

AperTO - Archivio Istituzionale Open Access dell'Università di Torino

Bringing gourmet coffee to India: lessons of an Italian firm in an emerging market

This is the author's manuscript

Original Citation:

Availability:

This version is available <http://hdl.handle.net/2318/137942> since 2022-09-30T10:03:38Z

Published version:

DOI:10.1108/02756661211282777

Terms of use:

Open Access

Anyone can freely access the full text of works made available as "Open Access". Works made available under a Creative Commons license can be used according to the terms and conditions of said license. Use of all other works requires consent of the right holder (author or publisher) if not exempted from copyright protection by the applicable law.

(Article begins on next page)

Bringing Gourmet Coffee to India: Lessons of an Italian Firm in an Emerging Market

Bernardo Bertoldi

University of Turin and ESCP-Europe
Corso Vittorio Emanuele II n.61, 10128 Torino, Italy
bbertoldi@escp-eap.it

Chiara Giachino

ESCP-Europe
Corso Vittorio Emanuele II n.61, 10128 Torino, Italy
cgiachino@escp-eap.it

Silvio Marengo

ESCP-Europe
Corso Vittorio Emanuele II n.61, 10128 Torino, Italy
marengo@escp-eap.it

Abstract

This paper investigates brand strategies implemented by Food & Beverage firms going international and, in particular, how to build the brand strategy on entering emerging markets through acquisitions.

The authors describe and analyze the real business case of Lavazza, a leading Italian Coffee company that after the acquisition of local distributors in India had to position its brand in the target foreign market. Particular attention is given to the process that Lavazza followed to penetrate the Indian market, by gaining the confidence of customers without offending their pride and by respecting the Indian culture in the coffee industry. This paper presents the key factors to consider when a European leading brand decides to expand abroad in emerging markets and ensure a successful adaptive brand strategy for the entering company. The authors have summed up the main steps to follow in a simple framework.

Key words

Brand, emerging markets, strategy, coffee market, Indian market, multinational company

Introduction

As Kotler (2005) observed, the brand becomes “the whole platform for planning, designing, and delivering superior value to the company’s target customers”. In fact, in this new age of consumerism, doing business has evolved into a higher order of brand relationship and accountability. Kotler (2005) thus regards the brand as the most important and sustainable asset a company can capitalize. This is why it is even more crucial to carefully handle name changes and brand transfers when mergers and acquisitions occur.

Brands are important because they can easily shape customers’ decisions and consequently create economic value for the company.

Moreover, there is a general absence of a clearly defined approach taken by companies to penetrate emerging markets with their brands, especially with reference to the Indian market.

“The generation of good knowledge across national borders is bound to be more difficult than in a single-country setting” (Sinkovics et al, 2005). Perhaps this is why there is a lack of research on this subject so far. For these reasons, some scholars feel the need to better their understanding of how different markets work and why customers from different markets behave the way they behave (Ghauri and Grønhaug, 2002).

Nowadays the word “brand” is known by everyone even if sometimes it is used with different meanings. Scholars and experts started to speak about brand a long time ago but the turning point was reached in the 1980’s; in fact, as Kapferer (1997) mentioned, if before the 1980’s companies wished to buy a producer of certain goods like chocolate or pasta, after the 1980’s they wanted to buy KitKat or Buitoni. This new way of thinking is of fundamental importance because from that moment it became clear that along with the brand it was possible to buy a place in the consumers’ mind and not simply a company producing certain goods. Thanks to this concept the enormous psychological power of brands was discovered. In fact, “brands are not usually listed on balance sheets but they can go further in determining success than technological breakthroughs by allowing the marketer to demand premium prices” (Czinkota and Ronkainen, 2004). Brands are important because they can easily shape customers’ decisions and consequently create economic value for the company.

What makes a brand so powerful is the product or service, with the people or customers that decide to buy it on the market. So, we have brands as a living system made up of three poles: product or service, name & symbols and concept (value proposition). Regarding this Kapferer (2004) said that “a brand is a shared desirable and exclusive idea embodied in products, services, places and/or experiences”. Additional emphasis is placed by Sherry (2005) who wrote that “a brand is a

performance, a gathering, an inspiration. A brand is a semiotic enterprise of the firm, the companion spirit of the firm, a hologram of the firm. A brand is a contract, a relationship, a guarantee". The relevance of these descriptions is that brand cannot be seen alone but lives in a system. It is difficult to imagine a brand without the support of a product or a service; at the same time the success of a brand is made by consumers who decide to buy a product or a service because that brand offers them high quality, transmits particular emotions, gives a sense of safety, etc.

Data collection

The authors had the opportunity to follow the operation conducted by the Lavazza Company in India for three years (2007-2010), although the majority of the interviews were done in the first two years of the research.

The research focused on the brand strategy for the specific case of the Lavazza Company by using a qualitative approach based on interviews with the Lavazza Management.

The interviews were organized in two main moments.

The first session of interviews was carried out during the years 2007-2008 with two objectives: the first was to understand the Lavazza Company's values and strategies, the Indian culture and the opportunities that this country could offer the Italian company. The second objective was to follow the strategy used by the Italian Company in order to manage the period of transition after the acquisition of the two Indian companies.

The second session of interviews was carried out during the years 2009-2010 in order to verify the current situation and to finalize the framework developed.

Interviews lasted two and a half hours on average and when possible were supported by documentation referring to the strategies adopted in India by Lavazza, and to researches and studies either conducted or commissioned by the Lavazza Company.

Background of the Company

Lavazza boasts a hundred year old entrepreneurial heritage created by the perseverance and intuition of the founder, Luigi Lavazza, who in 1894 took over a small grocery store in the old centre of Turin, Italy. His inventiveness produced the concept of "coffee blend", that is the art of mixing coffee with different origins in order to make a more tasty and harmonious flavor.

Now Luigi Lavazza's company is the leading Italian coffee roaster and seller in the "Home" segment with a market share of about 50%, and is one of the most relevant players in Europe with a leading position in the espresso segment with a market share of about 40%.

In 2009, the net revenues of the Lavazza Company amounted to €1,093 million and the EBITDA was €168 million.

Lavazza makes coffee for home use, institutional customers and restaurants. The company primarily operates in Italy and is headquartered in Turin, Italy and employs about 2,000 people.

Lavazza's vision is to bring the aroma, quality and culture of Italian espresso worldwide.

The core values of Lavazza are based on four fundamental concepts: "research", that expresses the passion and the intuitiveness to explore new alternatives; "experiment", meaning the discovery of new flavors in order to preserve the purity of the coffee aroma; "evolution", that represents the continuous transformation process that leads to the creation of a better future; and finally "innovation", which is the willingness to break ground in order to build new paths for further development. Consequently, Lavazza is a very creative firm, from product planning to its communication strategy.

The business and international experience of the Lavazza Company

Lavazza makes coffee for home use, institutional customers, and restaurants with brands including "Crema e Gusto", "Qualità Oro", "Lavazza Blue" and "Qualità Rossa". The company also operates coffee-related training centers around the world.

It is possible to identify a first segmentation of the strategic businesses by identifying two main areas, that are a Business to Business (B2B) channel, which involves sales to other companies, like restaurants, hotels and other firms that use Lavazza for their internal use; and a Business to Consumers (B2C) channel, which encompasses direct sales to end-users, through retail distributors or coffee shops.

Within the retail channel, the company is the market leader, mainly selling its “Home” products, belonging to moka, espresso, decaffeinated and filter segments.

In the Ho-Re-Ca channel, Lavazza has a tight network of agents and distributors that mainly sell products from Vending, Away From Home and Food Services business areas to large retail distributors (supermarkets, malls, etc), restaurants, hotels and cafeterias.

Lavazza is also leader in the Italian automatic distribution channel with the registered capsules system called Lavazza “Blue”, which stands for “Best Lavazza Ultimate Espresso”.

Lavazza is present in 80 countries through its distributors and agents. This was the traditional method adopted to go international in the late ‘70s and was the easiest means to sell its products in foreign countries. Apart from this, Lavazza opened its own subsidiaries in ten foreign countries.

The internationalization process of Lavazza started in the ‘80s and proceeded with a regular activity of foreign market entry through distributors or agents while constituting its own foreign subsidiaries. The expansion carried out by opening self-owned subsidiaries and acquiring local companies was done in taken three different stages. In fact it can be observed that Lavazza undertook a first phase of internationalization through its own subsidiaries in the ‘80s and only after a decade it proceeded with a second short phase. Then, after another decade, it started a third phase of internationalization by acquiring companies in India and Brazil.

For each country Lavazza developed a precise strategy; in the following diagram is a summary of the key strategy used for each block of the company’s internationalization model.

Figure 1: Lavazza’s internationalization model

	Nations	Objective	Strategy
1st block	Italy, domestic market	Maintain leadership and further develop the Away From Home (AFH) division	Few investments to defend the market share, launch new products and sustain growth in the AFH segment
2nd block	Foreign countries where Lavazza has been present for many years	Consolidate the Lavazza brand awareness and strengthen its market position	Invest part of the cash flows coming from the domestic market to increase brand recognition
3rd block	Fast growing foreign countries	Enter the market, build brand awareness from scratch	Boost brand awareness & recognition by investing the cash flow generated in the Italian market

Source: Interviews with Lavazza's management, 2008

Crisis and opportunities

During recent years the international economic scenario has been characterized by a lot of changes. The period started in 2007 with a slump triggered by a liquidity crisis in the US banking system.

The result was, among other things, the collapse of financial institutions and a significant decline in economic activities. This means that a lot of companies ran into economic difficulty and the impossibility to continue to grow and increase their businesses both locally and internationally.

However, some companies have continued to expand their businesses abroad, above all by taking advantage of the vitality of the emerging markets, which are considered attractive by companies because they offer opportunities for trade, technology transfers and direct foreign investments.

Two of the most powerful emerging economies can be considered China and India; these countries have a large population, large markets that are usually characterized by economic and political reforms and are the world's fastest growing economies. These are the main features that characterize emerging markets one of the key factors for the future growth of world trade and financial stability and are probably the features that captured the attention of the Lavazza Company. Before entering the target market Lavazza studied India's peculiarities, in fact, despite its attractiveness for foreign investors, the Indian market holds many surprises. For this reason, besides the most general aspects (eg. politics, economics, social and technological situation), the competitors and the positioning of the brands acquired were both studied in depth.

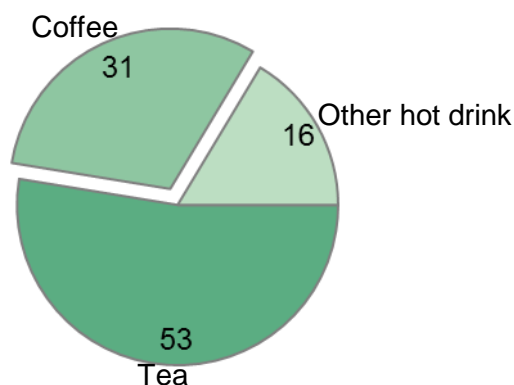
In particular, the economy of India has grown at an average rate of nearly 8% per year since the beginning of 2003. The overall growth of GDP during 2006-07 has been placed at 9.2 per cent. At a disaggregated level the growth during 2006-07 was 2.7 per cent in Agriculture, 10.0 per cent in Industry and 11.2 per cent in Services as compared to 6.0 per cent, 9.6 per cent and 9.8 per cent respectively during 2005-2006.

Regarding the Coffee Industry, Indian coffee cultivations are largely confined to the hilly regions of the southern states. They account for 53 percent of the planted area (59 percent planted with Arabica, 41 percent with Robusta). Most coffee holdings are small. India produces around 260 Mn Kgs of coffee per year. Indian coffee production has a yield of 800-900 Kgs per hectare, which is quite low, compared to the world average of 1,100 kg per hectare.

Domestic demand for coffee has grown quickly and steadily over the last 5 - 10 years. An increasing number of companies have discovered the opportunity that lies in the Indian market. The reason behind this is that the market is large and growing. Consumer demand is high due to a fast growing population with a high purchasing power.

The Indian hot drinks market generated total revenues of \$2,369.2 million in 2006. Between 2002 and 2006, it presented a compound annual growth rate (CAGR) of 3.5%. It is observable that the disaggregation of Indian hot drinks sales is at odds with the corresponding Italian market. Indeed, tea is the main segment of the consumption of hot drinks in India, whilst Coffee is the second hot drink.

Figure 2: Coffee in India is the second hot drink after Tea (% Share, by value)



Source: Datamonitor, October 2007

In India, tea proved to be the most lucrative hot drinks market in 2006, generating total revenues of \$ 1,245.4 million, equivalent to 52.6% of the market's overall value. Coffee sales generated revenues of \$735.5 million in 2006, representing 31% of the market's aggregate revenues. These, and other factors, persuaded the Lavazza Company to invest in India.

The case

The acquisition of two Indian companies

On 9th March 2007 in Mumbai, India, the Lavazza Group signed an agreement with the Sterling Infotech Group to acquire Barista Coffee Company Limited and Fresh & Honest Café Limited, two major local distributors.

Barista was the second-largest Indian coffee shop chain in terms of outlets, with 150 coffee shops of which 132 were situated in India and mainly located in the capital city of New Delhi, in Mumbai and Bangalore. The transaction was carried out based on a precise development strategy that would lead to the opening of 400 outlets by 2010 in India. This target would be achieved by leveraging the excellent premium positioning and importance reached by Barista on the Indian market at that time. Fresh & Honest Café (FHC) focused on the vending machine business, specifically on office coffee services, and was the leading company in the bean-to-cup segment (high quality bean product). By leaving an important mark in over 22 Indian cities, FHC supplied an average of 300,000 cups of coffee per day, equal to about 800 tons of coffee per year. The company was expanding rapidly and had a production site in the southern region of India. Among its customers, were some of the most prestigious hotel chains in India.

“Acquisition is part of our strategy and aims at expanding our operations in markets with a high development rate and a high growth potential” stated Alberto Lavazza, Vice President and CEO of the Group. *“This ambitious policy has a strong economic impact due to the importance of this transaction, but it also has a significant impact in terms of international expansion and development of our brand”*.

At that point Lavazza had to deal with managing the brand transfer to the acquired local distributors, Barista and FHC. Lavazza used tactics commonly adopted by food companies when trying to access a foreign market. It is significant to mention as the most representative example pertaining to the Lavazza case study what Starbucks did last year entering India with a joint venture with Pantaloon Retail that owned the largest local coffee shop.

These brand transfers are facilitated by the tendency of international markets to become more homogeneous than ever before. As a result, companies that favor global brands have to decide whether it is advisable to replace all their local brands with global ones or not. I agree with the thesis of branding globally, while marketing locally (Barron and Hollingshead, 2004), which assumes that global branding must be driven by collaboration among local markets, both with each other and with central marketing. From this standpoint it is inferred that the Lavazza Group should asked the country's organizations to bring data regarding its own market to the table. Rather than use this data only as evidence of differences, each party must be committed to finding a common ground, by aiming to develop a global consumer segmentation that is a common segmentation across national borders. This process can be facilitated by the central marketing function.

Regarding the two Indian companies acquired, it might be said that in the Indian Coffee Industry Barista and FHC had many opportunities for growth due to the lack of power of suppliers and buyers and the increasing market volume. However, a moderate threat lay in the internal competition that could have been harsh in the future particularly for Barista due to potential new entrants, like Starbucks or other multinational giants already active in the consumer goods or food service.

Lavazza had the chance to exploit the period before the boom of mass retail infrastructures, when multinational companies would enter the market massively, to build strong corporate brand awareness and train the Indian taste to a high quality espresso in order to position itself as an interesting niche segment.

The five forces analysis of the Indian Coffee industry with reference to the Lavazza case

In this analysis it is fundamental to first set the boundaries of the industry. The authors have adapted the Five Forces analysis to the Lavazza case, particularly referring to the two main business segments in which the acquired companies, Fresh Honest Cafè (FHC) and Barista, were active.

Buyer power.

First of all it is important to define who can be seen as the buyers. The answer depends on the market segment in which the company operates. The authors make two separate analyses, one for Barista and another for FHC.

Generally, consumers are likely to be strongly influenced by brand and this weakens buyer power: retailers need to stock brands that are popular with consumers, even if these are more expensive. This implies that it is important to invest in strengthening brand awareness in order to weaken buyer power and gain market share against competitors. A medium sized company should make an effort to invest in their brands in order to be ready when the mass market distribution, like supermarkets and malls, will boom in the Indian market. At that time it will be very important to have built a widely recognized brand which can compete against strong multinational companies like Nestlè or Kraft Foods.

For Barista the buyers were mainly the customers of its coffee shops. Buyer power was quite low as it was fragmented into a myriad of individual decisions. Consumers were pretty sensitive to the brand power of the cafés so, for Barista buyer power was low.

On the other hand, for FHC the buyers were mainly companies that buy coffee machines for their employees. In this field, it is not the end user who decides which product to buy; therefore buyers are less influenced by the brand. In fact, they are more interested in a high level of service, quality and good value for the lowest price. In any case, a good level of brand recognition could give the employees the feeling that the company in which they work is a successful firm that cares of them. This could be important especially in India, because many companies have started contending a skilled workforce that is likely to join the company that pays more since there is a lack of trained workers.

In conclusion, buyer power was low for the B2B market segment, too, as in the case of FHC.

Supplier power.

Both for Barista and FHC, suppliers could mainly be seen as companies that provided raw coffee. Brokers often act as intermediaries between manufacturers and growers and taste, value and bid on their client's behalf. The low economic condition of countries that yield coffee combined with the large number of independent growers and the relatively undifferentiated nature of the product limits supplier bargaining power.

It is important to remember that Lavazza would supply Barista and Fresh & Honest Cafè with the ultimate expertise in espresso, the most innovative techniques and machinery.

Moreover, it might be observed that Barista and Fresh & Honest Cafè would earn more power against suppliers thanks to the scale economy advantage they would obtain after being acquired by Lavazza.

Overall supplier power was very low.

New Entrants.

Large multinational companies, who manufacture products with exceptional brand strength and generally operate within other consumer markets, like Nestlè S.A. and Unilever, were a serious threat.

As far as the coffee shop segment was concerned, Starbucks was the most likely to enter the Indian market. Even if it has strong brand recognition in Western Countries, it didn't mean that it would

succeed in India. In fact, some may argue that Starbucks could hurt Indian pride and culture, being too Western. Others might count on this, considering the “Western taste” of Starbucks a strength, that would attract the Indian middle and upper classes who could afford expensive lifestyles. They often want to distinguish themselves from other poorer Indian classes, by showing off their new richer status compared to the past.

A particular threat for Lavazza could be the entrance of very strong multinational companies into the retail market once large distribution infrastructures were developed in India. In fact, if Lavazza didn't build a well-recognized brand, it would be overtaken by bigger multinational companies like Nestlè, that are stronger when competition is led by cost cutting and lower prices.

By exploiting the late boom of mass retail distribution infrastructures, Lavazza could have enough time to make its brand well known and spread its knowledge of espresso throughout the Indian market. In fact, another way to defend minor companies like Lavazza against the entrance of multinational giants would also have been to train the Indian consumer taste to prefer high quality espresso. This in turn would have reduced consumer price sensitivity in favour of a high quality espresso like Lavazza, rather than a filter product like Nescafé.

Thus, the risk of new entrants was medium-high for Barista.

As for Fresh & Honest, the risk was lower than for Barista because it had already gained the leadership of the B2B market and that was more difficult to jeopardize.

Above all, there was a market entrance barrier created by high fixed costs, but it is also true that several big players capable of affording high investments could be listed, so several incumbents could be found even if some entry barriers did exist (e.g. regulation, high investments required to start up a company, etc).

Substitutes.

The main substitute hot drink in India is tea that represents an ancient tradition for the Country although espresso and coffee consumption is increasing.

For FHC the risk of substitute products was lower than for Barista because companies, many of which as multinational foreign companies, want to provide their employees with both tea and coffee.

On the other hand, in the B2C channel drinking an espresso is perceived as a moment to relax with friends, without the practical use it has in Italy (e.g. people have espresso at breakfast to wake up). So consumers may choose among a wider range of products when they are out and want to spend some time with friends. For instance, they can have ice-cream, soft drinks or other hot drinks like hot-chocolate and so on. Hence Barista may have had to deal with a higher risk of substitute products than FHC, because end users (employees of a company or guests in an hotel, etc) cannot choose among a wide range of products but just between two or three drinks that their company has chosen to provide by partnering up with a particular supplier (e.g. Fresh & Honest with Lavazza coffee blends).

It must be observed that consumers may limit their caffeine intake and therefore coffee consumption due to health concerns, with other soft or hot drink categories forming potential substitutes. However, considering that the proportion of the population consuming coffee is increasing, it was unlikely that such substitution would substantially impact upon coffee sales. Moreover, Barista overcame this threat by offering a wide range of products. Indeed, Barista provided their clients not only with coffee but also with tasty specialities, like ice-cream, chocolates, cakes, soft drinks and sandwiches.

Internal rivalry.

There were a few major players in the coffee shop chain sector, and they were the Café Coffee Day, Costa Coffee, Café Mocha, Java Green and Nescafé outlets. Players attempt to distinguish

themselves from competitors by offering gourmet variations on essentially the same products, and propose a wide menu, characterize the atmosphere with pleasant lights, colors and music, sell merchandizing, and provide Internet connections. Usually the products become more differentiated with the addition of various ingredients and flavors.

Although for Fresh & Honest Cafè the product differentiation was lower and consisted more of variations in the production process of the coffee blends, overall the internal rivalry for Barista was moderate and for FHC it was quite low.

Finally, it can be said that in the Indian Coffee Industry Barista and FHC had many opportunities for growth due to the lack of supplier and buyer power and the increasing market volume. Nevertheless, a moderate threat lay in the internal competition that could have been quite harsh in the future particularly for Barista due to potential new entrants, like Starbucks or other multinational giants already active in the consumer goods or food service.

Lavazza had the chance to exploit the period before the boom of retail infrastructures, when multinational companies would massively enter the market, build strong corporate brand awareness and train the Indian taste to appreciate a high quality espresso in order to position itself as an interesting niche segment.

Indian consumer perception of the “Lavazza” brand

The general image that the Indian people interviewed had of Italy, although they often associated Italy with other European countries, was clearly quite commonplace: for example, the connection between Italy and food, especially with pizza and pasta, and with the Mafia. Only a minority recognized Italy as a country with a strong tradition, an important history and imposing architecture, monuments and churches, with a considerable personality in the fashion world and with great football clubs.

But, if Italy evoked few images in the minds of Indian people, the “Lavazza” brand didn’t evoke any response at all, consumers didn’t seem to have heard this name at all and there was no value connotation and no link between the world of coffee and the name “Lavazza”.

People taking part in the focus group received more information about the Italian company, especially with reference to the concept of Lavazza. This phase was important because it provided the chance to have an initial feedback from the Indian culture and from their way of perceiving the coffee world. After having analyzed how Indian people perceived the concept of Lavazza and its significance, another important factor that could influence the choice of customers was taken into consideration: the identity of the brand conveyed by images.

In conclusion, it was possible to say that although Lavazza was not known by Indian people, there was a huge opportunity for the Italian company to be the ambassador in charge of communicating the meaning of “Italianness” and, considering that in India no coffee brand existed, the value related to expertise and tradition potentially represented a great opportunity to become a leader in a still virgin market. Moreover, from this analysis it seemed that Lavazza had the potential to conquer the Indian culture.

An overview of the strategy and the current situation

When it entered the Indian market, to Indians “Lavazza” sounded like a nonsense word with an Italian sound: nobody in India knew the brand. Hence, a strategy consisting of the sudden substitution of the two acquired brands, Barista and Fresh & Honest Cafè, with “Lavazza”, would have exchanged the value of the two Indian brands with something meaningless in the Indian mind. For this reason Lavazza chose to adopt, at least in an initial phase, an adaptive branding strategy.

However, Lavazza’s mission is to become a worldwide leader. So, after the acquisition there was clearly the need to manage the transition from the two Indian brands to the introduction of the

Lavazza brand. The risk in handling the transition was that of destroying the acquired brands' value, hurt Indian pride or even associate wrong values to the Indian perception of the Lavazza brand. The final objective of the Lavazza Company is, still today, to be present in all the channels and penetrate the Indian market with the Lavazza brand in the retail segment but the path to reach this objective is not simple and, above all, requires a long time.

In designing this path the Lavazza management started with the identification of medium-short term objectives. In particular, they want to leverage the two companies acquired and increase awareness and respect for the Italian brand.

Lavazza adopted a very precautionary approach in managing the transition period because it knew that an error could have been fatal and for this reason, management was not in a hurry to reach its objectives.

Three years after the arrival of Lavazza in India the company's brand awareness and presence is still increasing. The objectives and the strategy chosen by the Italian company in 2007 are still the same today although the economic scenario and the development of the country have caused a slowing down in the penetration of the market.

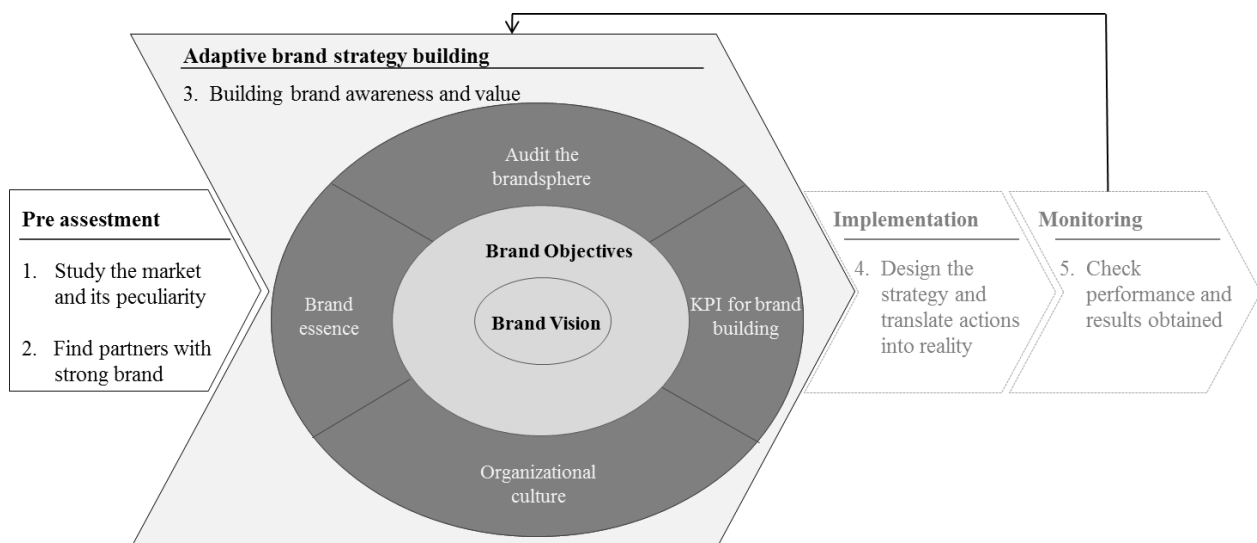
Lavazza did not completely respect the initial plan because the reaction of the local population and the market itself was not quite as expected but all the goals were achieved because the strategy adopted allowed Lavazza to have a good leeway.

The framework developed

In the case study analyzed there is a main Italian company - Lavazza – with the ambition to enter the Indian market. The authors have summed up and generalized the main steps followed by Lavazza in penetrating the Indian market:

- 1) Pre-assessment: Study the target market and identify its potential; find target companies with strong brands;
- 2) Adaptive brand strategy building: create brand awareness and value by exploiting the strength of the companies acquired;
- 3) Implementation: design the strategy and translate actions into reality;
- 4) Monitoring: check performance and results obtained and when necessary change or implement the branding strategy.

Figure 3: Steps to enter an emerging market



Source: Model adapted by the author

The second phase of the “adaptive brand strategy building” model, the focus of our research, was created by taking the model of De Chernatony (2001) that “adopts a more balanced perspective than existing models, since it builds on the asset of knowledgeable and committed staff whose values ideally align with the brand’s values. The model encourages a multifunctional brand team progressing through the phases of strategy to tactics to implementation”.

The case analyzed has a particular background: the company has strong brand awareness in its home market and in Europe but it is unknown in India; the market to conquer is an emerging market and there are two Indian companies with strong brands to manage. Moreover, the Italian company already has committed staff aligned with the brand’s value. These features have a strong influence on the model developed and although the model of De Chernatony (2001) gives the guidelines that must be followed, some changes are necessary in order to adapt it to our case.

The general steps followed by the Italian company in penetrating the Indian market are outlined in the model. These steps can be generalized for all companies that have to study a strategy in order to enter an emerging market through acquisitions.

The step to implement in order to penetrate a foreign market

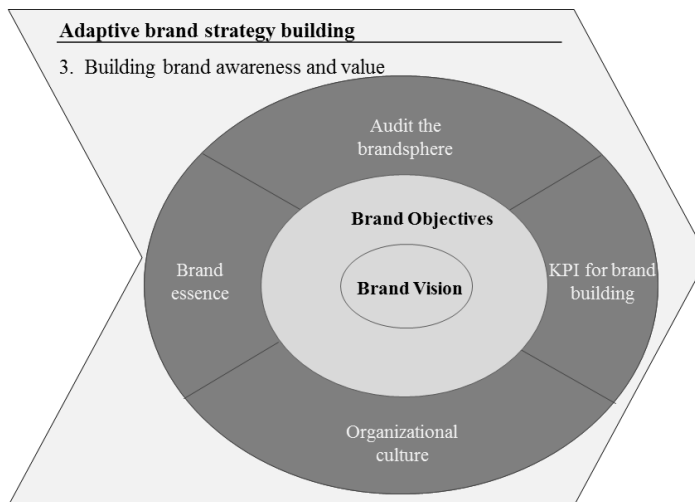
The first step, called “assessment” in the model, includes preliminary studies and researches both on economic and social aspects of the target market. In fact, it is very difficult to make managerial decisions in an unknown environment. After having drawn a clear picture of the country it is important to analyze in depth the sector in which the company is intended to enter. In conducting this analysis, researches will probably identify the most important brands present on the market. At this point, managers will have the task of identifying potential partners or target companies to acquire. The requirement is that the target companies have strong brands that are well recognized by people; in this way it is possible to exploit their values and, if the brand strategy is well structured, conquer brand awareness with its own brand.

The second step, the most important one for this research, is called “adaptive brand strategy building”.

To enter an emerging market, far from our values and logic, where the foreign brand has very low or even non-existent brand awareness, the best brand strategy to adopt is the adaptive one. In this way, the entrant company will have the opportunity to exploit the values of the brand/brands acquired and, at the same time, increase the awareness of its own brand among the local population. The true objective of this second step is to build a brand strategy that can create value.

How can this be done? To explain the process the authors have taken the model created by De Chernatony (2001) and they have adapted it to the case of a company that wants to enter an emerging market through acquisition of local companies.

Figure 4: Focus on the second step “adaptive brand strategy building”



Source: Model adapted by the authors

The core of the model is based on the brand vision of the company. In fact, the brand vision is the driver for setting the brand objectives. In particular, management has to decide both short and long term brand objectives to reach. Objectives have to be in line with the real positioning of the brand on the target market and calibrated with the positioning of the brand/brands acquired. Of course, if a brand has nonexistent brand awareness on the target market and the brand/brands acquired are not the leaders, probably management has to set objectives with lower expectations.

Once the company has a clear brand vision and real objectives to reach, there are a number of actions that must be implemented. In particular, the actions are referred to: organizational culture, audit the brand sphere, KPIs for brand building and brand essence.

As for the De Chernatony model (2001), the organizational culture can be considered an important brand discriminator and a real competitive advantage for the company. It's very important to consider how consumers perceive things: for example the quality of service, the uniforms and a strong preparation of employees are a must. But, in order to do this it is necessary to get into people's minds, understand their culture, their habits and their needs. The local culture is the first guide for the company: without a good understanding, all changes can fail and can destroy the value of the acquired brand/brands.

Secondly, there is "audit the brand sphere". This step differs a lot from De Chernatony's (2001) because we must consider that when a company decides to enter an emerging market through acquisitions, the companies are already structured and inserted into the market. The "audit the brandsphere" phase, in the case analyzed, means to apply the five forces analysis of Porter (1985) to the brand/brands acquired. The objective of this phase is to understand how strong the brand/brands are on the market and which are the weaker areas. This can help when the company has to define the strategy and the future actions to implement.

Thirdly, the company has to set the "KPIs brand building" in order to monitor the performance of the brand. In particular, for the first phase the KPIs will be mostly qualitative; for the company it is essential to have an awareness of how the brand is perceived by the local population, what the reactions to the changes made are and to identify the opportunities as soon as possible.

Finally, the company has to find a "brand essence" for the target market that is the core of the brand, a promise.

The third step is the implementation or the ability of the company to transform the strategy defined into reality; finally, the company has to monitor the results achieved and, if necessary, to intervene on the brand building strategy in order to correct it and adapt it to the new needs.

Conclusion

The purpose of this case study is to offer recommendations on how important firms operating in the Food & Beverage industry can be most effective in managing their brands abroad and illustrate the required steps and strategic choices that companies need to set in place when deciding to go international.

The investigation is limited to the brand strategy used by an Italian Company entering the Indian market. It is further limited to the investigation of a single company, the Lavazza Company of Turin, and the manner in which the brand strategy was adapted in this specific case.

If improvements can be made to the framework by using other case studies, this guideline could be very useful to companies looking for a structure before entering an emerging market.

References

- BARRON J., HOLLINGSHEAD J., (2004), "Brand globally, market locally", *The journal of business strategy*, Vol. 25, No.1, pp. 9-15
- CZINKOTA M., RONKAINEN I., (2004), *International marketing 7th edition*, Thompson, SouthWestern
- DE CHERNATONY L., (2001), "A model for strategically building brands", *Brand Management*, Vol. 9, N.1, September, 2001
- GHAURI P.N., GRØNHAUG K., (2002), *Research Methods in Business Studies: A Practical Guide*, 2nd ed., Financial Times Prentice-Hall, London
- KAPFERER J., N., (1997), *Strategic brand management*, Kogan Page, Great Britain
- KAPFERER J. (2004), *The New Strategic Brand Management*, 3rd ed., Kogan Page Ltd, London
- KOTLER P., (2005), "Branding and the Organization", in Kellogg on Branding, Tybout A.M., Calkins T., ed. Wiley
- PORTER M., (1985), *Competitive advantage: creating and sustaining superior performance*, New York: The Free Press
- SINKOVICS R.R., PENZ E., GHAURI P.N., (2005), "Analyzing textual data in international marketing research", *Qualitative Marketing Research: An International Journal*, Emerald, Vol. 8, No. 1, pp. 9-38
- SHERRY J., (2005), "Etymology, definition and root metaphor: a perspective", in Kellogg on branding, Tybout A.M., Calkins T., ed. Wiley
- DATAMONITOR, "Hot drinks in India" and "Soft drinks in India", October 2007
- LAVAZZA COMPANY, Lavazza Company website, <http://www.lavazza.it>, accessed 2008