graduate student, November 2014). The entrance of foreign companies will vastly increase competition and potentially produce credit cards with enough benefits to entice use by a greater percentage of the population. Visa’s Chief Executive Charlie Scharf agrees: “we believe we can add a lot of value [to the Chinese marketplace]” (Reuters, 2014).

Some of the major credit cards companies will not need to start from scratch in securing the support of the locals. Even though UnionPay’s symbol is visible on every card, they are not alone. Visa and MasterCard, while paying UnionPay to clear payments made on their cards, have their own credit cards in use in China. The Chinese people are familiar with the corporations’ logos and may be more accepting of the new companies’ cards because of this.

Moreover, Visa and MasterCard have made valiant efforts to be seen positively the Chinese people. Visa sponsored the 2008 Beijing Olympics and MasterCard paid to have its name on the Olympic sports center. The companies have already begun creating brand awareness in anticipation of China’s credit card processing industry opening to foreign businesses (Table 3: International credit card companies advertising in China, App. A).

Weaknesses

Visa, MasterCard, American Express: none of these companies have yet participated in credit card clearing activities in China. Their lack of experience in China, with its commanding government and influential culture, could be a major weakness for the foreign companies. China has a very unique way of doing business where relationships are the key to success, written contracts take a backseat to verbal agreements, and change is regarded with a skeptical eye. UnionPay is adept at conducting business in such an environment, and the entering companies may struggle to catch up.

Even though some companies, like Visa and MasterCard, have been taking steps to build positive relationships within China, UnionPay has had over twelve years to establish its trusted reputation. It may be difficult for foreign companies to win over the contracts and customers that UnionPay has collected since it began in 2002.

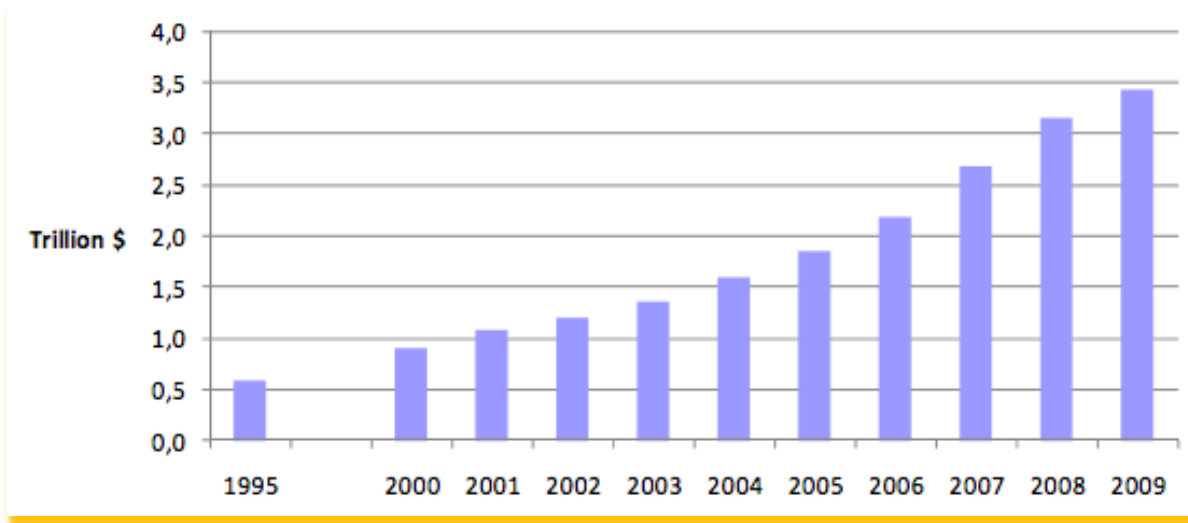
Furthermore, to capitalize on the boundless knowledge of their experienced employees, foreign entrants will undoubtedly send many of their employees overseas as expatriates. This may lead to discontented employees, as living in China is neither easy nor desired by many foreigners, and expatriation could be a weakness of the companies, as employees may not perform as expected.

CONCLUSION

The CCP is in the process of deciding whether to open China’s credit card clearing industry to foreign competition. However, the government has many considerations to take into account before opening the industry. Primary governmental concern includes political and economic impacts such as reputation, money supply, and inflation. Should the government open the industry, foreign companies have many strengths and weaknesses compared to the local UnionPay and also have a complicated macro-environment to analyze. All in all, China is a vast untapped market, and the entrance of foreign credit card clearing companies could be just the motivation the economy needs to stimulate spending and support the government’s objectives.

APPENDIX

Table 1: Gross domestic product in China (1995-2009)



Statistical data. (n.d.). <http://www.stats.gov.cn/english/> Accessed Nov. 25, 2014

Table 2: Internet usage and availability in China, the UK and Canada

	China	United Kingdom	Canada
Internet Percent 	42.3%	81.6%	78.6%
Secure Internet Servers 	4,238	1,691	43,023
Secure Internet Servers per 1 million people 	3 per million people	206 per million people	1,277 per million people
Internet Hosts 	20,602,000	8,107,000	8,743,000

Statistical data. (n.d.). <http://www.stats.gov.cn/english/> Accessed Nov. 25, 2014

Table 3: International credit card companies advertising in China



Visa and MasterCard Confront China's Stacked Deck. (Nov. 17, 2014). *ChinaFile*.

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Will O₂ be Able to Stay on Top?

An analysis of the largest integrated telecommunications provider in the Czech Republic

Danielle Pillon
Fall 2014

ABSTRACT

O₂ is the one of the largest mobile operators in the Czech Republic, with over eight million fixed and mobile lines in operation. The company also offers home phone, television, and internet services (O₂ corporate website, 2014).

Prior to an acquisition by investment company PPF, O₂ Czech Republic was primarily owned by Telefonica, a Spanish company which is present in 21 countries and retains over 316 million customers worldwide (Telefonica corporate website 2005, 2014). The three main competitors in the country's telecommunications market include world-known T-Mobile, the UK powerhouse, Vodafone, and U:fon, the newest member of the market. With an ongoing decline in mobile profits, pressure to cut prices from virtual operators, and new legislation introduced by the European Union, will O₂ be able to stay on top? To analyze this question, I will conduct a SWOT analysis, apply Porter's Five Forces Model, and examine O₂'s current marketing strategies. Lastly, the results from a survey and two interviews, both conducted at the University of Economics in Prague, will be presented to determine exchange students' opinions toward the current mobile providers in the market.



INTRODUCTION

O₂ officially entered the Czech market in 2005, after going through several name changes and mergers with companies including Eurotel and Telefonica. As one of the first mobile operators in business within the country, O₂ was able to acquire market share through first-mover advantage. The company's continued innovation and strategic marketing strategies, including loyalty programs, have allowed O₂ to maintain clear success. In 2012, O₂ became the first operator in the country to open its market to virtual operators and in 2013, it transformed the market by offering unlimited FREE tariffs to consumers (O₂ corporate website, 2014). This paper will examine the history and financial status of the company, as well as the strengths, weaknesses, opportunities, and threats that O₂ is currently facing. Finally, I will provide some recommendations on how I believe O₂ can strengthen its position within the industry, and relate these approvals back to the results of the survey and personal interviews, which both measure current students' perceptions of value and quality.



HISTORY OF TELECOMMUNICATIONS IN THE CZECH REPUBLIC AND THE FORMATION OF O₂

According to Funding Universe (2004), the story behind O₂ Czech Republic begins in 1989, at the start of the Velvet Revolution, when communist power collapsed in the former nation, Czechoslovakia. During the same year, SPT Praha was formed, which stands for "Sprava post a telekomunicaci Praha," better known as The Ministry of

Posts and Telecommunications. This state-owned company was created as a monopoly for all postal and telecommunication services in Prague. The revenues gained from this sector were used to subsidize postal services. In 1990, SPT entered into a joint-venture agreement with two American companies: Bell Atlantic (presently known as Verizon Communications Inc.), and US West (Verizon corporate website, 2014). Through this agreement, the new company, Eurotel, was established as a mobile service provider in the Prague region. Then, at the start of 1993, the “Velvet Divorce” occurred, which separated Czechoslovakia into two nations. This separation of countries instituted the split of SPT, into SPT Telecom and Czech Post. Subsidies were put to a stop, and SPT Telecom gained full control of the telephone network. Unfortunately, the network was deteriorating, as no investments were made in communication infrastructure during the communist period. Despite this, SPT Telecom still managed to report CZK 6 billion in profits. In 2000, SPT Telecom was renamed to Cesky Telecom, prior to the market opening up to competitors in 2001. This was considered a huge success, as the company had struggled for many years to privatize the market. In the fall of 2003, Cesky Telecom gained full control of Eurotel, which would become its new mobile operator. Two years later, Telefonica acquired 51.1% of Cesky Telecom for approximately EUR 2.7 billion (Telefonica corporate website, 2005). Following this action, the two companies merged into one legal entity to increase customer benefits by offering mixed fixed and mobile line services. This was necessary as the demand for mobile phones increased rapidly, along with the use of internet services. The company was officially renamed “Telefonica O₂ Czech Republic AS” from this acquisition (Fiserova & Dudikova, 2006). Since PPF’s acquisition of O₂, the company has since been renamed to “O₂ Czech Republic,” as of June 2014 (O₂ Half-year Report, 2014).

O₂ TODAY: A LOOK AT THE FINANCIALS

To measure the company’s current financial position, I conducted a quantitative analysis by calculating three ratios to measure liquidity, solvency, and profitability based on the company’s 2014 half-year report. As of June 2014, O₂ Czech Republic’s current assets were valued at approximately CZK 10.6 billion, in comparison to CZK 15.9 billion in current liabilities. This amounts to a liquidity ratio of 0.67, which indicates that the company is currently not in a good state to pay their short-term bills. One way to increase this ratio would be for the company to pay more of their debt, or convert their short-term debt into long-term debt. Secondly, O₂ Czech Republic reported total debt of CZK 21.5 billion, and total equity of CZK 51.8 billion, amounting to a 0.42 debt to equity ratio. This is a 9% increase from 2013, which indicates that the company is experiencing increasing interest expenses, and may have difficulty raising more debt in the future. Additionally, the company suffered a 26% drop in profits from the previous year, with a 16% decrease in mobile operating revenues. Based on these calculations, it does not appear that the company is performing very well; however, these numbers can be attributed to an increase in investments. O₂ Czech Republic spent CZK 6.5 billion this year in cash on investing activities in areas with growth potential. In particular, the company focused its efforts on increasing the capacity and quality of their data network, with particular focus on 4G/LTE network coverage and the Slovak market.

Finally, I assessed the operating performance of O₂’s fixed assets to determine whether or not O₂ has been efficient at managing their investments. Based on O₂’s property, plant and equipment (PP&E) of CZK 38.5 billion, and total revenues of CZK 21.8 billion, the company has a fixed-asset turnover ratio of approximately 0.57. Again, this number may seem very low; however, due to the capital intensive industry, it is acceptable. To ensure this, I compared the ratio with that of T-Mobile’s fixed-asset turnover ratio for the same period, which is 0.47 (T-Mobile Annual Report, 2013). Therefore, O₂ is clearly making better use of its investments than one of its closest competitors. Overall, financial results in the mobile segment have been lacking, but this is in line with the expectations of both the market and financial analysts, according to Tomas Budnik, acting CEO of O₂ Czech Republic (O₂ corporate website, 2014).

SLOVAKIA

O₂ Slovakia is the O₂ Czech Republic Group's largest subsidiary, reporting operating revenues of over CZK 4.4 billion for the first nine months of the year. The company began operations just seven years ago, in 2007, and since then, it has remained a key growth region for the group. Slovakia's customer base increased to over 1.6 million users, which is an 11.3% increase from 2013. O₂ is currently the third largest mobile operator in Slovakia (O₂ corporate website, 2014).

NEW PLANS FOR O₂: PPF'S ACQUISITION OF TELEFONICA CZECH REPUBLIC

According to a press release on the O₂ corporate website, on November 5, 2013, Telefónica announced the sale of 65.9% of its share in Telefónica Czech Republic to PPF, a Czech investment group, for a total value of 2.467 million euros. The deal later closed at the end of January 2014, after the European Commission's approval. The transaction is expected to have a positive impact on the company, with hopes of reducing the company's net debt, thereby increasing its financial flexibility. A similar agreement was made in Ireland in an attempt to strengthen operations in O₂'s core markets: Spain, the UK, Germany, and Latin America.

Telefonica still maintains a 4.9% stake in the company at the present time, and will remain an industrial and commercial partner for the next four years (Telefonica corporate website, 2014). Despite this change in ownership, O₂ claims in its 2014 half-year report that PPF has provided a new outlook for the company in all areas of operations. The company is expected to implement a simpler, and more effective operating model to improve customer experience and respond to shareholder demands.

MARKET ANALYSIS AND O₂'S COMPETITORS

Currently in the telecommunications market, consumers care most about data services. Specifically, fast mobile internet speeds. In February, the Czech Telecommunication Office allocated the 800, 1,800, and 2,600 MHz spectrum to the top three local mobile operators, which enabled such companies to begin implementation of the new 4G/LTE network in mobile phones. O₂, Vodafone, and T-Mobile had all placed bids for the spectrum in an auction last year, and are currently investing in technologies to improve the network speed and availability within the Czech Republic. O₂ hopes to reach 93% of the population with both 3G and LTE services by the end of the year (O₂ Half-year report, 2014). Please see the appendix for a complete coverage map of the country.

Additionally, the market has seen a new trend with regards to MNVOs, or virtual operators. During the first half of 2014, 15 new virtual operators entered the market, totaling the amount to 71 MNVOs in the region (O₂ Half-year report, 2014). A further explanation of the impact of MNVOs on the market will be discussed later.

Legislation issues have also had an impact on the telecommunications market. Recently, a provision was made to the Electronic Communications Act, which granted users the right to terminate their fixed-term contract early. In addition to this, a limit was imposed which restricts contract users to pay no more than 1/5 of the sum of monthly subscriptions. This may or may not have a positive effect on the market, as it limits spending amounts; however, it removes the incentive to keep customers loyal. Finally, a new international roaming regulation was passed by the European Parliament and EU Council in 2012, which lowered the regulated amount of voice, SMS, and data prices. These rates will apply for the next ten years (O₂ Half-year report, 2014).

In the Czech Republic, four main mobile operators exist in the market, including O₂. O₂'s main competitors are T-Mobile, Vodafone, and U:fon, which is operated by Air Telecom.

T-Mobile

According to the T-Mobile corporate website (2014), T-Mobile has been in operation in the Czech Republic since 1996, and has been owned by Deutsche Telecom since 2002. 2014 has been a huge year for T-Mobile; the company reported CZK 17.9 billion in total revenues, of which CZK 14.2 billion can be attributed to mobile services. As of this year, T-Mobile also has the largest customer base in the Czech Republic, with almost 6 million users, approximately 3.5 million being loyal contract customers. Additionally, T-Mobile has received many awards for its outstanding performance, including Employer of the Year and the VIA Bona award for their employees' participation in volunteer events. As for student plans, T-Mobile offers 40 minutes, 40 SMS messages, 100MB of data, and an additional offer of free calling and SMS between 7 P.M. – 7 A.M. among the T-Mobile network for 234 CZK. T-Mobile is especially appealing to foreigners, as the company has a large world-wide presence. The company's website even features an "Information for Visitors" section, making it easily accessible to this target group. T-Mobile also has the most partners for direct-dial prepaid roaming out of all Czech operators. The list of roaming partners contains 87 countries, everywhere from Argentina, to Denmark, to Hong Kong. In May of 2014, O₂ reached an agreement with T-Mobile in regards to 4G/LTE network sharing. Both operators will benefit from improved broadband connection and major savings, which will allow each company to further invest in their networks and services. Despite the sharing of the new network, both O₂ and T-Mobile will continue to use their own network infrastructure, and pursue separate business strategies as normal (O₂ Half-year report, 2014).



Vodafone

Vodafone currently holds the title as the world's largest mobile network. The Vodafone Group currently has operations in over 30 countries around the world, and has over 360 million users, 19 million of which are in the UK. Originally known as Oskar, Vodafone Czech Republic quickly became the fastest growing operator in the region when operations began in 2005. It was also regarded as the most customer-orientated company in the country (Vodafone Czech Republic corporate website, 2014). In particular, Vodafone is known for its exceptional customer service abilities, both in store, online, and on the phone. Above all, Vodafone makes a commitment to its customers to be transparent with information, manage costs, protect privacy, and even filter out adult content for kids (Vodafone UK corporate website, 2014).



In an attempt to capture market share from visitors to the Czech Republic, Vodafone introduced a prepaid "Data SIM for Visitors" plan. Visitors may use up to 10GB of data over a 30-day period, and can call all other Vodafone users free of charge (Vodafone Czech Republic corporate website, 2014). This was a strategic move on the company's part, as it attracts many students and expats studying or working in the Czech Republic for a limited period of time. In addition to this, Vodafone also offers a student tariff: 1.2 GB of data, 600 minutes, and unlimited SMS for 494 CZK (Vodafone corporate website, 2014). This deal applies to all individuals under twenty-six years of age. This plan is also strategic as young people in this age bracket use data and SMS most often.

U:fon

Previously known as MobilKom, U:fon is currently the fourth, and the newest player in the Czech telecommunications market, with mobile operations beginning in June of 2008. Similar to the past agreement reached between Eurotel and Cesky Telecom, Air Telecom became the sole owner and operator of U:fon in December of 2012 (TeleGeography, 2012). The new owners introduced a range of voice and Internet data packages to kickstart operations, and retain the company's existing 100,000 members.



In comparison to the other top three companies, U:fon's plans have the best value. The cheapest and most popular plan featured on the U:fon website is the "Air Junior" plan, which includes 70 minutes of calling, 10 free

SMS messages, and 50 MB of data within the Czech Republic for only CZK 149 per month. This rate is based on a 2-year commitment; however, the price for the same plan with no commitments is only CZK 100 more per month. If users exceed the given parameters, extra charges will apply: CZK 1.50/minute call, and CZK 4 per SMS message. For added flexibility, users are able to add on packages based on their preferences to make their plan more flexible, for example, an extra 50 MB of data for CZK 49, or 50 SMS for CZK 65.

Unlike the main three mobile operators which use a GSM network³⁸, U:fon operates under the CDMA network. According to Sascha Segan (2013), GSM, Global System for Mobiles, and CDMA, Code Division Multiple Access, are the two major radio systems used in cell phones, which are unfortunately incompatible with each other. Under GSM networks, it is easier to swap phones, as all customer information is placed onto a removable SIM card. Therefore, any user of this network is able to put their SIM card into any unlocked phone. CDMA networks do not have this convenience. Although it is still common for CDMA phones to have a SIM card slot, its use is intended to strengthen 4G/LTE networks. In addition, 3G CDMA networks are not able to transmit data at the same time that a voice call is being placed, unless the network has an “SV-DO (Simultaneous Voice and Data Optimization)” option. The following table summarizes some of the four companies’ best value plans, which are intended for students.

Table 1: Student Plans Amongst the Top 4 Players

	Minutes	SMS	Data	Special Offers	Cost
O₂	120 ³⁹	Unlimited ⁴⁰	1 GB	-	399 CZK
Vodafone	600	Unlimited	1.2 GB	-	494 CZK
T-Mobile	40	40	100 MB	FREE call/SMS from 19-7 in T-Mobile Network	234 CZK
U:fon	70	10	50 MB	-	149 CZK

*Data for this table was taken from each of the mobile operator’s corporate websites, as indicated in the text.

MARKETING STRATEGIES

“FREE” Tariffs

In the spring of 2013, O₂ announced it would offer *FREE* tariffs to its customers, where all those subscribed have unlimited calling within the Czech Republic. This triggered a revolution in the Czech mobile market. Due to this strategic advertisement, the company saw many of its customers, both new and loyal, upping their monthly spending to take advantage of the incredible offer. The campaign has specifically had an effect on voice traffic: customers utilizing the promotion make approximately 66 minutes more worth of calls in a monthly cycle. This is a 27% increase in the amount of calls made on the O₂ network from 2012. Additionally, the company saw a 30% increase in the amount of data traffic on the mobile network. Above all, O₂ managed to sign 158,000 new customers, a 3% increase from 2012, which can be largely attributed to the free tariff strategy (O₂ annual report, 2013).

Mobile Internet

O₂ presently has the fastest mobile internet in the country. With the implementation of the new 4G/LTE network, users are now able to download materials up to 110 Mb/s. This is much faster than 2G/EDGE, which downloads at 236kb/s, or 3G/HSPA, which downloads at a speed of 43 Mb/s (See Appendix III). Due to the large fixed asset

³⁸ O₂ users have access to both CDMA and GSM networks.

³⁹ 120 minutes within the O₂ network; CZK 3.50 otherwise.

⁴⁰ Unlimited to O₂ network only; CZK 1.50 per SMS message applies otherwise.

investments made by O₂. O₂, the company is able to offer this new network to the majority of the country, including Prague, Brno, and Ostrava, the Czech Republic's three largest cities.

Loyalty Programs

O₂ also prides itself on being a company which is able to maintain its loyal customers. So far, over one million customers have taken advantage of O₂'s loyalty program, *Extra Vychody*, which allows customers to enter discount codes to receive additional credits. Being an O₂ customer myself, I have personally used a discount code which was offered to me through a text message. I submitted this word/number combination and was granted free SMS messages between other O₂ users for one day. Since the creation of this program in 2012, the O₂ customers have saved over 400 million CZK (O₂ annual report, 2013).

Phone Choices

By choosing O₂, users have over fifty-three featured smartphones to choose from with the best price guarantee, and will receive all phone settings free of charge. Additionally, O₂ has an exchange program, which allows customers to trade in their old phone for a discount on a new device. The price of the used phone is calculated based on wear and damage, and the determined value is deducted from the price of a newly chosen device (O₂ corporate website, 2014).

Partnerships

In June of 2014, O₂ entered into a partnership with Apple. The latest models of the iPhone will go on sale in O₂ stores the same day they are launched in the Czech Republic. Due to the added publicity, the company is likely to see an increase in revenues, as many loyal Apple customers will be lined up around the store to receive the new product. Due to this partnership, users also have access to the latest models of Beats headphones, which are extremely popular amongst young adults (O₂ corporate website, 2014).

PORTER'S FIVE FORCES MODEL

In an attempt to further analyze the telecommunications market in the Czech Republic, I have chosen to apply Porter's Five Forces Model. According to Porter (1985), this model suggests that a firm develops its business strategies in order to obtain a competitive advantage within the industry. In order to do so, a company must respond to five key primary forces: (1) the threat of new entrants, (2) rivalry among existing firms in the industry, (3) the threat of substitutes, (4) the bargaining power of suppliers, and finally, (5) the bargaining power of buyers, or customers, in this case.

Generally, the threat of new entrants is relatively low within any telecommunications market as the fixed costs are so high. In particular, significant investments are required to build and maintain the new 4G/LTE frequencies. However, Mobile Virtual Network Operators (MNVOs) have become a new trend in the telecommunication market. These types of companies do not own the network they are operating in; instead, an MNVO enters into an agreement with an existing mobile network operator at a given wholesale price. The MNVO then has the opportunity to set its own retail prices at a much cheaper rate. On-net calling rates start as low as CZK 0.39 per minute. Popular MNVOs in the Czech Republic include Opencall, TescoMobil (O₂'s Mobile Network) and Connectica (T-Mobile's Network) (Matthews, 2014). This type of competition could pose a threat as it is an attractive method for foreigners who wish to make international phone calls. Fortunately, virtual operators who use O₂'s services rank amongst the key players in the MNVO market (O₂ Half-year report, 2014).

- 1) Currently, there is an extremely high level of rivalry amongst firms in the Czech telecommunications market. As mentioned before, three main competitors exist: Vodafone, T-Mobile and U:fon. Currently, O₂

is leading in terms of revenue, with over CZK 21.7 billion reported for 2014, while T-Mobile has the largest customer base. Alternatively, U:fon offers the cheapest plans in the industry, and Vodafone is known for its exceptional and consistent customer service.

- 2) The threat of substitute products is quite high within this particular industry. With the never-ending limits of technology and its rapid evolution, it becomes easier every day to get in contact with others. Alternative communication services can include instant messaging, email, and VoIP (Voice over Internet Protocol) carriers such as Skype. With the increasing availability of public Wi-Fi hotspots, many individuals are able to resort to their tablets or laptops as a means of correspondence. MNVOs can also be thought of as a substitute in this category.
- 3) The bargaining power of suppliers is relatively low within this market. The companies themselves are responsible for both selling the products, and providing the network for the products to operate on. The only suppliers involved are the makers of the smartphones, or the hardware utilized to maintain network function. As indicated in O₂'s half-year report for 2014, the share of smartphones in the O₂ network increased to 38% during the period. As such, there is intense pressure on suppliers to provide new and innovative products to keep up with consumers.
- 4) Finally, the bargaining power of buyers, or customers, is also very high within this market. As mentioned previously, users have a number of substitutes to choose from, which implies that companies need to be consistently updating their offerings to adjust to consumer preferences. It is crucial that telecommunication companies focus on a clear and positive brand image for themselves, while differentiating their product. O₂'s initial offering of FREE tariffs is a perfect example of this power, as all three competitors found it necessary to offer the same deal to remain active in the market.

Next, I compiled key information about O₂ into a SWOT analysis, to identify areas to focus on, and those of concern in order to effectively provide a recommendation for company's future marketing strategy.

Figure 1: SWOT Analysis

Strengths	Weaknesses
Only operator investing in fixed accesses	Weak financial results as a result of excessive investments
Ability to maintain loyal contract customers through <i>Extra Vychody</i> promotion	Language availability
Fastest mobile internet in the Czech Republic	
Opportunities	Threats
Customer service enhancement	Takeover by MNVO networks
Adapting to competitor's offerings	Increasing T-Mobile customer base
Growing student segment	EU roaming regulations

STRENGTHS

O₂ is currently the only competitor out of the four companies that is investing in fixed assets in the Czech Republic. Due to this, O₂'s customer base is able to benefit from a faster connection for a comparable price. In a speed survey conducted by DSL.cz in May 2014, O₂ placed first among mobile internet providers with 6.4 Mbps, and maintained its leadership for LTE speed (26.3 Mbps) (O₂ 2014 Half-year report). To add to O₂'s success, the number of contract customers has grown 2.5% each year for the past few years. This demonstrates the company's strength in maintaining customers and their ability to convert prepaid users to contract users.

WEAKNESSES

As mentioned, the company has not been performing well financially this past year as a result of large investments made towards the implementation of the new 4G/LTE network. Fortunately, the company recognizes this, and has succeeded in lowering operating costs by 5.6% from 2013, through streamlining and a cut in employee wages.

Although O₂'s website offers an English language option, there are several elements within the website that are only readable in Czech. In addition to this, all messages sent to customers' phones are in Czech, making it difficult for foreigners to decode and respond appropriately.

OPPORTUNITIES

O₂ currently has a relatively good reputation for customer service; however, improvements can be made to match competitors, Vodafone in particular. In response to this, O₂ trained and deployed more than one hundred "O₂ Guru consultants" this year. Users are able to contact O₂ Gurus through Facebook, Twitter, an O₂ forum, or in-store (O₂ corporate website, 2014).

In April of this year, T-Mobile started offering insurance coverage for devices purchased through the company. This insures the devices against loss, damage, and theft. Payments for the coverage are included in a user's monthly bill, which increases its appeal (T-Mobile corporate website, 2014). O₂ now has the opportunity to offer a similar coverage plan, and expand on this offer to attract customers. For example, O₂ could charge a lower monthly price for the coverage, or reimburse users for specific impairments such as water damage. Given O₂'s partnership with Apple, the company may also be able to utilize the popular "Find My iPhone" app to assist with retrieving phones lost to theft.

According to Andrea Kabelova (2011), the number of foreign students attending universities and colleges in the Czech Republic is four times higher than it was ten years ago. Specifically, there is close to 6900 individuals who study at Charles University in Prague, roughly 5600 at Masaryk University in Brno, and over 3000 people at the University of Economics in Prague. O₂ should take advantage of the large number of incoming international students and penetrate this segment further by offering even lower calling, SMS, and data rates.

THREATS

The number of prepaid O₂ customers dropped 5.3% from the previous year, which can be attributed to users migrating to the contract segment and transitioning to MNVOs (O₂ Half-year report, 2014). In the most recent financial quarter, T-Mobile reported a customer base of almost 6 million on its annual report, which is roughly 1 million more customers than O₂ currently has. As such, a definite threat is T-Mobile taking over market share. Finally, the company may see a decrease in the amount of contract customers and level of revenues due to the EU regulations mentioned in the market analysis section.

WHICH MOBILE COMPANY ARE STUDENTS MOST ATTRACTED TO?

In order to get a better understanding of students' opinions towards the Czech telecommunications market, I chose to conduct a survey targeting current exchange students. The survey consisted of six questions, which were aimed at measuring students' satisfaction with their chosen mobile provider in comparison to their mobile provider in their home country in terms of quality and price. The results revealed the following:

Out of the 21 respondents, 7 individuals reported that they were currently using O₂'s mobile services, while 9 people listed Vodafone as their current provider. Based on this information, Vodafone captured 42.86% of the market share in this survey, and is the clear favourite amongst students studying abroad. 80% of O₂ users reported being "satisfied" with their chosen mobile provider, while the remaining 20% expressed being either "dissatisfied" or "extremely dissatisfied" with their choice.

In the survey, I asked respondents to rate their level of perceived quality about each company. The results concluded that Vodafone has the highest level of quality, with T-Mobile, O₂, and U:fon following respectively.

Additionally, I asked respondents to compare both the average price per month, and level of quality of their mobile provider in their home country to their current provider. As predicted, 60% of respondents indicated that they were more satisfied with their mobile provider at home, while 25% said they were equally satisfied with both mobile providers. In terms of price, 65% pay more for their mobile plans per month at home. According to OpenMedia (2010), Canadian users pay on average, \$572.86 US per year, in comparison to Czech consumers who pay approximately \$413.15 US per year for a mid-range cell phone package (See Appendix IV). This shows that Canadians pay roughly 38% more for their phone plans per year than inhabitants of the Czech Republic. To be clear, these numbers are based on individuals who submit to contracts. Whilst on exchange, I found that many European students, including myself, often opt for prepaid plans as it is a much more viable option. Additionally, it is important to note that GDP per capita rates differ largely between the countries; Canada reports a GDP of \$39,000 US, while the Czech Republic is sitting at \$13,800 US. Therefore, although it may seem cheaper for international students, Czech students may have great difficulty paying for an average plan per month.

Lastly, I asked students to indicate which companies out of the four listed they had heard of prior to taking this survey. Out of the 21 respondents, 20 specified that they had heard of T-Mobile, which shows it is the most widely known company amongst incoming exchange students from around the world. Alternatively, only one respondent indicated that they had heard of U:fon.

Additionally, I conducted two interviews with anonymous users of both O₂ and Vodafone mobile services to verify the results of the survey:

"I love how easy it was to set up my account, and it is comforting to know that there is no contract tying me down. Although, I wish language preferences were offered to make things more accessible." – Anonymous O₂ user, 2014.

"Vodafone is really cheap which is what attracted me to the plan, and as far as I know they have a very good reputation and brand awareness; I have seen billboards on many buses and trams in Prague." – Anonymous Vodafone user, 2014.

Like the O₂ user, the Vodafone user also expressed her concerns about the lack of language preferences; all texts received are in Czech which neither of the users are able to understand and use to their advantage. In comparison, the O₂ user mentioned she had received mixed levels of in-store customer service, while the Vodafone user boasted about how helpful the attendant was when she was having difficulties with her SIM card. Both users complained about not being able to allocate their credit to their preferences. For example, O₂ users

are required to pay 90 CZK per week for data regardless of personal usage. Overall, both users were satisfied with their chosen mobile provider as each company offers cheap plans in comparison to their mobile provider in their home country, which is consistent with the results of the survey. See Appendix I for a full list of the survey questions, and Appendix II for an outline of the interview questions.

RECOMMENDATIONS AND CONCLUSION

In response to PPF's new acquisition of O₂, I would expect that the company is about to endure some restructuring. To save money and increase profits, I suggest that the company remove certain members of middle management and focus efforts on strengthening customer service units.

As indicated in the results of the survey, Vodafone was the clear favourite mobile operator in the Czech Republic amongst students. To regain revenues, I recommend that O₂ focus on penetrating the young adult community, which consists of students and expatriates. As specified prior, the growing foreign student sector is an easy choice, as many foreigners find the rates in the Czech Republic to be much lower than in their home country. By doing so, O₂ may be able to exceed T-Mobile's large customer base. In addition to focusing on a new student segment, the company should continue to invest in O₂ Slovakia to increase overall revenues for the O₂ Group as a whole.

Based on the results of the interviews, I would suggest that O₂ put more of a focus on visible advertisements and increase translation options. The Vodafone user mentioned she had seen a variety of ads on different forms of transportation around the city; however, the O₂ user had only noticed the O₂ arena, which hosts many concerts and hockey games in Prague. In order to penetrate the student segment further, it is crucial that the company put out ads that will effectively reach this type of user. Most students don't have the time or the money to watch television, or listen to the radio; therefore, billboards advertising O₂'s FREE tariffs and mobile data packages in English would surely be effective.

Despite a recent downturn in financial performance, and mixed reviews about customer service levels, O₂ still retains the highest revenues out of all mobile operators in the Czech Republic. Given the economic situation, I expect that the current investments being made by the company will soon pay off, and profits will begin to increase once again. However, if O₂ wants to avoid being taken over by one of the three key competitors, I ultimately propose that O₂'s marketing department focus its time and money on penetrating the young adult segment to remain the Czech Republic's number one telecommunications company.

APPENDIX

I. [Survey Sample:](#)

1. Which mobile company are you currently using while on exchange?

- O₂
- Vodafone
- T-Mobile
- U:fon
- Other

2. If using O₂, how satisfied are you with your chosen mobile service?

Extremely satisfied – satisfied – dissatisfied -- extremely dissatisfied

3. Please rank the following telecommunications companies based on your level of perceived quality:

- O₂ (1,2,3,4)
- Vodafone (1,2,3,4)
- T-Mobile (1,2,3,4)
- U:fon (1,2,3,4)

4. Please compare your mobile provider in your home country to your current provider while on exchange:

- I am more satisfied with my mobile provider in my home country.
- I am equally satisfied with both of my mobile providers.
- I am more satisfied with my current mobile provider.
- I am equally dissatisfied with both of my mobile providers.

5. Please compare the average price/month of your home provider to your current mobile provider:

- I pay more for my mobile provider in my home country.
- I pay approximately the same price for both providers.
- I pay more for my current mobile provider.

6. Check off all telecommunications companies you have heard of prior to this survey:

- O₂Vodafone
- T-Mobile
- U:fon
- I have never heard of any of these companies.

II. [One-on-One Interview Questions:](#)

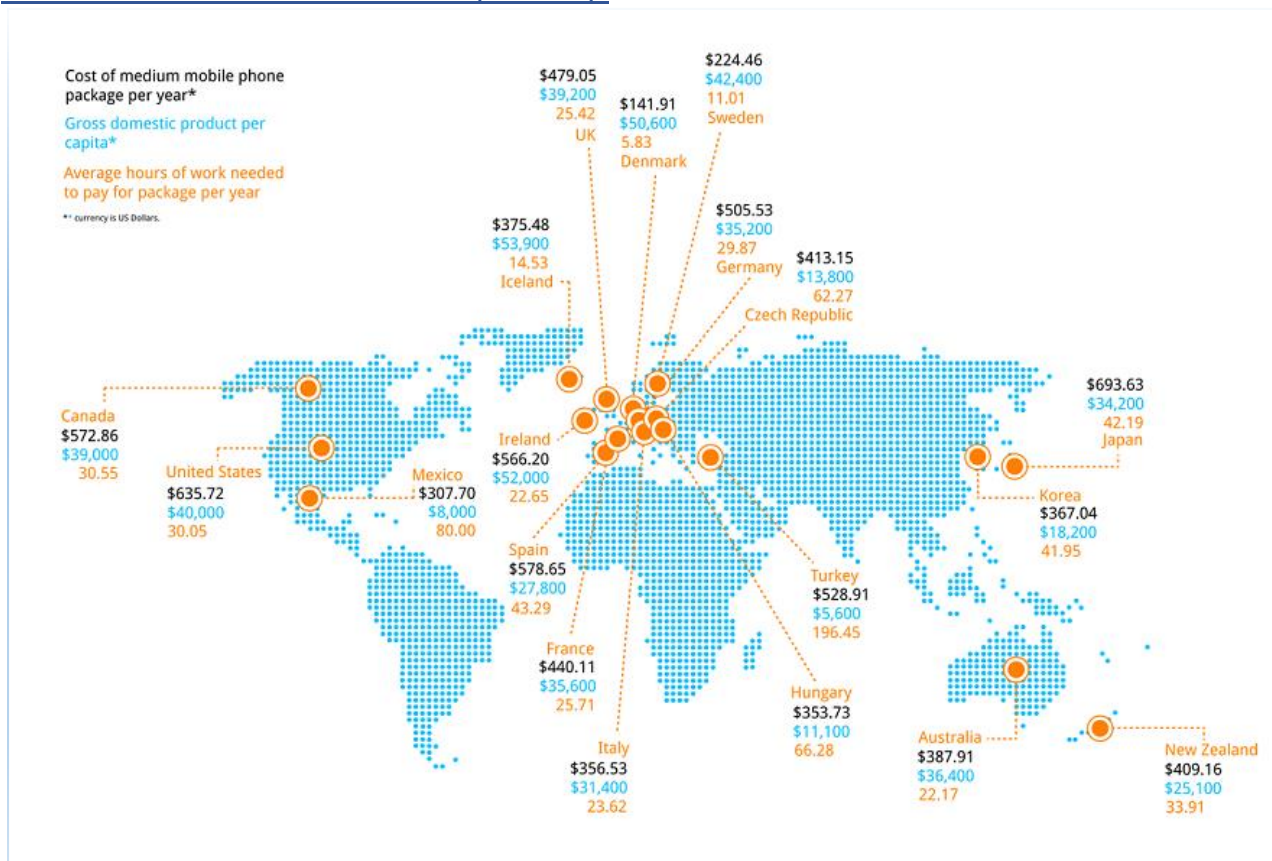
1. What initially attracted you to your mobile provider?
2. Is there anything you dislike about your mobile provider?
3. Have you noticed any advertisements for the company?
4. Please describe the quality of the customer service you have received from your mobile provider.
5. Overall, are you satisfied or dissatisfied with your mobile provider?

III. O2 Mobile Internet Coverage Map:



*Taken from the O2 corporate website, 2014.

IV. CBC Chart of Cell Phone Plan Costs by Country:



*Taken from OpenMedia (2010).

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Alibaba in Canada:

A study of the world's largest e-commerce company, and the implications for Canadian companies

Gregory Ross

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ABSTRACT

E-Commerce in China is a booming industry, fueled by an ever-increasing middle class and a population that is highly tech-savvy. This e-commerce revolution is being led by the Alibaba Group, the biggest player in the industry. In this paper, I explore the Alibaba Group as a company, with an emphasis on its success as a result of an “ecosystem” of companies that make it an especially powerful competitor. I then make a CAGE Framework analysis of China and Canada, to understand the implications for Canadian companies of using Alibaba for sourcing products and connecting with Chinese consumers. I then add some commentary from a series of interviews I conducted with users of Alibaba (Canadian and Chinese). This both builds on and advances the points made by the CAGE Framework. This information can ultimately be used as a resource for managers of Canadian companies that are looking to use e-commerce and Alibaba specifically to connect with Chinese markets.

INTRODUCTION

The rise of China in the last 30 years is by anyone's standard an unprecedented and globally significant event. This has seen China achieve an industrial and economic reform that has taken previous superpowers hundreds of years to achieve. With 600 million people lifted out of poverty, and a middle class with increasingly international tastes, the benefits for foreign companies of reaching Chinese consumers are immense. The implications for many companies relocating to China have been obvious: a huge working population with comparatively cheap labour equals reduced manufacturing costs. However, this consumer base has traditionally been extremely difficult to enter for smaller companies, due to the challenges associated with entering the Chinese market. For Canada, China is separated by the Pacific, culturally mysterious, and with a political and legal system quite unto its own.

With the rise of e-commerce as the preferred platform for Chinese C2C and B2C transactions, businesses around the world can reach China as never before. As China seeks global solutions to its quality-conscious spending habits, Canada is presented with an immense opportunity as a resource-rich country with consumer goods that are already regarded as “premium” by the Chinese. Canadian retailers can also access suppliers online, therefore decreasing production costs. Further, the digital connection provided by e-commerce allows buyers and sellers to connect with each other in a way reserved in the past for those large companies with the financial resources to physically enter China, or who employ expensive intermediaries. In this paper, I will provide an overview, history and overview of the e-commerce market in China, and then specifically of Alibaba, the biggest player in this industry. I will then discuss the trade relations between China and Canada, particularly those involving e-commerce/Alibaba. Finally, I will make an analysis of this situation through personal interviews with Alibaba users and a CAGE Distance Framework, in order to discuss opportunities for Canadian companies.

E-COMMERCE IN CHINA

“In other countries, e-commerce is a way to shop. In China it is a lifestyle.”

- Jack Ma, Alibaba Chairman

A brief history

E-commerce is something heard in all corners of the business world today, and for good reason - it is irrevocably changing the landscape of commerce and leveling the playing field between buyer and seller. Investopedia defines e-commerce as “a type of business model, or segment of a larger business model, that enables a firm or individual to conduct business over an electronic network, typically the internet.” This definition is broad, but the critical element is that buyer and seller never have to meet. As globalization increases, e-commerce is more important than ever as businesses and consumers around the world can connect with each other as never before.

China’s ascendance to the position of the world’s number one market for such e-commerce has, by looking at the numbers, virtually come up from nowhere. In fact, one need only look at the speed at which this revolution has taken place to get a feel for the size and scope of the changing consumer landscape. As Chong delineates (2014), in the year 2000 China had no e-commerce applications, and only 2.1 million internet users. In 2007, online retailing (B2C and C2C) was worth only 56 billion RMB. Fast forward to 2013, and this number was 1.85 trillion RMB. So, while the United States was experiencing the famous dot-com bubble/burst, Chinese citizens still had virtually no internet access. In only 15 years, they have surpassed the United States in terms of the number of internet users and online shoppers. Such growth rates are staggering, but the reasons why are both obvious and subtle. For example, it is intuitive that Chinese retail consumption should be increasing as the middle-class grows. But what is less mentioned is the actual consumer behaviour of those who fall within this bracket, as it is quite different than that of Canadian middle-class consumers.

In the third quarter of 2014, Canadian online sales were approximately one quarter completed by mobile devices, otherwise known as “M-commerce”⁴¹. In China, Alipay (which facilitates more than half of online payment transactions) reported that in December 2014, 54% of all transactions were done via a mobile device (Russell, 2014). China is a nation obsessed with mobile phones, and as the number of users increases, online sales will thus increase accordingly. The e-commerce climate in China is also quite unlike that of other countries. As Dobbs et al reports (2013), 76% of e-commerce transactions in the US during 2012 were from a company-specific website, whereas in China this figure was only 10%. This means that the rest of transactions occurred on “marketplaces”, websites and platforms where third parties conduct business with each other, while the site itself facilitates the transaction. This suggests an e-commerce landscape that is both rife with potential, but also rather foreign to westerners.

Major players

While Alibaba does not have a monopoly in the e-commerce industry, it is close. The two largest players in this market are Taobao and Tmall, both subsidiaries of the Alibaba Group. The former is a C2C site and the latter is B2C, with the companies holding 80% and 51% shares in their respective markets as of 2012 (Chong 2014). As will be described later in more detail, Alibaba has a vast ecosystem of smaller platforms and services that further penetrate the e-commerce market.

Aside from the Alibaba Group, the industry is filled with regional and niche competitors. For example, JD.com is a major player in the B2C market, but focuses mostly on consumer electronics. There are also several large foreign companies that operate a Chinese business. This includes sites like amazon.cn. However, while there are many

⁴¹ In this paper “E-Commerce” includes both traditional E-Commerce sales and M-Commerce, unless otherwise stated.

smaller companies and the e-commerce industry is particularly dynamic, it is quite fair to say that the undisputed king is the Alibaba Group.

WHAT IS ALIBABA?

An overview of Alibaba's business

According to the company website, the Alibaba Group was founded by a team of 18 people in 1999. The slogan of the company is "to make it easy to do business anywhere". The leader of this team (and current chairman) was Jack Ma, a former schoolteacher from Hangzhou. A rather unassuming man, he has an appealing personality and has a very good level of English – something important for communicating with Western investors. Since its inception, Jack Ma has led the Alibaba Group to become China's largest e-commerce company. It currently operates ten distinct businesses, and handles more business than any other e-commerce company. These businesses are, in no particular order⁴²:

- *Taobao.com*: an online marketplace (C2C), and China's "largest online shopping destination"
- *Tmall.com*: a third-party, B2C platform, the largest of its kind in China
- *Juhuasuan.com*: the largest group buying marketplace in China
- *AliExpress*: a wholesale B2C marketplace aimed at international consumers
- *Alibaba.com*: B2B wholesale platform
- *1688.com*: online wholesale marketplace
- *Alimama.com*: online marketing services provider
- *Aliyun.com*: Cloud computing and data management services provider
- *Alipay.com*: third-party online payment services provider
- *Cainiao*: supply chain management and logistics services provider

To understand Alibaba's success in China and its global potential, one needs only look at their recent IPO, valued at USD \$231 billion after the first day of trading on September 18th 2014 (Demos and Asawa, 2014). This was the highest-value IPO in history, raising USD \$25 billion for the company. This proved the immense attraction of the company to foreign investors, and the belief that the business will continue to expand. This massive influx of cash will further cement Alibaba as the supreme competitor in its field, as it will provide the capital necessary to continue acquiring companies that benefit its prized ecosystem, and to expand into new markets aggressively.

The importance of ecosystem

Despite the huge potential in the Chinese e-commerce market, competition is also fierce and it is through integration that Alibaba has found success. In fact, this robust ecosystem of platforms and service providers managed by the Alibaba Group is a crucial element of its market domination. The following quote from its IPO filing in 2014 demonstrates Alibaba Group's awareness of this:

Given the scale we have been able to achieve, an ecosystem has developed around our platform that consists of buyers, sellers, third-party service providers, strategic alliance partners, and investee companies. Our platform and the role we play in connecting buyers and sellers and making it possible for them to do business anytime and anywhere is at the nexus of this ecosystem. - Alibaba IPO filing, 2014, pg.3

⁴² All information from <http://www.alibabagroup.com/en/about/businesses>

Take Tmall for example. Quite unlike Canada, where the majority of companies conduct online business through their own website, Tmall is the “largest brands and retail platform in China” (Alibaba, 2014). Stringent requirements for listing on this site combined with a deep customer base make it highly advantageous for a company of any size to list here. By virtually replacing the traditional online shopping environment seen in Canada or the US, they have reduced costs for companies and streamlined the search process for consumers while absorbing both within their ecosystem.

It seems here that the word “ecosystem” is less of a buzzword for Alibaba Group than it is a guiding force. At its core, this ecosystem is composed of buyers and sellers, but it is the auxiliary functions enabled by the tight development of this ecosystem that enables Alibaba to both own the market and the profits in the industry. Alipay, for instance, has enabled the Alibaba Group to be self-reliant in terms of payments conducted through its services. This increases efficiency, as workers who deliver goods are only responsible for dropping of orders. They also do not need to worry about receiving and processing cash on delivery, or pay fees for a third-party service.

As the battle for new customers focuses more and more on mobile users, the “mobile” capability of all Alibaba Group’s sites is an important advantage, with 76% of all m-commerce sales in China in 2013. Further, Alibaba Group has a minority investment stake in Weibo, which is a leading social media site, akin to Twitter. According to the IPO filing, this provides an important way for merchants to reach customers through targeted marketing. This is indicative of a common trend in China, for tech giants to consume and invest in the smaller companies to further the scope of their market penetration, and is a major reason why it is difficult for smaller entrants to copy Alibaba’s ecosystem.

OPPORTUNITIES FOR CANADIAN BUSINESSES TO REACH CHINESE CONSUMERS THROUGH ALIBABA

CAGE Analysis

In order to analyze the potential for Canadian small and medium-sized enterprises (SMEs) to connect with Chinese consumers through e-commerce site platforms, I will perform a CAGE Distance Framework analysis (cultural, administrative, geographical, and economic). This is a framework designed by Pankaj Ghemawat, a Harvard professor of global business (Ghemawat, 2014). It is an important tool to address the central differences between countries related to doing business. My analysis addresses the broader context associated with doing business in China in general, and more specific elements related to e-commerce trade.

Cultural:

Consumer Behavior

As a result of China’s isolation until after Chairman Mao’s death in 1976, different generations have drastically different consumer habits. Notably, this change is reflected in China’s younger consumers who are less price-conscious and more focused on quality and brand. In fact, Chinese who are within the 20-30 age gap are described as having the exact opposite spending habits of their more frugal parents. This is the first generation to emerge from China’s one-child policy, and as such they are increasingly individualized and focused on consumption. They are also tech-savvy, and avid users of social media.

The younger generations in China may be more interested in purchasing quality at a premium price from abroad, but this does not mean that they are more “Western”. Rather, they are more international, but with traditional Chinese characteristics. In fact, as Doctoroff (2012) states, rather than pursuing a “foreign” image, companies should aim to have an “international” one in order to succeed in China. So, companies must be particularly aware of the demographics of their target market when selling to China. Whereas it may be easy to convince a young consumer that a product is worth paying a premium, older generations are much more price-oriented.

On alibaba.com Canadian homepage, there are two points that are advertised: high quality products, and a large number of verified sellers. This confirms the perception of Canadian producers as an ideal source for the products desired by quality-conscious Chinese shoppers. Having established the consumer preferences in China, the question becomes how exactly do these preferences affect Canadian companies? Take the Atlantic Canada lobster industry for example. On China's Singles day 2014, (which is a sort of anti-Valentine's Day held of course on the loneliest of days, 11/11/11), Harris (2014) reports that Chinese customers bought over 90,000 lobsters from one Nova-Scotia company. This is in contrast to the only 20,000 bought during 2013, and represents a completely new opportunity for an industry that has had difficulties selling to a domestic market. In fact, a simple search for "Canadian lobster" on alibaba.com reveals that there are 279 products available.

Language barriers

Of course, the language barrier between Canadians and the Chinese is a significant one. There is the often-repeated statement that China has more English language learners than there are people in the United States, and it's true. There are an estimated 400 million such students in China, but the level of those who can speak fluently is much lower. English is mandatory in school, but even highly-educated university students, those who are supposed to speak the best English, often cannot speak fluently. The differences between Mandarin Chinese and English are quite deep, and to master both is a significant challenge which requires years of study. So this presents a natural block for those small Canadian companies who would like to reach the Chinese market directly.

Guanxi

Another important cultural distance between Canada and China is the effect of *guanxi* on business dealings. *Guanxi* could be likened to "networking" in Canada, but the difference between the two is quite large. Relationships in China are critical to Chinese culture and *guanxi* is an extension of this, which can perhaps be interpreted as "you scratch my back, I'll scratch yours". This means that traditionally, to develop a solid relationship with suppliers or distributors in China took a lot of time and effort, not to mention inter-cultural navigation. This becomes even more complex when it comes to using e-commerce to sell to the Chinese - the level of trust is often much lower when in-person relationships are not an option.

Administrative:

The administrative distance between China and Canada is vast, perhaps more so than any other element of the CAGE Distance Framework. To begin, China is of course a communist nation, although one that is increasingly (and paradoxically) described as one with capitalistic tendencies. This means that there is a high level of state control over the lives of Chinese citizens and businesses. For example, the closed nature of China's capital markets is the reason why Alibaba first decided to list on the Hong Kong Stock Exchange and switching later to the NYSE.

Government transparency and discrimination

Local protectionism is a problem for foreign companies looking to enter the Chinese market. Despite entry into the WTO in 2001 and agreeing to the host of demands for equal treatment that came along with it, China still maintains a strong preference for local companies. As Roberts (2014) reports, 60% of foreign-owned businesses in China feel that they are targeted unfairly by Chinese government policies. This includes discrimination, and a lack of transparency.

Intellectual property rights

The prevalence and effects of counterfeit Chinese products are well documented. One study actually suggested that the United States loses \$300 billion dollars annually because of intellectual property theft. This is due to several reasons. First, the concept of intellectual ownership is not a common one in China. Rather, collective ownership of ideas is the norm. So, there is not a particularly strong feeling in China that counterfeiting is unethical. Secondly, the Chinese economy has grown by leaps and bounds in recent years, and the legal environment has not kept up with other areas of development.

So, it is possible that Canadian consumers will be faced with the challenging prospect of competing against fake versions of their own products when they use e-commerce to trade with China. This is not different than the challenges already faced by large companies such as Apple, but for an SME, especially one with a technology as a core competency, it could be quite important. A firm lacking the funds to successfully fight a counterfeited product in China may be run out of business quite quickly if that product is imitated by Chinese manufacturers. Further to this, exporters have complained that the lengthy inspection period by Chinese authorities of imported goods provides an opportunity for counterfeiters to imitate a product before it even reaches the market.

In regards to e-commerce, an open marketplace such as those offered by the Alibaba Group can be very conducive to selling counterfeit goods. For example, the Canadian company Canada Goose can be found on Alibaba's Tmall. However, as Harris (2014) reports, this site is not a licensed retailer of the company's products and thus likely sells fake apparel. Alibaba does offer a complaint channel, where users who feel that their intellectual property rights (IPR) have been violated can inform the site. But with so many millions of transactions occurring daily it seems highly unlikely that this can be avoided altogether.

A low level of Chinese regulation on the food industry has actually been a benefit for food companies looking to enter the Chinese market. By producing low consumer confidence in local companies, the result of a number of food scandals rocked the fast food industry, such as the recent Huiji meat scandal. In this instance, many foreign and international restaurant chains purchased expired meat from a supplier that had allegedly covered up the expiration dates on its beef products (Trefis, 2014). In food safety, standards are also considerably lower in China in general. Restaurants are also ranked on a scale of A, B, or C in accordance with their sanitary conditions. It is depressingly common in Beijing to see restaurants which fall into the "C" category. This has led many middle and upper class Chinese to purchase foreign food brands, which presents significant opportunity for Canada's broad agricultural base.

A further example of Chinese consumers seeking food products outside of China is the milk and infant formula industries. In 2008 there was a massive scandal involving melamine being added to dairy products, designed to add more protein but ultimately dangerous for human health. Six babies actually died from this, and as a result many Chinese consumers have turned to other countries for dairy products (China AG, 2014)

Geographical:

With 8,556 km and the Pacific Ocean separating Beijing and Vancouver, the physical distance between China and Canada is a natural barrier to trade. Additionally, as the second biggest country in the world, Canada's size means that to transport goods across the country can add considerable distance between these markets. Resultantly, the only realistic option for those looking to sell/buy from the Chinese is by shipping. This can add enormously to a company's costs, or the prices it must charge prospective buyers. As shipping is done on the basis of weight and dimensions, the nature of the product that a company is purchasing or selling to China will greatly affect the cost. As Alibaba is only a means for connecting with companies, all of the arrangements for transportation of freight must be done by the seller and buyer themselves.

As an example of what these costs can involve, I used a freight forwarding company's website to generate a quote for different levels of inventory: To send one crate, dimensions 300 cm x 150 cm x 150 cm, and a weight of 1000 kg, it was \$1,668.60 USD⁴³. I compared the information derived from this company and it seemed a representative price for the dimensions and weight. These hypothetical dimensions fell under the limit for extra weight charges which are 1000 kg per cubic meter (CBM). A heavier product would increase costs substantially - this is highly relevant for Canadian companies exporting raw materials to China. There is also the option to ship freight by air, however the sheer cost of this is probably enough to dissuade most businesses from using this. For example, shipping a crate with the above dimensions would cost, according to a UPS Air Freight calculator, \$3,526 CAD. The advantage of course is that the speed of delivery is quite a bit faster, but the cost is not feasible for the transportation of most consumer goods. There are many different options and variables involved in shipping freight, so this information is to simply demonstrate the key fact that shipping is expensive, and size and weight of the product shipped is important.

Another geographical challenge is the length of time it takes for freight to reach China. On average, shipping goods from China to Canada or vice versa will take about 16 days⁴⁴. This is also excluding any transit time required in each of these respective countries. So, it may be difficult for a small business particularly to respond appropriately to changes in demand or inventory shortages. Lastly, the process of loading/unloading and sea transport could be hazardous for breakable goods.

Economic:

If we consider the countries as a whole, China's economy dwarfs that of Canada, with GDPs of USD 9.24 trillion, and 1.83 trillion, respectively⁴⁵. However, on a per-capita basis the picture changes, with China's average income totalling USD 6,500, and Canada's being USD 52,200. It's not hard to predict what constitutes the bulk of Canadian imports to China - namely raw materials derived from our rich supply of natural resources. With 15%, ores, slag and ash were first, followed by wood products at 13% and oil/food products in third with 12%. China on the other hand, with its abundance of cheap labour, primarily exports finished consumer goods to Canada. Electrical machinery and equipment comes in first at 24%, mechanical appliances second with 20%, followed by furniture at 5%. However, like most other countries in the world, the trade between the China and Canada is quite imbalanced, with Canada running a deficit of over \$30 billion CAD in 2013.

The economic differences between Canada and China are clearly vast, but it's necessary to analyze the information to understand the potential that lies between the two. First, China's economic development is happening at breakneck speed. According to Barton et al.(2013), China's middle class has increased from 4% of urban households in 2000 to more than 68% in 2012. Further, this rise has created an upper class of 14% of urban households. This is a huge number of shoppers who are quality-conscious and have the spending power to look towards international brands.

The economic base of each country is also quite different. China is the world's largest manufacturer, and is mostly focused on low value-added goods. This has been traditionally fuelled by China's extremely cheap labour, good transport infrastructure, and manufacturing skill. However, in recent years, China's labour rates have increased substantially, and ground is being lost to other developing nations. However, China has been the leader of such manufacturing for many years, and as a result has a wealth of experience and the capacity to produce virtually any goods within its factories. This is a real opportunity for small Canadian companies looking to source their materials or products from China, using Alibaba as a means of contact.

⁴³ <http://www.a1freightforwarding.com/quote/booking.php>

⁴⁴ According to www.searates.com, distance between Tianjin (Beijing), and Vancouver ports

⁴⁵ Any economic data between Canada and China is derived from the World Bank (<http://data.worldbank.org>)

PERSONAL INTERVIEWS

Considering the information derived from a CAGE analysis between China and Canada, with a particular focus on the issues exacerbated by e-commerce trade, there are clear implications for Canadian companies looking to sell or source from Chinese markets. In order to gain some first-hand information on this, I interviewed Canadian and Chinese businesses on their experiences using Alibaba. These interviews both build upon the factors delineated by the CAGE Framework, and bring up new points.

I interviewed a Canadian entrepreneur, Scott Peris, who has first-hand experience with sourcing products internationally⁴⁶. Scott, described his first business to me, which involved importing nutritional supplements in bulk and then selling them off-label. There was demand present, however this was unsuccessful due to both the extremely high international and domestic shipping costs, as he sourced from New Zealand, Canada, and Germany. Scott then described how he overcame this geographical challenge in his next venture. He started a business selling custom-designed athletic socks, using manufacturers contacted through Alibaba⁴⁷. In this instance, the light weight of socks have enabled him to avoid the high shipping costs. However, another challenge of the physical distance between these countries was the inability to oversee the production process of his manufacturers. This meant that he must spend many hours providing extremely specific product requirements, and then hope that these are carried out in the final product.

Regarding cultural challenges, Scott mentioned that in his latest venture, trust can be a major obstacle. He told me that he felt on both ends there is a lack of confidence. This is largely from the fact that he is not able to meet his supplier in person and inspect the products. This can perhaps be traced back to a lack of *guanxi*, something that is extremely challenging to develop remotely.

Next, I interviewed Ma Yuan, an executive assistant of the Beijing-based Beijing Huici Artificial Limb Medical Appliance Co., Ltd⁴⁸. Ma explained to me the challenges her business has faced while trying to use Alibaba⁴⁹ to sell their products. First, she mentioned that for her company, the biggest challenge was competing on price. The company specialized in orthosis products and components that could be sold at a premium to hospitals to which the hospital had established appropriate *guanxi*. However, upon entering an online marketplace, the advantage of personal connections was eliminated, and prices had to be slashed immensely in order to remain competitive. This presents a challenge for the company in regards to traditional customers, because these buyers will likely cut ties with the company if they see they are being sold something at a far higher rate than elsewhere. This outlines a real and important challenge for Canadian companies (or any other market for that matter), engaging in e-commerce: it can dramatically alter the prices and consumer bases of a company. In Ma's case, it caused the company to be unsuccessful using Alibaba as the company's core competencies were lost when it switched to such a platform.

Further, a challenge of using Alibaba to Huici Medical was that product samples and price quotes were required very quickly to deal with the requirements of buyers. In the e-commerce age, buyers often have many choices of suppliers, all within their fingertips. So, the opportunity to compare the product offerings is enhanced greatly, whereas this may once have been avoided due to competitors focusing on different regions.

⁴⁶ All information from a personal interview between Gregory Ross and Scott Peris, November 2014.

⁴⁷ Specifically, Alibaba.com

⁴⁸ All information from a personal interview between Gregory Ross and Ma Yuan, November 2014.

⁴⁹ Specifically, Tmall

CONCLUSIONS

China's rapid economic development is parallel to the advent of the digital age. The nascent middle class consisting of hundreds of millions of tech-savvy and mobile-connected consumers has important implications for companies around the world, namely, that e-commerce is now the name of the game when it comes to the future of retail in China. For companies wishing to reach this massive market, the ability to operate online and connect to buyers directly is critical, particularly to small companies lacking the resources to physically set up shop in the country. The clear winner in the battle for e-commerce has been the Alibaba Group. With a broad and tightly-integrated ecosystem of online platforms and services to serve online shopping and sourcing needs, Alibaba's recent IPO on the NYSE has also solidified its perception in the West as one of the most potent forces in the worldwide e-commerce industry. As a result of this, Canadian companies can benefit from a closer access than ever before to buyers and suppliers in China. In order to assess the opportunities and challenges associated with this, I performed a CAGE Distance between China and Canada, with a special interest on the distances that affect online trade. Using the results of this analysis, and personal interviews I conducted with users of Alibaba, it's clear that there are certain aspects which are of critical importance.

Culturally, Alibaba users in Canada need to understand that the Chinese market is fragmented demographically. Whereas those born prior to economic reform in the 80s are much more focused on price, the younger generations in China are quality-sensitive. This means that the Chinese counterpart of a Canadian target market must be analyzed thoroughly. Next, attention must be paid to the importance of *guanxi*, and to the language gap between the countries. Administratively, China is quite different than Canada. Companies must understand the dangers of intellectual property right theft, and that government transparency related to this and other matters is often obscured. Geographically, the physical distance between buyers and sellers is reduced in terms of communication, but shipping goods to China is very expensive. Companies need to be aware of the weight and dimensions of their product and research the costs this will incur. Finally, China is a much poorer nation on a per-capita basis than Canada but a much larger population. So, if companies can correctly identify the consumer needs of the Chinese, then there is certainly demand for premium Canadian products. This is particularly relevant for natural resources and agriculture, as shown in the example of Canadian lobster companies.

Canadian managers looking to use Alibaba must be aware of these challenges and opportunities if they are to successfully enter the Chinese market. It is my belief that we will see an explosion in use of this platform for Canadians in the coming years, as the two countries benefit even more from international trade opportunities.

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Škoda Auto:

A recommendation for driving growth in North America

David Scott
Fall 2014

ABSTRACT

This paper discusses Škoda's goal to sell 1.5 million cars annually, and suggests entry into North America as a means to achieve that goal. By looking at Škoda itself, the paper finds that the company is well suited for entry into a new market because of a recent rebranding, solid financial management, and a successful entry into the Asian market in the recent past. Looking at the North American market, there is a theme of growth. It is also discovered that the market is fragmented, a trait which lowers barriers to entry. A SWOT analysis and CAGE framework also illustrate the potential success of a move into North America, while pointing out some challenges that must be addressed for a successful entry; these include regulatory policy, production and shipping logistics, as well as currency uncertainty. Finally, a survey shows that Škoda's offering fits well with the demands of the customer, but that a miscommunication or lack of knowledge of brand image may hinder Škoda's efforts. Finally, the paper concludes that entry into a new market is the best decision for Škoda.



INTRODUCTION

"When you stop growing, you start dying."¹ While William S. Burroughs may not have had multinational corporations in mind when writing this quote, its sentiment is of great importance to today's big businesses. The manifestation of this reality can be seen in the auto market, where, by and large, companies release a new model of their vehicles every single year. While this practice can be considered as a ploy to increase revenues, the point remains that none of the major auto companies are able to stop innovating, as to do so would be to stop competing. One person who understands this trend is Škoda Chairman, Prof. Dr. h.c. Wilfried Vahland, who wrote "in the auto industry, standing still means moving backwards."² Vahland demonstrated this state of mind in the very first sentence of the foreword to Škoda's 2013 annual report, praising Škoda's introduction of "eight new or completely revised models." Vahland goes on to briefly acknowledge the company's success before setting his sights to the future, and a projected long term goal of 1.5 million cars sold annually³. While Škoda has been incredibly successful since the turn of the millennium, its current growth rate, which will be hard to sustain, would only see the realization of this goal in 2021. With that in mind, this report will focus on a proposed entry into the North American market as a means of achieving Škoda's growth target. This report will evaluate the proposed market entry in three sections: first by examining Škoda itself, then evaluating the North American market and finally a SWOT and CAGE framework analysis, augmented by the results of a survey conducted for this paper. These findings will culminate in market entry strategy recommendations.

EXAMINING ŠKODA

History: 1895 to Today

Škoda has come a long way from its roots as a Czech producer of bicycles under the name Laurin & Klement in 1895⁴. Despite its beginnings outside the field of automobiles, Škoda wasted no time transitioning into the market. The company began production of a motorized bicycle in 1898 and its first automobile in 1905, making it the third oldest manufacturer of cars in the world. Fast forward 20 years, and Laurin & Klement merged with another Czech company, Škoda Works, in order for both businesses to strengthen their position in the market⁵. This new company retained the name Škoda, and keeps it to this day. In 1945, Škoda was nationalized, a result of Second World War and the introduction of communism in what was then Czechoslovakia⁶. Following the fall of communist rule in Czechoslovakia in 1989, the government sought to privatize Škoda, eventually choosing Volkswagen as the company's new owner. In 2012, Škoda reached a production milestone of 14 million cars, nine million of which were produced under Volkswagen ownership⁷. The fact that almost 65% of Škoda's total output has been achieved since the acquisition by Volkswagen illustrates the company's recent and rapid growth, a result of Volkswagen's immediate modernization of the Czech automaker. Today, Škoda is a truly international brand, operating in 103 global markets⁸, and manufacturing vehicles in both Europe and Asia.

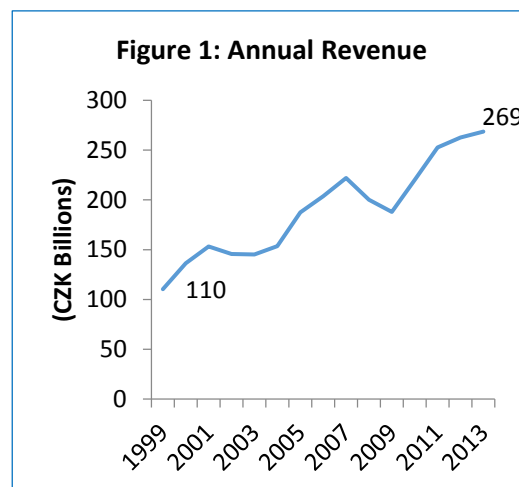
Growth

With the exception of a brief stagnation period from 2001, and a hit from the financial crisis of 2009, Škoda has exhibited excellent top line growth since the turn of the millennium (see Figure 1). Compound annual growth measures 6.5% over the past decade and a half, despite the previously mentioned setbacks.

These boosts in revenue can largely be attributed to three factors: an expansion of product line, a successful rebranding campaign, and perhaps most importantly, a successful entry into the Asian market. Looking at the product line, Škoda has tripled their offering from three models in 2000, to nine models at the end of 2013. What significantly impacts revenue is not only the additional choices given to customers, but the new customers that are reached in different market segments. While this expansion of product line has been a big help to Škoda's growth, it would not be possible without the successful rebranding campaign that moved Škoda away from its reputation as a low quality brand. Finally, as seen in Figure 6 (below), Škoda's presence in Asia has exploded in the past decade – this will be discussed in more detail later.

Product Line

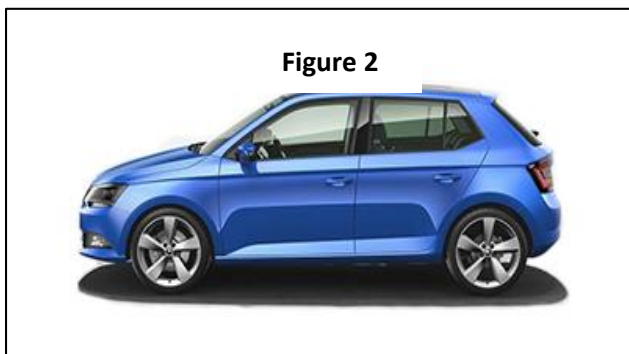
As was mentioned earlier, Škoda has been expanding their product line. This expansion originated in 2010, where Škoda implemented a strategy that involved the introduction of a new or redesigned model every six months⁹. While all of these models are unique, Škoda has focused them all around a key theme of being "timeless, elegant, spacious, high practicality cars that offer excellent value for money"¹⁰. Škoda's product offerings can be segmented into two offerings: small compact cars and mid- to upscale sedans. This report will focus on three models of interest for entering the North American market, the Fabia, the Octavia, and the Rapid.



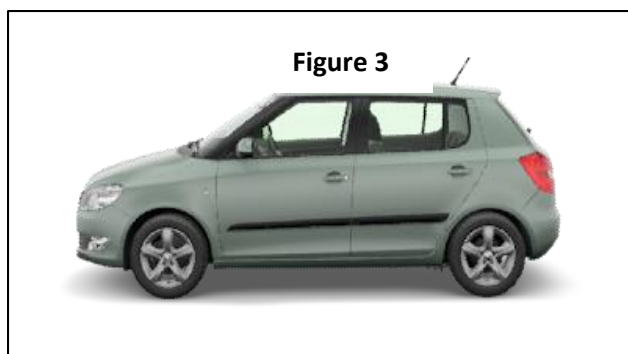
Source: Skoda Annual Reports

Fabia

The Fabia (Figures 2-3) is a compact model similar to a hatchback, and is an established model within the Škoda family. Currently, the Fabia is the company's second most popular model in terms of sales, with over 200,000 sold in 2013¹¹. This number, however, is a significant decline from the 240,000 sold in 2012, with the decline being attributed to the model nearing the end of its generational lifecycle.



Source: Skoda Official Website



Source: Skoda Official Website

A new generation of Fabia is expected to rejuvenate the sales of this model in 2014¹². The combination of this model's extended success in the marketplace and the expectation that a new and improved design will come in 2014 makes it a prime candidate for penetrating the North American market.

Octavia

The Octavia (Fig. 4) is Škoda's top seller, accounting for more than 30% of the company's sales in 2013. Similar to the Fabia, Octavia sales were down from 2012. The difference between the two is that a new generation of Octavia was introduced in 2013, and the decrease cannot be blamed on a lack of innovation. Škoda attributes this decline to the phasing out of the old generation, and the inability to meet demand due to capacity reasons¹³. Time will tell whether or not the new generation will surpass the old in terms of popularity, but it is likely to remain as the sales leader by a comfortable margin. This, coupled with the fact that the most popular car models on the American market are sedans suggests that the Octavia has the potential for success.



Source: Skoda Official Website

Rapid

The Rapid (Fig. 5) is a product of Škoda's expansion strategy to include more models in their line-up. Launched in 2012, the model surpassed 100,000 in sales last year¹⁴, without being introduced to the Asian market. Its impending entry, coupled with the introduction of the Rapid Greenline, suggest sales are expected to grow in the coming year. Ultimately, it is the positioning of the Rapid that makes it such a good fit for Škoda when entering the North American market. Potential buyers who are looking to spend less than the money required for an Octavia, and who are looking for more space than provided by the Fabia will find a happy medium in the Rapid.



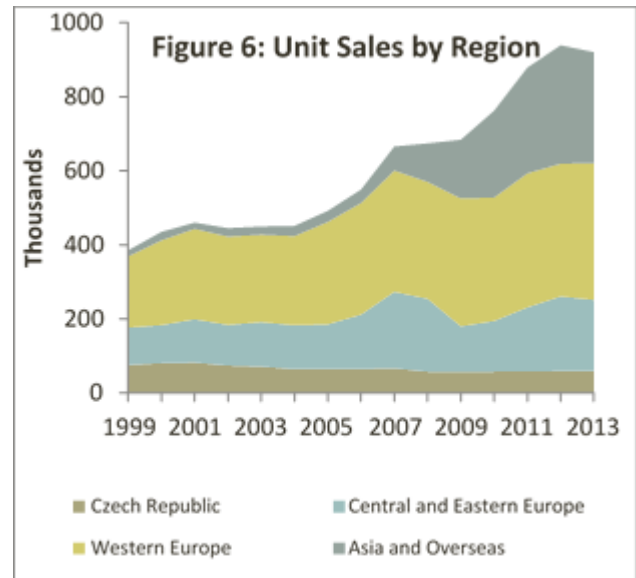
Source: Skoda Official Website

Other Models and Expanded Offerings

While the above three models represent the best trio with which to enter the North American market, there are others which could be successful in the future. Take, for example, the Yeti. This compact SUV offers a mix of space and fuel efficiency, and has been a steady success in Škoda’s other markets. It is a more European take on the SUV (mainly due to its reduced size), but its efficient use of space makes it a practical choice, and its European style separates it from the other models on the market. Its uniqueness comes with challenges, as well. Customers will be less willing to try a new type of SUV, from a company they are not familiar with. Given this fact, Škoda would be better suited in waiting to establish brand recognition prior to introducing the Yeti. Other models, such as the Roomster face similar situations to the Yeti, and as brand recognition increases, so too should product offerings in North America.

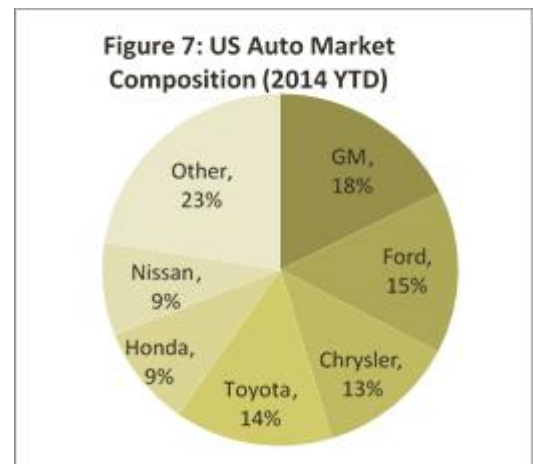
Markets

Looking at the historical sales of Škoda in their four geographical regions, it becomes clear that the company is expanding. This section seeks to analyze each region to see where sales and growth are being generated. In their annual reports, Škoda has typically segmented its sales into four regions, Czech Republic, central and eastern Europe (excluding the Czech Republic), western Europe, and finally Asia and Overseas¹⁵. Given that this is how the data is presented, and that the segmentation is not unconventional, this report will analyze Škoda’s current operations through the scope of these markets. Observing Figure 6, we see that sales have been consistently decreasing within the Czech Republic, from as high as 82,000 in 2002, to 60,000 in 2013. Despite this, Škoda remains a market leader in its home nation, as illustrated by a healthy 31 % market share in 2012¹⁶. Eastern Europe has been slightly more volatile, but has performed well in recent years, with sales in the region accounting for 21% of the company total in 2013.



Source: Skoda Annual Reports

Next is western Europe, a market which has exhibited constant, healthy growth over the last 15 years. In fact, total sales in the region have grown 92% between 1999 and 2013. Currently, western Europe accounts for 50% of total sales. Finally we have the Asian and overseas markets, which have produced booming gains over the last half decade. To be precise, sales in these markets grew at an unbelievable 37.4% compound annual growth rate between the years 2007 and 2012. It should also be pointed out that the majority of this growth occurred during the global financial crisis – with annual growth hovering near 50% in 2008-2010. While this is impressive, Škoda’s 2013 regional sales failed to surpass 2012 numbers, a blunt reminder that the exceptional growth experienced in the past is not to be taken for granted, and not likely to stick around forever.



Source: WSJ Online

Looking at these regions, it becomes clear that Škoda has experience in both successfully entering new markets, and competing in existing ones. What is less clear is if these current markets will be sufficient to help Škoda meet its goal of 1.5 million annual deliveries, a more than 50% increase on current numbers.

Financial Analysis

It is clear from Figures 1 and 6 (above) that Škoda has been experiencing relatively steady top line growth, 6.6% CAGR to be exact, but this tells us little of their financial situation. Looking at profits over the last 15 years, Škoda has not reported losses in a single year, though profitability has fluctuated. In general, profitability has been improving, from near 2% in 1999-2004, to roughly 5% in the past four years. It should be noted however, that during the financial crisis in 2009, profitability fell back to 2%, showing that despite increased sales, Škoda was not completely unaffected by the recession. In the last year, Škoda made 12,816 CZK (\$674 CAD) in profits per sale of each vehicle. The company has displayed solid financial management, maintaining a debt-to-equity ratio of between 0.72 and 0.89 since 2006. This number is significant because it proves Škoda’s ability to foster healthy growth, rather than needing excessive leverage to drive sales. This disciplined management will serve them well when entering the North American market.

THE NORTH AMERICAN MARKET

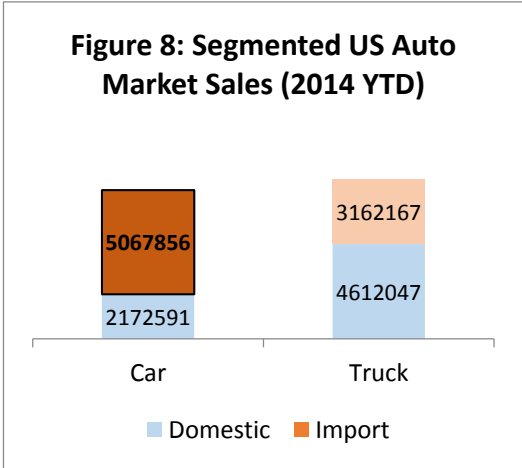
Market Size/Composition

Figure 7 illustrates that the market in the United States is fragmented. What is more interesting is that foreign companies (specifically Toyota, Honda and Nissan) have closed the gap on the domestic competitors. Increasingly, customers are faced with more choices, and it is becoming harder and harder for brands to grow their market share. This trend however, does not affect everyone in a negative way. While increasing competitors does signal a competitive market, it also highlights the fact that new players are able to enter the game, and compete. It should also be noted that Škoda does not need to dominate the North American market; a three percent share of the projected 2014 market would raise their sales to the previously mentioned goal of 1.5 million unit sales.

Major Players

The American auto market is still dominated by three American car manufacturers. As seen in Figure 7, GM, Ford, and Chrysler account for 46% of cars sold in the United States this year. While Toyota, Honda, and Nissan are building their position in the market, the local producers still carry the decisive edge. This data does not account for Canadian trends, but given that the United States carries a population that is approximately ten times that of Canada’s, this paper will focus solely on the larger market.

While the big three (GM, Ford, Chrysler) hold a dominant position on the market, there is hope for Škoda. A large part of these American companies’ success is derived from the sale of pick-up trucks and other truck related vehicles. As seen in Figure 8, import cars dominated their domestic competition, outselling them by more than a two-to-one ratio. In fact, nine of the top twenty vehicle models sold last year were cars, and seven of those models were imports. Of those seven import cars, Toyota and Honda each had two models and the remaining three were manufactured by Nissan, Hyundai, and Volkswagen. Further, no single model held more than 5.5% (Toyota Camry) total market



Source: WSJ Online

share¹⁷. This fact demonstrates the highly fragmented nature of the American auto market, a favourable condition for Škoda's proposed entry.

Trends

No trend regarding the United States auto market is more promising than the fact that for a fourth straight year, it will have grown¹⁸. Similar to past form, this trend will see an elevated sale of pick-up trucks, which will continue to be the most sought after type of vehicle on the market. This trend is interesting, as sales will be exceeding their "demographically supported levels of 15.5 to 16 million"¹⁹ cars per year. To be precise, sales are forecasted to be 16.2 million in 2014, and 16.75 million in 2015²⁰. If the demand exceeds what is to be expected from the demography of the United States, what is the cause? Sonya Gulati and Andrew Labelle of TD argue in their special report (U.S. Automakers Basking in Their Comeback Glow) that pent-up demand is a by-product of the past recession²¹. Given the numbers, it's hard to argue. Auto sales dropped by almost three million units in 2008, and again in 2009, leaving annual sales at near eleven million. Since 2009, sales have flourished. In 2013, sales surpassed 15 million for the first time since the financial crisis²².

Given this resurgence in the size of the American market, it is surprising that the percent of nominal gross domestic product (GDP) spent on vehicles still lags behind pre-recession levels²³. In 2007, the United States spent three percent of GDP on the auto market, and although the market has rebounded, that number was only at 2.7 percent at the end of 2013²⁴. The difference between these two numbers does not seem significant, amounting to only 0.3 percent of GDP. Consider, however, that in 2013 the American GDP was 16.8 trillion US dollars²⁵. Those three tenths of a percentage point now represent over 50 billion US dollars. Assuming that the average car costs \$20,000, that gap represents the sale of an additional two and a half million cars.

SWOT Analysis

Strengths

Škoda is the benefactor of three major strengths that it must leverage in order to be successful in North America: being owned by Volkswagen, being highly regarded in terms of customer satisfaction, and having recent experience entering a new market. First, ownership by Volkswagen bears an advantage in that they have already experienced entering the North American market and are now well established in it (the Volkswagen Jetta is the ninth best-selling car in the United States so far this year). This presence will yield advantages in the form of existing business relationships to speed up the process of entry, and the possibility for economies of scale that would exist with expanded production. These scale benefits will likely manifest themselves within the manufacturing or transportation part of the production chain, though it may be possible to save costs by selling Škoda's at Volkswagen dealerships (assuming there is available capacity).

The second strength comes by way of JD Power. The renowned auto industry surveyor distributed its findings for customer satisfaction in the United Kingdom. Škoda placed fourth. Ahead of Škoda were Jaguar, Lexus, and Mercedes-Benz, none of whom compete in the same segments as Škoda. As an added bonus, Volkswagen ranked fifth. Toyota and Honda also placed in the top 10, while Ford fell below the study average, and Chrysler finished dead last. GM was not ranked.

Finally, Škoda has a positive record when it comes to entering new markets. If the past is the best predictor of future performance, then Škoda's textbook entry into Asia produces great optimism for North America.

Weaknesses

Škoda faces major challenges plotting entry into North America, namely a lack of brand recognition and other logistical challenges that result from not having any current operations. First and foremost, Škoda will need to increase brand recognition. While customers in North America may have heard of Škoda, they are not likely aware of what the company has to offer, nor are they likely to be inclined to trust them. An investment in a car is a big and expensive decision, and customers will want to invest in something they know and trust. Currently, Škoda may not be either of them. The next challenge is that Škoda has no current operations in North America. That would mean that all cars would have to be imported from one of Škoda's factories in Europe or Asia. While imports from Asia are not uncommon among other car companies, Škoda must keep up with growing demand in the Asian market, and could soon face capacity problems. This means that there will likely be a need for a new factory to be built in either Asia or North America. If built in North America, Škoda is exposing itself to a huge capital risk before even entering the market. If built in Asia, Škoda may miss out on savings due to the fact that cars must be transported. While further analysis is needed on the cost structure of those two options, it is outside the scope of this paper, and will not be discussed further. To summarize, Škoda suffers from a lack of brand recognition and operational logistics, two common problems faced by a lack of presence in a market.

Opportunities

Two opportunities that Škoda can take advantage of in the American market are the recent strength of the American dollar, and the more long term trend of a shift towards fuel efficiency. More generally, a big opportunity for Škoda is the growing American market, as mentioned above. The first opportunity, the strong American dollar, represents an opportunity for arbitrage across markets. This can be executed in one of two ways. First, Škoda could simply translate its pricing in euros to American dollars, resulting in a relatively lower price on the market, likely resulting in more sales. Second, Škoda could adjust the sale price to account for the improved purchasing power of the dollar, in order to make higher profits per car. Given that the initial mandate of Škoda is to reach 1.5 million in unit sales, the first approach should be used. The second opportunity to seize on is the recent trend towards fuel efficient cars²⁶. Škoda produces highly fuel efficient cars, with most of their models needing less than four litres of fuel to travel four hundred kilometres. Add to this, an even more environmentally friendly alternative to most of their models (including the Rapid and Octavia) is being produced, and Škoda seems well positioned to fit the market's demands.

Threats

Two of the threats that are most pressing to Škoda ownership are regulatory changes and cannibalization. First, Škoda will be subjecting themselves to a new set of regulations, both in the United States, and Canada. This means that cars will either have to be designed to meet an additional set of standards, or that a new North American version of each model will have to be manufactured to meet regulations. Additionally, as is the case with all markets, if regulations change, Škoda brands may no longer conform and will have to be modified. This can cost both money and production capacity. The second threat is concerned with the cannibalization of Volkswagen's current market share. While the market is highly fragmented, lessening the potential harms of cannibalization, the two brands both strive to offer affordable quality, and will likely be competing for a lot of the same customers. Škoda could consider different branding techniques to separate themselves from Volkswagen, though some amount of cannibalization is almost inevitable.

CAGE Framework

Cultural Distance

As briefly mentioned earlier, customers in North America will likely have different values and preferences when it comes to the cars they prefer. One example of this is size; in general, American cars tend to be bigger. It is very telling that the leading type of car sold in the United States this year is a domestic pick-up truck, considering the fact that pick-up trucks are virtually non-existent in European life, with the exception of work-related vehicles. Another example is fuel efficiency. While fuel efficiency is becoming more and more important world-wide, efficiency holds more weight in Europe, where fuel prices tend to be higher. These preferences are not insurmountable, nor are they inherently negative, but they must be recognized in order to successfully appeal to potential consumers.

Administrative Distance

The distance that has the biggest potential to slow down Škoda's proposed entry is without a doubt administrative. Given that Europe and North America are governed by separate and independent regulatory bodies, vehicles must conform to different safety and emissions standards²⁷. While emissions are likely not a problem, safety standards could cause big issues. If these standards require that Škoda alter their vehicle, compliance could be costly. If this is the case, then a cost-benefit analysis is required to determine if entry will still be profitable given the required alterations.

Geographical Distance

The biggest challenge with respect to the geographic location of the North American market will be transporting and storing the cars effectively and efficiently. First and foremost, it will be costly to ship thousands of cars from either China or central and Eastern Europe. Second, there is a logistical problem to meeting a fluctuation in demand when production happens on a different part of the globe. For example, if demand rises sharply and abruptly, Škoda may not be able to meet the demand of the market, unless they have a stockpile of vehicles somewhere. This stockpile would be inefficient, resulting in extra capital being stored on a lot, rather than being actively invested to improve operations.

Economic Distance

The obvious differentiator between Škoda's home market and the North American market is currency. Fluctuations in exchange rates lead to uncertainty, and can make it more difficult to price a product in the market. For example, if Škoda's offerings are priced lower in the United States to take advantage of the strong dollar, what will happen if the euro strengthens, or the dollar slides? Should Škoda adjust its prices? North American consumers will not be happy with an increase in price, and sales will falter. Measures to guard against fluctuation need to be taken. These can range from alternative pricing decisions to arranging futures contracts for costs incurred by American market operations. A fixed rate on certain costs and contracts will help to ease the uncertainty caused by separate currencies.

SURVEY Analysis

A survey was conducted in December of 2014 to gauge certain aspects of both Škoda, as well as the priorities of potential car buyers. All data and conclusions drawn in this portion of the report have been gathered from the same survey²⁸. The survey contained a total of 24 responses at the time of writing. While the results have been informative, it must be noted that the majority of solicited responses came from University-aged students, and that the survey does not appropriately represent the whole market place.

Priorities

When asked about what they valued most when buying a car, respondents valued price and quality over all else. This is valuable for Škoda, as that is their main initiative, quality for price. If Škoda can drive their value proposition home to consumers, respondents to this survey should theoretically be attracted to the brand. The next most valued trait was brand name. As discussed earlier, this is a challenge for Škoda. But within this challenge, there is an opportunity – six of twenty four respondents did not know about Škoda, and an additional four were not able to share their perception of the brand. This means that Škoda has an opportunity to present itself to those who have not heard of them without the burden of its past negative brand image – something that still haunts them to a degree. The fourth most important trait was fuel efficiency, something that Škoda excels at. As mentioned above, this priority is on the rise, and Škoda will likely benefit from this trend. Rounding out priorities were power and space – two things Škoda is not known for. In conclusion, respondents tend to share the same set of values that Škoda caters to, however the obstacle of brand recognition could hinder their attempt to provide the market with what they have to offer.

Brand perception

Of the twenty four respondents, fourteen chose to describe the Škoda brand in three words or less. While some of the responses were unproductive, two general themes emerged: cheap, and Czech. It is not clear whether cheap is meant with a negative connotation, though that would usually be the case. This suggests that, as discussed earlier, Škoda has not shed its historical stereotypes. Škoda should endeavour to find out if the perceived cheapness of the brand relates to a low quality product that is appropriately priced, or if the product is not perceived to fulfill the value on its price tag. From there, Škoda can alter its marketing approach in order to positively affect brand image. The second theme that appeared was its Czech heritage. This means that the brand will likely be tied to the success of its country. Škoda must decide if they would like to be associated in that way – if so, they should appeal to their heritage, if not, they should promote their makeover.

Competition

The final aspect of the survey asked respondents to evaluate the five largest competitors on the American market (GM, Ford, Chrysler, Toyota, and Honda) in terms of their general perception of each brand. This question was broadly worded in order to gauge the respondents' general feeling towards a brand in order to evaluate how powerful each brand name is. Honda finished first, scoring a 3.58 out of a possible 5. Toyota was second at 3.33, slightly ahead of both Ford and GM who finished at 3.17. Chrysler places last, only receiving a rating of 2.33. The close proximity of the top four brands relative to each other suggests that it is difficult to differentiate a brand, except as Chrysler shows, in a negative way. This means that Škoda should be able to integrate into the market barring any events that largely affect its public image, and it is important to remember that there is no second chance at a first impression, so whatever marketing strategy Škoda implements will have a huge effect on the success of the market entry.

RECOMMENDATIONS AND CONCLUSION

In summation, this paper has explored Škoda as a company, the North American market, and has sought responses to a survey in order to better understand potential customers. All of these endeavours have led to the conclusion that entry into the North American market is a good fit for Škoda, viable and full of potential.

Looking at Škoda as a company, it has experienced growing sales over the past years, especially in Asia, though these sales have declined for the first time in years. It seems as though growth in the Asian market is slowing, and given the growth rates of the remaining three markets, it will be difficult to reach the sales goal of 1.5 million units annually. Additionally, it was observed that Škoda has behaved as a financially responsible company, holding

a stable debt-to-equity ratio during its expansion into Asia. It has also displayed the ability to enter a new market, and with the new branding to shed its old image, the prospect of marketing this brand to a new audience is quite attractive.

In analyzing the North American market, the number one theme is growth. For the fourth straight year, car sales have risen in the United States, and are forecast to do so for the next two years as well. Additionally, when focusing on the segment of cars (as opposed to trucks), foreign imports dominate their local competitors. As a potential importer, this is good news for Škoda.

Finally, having viewed the results of the survey to poll potential Škoda customers, there are both issues to address, and reasons for optimism. First, Škoda did not score particularly well in terms of what consumers had to say about the brand. This needs to change, especially considering that brand image ranked third of six among respondents. On the bright side, what Škoda aims to offer and what customers want are very similar, suggesting a miscommunication among informed respondents or a failure to deliver on Škoda's part. Given the growth exhibited by Škoda after the rebranding, it would seem that the former is the case.

Škoda has a lot of potential in North America, and if it wants to reach its sales goal, the bottom line is that it needs to capitalize on that potential.

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Red Bull:

An analysis of the success of Red Bull and their international marketing strategy

Emily Sterling
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ABSTRACT

Red Bull GmbH is one of most successful energy drink companies and one of the most recognized brands in the world. The launch of the energy drink in Austria in 1987 was not only the introduction of a new product, but also the introduction of an entirely new product category. After experiencing success in Austria, Red Bull began expanding internationally, and today is sold in 166 countries worldwide. Red Bull has created a powerful global brand that has achieved incredible success by implementing a unique approach to business and marketing strategy and communications. This paper will use the marketing mix and 4-Ps (Product, Place, Price, and Promotion) to analyze Red Bull's innovative marketing strategy as well as primary research supplemented with secondary research to identify the key strategic features that have led the company to achieve success on a global scale.

INTRODUCTION

On October 14, 2014, Felix Baumgartner, an Austrian skydiver, took a free-fall jump from 24 miles above the earth, breaking the record for highest altitude skydive, and became the first human to break the sound barrier. Not only was this a sensational stunt for mankind, it was one of the most successful marketing campaigns of all time. This event, also known as "Red Bull Stratos", sponsored by Red Bull, captured consumers' attention all over the world. The jump and Red Bull's logo was shown on more than 40 TV stations, 130 digital outlet, and more than 8 million people watched YouTube's live stream of the event worldwide (Chun, 2012). This event is just one of many examples that reflect Red Bull's powerful, innovative and non-conventional marketing strategy that has led them to become one of the most successful energy drink companies and one of the most recognized brands in the world.

Red Bull was founded in 1985, by Austrian businessman, Dietrich Mateschitz. Before establishing Red Bull GmbH, Mateschitz was the International Marketing Director for Blendax, a toothpaste and hygiene product company. In 1982, during a business trip to Thailand, Mateschitz tried a Thai beverage called "Krating Daeng" which was popular among truck drivers and laborers. After finding that this beverage had cured his jet lag, Mateschitz became fascinated with the product. He saw an entrepreneurial opportunity that became the inspiration of Red Bull. In 1984, Mateschitz partnered with the creator of Krating Daeng, Chaleo Yoovidhya, and brought the product back to his home country, in Austria. After making a few small changes and adapting the product to western standards, Red Bull was launched in Austria in 1987. The launch was not only the introduction of a new product, but also the introduction of an entirely new product category. Red Bull GmbH was the first company to introduce the "energy drink" into Europe and North America. After achieving great success in Austria, Red Bull began rapidly expanding internationally. Red Bull arrived in Singapore in 1989, Hungary in 1992, Germany in 1994, the UK in 1995, and overseas to the US in 1997. Today Red Bull is available in 166 countries and employs 9,694 people worldwide (Red Bull, 2014). Since the company was founded 26 years ago, more than 40 billion cans of Red Bull have been consumed and more than 5.3 billion cans of Red Bull were sold in 2013 alone (Red Bull, 2014).

However, this company is much more than just another beverage company. Red Bull is not just a product, but also a philosophy and lifestyle. Red Bull has created a powerful global brand that has achieved incredible success by implementing a unique approach to business and marketing strategy and communications. Red Bull's target group is not determined by a demographic, but more so by a state of mind. Red Bull consumers are active, dynamic individuals, with a common aspiration of living on the edge. In a rare interview, Mateschitz explains this strategy by stating, "we don't bring the product to the people, we bring people to the product. We make it available and those who love our style come to us" (McDonald, 2011). From the beginning, Red Bull, the lifestyle, and Red Bull, the product, have been equally important. This paper will use the marketing mix and 4-Ps (Product, Place, Price, and Promotion) to analyze Red Bull's innovative marketing strategy, as well as primary research supplemented with secondary research to identify the key strategic features that have led the company to achieve success on a global scale.

ANALYSIS

The marketing mix and 4-Ps

The Marketing Mix, also referred to as the 4-Ps, is a conceptual framework that identifies the principal marketing decisions managers face when configuring their marketing strategy to best fit customers' needs (The Economic Times, 2014). The marketing mix is a useful tool to analyze marketing strategy, because it effectively determines a product or brand's unique selling point, by identifying and analyzing each of the four major decision points, known as the 4-Ps. The 4-Ps include: Product, Place, Price, and Promotion. Product includes the specific features and benefits of the product; place includes where and how the product is sold; price includes setting the price in the market; and promotion includes the communication method of the marketing offer to the target market (The Economic Times, 2014). Using this framework, this paper analyzes Red Bull's marketing strategy in each category (product, price, place, and promotion) and how collectively they have contributed to the company's global success.

Product

Red Bull Energy Drink is a functional beverage that "vitalizes [the] body and mind" (Red Bull, 2014). The functional effects of the product claim is to increase performance, concentration and reaction speed, improve vigilance, stimulate metabolism, and overall make you feel more energetic. Red Bull is meant to "provide wings whenever you need them" (Red Bull, 2014). The product's logo and slogan are recognized globally, and represents the high-energy and extreme brand of lifestyle Red Bull promotes. The slogan "Red Bull gives you wings", and the company logo, comprised of two red bulls charging against each other in front of a gold circle, symbolize attributes such as strength, power, and vitality.

Red Bull entered the market with only one product, Red Bull Energy Drink. Since then, the company has slightly expanded their product line, with small variations of their flagship drink. In Canada, the product line currently includes the original Red Bull Energy Drink, Red Bull Sugar-Free, Red-Bull Total-Zero, and recently the Red Bull Editions, which include three different flavors, cranberry, lime, and blueberry. For the most part, the product line is standardized globally, with only small variations between countries. The remainder of this section ('Product') provides information solely regarding Red Bull's flagship product, Red Bull Energy Drink. Information about other products in the product line will be indicated as needed.

The original product, Red Bull energy drink, is a simple formula containing five main ingredients: Caffeine, Taurine, B-Group Vitamins, Sucrose and Glucose, and Alpine Spring Water (Red Bull, 2014). One 250 ml. can of Red Bull contains 80 mg of caffeine, comparable to one small cup of coffee. Red Bull is very public and open about the "high quality ingredients" used in the production of the product (Red Bull, 2014). Their transparency regarding the production and ingredients contributes to the credibility of their product. The energy drink industry

is often criticized about the beverage's effects on health, and today's customers expect and reward honest companies. All other products in Red Bull's product line contain similar ingredients, with only small adjustments to each formula. All products contain the key ingredient, Taurine.

The product has been criticized for poor taste, and has been compared to "liquid sweet tarts" or "cough medicine in a can" (McDonald, 2011). However, this criticism has never been a concern for the company. Mateschitz explains, "it's not just another flavored sugar water differentiated by color or taste or flavor. It's an efficiency product, about improving endurance, concentration, reaction time, speed, vigilance, and emotional status. Taste is of no importance whatsoever" (McDonald, 2011). As stated before, their product focus is about the functional effects.

Red Bull's packaging is also a point of product differentiation. Red Bull is sold in a sleek 250 mL tall and slim can. This size differentiates the product from other canned soft drinks (which are typically around 350 mL) as a functional beverage. The can's simple and appealing packaging design includes a blue and silver background, with the red bull logo in the center. Red Bull's packaging is standardized globally, and only small modification such as the background colors change between different products in the product line.

Price

Pricing is one of the most important elements of the marketing mix, as it directly affects product turnover. Pricing a product too high or too low can contribute to a loss of sales for the organization. Pricing also has the power to reflect the perceived quality of a product. Products priced relatively high in their market are typically perceived as higher quality, while products priced relatively low are perceived as lower quality.

Red Bull uses a premium pricing strategy. They have a strict policy of keeping prices relatively similar or high compared to the rest of the beverage industry. Prices are typically set about 10% above competing products (Farris, 2008). The price is set high to reflect the exclusiveness and quality of the product, and maintain a premium image. As Red Bull was the pioneer of an entirely new product category in the beverage industry, their premium priced product was used as a strategy to differentiate themselves from their competitors. Red Bull strived to be viewed as a "functional beverage", and superior to their competitors. In line with selling Red Bull as a functional beverage, and not just another flavored beverage the company charged up to four times per ounce more than the average soft drink, or approximately \$1.99 to \$3 per 250 mL can (Farris, 2008). Further, as Red Bull has the first-mover advantage in the market and substantially high market share, they have even more power and flexibility to set higher price points, without losing customers.

Place

With a flexible branding positioning, "[providing] wings whenever you need them" (Red Bull, 2014), Red Bull is positioned, not just for a specific occasion, but for a range of different occasions, and is made available accordingly. As described on their website, suitable occasions where consumers may use the product include: on the road, whether it be for a business trip, spontaneous excursion, or vacation; during challenging lectures and study sessions; at intensive days at work; while doing sports; playing video games; going out day and night; or for people who need more energy regardless of the situation (Red Bull, 2014). Norbert Kraihamer, the company's global director of marketing and sales, explains:

There are five user categories: students, drivers, clubbers, business people, and sports people. Forget about age, where do they shop and when do they use it? Well, drivers use it on petrol forecourts. Clubbers use it in pubs and clubs, students use it in pubs and clubs and around campuses. We say we only have two dimensions: people who are mentally fatigued and people who are physically fatigued, or both (Farris, 2008, pg. 3).

In line with this branding position, Red Bull is made available wherever and whenever consumers may need the product. During Red Bull's initial launch, the product was available in targeted trendy clubs, bars, specialty stores to generate initial buzz. However, as the company grew, they moved towards accessing the mass-market. Today Red Bull is available at nearly any distribution outlet, including convenience stores, vending machines, and supermarkets. Red Bull strives to make their product available anywhere consumers may find themselves looking for that extra burst of energy.

Promotion

Although Red Bull's standardized product, premium pricing, and extensive distribution strategy have played a crucial role in the success of Red Bull, perhaps the most interesting element of Red Bull's marketing mix is their approach to promotion. From the beginning Red Bull was never just a product, it has always been a lifestyle brand. This image has been created through their innovative promotion strategy. Mateschitz knew that the "success [of Red Bull] would be in how [they] market the product, as much as the product itself" (Iezzi, 2014). Red Bull has consistently aligned its brand with extreme sports, and action. Rarely is the brand ever directly correlated to the drink itself. The success of the company has been attributed to the brand and lifestyle that Red Bull has created, and the unconventional marketing efforts to promote this brand and lifestyle. Red Bull has developed a unique marketing and communication strategy to successfully engage their target audience through the use of content marketing.

By definition, "content marketing is a marketing technique of creating and distributing valuable, relevant, and consistent content to attract and acquire a clearly defined audience - with the objective of driving profitable customer action" (Content Marketing Institute, 2014). Content marketing is a method of communication with consumers that strives to deliver information that makes the buyer more intelligent, without pitching or selling a product. The purpose is to attract and retain customers by creating relevant and valuable content with the intention of changing or enhancing consumer behavior, and ultimately influencing consumer decisions during the time of purchase. It is an ongoing process, which is most effective when fully integrated into a company's marketing strategy (Content Marketing Institute, 2014). Red Bull is a perfect example of a company who has created an amazingly rich brand image through the use of content marketing.

The scope of Red Bull promotional approaches is overwhelming. This paper will focus on four of the major promotional tools Red Bull has successfully used and/or created to broadcast their messages and to engage consumers. These four promotional tools include sampling, events and sport teams, athletes, and the Red Bull Media House.

Sampling

When Red Bull was launched in 1987, Mateschitz used sampling as a tool to build initial buzz, brand awareness, and to convince consumers about his new product and product category. Mateschitz persuaded students to throw Red Bull parties in unusual locations and paid them to drive to university with a giant can of Red Bull strapped to the tops of Minis and Beetles (Gschwandtner, 2004). Today, Red Bull still uses sampling as a promotional approach. Red Bull's sampling team, known as the "Wings Team", plan exciting missions to help energize consumers in multiple environments. On the company's website, the goal of the Wings Team Members is described as "[driving] product trial, [winning] new users, and [introducing] existing users to new consumption occasions" (Red Bull, 2014). Wings Team members show up virtually everywhere at the most unexpected moments. Whatever the occasion, whether it be a visit to a library, sports game, festival, or a party, the Wings Team strives to help consumers understand that Red Bull can be useful in many different situations. Wings Team members sport the Red Bull logo on all of their missions and aim to educate consumers about everything Red Bull. Sampling and the Wings Team's memorable missions differentiate Red Bull from its competitors and effectively promote the energetic brand.

Events and Sport Teams

Red Bull does not just sponsor events; they create their own new, innovative, and image-building events. True to the brand's thrilling personality, most of these events involve extreme sports and athletes performing tremendous stunts. Besides the event itself, these events always gain additional publicity through pre- and post-event parties and extensive media coverage (Gschwandtner, 2004). To provide insight on exactly how extreme some of these events are, a few examples include the Big Wave surfing event in South Africa, where the world's best surfers challenge some of the biggest and most radical waves on the African continent (some waves reaching up to a striking 45 feet in height); Deep Sea Diving without Oxygen in Monaco, where in 2003 a record was broken by a deep sea diver, by descending to a depth of 123 meters in one minute and 30 seconds and swimming back to the surface unaided in three minutes and 22 seconds; and Red Bull's Flugtag, where competitors test their outrageous, human-power flying machine creations, while launching themselves off a 30-foot ramp into the air into a body of water below. Some events, like Red Bull's Flugtag, draw crowds of 50,000 people or more (Gschwandtner, 2004).

Further, unlike other companies, instead of solely sponsoring sporting teams, Red Bull actually owns a variety of enterprises. Red Bull owns four professional soccer teams including the New York Red Bulls, Red Bull Salzburg, Red Bull Brazil, and RB Leipzig. They also own a NASCAR team and two Formula 1 car-racing teams. As Red Bull is a private corporation, it is publicly unknown if these events and sport teams generate a profit, however the business value that is created in the form of brand awareness contributes to the company's success.

Athletes

As well as sponsoring extreme events and sport teams, Red Bull also sponsors approximately 600 professional athletes all over the world (European CEO, 2013). However, unlike traditional sponsorship arrangements, Red Bull does not have written contracts with any of their athletes. Alternatively, Red Bull offers its athletes a verbal agreement to "support" them in achieving their dreams, and views their relationship more so as a "friendship" (McDonald, 2011). Red Bull supports athletes who accurately represent their brand, and as a tradeoff, these athletes proudly sport Red Bull's logo and put their products on public display. By seeking out and sponsoring extreme sport professionals with strong cultural influence who are living the extreme lifestyle that Red Bull promotes, the company is better able to attract their target audience to the brand and further promote their claim that Red Bull can improve athletic performance.

Red Bull Media House

Of their promotional approaches, Red Bull's boldest marketing effort was the launch of their own media company. In 2007, Red Bull Media House, an umbrella brand of Red Bull, was launched aiming to perfect Red Bull's image and brand (European CEO, 2013). As described on their website, Red Bull Media House is "a multi-platform media company with a focus on sports, culture, and lifestyle. [They] offer a wide range of premium media products and compelling content across media channels as diverse as TV, mobile, digital, audio, and print, with core media offerings that appeal to a global audience" (Red Bull Media House, 2014). The aim of the Red Bull Media House is to "create content and operate media platforms with direct consumer impact" (Red Bull Media House, 2014). Red Bull Media house is truly unique in that not only are they distributing TV shows, magazines, movies, books, music and more, but these are also all their own creations. From creating, to producing, to distributing, Red Bull Media House owns the entire project. Mateschitz believes it is the "most important line extension so far". As a major content provider, it is [Red Bull's] goal to communicate and distribute the 'World of Red Bull' in all major media segments" (McDonald, 2011). Since 2007, Red Bull Media House has released a men's active lifestyle magazine, The Red Bulletin; an in-house record label, Red Bull Records; a digital video service, Red Bull TV; and a documentary film about snowboarding, The Art of Flight, just to name a few. Similar to Red Bull's sport teams, Red Bull Media House is not yet making a profit, however Mateschitz believes

“in value terms, they are” (McDonald, 2011). The consumer engagement created by Red Bull Media house attracts and acquires the attention of Red Bull’s target market, and ultimately results in the loyalty of consumers.

Global vs. Local

Red Bull’s unique marketing strategy, illustrated previously, has been a global success. Red Bull has created a global brand that is consistent in uncountable markets. Today, Red Bull is available in 166 countries, with little recognizable variation in their strategy between countries. Although there are numerous risks in creating a global brand, Red Bull’s unique strategy has facilitated their ability to gain global recognition that holds a consistent position in every market it serves.

In today’s world, international companies are faced with the constant challenge of finding a balance between a standardized global strategy and a customized local strategy. In the past, globalization, which aims to maximize the standardization and integration of marketing activities across markets worldwide, was the exemplar in international business. However, due to differences in culture and norms worldwide, standardization led to consumers to feel disconnected and unhappy with this strategy of business. Today, the focus of international business has shifted towards a “think global, act local” concept. This means, adopting a consistent strategy when selling internationally (a global strategy), while adapting a tactical approach to targeted local markets (a local approach) (Mahoney, 2013). Although for most international companies and global brands, a “think global, act local” concept has been the best practice approach and key to success, Red Bull’s experiences in expanding internationally and their expansion strategy is slightly different.

Despite the immense global success Red Bull experiences today, they have not always been successful in their approach to expand internationally. During their growth into the United Kingdom in 1995, Red Bull initially looked to engage in the suggested “act local” concept. They decided to change their traditional market entry strategy to what they believed better suited the UK consumer and existing sport and energy drink market. First, they marketed Red Bull as a “sport drink” instead of a “functional drink” as they had in Austria (Farris, 2008). Second, rather than initially pursuing a word-of-mouth and buzz-generating strategy, and slowly moving into mass-market channels, Red Bull immediately sold their product through large distribution channels such as supermarkets (Farris, 2008). Red Bull also chose a use a new slogan in the UK market, “You should never underestimate what Red Bull can do for you”. Despite their efforts to adjust their existing strategy to best fit the consumer base in the UK, their efforts were misunderstood, and the expansion was a failure. By the end of 1996, Red Bull’s market share in the UK energy-drink market was less than 2%. The experience was referred to as “an expensive disaster” (Farris, 2008). Disappointed in their failed market entry strategy, the existing UK management team was replaced, and the company attempted to enter the market for a second time. During their second attempt to enter the UK market, the new management team returned to the company’s traditional market entry strategy, which had proven successful in Austria. The company repositioned Red Bull as a functional energy drink, and replaced the existing slogan, with the original slogan, “Red Bull gives you wings” (Farris, 2008). Following these changes, Red Bull began experiencing success in the UK market that continues today. Despite the risks of multinational companies engaging in a global approach, this occurrence suggests that Red Bull was more successful implementing a standardized global strategy, than adjusting their existing strategy and pursuing customized local solutions.

Global Strategy

Perhaps the reason Red Bull is able to succeed on a global scale is because their global marketing strategy and the brand they have created is totally unique compared to other companies. Red Bull is not just a product, but also, a philosophy and lifestyle, and therefore universal when it comes to application. Red Bull stands for energy, extreme sports, and vitality. These core brand characteristics hold true to every market Red Bull serves and they do not change country to country. Using Mateschitz concept of “[bringing] people to the product”, not

“[bringing] the product to the people” (McDonald, 2011), the company appears to be focusing on interacting with their consumers by communicating their brand and targeting a certain type of person, not a particular country, culture, or market. In all the markets they cater to the same crowd and use the same product, pricing, placement, and promotion strategies. Their global marketing strategy in combination with their standardized product line, allows Red Bull’s symbols, promotions, and advertising to appear the same globally. Navigating through their online website, besides the obvious difference in language, one will find that each country’s local website is almost identical. In terms of product, brand, position, personality, look, and feel, Red Bull appears to have created a global business (Aaker & McLoughlin, 2010).

Local Strategy

While Red Bull has proven successful through maintaining a consistent global marketing strategy, although not as clearly evident, there are suggestions that the company still considers local needs. As found in the career section of the company’s website, a job posting titled “National Culture Marketing Manager” is a position within the company specifically dedicated to individual countries that Red Bull operates in to manage cultural needs. The responsibilities of a National Culture Manager include: “translating the global culture marketing strategy into a national strategy and creating locally relevant and innovative programs; building and maintaining a strong network of artists and creative Opinion Leaders; [developing] new concepts and ideas; [evaluating] the effectiveness and impact of existing programs; [aligning] closely with [the] business entities; and contributing his/her work to the overall national marketing and business goals in line with the set international culture marketing strategy” (Red Bull, 2014). Although Red Bull’s standardized product and brand appears identical worldwide, this job posting suggests that Red Bull is willing to respond to local needs and maintain relevance in all markets they serve. Red Bull’s extensive variety of international athlete sponsorships and international events also provides consumers with more opportunities to connect and associate with the brand.

Survey

In order to further explore the reason for Red Bull’s international success, I conducted a small research study aimed to test the extent to which Red Bull uses a global marketing strategy based on international brand perception and awareness. To do so, I created a short survey that was filled out by a random sample of Canadian and Austrian students between the ages of 19 and 27. I distributed the survey to 40 students in total, including 25 Austrians (11 males and 14 females), and 15 Canadians (5 males and 10 females). By distributing the survey only to Canadian and Austrian students, I was able to specifically gain insight to analyze if the marketing strategies or perceived brand image differed between Canada and Austria. Though limited in scope, I believe the information gained through the survey results adds valuable information to my research, as well as provides additional insight to the existing research conducted about Red Bull’s current global marketing strategy.

The survey began by asking demographic questions including the respondent’s gender, age, and country of origin. These questions were asked to ensure that there was representative sample of Red Bull’s typical consumer base and an equal sample size of Canadian and Austrian respondents. Next, the survey asked about familiarity with brand on a scale of 1-3, from extremely familiar to not at all familiar. This question was asked to determine the overall success based on brand awareness, as well as to discount respondents who were unfamiliar with the brand. Lastly, the survey asked a simple open-ended question, “describe Red Bull in three words”. This question was asked to gain insight on the respondents’ perceived brand image of Red Bull, as well as identify any clear differences in answers between the two cultures. These questions were strategically chosen in an effort to gain additional data to support the information provided in this paper and supplement the analysis.

The results of this survey emphasized that Red Bull has extremely high brand awareness internationally. From the 40 students who completed the survey, only two respondents answered not at all familiar, when asked about their familiarity with the brand. The survey also showed that Canadians and Austrians seem to perceive the Red

Bull brand similarly. From the 38 respondents, who were either moderately or extremely familiar with the brand, two of the three most popular words to describe the brand were the same between the Canadians and Austrians. The most popular words for both the Canadians and Austrians respondents were “energy” and “unhealthy”. The third most popular word was “wings” for the Canadians, and “sports” for the Austrians. Respondents for the opposite countries used both of these words, but not as frequently. Other words that appeared multiple times from respondents from both countries were “innovative”, “extreme”, “involved”, “events”, “popular”, and “global”. All of these descriptive words are consistent with core brand characteristics of Red Bull, and further verify the effectiveness of their global marketing strategy.

CONCLUSION

Red Bull has created a powerful global brand that has achieved incredible success by implementing a unique approach to business and marketing strategy and communications. Red Bull’s standardized product, premium pricing, extensive placement, and most importantly, engaging promotional strategies have led the company to become one of the most successful energy drink companies and one of the most recognized brands in the world. Recognizing the importance of engaging with consumers, Red Bull has successfully managed to create a globally standardized product and brand that consumers all over the world are able to connect with.

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