THE PENNSYLVANIA STATE UNIVERSITY
SCHREYER HONORS COLLEGE

DEPARTMENT OF AGRICULTURAL ECONOMICS AND RURAL SOCIOLOGY

THE EMERGENCE OF THE CHOCOLATE MARKET IN ASIA

CHELSEA E. FRANCIS

Fall 2010

A thesis
submitted in partial fulfillment
of the requirements
for a baccalaureate degree
in Agribusiness Management
with honors in Agribusiness Management

Reviewed and approved* by the following:

Spiro E. Stefanou
Professor of Agricultural Economics
Thesis Supervisor

Theodore R. Alter
Professor of Agricultural, Environmental, and Regional
Economics
Honors Adviser

* Signatures are on file in the Schreyer Honors College.

Abstract

The emerging economies of the Asian region, more specifically China and India, prove as ideal prospective markets for competitive firms in the global market landscape. Their large populations are experiencing greater purchasing power and increasing wealth after their governments recently opened their country's doors to foreign investment. As global firms flock to both Chinese and Indian cities, so too do large masses of the local populations in search of jobs. With large amounts of cheap labor and an emerging consumer market the size of the United States in both China and India individually, firms are looking to competitively penetrate these markets by establishing their brands and building market share to capitalize on the rapid growth of the region and further expand their international scope.

The chocolate confectionery industry is one such market. With heavily saturated and stagnant markets in both Europe and the United States, the leading global firms hope to introduce their chocolate products to these emerging Asian economies. With chocolate's unfamiliarity throughout the local population, the main global competitors – Hershey, Cadbury, Nestle, Mars, and Ferrero – have each worked to stimulate demand at a local level. However, with differing backgrounds, histories, and firm structures, each of the firms have attacked the Asian markets of China and India in their own unique ways. Marketing, manufacturing, and procurement have proved as strategic endeavors to the success of a firm in these foreign markets, with marketing proving the optimal obligation for achieved success.

Since the Asian consumers' palates are not attuned to purchasing, liking, or enjoying chocolate, their purchasing decisions are based on the experience the purchase

provides. Chocolate symbolizes a Western indulgence for the new and previously impoverished consumers. With increases in income, these indulgences provide a way for consumers to indulge in their newfound financial freedom. The firms whose brands exemplify these product qualities of extravagance, luxury, and fun are more probable to succeed in these emerging Asian markets. Thus, firms are seeking to create brand experiences to perpetuate sales and to truly drive the growth of their chocolate business within the emerging economies of both China and India.

Table of Contents

Chapter 5: Marketing Strategy & Globalization

Chapter 6: Manufacturing Strategy & Globalization

Chapter 7: Procurement & Globalization

Chapter 8: Prospects for Success

List of Tables

List of Figures

Acknowledgements

I would like to sincerely thank the faculty at the Pennsylvania State University and more specifically the faculty of the College of Agricultural Sciences for its generous dedication to its students. Through this dedication, my undergraduate experience has been an extremely enriching one as each of my professors has aided in my development by positively challenging me both inside and outside the classroom. I would like to extend a special thanks to Dr. Spiro Stefanou for his continued supervision and dedication to my thesis project. Thank you again for all your help. A final thanks to my family and friends who have been a constant source of support throughout my undergraduate experience. Mom and Dad without you both none of this would be possible. Thank you for everything and for paving my road to a bright future.

Chapter 1: Introduction

1.1 Justification

Globalization plays a significant role in today's business environment. Through this business strategy, regional economies and societies are becoming more integrated through increased communication and trade. For business firms, country borders become less significant and apparent in a business context as is illustrated through the North American Trade Agreement (NAFTA) and the European Union (EU). Both NAFTA and the EU, for example, minimize barriers for economic trade and allow for enlarged regional business opportunities in the North American and European continents respectively. Therefore, firms must look outside their borders to stay competitive within the global landscape, capitalize on these consolidated foreign market opportunities, and expand their international scope.

Although firms within developed countries have typically sought investment opportunities in other developed market economies, market saturation and modest market growth rates in these areas have stimulated firms to look elsewhere. Four countries in particular commonly called the BRIC countries - Brazil, Russia, India, and China - have recently caught the eyes of foreign investors. With rapidly growing economies and large populations, these four countries have the potential to become significant global market players and are outperforming many of the world's leading economies.

Of these, China and India have the largest and second largest populations in the world respectively, whose consumers are experiencing greater purchasing power with their drastically increasing incomes. With a majority of citizens living still in impoverished conditions this expansive population also provides for a significant and cheap labor pool. More recently the local governments have encouraged foreign investment by removing strict foreign business barriers and by investing in local infrastructure, education, healthcare, and industry. With greater financial freedom in the consumer markets, a large labor pool, and encouragement by local governments, many firms are focusing their attention on business expansion and development in the Asian region.

Investing in other developed economies has proved much easier for firms because of fairly similar consumer markets, governments, and business environments. Since both China and India are atypical of many firms' previous foreign investment destinations, the firms' standard approaches have been challenged by local cultures, governments, and economic conditions. Business expansion into these Asian countries has left many firms across various industries suffering from market failures, judicial problems, and ethical challenges. With such an unfamiliar business environment, it is interesting to explore how firms have tailored their expansion approaches to fit these Asian societies and to learn from these firms' successes and failures how to better serve the emerging Chinese and Indian markets.

As the local consumers experience increases in income, they seek different amenities that associate with a more high-end way of life. Often looking to consumer trends in the Western cultures, classic and iconic Western indulgences prove extremely successful in the Asian Region. One such Western indulgence is chocolate. Previously unaccustomed to enjoying or purchasing chocolate products, the Asian populations are unfamiliar with this classic Western treat. Chocolate does, however, have the potential to fit these consumers' purchasing trends since it represents a classic Western treat that is marketed through products simple enough for the masses but can also fulfill premium and super premium niches.

Without a previously established chocolate industry in both China and India, global chocolate confectionery firms have struggled to develop a market in these emerging Asian countries. Each firm has worked to stimulate chocolate demand at local levels in their own unique ways. The five leading global firms have had both their successes and failures within the region throughout this process and have learned the struggles of cultivating a new market in foreign cultures.

1.2 Thesis Objectives

This chocolate industry, therefore, provides an ideal case study as to the measures firms take in approaching the new and emerging Asian markets. The main objectives of this study are:

1. To explore the current situations in both the Chinese and Indian business environments within the context of the chocolate industry.
2. To investigate the competitive environment within the Asian chocolate market.
3. To compare and contrast firms' successes and failures through their overall business, marketing, manufacturing, and procurement strategies.
4. To prospect the future success of the competitors within the Asian chocolate confectionery industry.

1.3 Thesis Overview

The next chapter provides a description of both China and India including the history and background that has led to each country's unique economic revolution. After better understanding the overall business environment of each country, exploration into their current chocolate industries will put these emerging markets into context according to their size and shape within the overall global chocolate confectionery market. A more detailed introduction to the market follows by focusing on the top five global firms within the chocolate confectionery industry, including their history, business structure, and overall business strategies. In subsequent chapters, these firms' Asian marketing, manufacturing, and procurement strategies will be explored in detail and will help prospect the future success for firms within the emerging Asian markets of the unique and rapidly developing economies of both China and India.

Chapter 2: Overview of Main Players: Asian Countries

2.1 Introduction

Although their economic timelines vary, both China and India are experiencing rapidly increasing gross domestic product (GDP) rates, and with the two largest populations in the world, trumping the third largest, the United States, by nearly fourfold, these countries cannot go unnoticed. Firms are rapidly seeking to expand their businesses abroad and penetrate these developing markets to stay competitive and to not miss out on capturing their share of the growing middle class. In addition to explaining the history and new transformation of these evolving Asian countries, I contrast their development to Japan's. Although Japan is part of the Asian region, it has experienced a history more similar to that of the Western world. Even with its different evolution, however, it still holds many cultural similarities to that of both China and India, and therefore, provides a unique perspective into perhaps the future of these developing nations.

2.2 China

2.2.1 Introduction

China has been in the world spotlight since the early 1970s and recently joined the World Trade Organization and hosted the Summer Olympics and the World Expo this year. In fact, these events illustrate the results of a new and developing China which is positioning itself as a significant world power. To understand this transition more clearly though, it is first important to understand the state that China was in prior to this revolution.

2.2.2 History

China had been a dominant and influential power for many centuries. While the United Kingdom rose as a world power in the 19^{th} century, and the United States in the 20^{th} century, China dominated the globe for 18 centuries prior (Guay, "China in Transition" 19). It is paradoxical that any power could monopolize the leading global position for that long, let alone the impoverished, agrarian China that many in the world have come to know. Recently, China has opened its eyes to the rest of the world and more importantly its doors which has led to revolutionary results including skyrocketing GDP growth year after year. With average GDP growth in the double digits, the recession barely slowed this country down. While the United States suffered from less than 1 percent growth, China, even during this economically challenging time, experienced GDP increasing by 8 percent per year (Guay, "China in Transition" 5). Prior to this record growth, however, China was in dire straits. It was a country primarily based around farming, and its population made a pittance for income. With a communist government, the state owned all businesses and had high regulations on production quota, work weeks, and wages. This environment allowed little room for productivity improvements and stifled any ambitions to further expand the country's economic situation. The government also made it near impossible for foreign firms to undertake business deals within China. While the rest of the world was preaching about globalization, the Chinese population had global blinders on and forged ahead within the boundaries of their own country.

Why was China so closed to globalization? Was it just unprogressive and blinded by its own internal interests? On the contrary, China knew what it was doing. With such a rocky past that was shaped by foreign aggressors, China wanted to shield and protect itself from any outsiders. To start, in the 19th century the Chinese government wielded very little authority over its country. When European aggressors came looking to expand their trade, China's government could do nothing to stop them. Demands were placed for preferential trade and the country lay in the hands of these foreigners as they exploited the country and its people. For example, Great Britain was experiencing a trade deficit and looked to China to overcome this. Against the will of the Chinese government, the United Kingdom traders introduced the Chinese citizens to opium. As citizens became addicted (Guay, "China in Transition" 19), the European power was able to maintain steady, lucrative trade while the Chinese government was forced to stand by and watch. The United States also expanded into China in the late 1800s and forced the government to allow an open door policy. And the European and American powers were not the only ones in on this country's exploitation.

Another cruel example of the shaping's of China's global mindset involved the Japanese South Manchurian Railway Company. While the Chinese emperor wielded little power, the country was instead controlled by more localized warlords. Upon this company's invasion into China, it assassinated local warlords with its military, who were seen as a hindrance to the company's expansion and spread of its power. The emperor was again at the mercy of this Japanese company that continually and aggressively pushed through the country killing anyone who posed as a nuisance or stood in its path. Although back home the Japanese were unhappy with the antics of this Japanese-run company, a Japanese impression was left on the local Chinese, and there are still resentments between the countries today. In short, China's more recent past was shaped by aggressive foreign multinationals, and its people “languished in poverty and starvation as a result of [these] brutal foreign aggressions” (Jintao). It is no wonder, therefore, that the country had sealed itself off from the rest of the world since the mid 1940s.

2.2.3 Transformation

It was not until the late 1970s that China once again opened itself to the rest of the world through a new government implemented program. With other countries prospering through global trade, China saw an opportunity to succeed and with fears of being left behind, jumped on the “globalization” bandwagon. The new program was created “to firmly seize the important window of strategic opportunities” and “to build a moderately prosperous society of a higher standard in an all-round way for the benefits of [China’s] over one billion people” (Jintao). The program also transitions China from a purely socialist country to one with capitalist tendencies as well, by encouraging local, now privately owned businesses to prosper and allowing for foreign direct investment (FDI). And not only is it allowing it, but it also has policies in place to encourage FDI. With China’s economy ranked as the second largest in the world today, a little over 30 years after reopening its doors, and trailing only behind the United States (Barboza), China seems to be fulfilling its dream. Already since 2005, China’s inward FDI flow has nearly doubled and is three times the size of rival BRIC country, India’s (Guay, “China in Transition” 9).

China’s population is the largest in the world at 1.3 billion as compared to the United States’ 300 million (Rosenberg). As FDI has increased and Chinese farmers flock to the cities to find work from these foreign companies the average Chinese income is drastically increasing, as illustrated by Figure 2.1. With this, its poverty rates are decreasing, and people have more purchasing power. Combine the massive population with a rising middle class, and you have an opportune market environment where foreign companies are scrambling to gain a foothold. Although GDP per head is still extremely low, firms calculate that if only 300 million of these 1.3 billion people have the capacity to purchase their products then they successfully tapped into a new market the size of the entire United States and have exponential growth potential. Although there are country factors that will hold them back, such as the poorly established infrastructure of China, the ten plus million people a year that are predicted to move to the cities over a decade long period, represent a substantial market in and of themselves. The auto industry has already experienced the extent of this success, for example, as the number of cars on China's roads has nearly tripled over a five year period alone. Also American companies' with businesses in China have tripled their profits since 2000 (Guay, "China in Transition" 46).

The biggest problems that firms are experiencing with China's business environment today come as a surprise. Although there are plenty of entry level employees flocking to the cities, the top concern for businesses is finding middle and senior level management. There is a lot of staff turnover as foreign firms compete for the limited pool of qualified employees. Although the government does not pose a complete political risk, it does have its inefficiencies, and piracy of intellectual property is a continuing problem within this Asian market. The infrastructure, as mentioned before, also poses an obstacle to business as Figure 2.2 depicts the extent of the Chinese transportation system. China's eastern shoreline is populated with 8 of the 10 largest cities in the country (Dube).

Although infrastructure is more developed in this region, the further inland you travel the worse the conditions. Even in big cities, companies are finding distribution an obstacle since the retail stores are often small, family owned shops and do not have one connecting distributor.

One unique advantage that the Chinese market offers foreign business was shaped by the rule of the communist party and the country's culture. Since China has been run as a socialist country with little room for self expression and unique opinions, fads spread rampantly as people want to stay integrated in the community. People are accustomed to fitting in with the crowd and show little individualism. Also maintaining face within the community represents a unique aspect of the country's culture. Therefore, as companies come in, they experience optimal results once they merely crack the market because of the unbridled spreading of ideas and group mentality.

All these factors add to China's unique, developing country and create opportune markets for foreign firms looking to grow their business. Since China's reopening, firms have scrambled to grasp a share in this growing Asian market because of the endless capacity to succeed and prosper. With China's skyrocketing GDP growth and fast-paced reshaping, it is becoming a noteworthy, global power to be reckoned with, and it will be interesting to see where the future leads it. Many developed countries fear the rise of this massively populated, communist-run country as China's rise applies increased pressure in the competitive global market and gives the country more say in the world's economic and political environment. Only time will tell the future of the global powers' positioning and the extent of success that the rising China experiences.

2.3 India

2.3.1 Introduction

With a similar fear and distaste to that of China of foreign multinationals, India sealed itself off from globalization for decades. The country's doors were finally opened to foreign business in the early 1990s with revitalized enthusiasm. Upon opening, India has experienced extensive economic growth and has received widespread attention from ambitious business moguls. Today, despite the recession, India has experienced 6 percent or more GDP growth rates (Guay, "India" 8), and although this proves lower than China's, it is increasing and still provides for an enticing economic environment. Already since its reopening in the 1990s, the Indian economic landscape has drastically been improving and the country poses as a great up and coming competitor in the global market.

2.3.2 History

A similar question to China's is to be asked of India – why did it seal itself off from the world, only to suppress itself from becoming a major global economic power for decades? The answer is similar to that of China's. India had drastically suffered from a domineering and exploitative foreign multinational, the British East India Company. Where many aggressive multinationals shaped China's history, the majority of India's struggles can be traced back largely to this one company. The company's business was to send local Indian spices back to England, but it soon evolved to much more. Similarly to China, India was disjointed and ruled by many different regional moguls. This system was laced with corruption and inefficiencies, and to overcome this, the East India

Company used military force to put their own local governments into place. Although the East India Company shareholders were displeased with this approach, they were more willing to turn their heads from these actions with the high profitability of the company. The company pushed its business further as it maintained a heavy and forceful military presence that eliminated local governments and menaced foreign competitors. Aside from its exploitative business efforts, the company also "philanthropically" wanted to civilize the local civilians. Through this contorted mindset, abstruse company culture, and aggressive attitude, the company pushed its business matters deeper into political affairs as it soon placed itself as head of the government. It was at this point that the British government could no longer turn its head to the aggressive endeavors of its trading company as the East India Company fell into bankruptcy when it realized it did not have the resources to manage an expensive political system covering the expanse of modern day India, Pakistan, and Bangladesh.

The final straw that destroyed the company was a battle where the troops, composed of both British and natives, revolted against their leaders. Great Britain finally stepped in, however, but the extreme damage to colonial relations had already been done. Great Britain removed the East India Company from the Indian colony by withdrawing its charter privileges and had to step into the colony in attempts at amending relations and cleaning up the mess leftover. With the British crown now controlling the entire country, the region was swept with extreme famine and the local population suffered yet again under British rule. After a history of suppression by foreign operations, particularly the British East India Company, it is no wonder this nation had developed such distrust and fear of foreign multinationals.

2.3.3 Transformation

Once India gained its independence from Great Britain in 1947, it sealed the country off from foreign investors. It adopted an import substitution strategy that the government used to protect domestic companies. This strategy employed high tariffs that had customs-duty collections as high as 60 percent (Guay, "India" 26). Today that number is below 10 percent. In structuring their economic system, India also looked abroad to its Soviet neighbor. At the time the Soviet Union employed a planned development model. Seeing its neighbor's success, India adopted a similar strategy and centrally planned its economy. In this way, the government was in control of shaping the way its economy progressed. Permit Raj was another strategy the new, liberalized Indian government utilized as well. This also put extreme control in the hands of officials, although a weak democracy at the time. Companies were required to ask the government for permission and licenses to utilize resources. This strategy hindered business formation as it was very time consuming and inefficient. It also fostered corruption as officials were bribed by local companies to obtain necessary licenses.

After seeing the failure of the model in the struggling Soviet Union, India recognized similar issues that could plague it as well. In the early 1990s India also needed funding from the International Monetary Fund for its suffering economy. Stipulations for the loan were set, however, that pushed India to make economic reforms. These reforms known as the "Washington Consensus" involved decreasing tariffs, privatizing companies, and creating a more open market economy (Guay, "India"). Furthermore, India recognized the need for change as it now looked next door to its other neighbor, China. China experienced rapid growth nearly fifteen years prior to India, and India recognized that following China's example in its evolution into a major market player would be a strategy to stay competitive.

The changes that led to the globalization of India's economy occurred in the early 1990s. In 1992, India's economy was still primarily reliant on the "old" industry sectors of steel, locomotion, and iron. Through its transformation, however, India has become a heavy service-oriented economy with services representing approximately 55 percent of its GDP (Guay, "India" 17). Manufacturing represents another 28 percent, while agriculture is still relatively high at 17 percent (Guay, "India" 17). Unlike India, China has predominately built itself around the manufacturing industry with 46 percent of its GDP coming from this sector alone and with 44 and 10 percent coming from the service and agricultural industries (Guay, "India" 17), respectively (Figure 2.3). In addition, India's export rates are dramatically increasing, although it still has relatively high tariffs. Demographically, India has a very young population with 1/3 of its population under the age of 20 (Guay, "India" 23). This, as well as the higher number of university graduates, promises to cultivate a growing economy so long as jobs can be found for the 9 million individuals entering the Indian workforce each year. Outsourcing from foreign firms has created plenty of job opportunities with 2/3 of this business coming from the United States alone (Guay, "India" 21). In addition to taking advantage of this extensive workforce, India's middle income class is rapidly growing and represents the United State's population size today. With a population of 1.2 billion people (Rosenberg), however, this number is sure to increase, providing large attractive markets for foreign investors.

There are some dramatic problems that face India and its bright future, however. India is in dire need for a better developed infrastructure. For example, foreign firms that have already entered the country have their own back up electric systems since the Indian-provided electricity is so unreliable, and electricity has not even been introduced yet to many rural areas. Furthermore, travel through the country poses a huge challenge. The country is run more like a feudal system than as a unified nation, and therefore, with each border crossing come inspections, paperwork, tolls, and queues. Border lines are closed at night, and bandits are a problem as well. A trip that would take 24 hours in the United States can take as long as 7 days in India. The government is working to address this problem, however, as the first subway system is being built in its capital city, Delhi. Furthermore, with the entrance of multinationals, comes more development that will benefit the country as companies invest in the local communities and stimulate the local economy.

India's political system poses an additional threat. As a democracy, India's system of political governance is a messy one with constant formation of coalition governments. Because of these coalitions, a consensus is very difficult to accomplish and leadership seems to be ever changing. This is in stark contrast to the authoritarian government of China and provides both advantages and disadvantages to India's economic growth. The parties represented all have differing opinions, with democrats, socialists, communists, and religious groups all fighting for power. Also, as illustrated with the transportation problems, India has failed to unify its nations and operates as more of a feudal system. This feudal system discourages integration and productivity as was exemplified, whereas China's authoritarian government ensures unification and commonality to the highest degree as it even highly regulates the Chinese media. Although this regulation has helped advance China quickly, even the government fears its demise as information flows more easily, citizens become more educated, and market capitalism flourishes. And if economic growth wanes, there may be great dissent by unhappy locals.

Another issue that India faces is conflicts with its neighbors, Pakistan and Bangladesh. Before Great Britain left India, the country was first partitioned into modern day India and a Pakistan that included Bangladesh. This division was made to appease both Muslims and Hindus residing in the region. India became a primarily Hindu state, while Pakistan, later divided into modern day Pakistan and Bangladesh, was Muslim. Religious groups uprooted to their appropriate countries, but resentment and hostilities are still encountered today.

India has worked to develop its education system and has proved fairly successful, but it is a victim of success as it finds many of its best students moving abroad, leaving little of its governmental educational investments behind to benefit the country. Although India's workforce is known today for its intelligence and more specifically information technology abilities, there is a quality versus quantity issue that faces the country. Many of the people at the bottom of the social pyramid are highly uneducated. Indian society continues to be a two-tiered system with the first tier representing privileged individuals living in Western style cities, while the lower tier still lives in rural India, a landscape, remember, that has not even seen electricity, running water or mechanization yet. Over 2/3 of India's population reside in this bottom tier and conflicts have arisen as the well-educated and endowed Indians expand their production into the rural parts of the country with little care for the local population (India's Global Ambitions). This 2/3 still relies on inefficient agricultural practices that require hard manual work and produce minimal wages at approximately $1000 per year for a family of five (India's Global Ambitions). Furthermore, India's poverty rate is double that of China's (Guay, "Business Environment of Africa" 6). Therefore, in addition to educational gaps are income gaps that may prove to stifle India's overall development.

In addition to being inefficient, India's government is also protective. Locals and their government are still very skeptical of foreign investors. This skepticism, however, is proving to stifle India's development. For example, India's retail sector employs more than 30 million people and is one of its biggest business sectors in the country, while organized retail accounts for only 2 percent (Guay, "India"). Carrefour and Wal-Mart have been looking to expand into India, however, but have faced widespread opposition from the country's population. People fear the loss of jobs and domination of the sector by foreign businesses. In reality, Wal-Mart, for example, provides continuous training and employee development that in the long run could help individuals advance in their careers and could provide new operational strategies to improve current inefficiencies to help advance the country. A deterrent for Wal-Mart, Carrefour, and all other businesses, however, is the difficulty firms face in laying off employees. Similar to the "Permit Raj" era, the government must be consulted to fire an employee and approval must be granted. Again this is a very inefficient process and discourages mass employment.

Despite these difficulties India still proves to be a promising place to develop businesses, as more and more foreign investors are entering India's market. Since 1995 FDI inflows have increased by over eightfold (Guay, "India" 15). Although still behind

China, India proves a successful competitor with accomplishments such as this after being open to FDI for only a short period. Furthermore, with rapid GDP growth rates, an increasing middle class income, and the second largest population in the world, competitive firms are seeking to penetrate and secure their shares to capitalize on this opportune market situation.

2.4 Japan

Despite its regional proximity and a few similar cultural norms to the emerging economies of both China and India, Japan is a mature economy that only recently dropped to the third largest in the world after China, but both are still behind the United States (Barboza). It is a tremendous feat for such a small country that is only about the size of California to be competing with two of the largest countries in the world. Japan also boasts the world's tenth largest population at 127 million people with the fifth highest GDP per head in the world (Dube), trailing only behind the United States, Ireland, Canada, and the United Kingdom (Guay, "Comparing European Economies" 6). This average GDP is about $28,000 per head, with the lowest decile averaging $6,000 per head annually and the highest $60,000 (Guay, "Comparing European Economies" 24). In contrast, 40 percent of Indians live on less than $1.25 a day (Guay, "Business Environment of Africa" 6). Furthermore, Japan is a much more developed nation, experiencing its prosperous, industrial boom in the 1800s. Today while China and India were boasting GDP increases of 10 and 8 percent, respectively, Japan was increasing by barely 3 percent (Guay, "Comparing European Economies" 7).

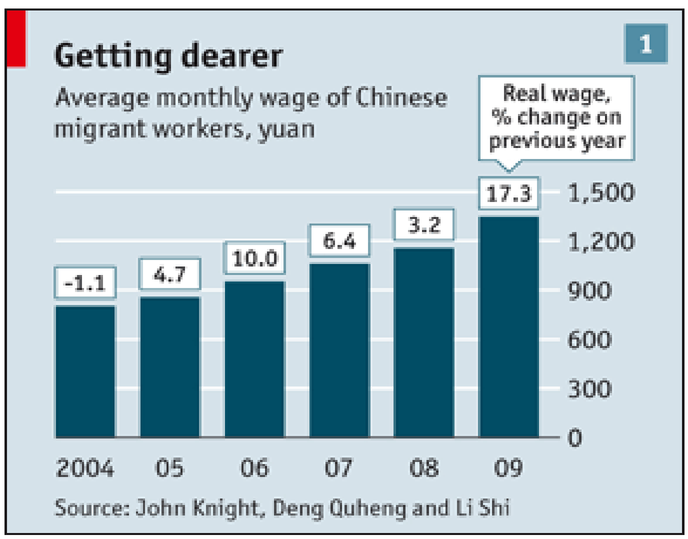
Japan is also known for its educational prowess as its tertiary graduation rates exceed that of the United States'. Further economic development is ultimately encouraged as well, as Japan's research and development represents a high percentage of its GDP, again higher than those in the United States industrial sectors. Japan also boasts 115 patents per million inhabitants (Guay, "Comparing European Economies" 47). Clearly education, learning, and competitiveness are encouraged in the Japanese business environment. In comparison, the United States has about 55 patents per million while China has roughly 1 and India's number is even fewer (Guay, "Comparing European Economies" 47). Almost 90 percent of Japan's households have computers (Guay, "Comparing European Economies" 44). In contrast, 2/3 of India is in poverty and has yet to experience electricity, while the majority of the Japanese utilize such advanced technologies on the daily.

2.5 Concluding Comments

Clearly Japan represents a different level of development among Asian economies, but it will be helpful in the next chapter to compare the size and shape of the Japanese chocolate market to those growing in both China and India. Both these emerging economies have been shaped in fairly similar ways by aggressive, foreign multinationals, and more recently, both have opened their doors once again to globalization. The benefits of this reopening have come at rapid rates as both countries are experiencing profound transformations. With the world's largest populations, a growing middle class, and rapidly increasing GDP rates, both China and India have caught the attention of the rest of the world.

While Japan leads as a world economy, both China and India are struggling to successfully capitalize on their full potential. Both developing economies, however, have captured the eyes of many foreign businesses, and firms are flocking to this region to capitalize on this potential and penetrate the market. One such industry that has been developing is the chocolate market, as the hungry world confectionery giants attempt to claim their stake and win over the stomachs of both the Chinese and Indian markets. The following chapter investigates the historical evolution of this market in each of these growing economies.

Figure 2.1: Average monthly wage of Chinese migrant workers

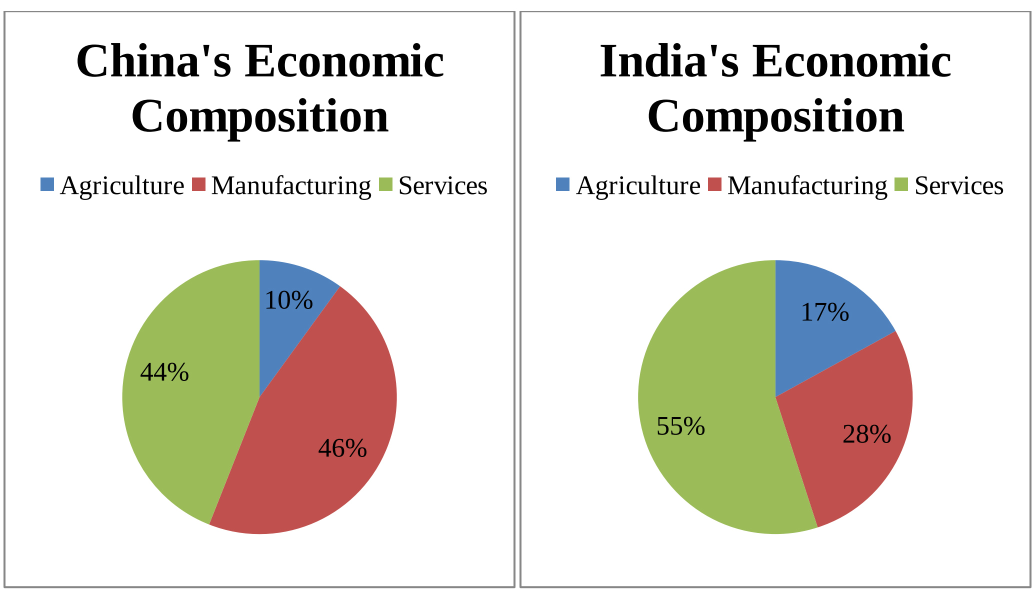


(Guay, “China in Transition” 50)

Figure 2.2: China's Infrastructure

(Guay, "China in Transition" 37)

Figure 2.3: China & India's Economic Compositions



(Guay, "India" 17)

Chapter 3: The Current Global Chocolate Market

3.1 Introduction

The current global confectionery market is estimated to be a $1.8 trillion annual market (“Cadbury 2008” 18). For the purposes of this thesis, it will be simply divided into the European and United States market and the Asian market. Within this first market, chocolate has had a longstanding history. The second represents a new and appealing market to global chocolate confectionery giants. Hershey, Cadbury, Nestle, Mars, and Ferrero comprise just over 46 percent of the market with many other small, regional companies carving out tiny pieces of market share as well. Although these firms will be discussed in great extent throughout the following chapters, it is important to identify them as they play a huge role in the development and history of these markets. Each of these firms has unique histories that shape the way they operate within the market. Everything from their operations to their product tastes from their international outlook to their overall business structure illustrates each firm’s own unique qualities, but one thing remains clear: they have successfully penetrated the European and United States chocolate market and are working on the Asian market.

3.2 The European and United States Market

The emergence of the chocolate market in Europe and the United States that most resembles the one we know today originated in the mid 18th century. Today it seems that Americans and Europeans alike are hooked on chocolate. American chocolate consumption is over 5 kg per head per year, while Europeans nearly double that extraordinary amount of chocolate with over 10 kg per head per year (Shen). Each region prefers its own flavors, with Americans preferring chocolate and peanut butter combinations and Europeans preferring creamy caramelized flavors that include nuts. European chocolate also tastes drastically different than the United State's favorite, Hershey's. Hershey dominates the United States market with a 43 percent share. Mars trails in second with a 31 percent share as of 2010, while Nestle, Cadbury, and Ferrero capture even smaller amounts of this market. Their unique flavors, although standard in Europe, do not accurately fit the American chocolate profile.

In addition to the current variety of the market, both Americans and Europeans alike, but more specifically Americans, are trying to mold their favorite confectionery item into their new cultural health craze. Recently the chocolate market has taken a turn from the relatively sweeter milk chocolate to a higher percent cocoa, dark chocolate flavor. This turn arose as a reaction to real and perceived health promoting aspects of dark chocolate (Das). Dark chocolate and premium brands are performing exceptionally well, illustrating the progressed and differentiated state of the market. Both the European and American chocolate markets are heavily saturated and have been experiencing near stagnant growth, with sales only increasing at the rate of population increases. With such stagnant growth and with little room for expansion, the confectionery giants are expanding their lines to appeal to this growing dark chocolate trend. Firms are also exploring options to grow sales by expanding into emerging markets. Companies in all industries want to seize some of the exponential growth the Asian markets are experiencing, and the chocolate firms are no different.

3.3 The Asian Chocolate Market

3.3.1 Overview

The chocolate market's expanse varies across the Asian region; therefore, it is less easy to categorize its overall state. For the purpose of this thesis, the focus is on the emerging economies of China and India. But Japan, as a mature economy within the region, provides a unique perspective as well. Its market represents a middle ground between the underdeveloped chocolate markets of China and India and the saturated markets of the United States and Europe. Therefore, it is interesting to compare and reference this Japanese market since it holds more cultural similarities with its Asian neighbors and potentially forecasts the growth and development within these expanding chocolate confectionery markets.

3.3.2 China & India

Unlike the American and European consumers, the consumer in the emerging Asian countries has little to no history with chocolate confectionery. The chocolate firms primarily entered in the 1980s and 1990s, although India has a longer standing history with Cadbury's and Nestlé's early presence. To the locals their chocolate products were viewed as exotic, foreign luxury goods. In fact, when the sweet, Westerners' chocolate was first introduced to this salty flavor favoring culture, consumers were hesitant. The sweet products were nearly unpalatable to this region's consumers. Although Asians in these countries were readily interested in adopting Western styles, chocolate being one of them, the chocolate firms realized they needed to modify the sweetness to appeal to local tastes. With the development of a completely new market, the firms experienced a level playing field and each has taken various approaches in staking their claim in its development.

Ferrero's Ferrero Rocher line, introduced in the 1980s, embodied exactly what the Asians were looking for. It represented a luxury, Western good and appealed to the local culture with its unique and elaborate packaging. Its gold wrapper symbolized wealth and good fortune in China specifically and left a first impression on the new Asian chocolate consumers. With the help of Ferrero Rocher, today chocolate is important in the gift-giving traditions of both the Indian and Chinese cultures. In India, for example, sending boxes of Ferrero Rocher during occasions and holidays such as Diwali, Eid, and Christmas are commonplace. Chocolate products are also passed out with wedding invitations and birthday cards. With 2006 being an ideal year in the Chinese culture for marriages (Fishbein), the upsurge in marriages triggered an upsurge in chocolate sales, clearly illustrating chocolate's meaningful role in the Asian societies.

Although a new industry to both countries, its growth is annual rates of 10 percent and 15 percent in China and India respectively (Shen; "Ferrero To Scale Up"). China's chocolate business currently represents approximately 1.1 percent of the global market (Shen). The industry captures only about 300 million people out of China's 1.3 billion. Over the past five years, the chocolate confectionery business nearly doubled in China to over $800 million in sales (Fishbein). Furthermore, the Chinese consume a mere 99 grams of chocolate per head annually (Fishbein), a measly amount compared to the saturated US and European markets. This annual consumption represents 1/50 of the United States' and about 1/100 of that of Europe's. The Indian market proves no different. Although slightly behind the Chinese market in sales, India's chocolate confectionery sales increased by 64 percent to about $400 million over the past five years (Fishbein). The Indian annual chocolate consumption per head is slightly higher than China's, however, at 165 grams, which still leaves lots of room for development since it is about 1/30 and 1/60 that of the United States' and Europe's respectively. Obviously these underdeveloped markets have a lot of potential when factoring in the Asian consumer's increasing purchasing power and the appeal of this confectionery item. The low percentage of the total population captured by the current market size, along with the meager consumption per capita further illustrate the market's high growth potential.

The early moving chocolate firms that hoped to capture this growth potential have been very successful. Foreign firms, including Cadbury, Nestle, Mars, and Ferrero, account for over 40 percent of China's chocolate market (Shen). They face some local competitors in this country, primarily Golden Monkey and Leconte, but they have an advantage over these local firms since chocolate is still seen as a way to mimic Westerners, and the local competition's products do not authentically fulfill this niche. Mars is the leader in the Chinese market with about a 15 percent share. Nestle is aggressively pursuing this market as well but falls in second place, while Cadbury is the third largest confectionery giant in the country. Ferrero has done extremely well with its Rocher line also. Since both Nestle and Cadbury have a longer standing history in India with a 60 year presence, they hold huge portions of the Indian market. As of 2008, Cadbury led in the industry with over a 60 percent share, while Nestle held over 30 percent. Together the two have worked to cultivate and grow the Indian chocolate market.

In both China and India, teenagers represent the biggest candy consuming market. China's younger population has been flocking to cities in hopes of obtaining higher paying jobs. As income increases, chocolate represents a relatively inexpensive way for these new consumers to mimic Western culture, thus, the upsurge in chocolate sales. The Chinese chocolate industry is highly concentrated in the large cities such as Beijing and Shanghai, to which this target market with its rising incomes is flocking, therefore, making it an ideal market in which to tap. India's population is also heavily dominated by a younger age group. With India's expansive young population, such a large and impressionable market has become the target for chocolate marketing since it represents such a vast majority. So although this younger population is a major target market in both China and India, the reasons why this is vary.

Another commonality surrounding both the Chinese and Indian chocolate industry is the difficulty the competing firms experience in distribution. Both countries lack centralized retailers. Instead the retail industry is dominated by many small, family owned stores and street vendors. This poses a huge obstacle as the foreign chocolate firms hope to crack the market through wide distribution of their products and brand awareness. Also in China more so than India, intellectual property theft poses another obstacle to business. However, with skyrocketing GDP growth, enticing demographic profiles, and the emergence of a new middle income class, these problems are worth overcoming. Both China and India prove two enticing markets and any competitive firm would be foolish not to carve a stake in their high growth chocolate industries.

3.3.3 Japan

Although not as popular in Japan as in the European and United States markets, however, chocolate has played a heavy role in the Japanese confectionery diets. Annually, the Japanese average 2 kg of chocolate per head, and this is primarily consumed over the holidays (Shen). Similar to both the Chinese and Indian markets, chocolate has become a standard gift idea, especially over Valentine's Day when women give the men in their lives gifts of chocolate. The two week period prior to this holiday commands approximately 13 percent of the chocolate companies' annual income ("Japan's sweet tooth").

The Japanese chocolate market is also heavily saturated by local chocolate confectioners. There are five big candy companies in Japan: Lotte, Meiji, Morinaga, Ezaki Glico, and Fujiya. Together these companies account for approximately 80 percent of the overall Japanese confectionery business ("Japan's sweet tooth"). Although the local competition has a stronghold on the market, foreign firms have also fought for a piece as well. Nestlé's Kit-Kat is the number one selling confectionery brand in the country (Madden). Mars and Hershey chocolate products are also the most stable exports from the United States to Japan. One problem the foreign firms have experienced in Japan and one reason they represent only a small portion of the market is because they have not adequately adapted their packaging to take on the local firms. Almost half the chocolate confectionery items that are sold in Japan are packaged in ornate cardboard boxes with decorative tin foil surrounding the chocolate ("Japan's sweet tooth"). Paper wrappers do not do well in the country, and according to market experts, correct packaging is one of the most important factors to success in Japan. This correlates with the gift-giving role of the product, because it is important that consumers give high quality, extravagant-appearing gifts. Traditional solid chocolate bars also do well, but to really succeed and expand market share, the high-end chocolate provides the most opportunity.

Unlike in both China and India, Japan has a better established retail system. Chocolate is marketed through convenience stores that primarily target 10 to 30 year olds, through supermarkets that target late 20 to 40 year olds, and through train and subway stations that target the general population ("Japan's sweet tooth"). The lower end chocolate items are purchased in these locations and do not do that well if they are priced higher than 200 Yen (USD $1.60) ("Japan's sweet tooth"). Foreign chocolate firms are most successful at reaching these markets through the use of distributors since they can capitalize on established retail outlet relationships. The high end products are sold through specialty candy stores or within exclusive department stores like Sanrio and Honey. This retail outlet is successful in the European and American markets as well, illustrating the similar and established distribution system in the country.

3.3.4 Comparison

Clear differences are apparent between the Japanese chocolate market and the emerging Chinese and Indian markets. Chocolate firms are struggling to widely distribute and push their brands in the developing countries, while they merely need to tap into established supply chain relationships in Japan. Local competition is fierce in Japan, however, as these firms dominate an 80 percent share of the market as compared to foreigners. On the flipside, India's market is dominated by foreign firms that capture almost 90 percent of the market, while these firms capture just under half of the Chinese market. The target markets are also more narrowly focused in both India and China than in Japan. Furthermore, the current Japanese chocolate market is growing at a slower rate of 3 percent annually as compared to the skyrocketing growth rates within both China and India's markets that are 3 to 5 times higher ("Japan's sweet tooth"). A few key similarities do exist however. The Asian cultures all prefer salty food to that of the sweet chocolate products of the West. They also like fruit in their desserts. Furthermore, gift giving has been the main role of chocolate confectioneries and has been a key factor in the industry's growth.

3.4 Concluding Comments

Although the main chocolate firms have to cater to the demands of a new market, work to develop a brand presence, and successfully distribute their products, it is no wonder they are each looking to Asia's developing countries of India and China. A chocolate market has clearly and successfully been established in the more advanced Asian economy of Japan, and with many cultural similarities there is potential to optimize a market in India and China as well. The rapid growth rates of the countries' current market over the past decade, the increase in consumer purchasing power and the vast populations of both countries prove ideal situations. Even the smallest stake in the market will lead the major firms to experience increased sales. This is especially important as the firms, aside from a developing dark chocolate market in the United States, are experiencing stifled growth in the heavily saturated European and American chocolate markets. The future of both the Chinese and Indian chocolate markets offers strong potential as illustrated by the consumption and growth rates compared to the European and United States markets in Table 3.1, Table 3.2, and Table 3.3, and it proves essential for competitors to capture their share of these rapidly growing emerging markets.

Although both the Indian and Chinese markets represent promising potential growth markets, each of the five largest chocolate confectionery firms have taken different approaches to capture them. These approaches can be correlated to previous firm expansion from home countries into more developed countries and also represent each firm's unique personality. The following chapter will introduce us to the five industry leaders through a brief history of each, and each firm's previous international expansion strategies will be explored as well.

Table 3.1: Comparison of Country's Chocolate Markets

	Europe	*United States*	*Japan*	*China*	*India*
Annual Consumption Rates per head	10,000 g	5,000 g	2,000 g	99 g	165 g
Market Leaders & Market Share	Unknown	43%: Hershey 31%: Mars 7%: Nestle	80%: Local firms 20%: Foreign	15%: Mars Nestle Cadbury	60%: Cadbury 30%: Nestle

Table 3.2: Chocolate Confectionery Market Growth Rates

	Developed	*Emerging*	*Total Market*
Chocolate Confectionery Growth Rates (2003-2008)	3%	13%	6%

("Cadbury 2008" 18)

Table 3.3: Chocolate Confectionery 2008 Market Sales per Capita			
Country	*Chocolate Sales*	*Population*	*Chocolate Sales per Capita*
United States	$16 billion	301 million	$53.16
Europe	$35 billion	728 million	$48.08
China	$813 million	1.3 billion	$0.63
India	$394 million	1.2 billion	$0.36

(Freund)

Chapter 4: Overview of Main Players: Chocolate Firms

4.1 Introduction

For the purpose of this thesis, I have focused my attention on the five largest firms in the industry: The Hershey Company, Cadbury, Nestle, Mars, and Ferrero. Although these firms hold leading positions in the chocolate confectionery market, each has achieved this position despite varying backgrounds and business strategies. Prior to delving into the chocolate firms' expansion into the Asian market, it is first important to look at their business structure, history, and overall globalization strategy. This chapter also provides a shallow history of the firm's expansion into the Asian markets, with a primary focus on China and India. Throughout this historical and general expansion analysis, it is important to note key differences within the firms that will be discussed in the following chapters.

4.2 The Hershey Company

4.2.1 Overview

The Hershey Company (Hershey) began its chocolate production in Hershey, Pennsylvania in 1894. Throughout its history, it has primarily focused on what it does best – making chocolate and non-chocolate confectionery items, although there were a few times when it tried expanding its brand to no avail. The first attempt was in the 1960s when Hershey first explored the pasta business, but by the late 1990s it sold it for $450 million to New World Pasta, LLC (Reuters, "Hershey Sells"). In 1979 Hershey also purchased the Friendly's Ice Cream chain, but again sold this less than ten years later ("The Hershey Company: History"). The last was a more recent attempt to enter the snack food business. In 2005 Hershey went so far as to create a snack food division and recruited an executive from Kraft, the leading snack manufacturer, to lead it (“Hershey Names Snack Leader”). Unfortunately, however, this business endeavor was also a failure, leaving Hershey to again center itself on its confectionery products. Today its main brands include Hershey’s Kisses, Reese’s, Twizzlers, Mounds, and York, to name a few. Kit-Kat is also a big seller in Hershey’s United States market since Hershey’s licensing agreement with Nestle gave its brand ownership to Hershey for production in the US market. Furthermore, since Hershey and Mars together dominate the United States confectionery business, Cadbury relinquished its brands to the US market through licensing agreements with Hershey. Today Hershey’s sales are primarily generated by its confectionery industry. It is interesting to note, however, Hershey’s attempts and failures at firm diversification as compared to its competitors.

Another interesting component of Hershey is that it heavily relies on its brand name within its major market, the United States. Unlike some of its competitors, the Hershey’s brand was not created with purely a manufacturing strategy in mind. Instead, Milton Hershey, the company’s founder, created a town and school surrounding the Hershey name. Today Hershey, PA offers a Hershey amusement park full of Hershey brand characters, lessons on chocolate production, and a tour through the history of the company. The company’s strategy emphasizes the importance it places on creating a total Hershey experience. Also the Milton Hershey School, a school for disadvantaged children and established by Mr. Hershey himself, still relies on revenues from the historic Hershey Trust established in 1909 and creates a positive brand image for this philanthropic firm ("The Hershey Company: History"). This brand emphasis is fairly unique to Hershey and is a noteworthy piece of its background.

Historically, Hershey is the second oldest chocolate firm among the top five firms under consideration. Therefore, one expects Hershey to have taken a more global focus earlier than the three newer firms; this was not the case, however. On the contrary, Hershey is one of the last firms to make it into the Asian markets. Although it has historically performed exceptionally well in the United States, it began losing market share in the 1970s and 1980s. At this time, when other companies were expanding their businesses abroad, Hershey made the decision to focus its attention on the United States to prevent its brand from losing further market share. Although this proved a success as Hershey remains the industry leader in the United State confectionery market with a 43 percent share as of 2010 (West 23), it was not until the 1980s that Hershey was able to take an international focus, which was at least a decade later than most of its competitors.

Currently, Hershey markets its products in over 90 countries, illustrating a significant international commitment. To further demonstrate this commitment to global expansion, Hershey structured its businesses into three different divisions: Hershey North America, Hershey International, and the Global Marketing Group ("Form 10K: The Hershey Company"). By adopting this business structure, the company clearly chose to emphasize the importance it places on international expansion. This global outlook is also clearly demonstrated through the adoption of a new restructuring plan in 2007. With this plan, Hershey made the decision to close plants in Canada and the United States in order to focus abroad. The new plant associated with the plan was opened in Monterrey, Mexico, a place where Hershey could take advantage of cheap labor and an abundant sugar supply at lower prices than those in the United States. This plant also allowed Hershey to better serve its growing Hispanic market.

This new Mexican plant was a weak stab at global expansion since much of Hershey's business is already concentrated within North America. The company holds the leading position as "producer of chocolate and non-chocolate confectionery and other grocery products in North America" (*Hershey.com*), and as of 2009, only 14 percent of its sales revenue was generated abroad in 2006, with approximately 5 percent attributed to Canadian business and another significant portion coming from Mexican business (West 100). Prior to this restructuring plan though, only about 11 percent of Hershey's sales revenue was generated abroad, again with the Canadian market accounting for about 5 percent of sales (West 100). Although international expansion has proved to be difficult for Hershey, it clearly realizes the importance of globalization as demonstrated by its firm organization, the adoption of the restructuring plan, and its current ventures to increase global sales revenue.

4.2.2 Asia

Even with its late start expanding abroad, Hershey currently holds the number four position in the global confectionery market but only because it has a stronghold in the expansive United States market. Its share constitutes approximately 4.6 percent of this total global market. Currently it is emphasizing an Asian focus, concentrating particularly on the developing markets of India and China. Although behind its competitors in these markets, Hershey already has successfully expanded into Korea, Japan, the Middle East, the Philippines, and Taiwan, as well as India and China among others. Although it has established a presence in these countries, unlike its competitors, it has not created Hershey subsidiaries in each of these markets but instead relies on one Hershey International subsidiary. Its strategy also involves a heavy reliance on exports and joint ventures with local partners in these Asian countries. This Asian focus was initiated in the early 2000s and is being further developed by Hershey today. Although Hershey was successful in developing and maintaining a strong market share with over $5 billion in revenue in 2009 ("The Hershey Company: Financial Data"), the firm faces long standing competition in foreign markets and is struggling to capture a significant portion from its revenues abroad. Hershey has found that its United States brand recognition does not translate abroad.

4.3 Cadbury Limited

4.3.1 Overview

Cadbury's chocolate production began in the United Kingdom starting in 1905. It barely made a name for itself in its home country, however, before it adopted its home country's expansionistic attitude and began looking abroad. By 1948 it had already entered the developing economy of India. Obviously Cadbury's global determination was aided in part by the United Kingdom's ambitious presence abroad through its various established colonies, but Cadbury followed suit and aggressively expanded. The firm was hungry to quickly develop a global name and to aggressively capture significant market share around the world.

Today Cadbury has built itself into a $5.3 billion revenue company, as of 2008, and has prominent brands around the world including its Dairy Milk bars, Trebor and Bassett, Flake, and Green & Black's. It also has a strong chewing gum business that was only second in size to former Wrigley with its popular Dentyne, Trident, and Bubbas brands. Cadbury also dabbled in non-confectionery businesses. It was formerly known as Cadbury Schweppes after merging with Schweppes, the world's first soda maker in 1969 ("Cadbury Limited"). Combined, the two built a successful beverage business, in addition to chocolate, through acquisitions and licensing agreements and became the number three soft-drink company in the world. After a few other diversification ventures, Cadbury sold off its non-confectionery and non-beverage businesses in 1986. In 2003, the company again reorganized its business structure into five business units, including Americas Beverages, Americas Confectionery, EMEA Confectionery (Europe, Middle East, and Africa), Europe Beverages, and Asia/Pacific. Through this reorganization, obviously Cadbury was firmly dedicated to its internationalization strategy but placed extra importance on the developing Asia/Pacific Region. Finally, in 2008, the beverage and confectionery businesses split in order to improve stock prices, Cadbury Limited was created and this new Cadbury went back to focusing on its confectioneries. Even with this divestiture, the firm still proved a powerful force with its longstanding international presence and experience.

Currently Cadbury has operations in over 60 countries. While this is fewer nations than Hershey's global presence in 90 countries, Cadbury is more highly invested in each of these. This is illustrated by Hershey's primarily United States based factory portfolio compared to Cadbury's global one, as Hershey's international business has historically involved exporting and pushing its products abroad without reliance on further developing its foreign business. Cadbury places a high level of importance on in-country operations to competitively push its products in the local markets. This investment approach has been a contributing force to the establishment of Cadbury's global presence. Currently, Cadbury's American business in 2009 accounted for approximately 30 percent of Cadbury's confectionery sales ("Cadbury Limited"), while its European market, not including Great Britain and Ireland represents about 20 percent.

Cadbury also realizes the importance of capitalizing and capturing the markets of developing countries. Recognizing that a heavy reliance on the mature, low growth United States and European markets will add marginally to the firm's growth, Cadbury is focusing on new global markets. Approximately 30 percent of the firm's confectionery revenues come from emerging markets alone ("Cadbury Limited"), which is in contrast to Hershey's global markets revenue of 9 percent (less the Canadian market share).

4.3.2 Asia

Across the globe Cadbury has approximately 67 manufacturing plants, with 20 plants in the Asia Pacific Region alone. Its main markets within this region are Malaysia, India, and Thailand. Not surprisingly, with its long standing history in India, Cadbury is far ahead of competitors, like Hershey, as it has carved itself a 60 percent share in this growing market. While Hershey is just tapping into the Asian markets, Cadbury's Asian strategy is far more advanced. It is progressively modifying its original entrance strategies, for example, by moving original plant locations from expensive areas around Mumbai, India to cheaper regions within the country in order to cut costs. Also its Indian operations are so advanced that the firm is pursuing measures to stream line them and the supply chain.

Another move toward Cadbury's expansion was its acquisition of Adams from Pfizer**,** a United States based group, in 2002 ("Cadbury becomes world leader"). As of 2001 Adam's confectionery business was spread across 70 countries and had net sales of approximately $1.9 billion. It was a big player in the confectionery market with its 3.3 percent share, and pushed Cadbury to the number one position as the leading confectionery giant in the market. The acquisition nearly doubled the confectionery giant's global market share and increased its presence in North America, South America, Europe, and Asia. Kraft Foods focused its interest on acquiring Cadbury in late 2009 and eventually prevailed in January 2010 when Cadbury signed an improved takeover agreement and became a part of Kraft (de la Merced). In combining both Kraft's and Cadbury's confectionery presence, they have enveloped the global market with a 14.9 percent stake in the overall global confectionery market. The acquisition pushed industry leader, Mars, from its number one position down to number two. Kraft Foods interest in this acquisition was to link with Cadbury's successful supply chain in the Indian market to push many of its confectionery and snack products. Both will benefit from the economies of scale that came with the acquisition and from the increased presence in one of the fastest developing economies and chocolate markets in the world.

4.4 Nestle S.A.

4.4.1 Overview

Nestle is the oldest of the five firms addressed in this thesis. Its business originated in Switzerland in 1843 with a product line of various food items including nuts, oils, and rum ("Nestle S.A: History"). Over time, through both acquisitions and research and development, the firm expanded its product portfolio with a focus on milk products, which still make up almost a third of Nestle's sales today. The firm also expanded, throughout its history, into the beverage, pet care, pharmaceuticals, and prepared meals sectors, in addition to its confectionery business, and it has successfully been named the world's number one food company in terms of sales ("Nestle S.A.: Full Overview").

Not only was the company dedicated to an expanding product line, but it was also dedicated to global expansion. By 1875 Nestle was already doing business in 16 countries, but at this point, chocolate was still not added to the firm's product assortment. It was not until 1904 that Nestle began selling chocolate, which still made it a primary chocolate firm ahead of most of its chocolate competitors. Another historical event for Nestle, and more specifically for its chocolate business, was the acquisition of both Cailler and Swiss General in 1929. Both these acquisitions had valuable expertise to add to Nestle's business - the latter invented milk chocolate, while Cailler was the first company to mass produce chocolate bars. In addition to these two acquisitions, Nestle's chocolate business was even further expanded in 1988 through the acquisition of Rowntree, a United Kingdom based chocolate manufacturer. This last purchase enhanced Nestle's long term chocolate business position, since it introduced Kit-Kat to the firm's product portfolio. Today Kit-Kat is one of the most well known brands around the world, putting Nestle in an advantageous position. Aside from Kit-Kat, Nestle's confectionery brands have expanded to include those like Butterfinger, Crunch, Aero, and Bacci.

4.4.2 Asia

Currently Nestle operates in 86 countries, and within each of these countries, Nestle is highly invested through its product assortment, research and development locations, and manufacturing facilities. Nestle's expansion efforts into China began in 1974 as the firm negotiated its entrance for over a decade with the Chinese government, which was closed to foreign investors until the mid 1980s. Finally in 1987 Nestle began developing its first business in the Chinese economy – milk and baby cereal production. Following its aggressive expansionist strategy, upon entering, Nestle immediately began investing in its businesses and in the Chinese market. It opened its first Chinese plant in 1990, just three years following its entrance, making both its milk and baby cereal products. It also had to weave its own distribution system and find adequate suppliers in order to successfully develop its business. In efforts to fortify its presence within the country, Nestle developed a business plan incorporating the local community. For its milk supply, it relied on local farmers and differentiated itself from previous businesses by providing prompt payments and, thus, established durable and positive relationships with community members.

Although Nestle has been present in India for decades, Nestle expanded its chocolate presence into India more intensely in 1991 when it began distributing candy via exportation from manufacturing plants. Today it dominates a 30 percent market share in the country, trailing behind India's market leader, Cadbury. Together the two dominate the market, however. Although Nestle has faced difficulties in understanding local Indian tastes, through its product innovation strategy, heavy branding, and extreme dedication to the market, it has proved a successful competitor. Furthermore, since Nestle has an expansive product portfolio with lots of experience in the Indian market, Nestle's chocolate confectionery business can rely on its product diversification and overall brand presence to further develop its foreign chocolate businesses. Nestle proves a global giant with 2009 sales of over $103 billion, 10 percent of this being generated from its confectionery business, and worldwide, Nestle has also proved itself as a chocolate confectionery force to be reckoned with as it hold the industry's number three position and claims a 7.9 percent share in the market.

4.5 Mars, Inc.

4.5.1 Overview

Mars began its business in 1911 in the United States with Frank Mars at the helm. His son, Forrest soon joined him in his candy operations, but after demanding a high stake of ownership in the company, took his foreign rights to Milky Way over to England, and started his own business. While in England, Forrest modified the bar to fit local tastes and renamed his success the Mars bar. At this time, Forrest also ventured into the pet food industry, while continuously expanding his confectionery line. In 1964, he merged his company with his deceased father's and renamed the business Mars. The business's evolution over its first hundred years of business to a $30 billion company is a noteworthy accomplishment for this privately held firm. Although its primary business is still chocolate, its confectionery line has been broadened since its beginnings to include gum, drinks, and pet food, among others. With the additions of these businesses, the company's business structure has taken a new form to incorporate each. Mars is now composed of six different business segments: Mars Candy and Snacks, Mars Drinks, Mars Food, Mars Pet Care, Mars Symbioscience, and Wrigley. The latter was added to the company's portfolio via the acquisition of the Wm. Wrigley Junior Company and is one of many acquisition decisions made by Mars' management – a strategy similar to that of competitor Nestle and even Cadbury.

The confectionery market accounts for nearly 80 percent of Mars's revenue in 2006, with 90 percent of this confectionery market being chocolate product sales ("Mars Inc – Packaged Food"). Mars relies heavily on its most prominent brands Snickers, M&M's, the Mars bar, and Dove. With aggressive internationalization instincts, Mars has taken these brands and pushed them into foreign markets. Although this strategy has worked in Western Europe, as illustrated by 80 percent revenue reliance in the combined United States and Western European markets, it has faced severe challenges in the developing Asian markets.

4.5.2 Asia

In China, for example, the firm took a proactive lead position in the development of a currently nonexistent chocolate industry. This development was shouldered by the aggressively ambitious Mars and came with many growing pains. Mars soon learned that the Asian market could not be cultivated with the same strategies used in the markets of developed countries where citizens were accustomed to sweet chocolate flavors starting at an early age. Throughout the early 1990s, Mars struggled to push both the M&Ms and Snickers brands. They also struggled when they failed to lower the sugar content in their Dove bars to suit local Chinese palates. Mars was the first to aggressively pioneer the Chinese chocolate business. Although experiencing difficulties, its efforts were met with success in winning over the first generation of chocolate eaters with a modified version of its Dove bar.

Mars is a relative newcomer to India. Even the late international bloomer, Hershey, beat Mars to the market as the firm focused much of its attention on getting the Chinese market right. By 1989, however, Mars initiated a menacing and competitive presence with its first $10 million manufacturing facility in India. After learning its lesson from trials in China, Mars realized the importance of product localization and marketing. Even though Asian citizens were looking to adopt pieces of the Western way of living, their salt preferring palates could not be immediately modified to fancy the sweet chocolate of the West. Mars established an Indian subsidiary, Effem India, in 2000, whose main role was to market Mars's products to the Indian market, and its establishment illustrates a dedicated approach by Mars to a more localized business strategy.

Although Mars is still emerging into the Indian market, it has successfully become the chocolate confectionery leader in China's market with a 15 percent share (Byrne, "Chocolate category"). Presently, this firm operates in over 65 countries and has over 100 manufacturing facilities worldwide. This high number of facilities illustrates its high level of investment in its foreign markets, similar to the strategy of both Cadbury and Nestle. This heavy investment strategy has been extremely advantageous for the three firms, as each hold very strong international positions because of their dedication to growing their markets. But with the acquisition of Wrigley, Mars has pulled to the number two position, only slightly following the newly combined Cadbury and Kraft, with a 14.5 percent share in the global confectionery market. With a successful position in the rapidly growing Chinese market, this market share will be sure to increase, threatening Mars's top competitor.

4.6 Ferrero

4.6.1 Overview

The youngest chocolate firm of the five, Ferrero, was founded in 1946 in Northern Italy by the Ferrero family. Previously in the pastry business, the family came upon a tasty chocolate spread, later named Nutella. Putting the pastry business behind them, the family founded the Ferrero chocolate firm. Initially, the company relied solely on the popularity of its Nutella product to carry the Ferrero name, but with its sweeping success, Ferrero decided to further develop its product offerings. Today Ferrero's portfolio has expanded to its popular Ferrero Rocher, Kinder, and Tic-Tac brands to name a few. With its product successes, even with its short history, Ferrero has evolved into a chocolate confectionery giant reaching sales of over $9 billion in 2008. This success cannot be accounted for solely by the firm's product strategy but was also attained by the firm's persistent globalization strategy.

As soon as it was founded, it seemed to espouse a global outlook. Within ten years it had expanded its operations to its first international endeavor, a manufacturing plant in Germany. Two years later in 1958, Ferrero built another manufacturing plant in France. Ferrero's expansion had just begun. The 1960s and 1970s were marked by even more international expansion as the company seemed to hit a growth spurt. Throughout this time period, Ferrero established other operating subsidiaries throughout many European markets, including the United Kingdom, Belgium, the Netherlands, Austria, Switzerland, Sweden, and Denmark, in addition to both Germany and France. Expansion outside of Europe began with the United States market in 1969. Although Nutella proved extremely successful in every other market, Ferrero feared competition with the United State's large peanut butter market would be the demise of Nutella and any United States brand establishment. Therefore, it first launched its Tic-Tac brand, the only non-chocolate item in Ferrero's product portfolio. A New Jersey production plant soon followed. Ferrero's chocolate was later introduced to the United States at a regional level in 1985 with the Ferrero Rocher brand and reached a national level as late as 1998. By the 1980s though, Ferrero had inflated its international subsidiaries to include various countries throughout Europe, North America, South America, and Asia.

Today, even with its aggressive and fast expansion into foreign markets, Ferrero has only 18 manufacturing facilities worldwide. Unlike Cadbury, Nestle, and Mars, Ferrero has less capital invested in these markets. While it has a global presence in over 100 countries and a 4.5 percent share in the global confectionery market, its approach is extremely different than that of its rivals. It develops Ferrero SpA subsidiaries in each country that allow it to better serve its local customers, in comparison to its competitors' heavy emphasis on in-country manufacturing plants (Nestle, Mars, and Cadbury) or a uniform international market, as demonstrated by Hershey's one international subsidiary. Its international expansion is also characterized by a heavy reliance on its limited brands. Thus, these subsidiaries focus on heavy promotion of the small Ferrero line and as we will soon learn, do not pursue any product localization. Although Ferrero SpA pursues drastically different business strategies than its competitors, the company has been extremely successful. Not only has it experienced exponential revenues since its founding, but it has also established a notable global brand, with its home continent, Europe, accounting for only 60 percent of its 2009 revenues.

4.6.2 Asia

Ferrero has been equally as successful in its Asian markets. It first began its expansion into Asia in the 1980s with its Ferrero Rocher line. The product was exactly what the Asian markets had been looking for. It was an extravagant Western luxury good in packaging that fit the confectionery niche perfectly. Ferrero Rocher is now routinely incorporated into the gift-giving traditions of both the Indian and Chinese cultures. Since its introduction, Ferrero has done extremely well. Since 2001 alone, its sales in China have increased by 79 percent to $55.6 million (Fishbein), and these numbers might have even been greater if Ferrero's products had not been subject to widespread piracy by a local manufacturer. Because of this piracy issue and the inadequacies of the Chinese's judicial system, Ferrero has maintained a cautious presence in the country that is very atypical of its previous, impelling globalization strategies. India's market has proved more formidable, and Ferrero has pursued its intense expansionistic strategies as usual. Between the years of 2009 and 2010 alone, two new production facilities were opened in India's big cities. With these expansions, India's market has proved even more receptive than China's with sales surpassing $170 million after only two years of local operation. Even despite the pains of expansion into China, Ferrero is giving number three in the market, Cadbury, a run for its money, and although there is greater competition facing Ferrero in India, its dramatically skyrocketing sales prove a promising start to this Italian based confectionery firm.

4.7 Concluding Comments

Each of the five major chocolate firms has taken fairly different approaches abroad. Hershey has relied on its heavy brand recognition within its major market, the United States, and is realizing this strategy does not work abroad without sufficient brand development investments. Cadbury takes a more localized approach and focuses on investing in the foreign markets it plans to serve. Nestle takes a similar approach and also focuses on acquisitions to develop its capabilities more quickly than solely relying on its own research and development (R&D). Privately owned, Mars, is equally aggressive globally and has also realized the importance of localization and brand development abroad. And finally, Ferrero, also privately owned and the youngest firm of the collection, has demonstrated its commitment to rapid expansion with its internationalization strategy and has successfully established a prominent Ferrero brand name that it can now capitalize on in its new markets. Although there are similarities across firms, there are also notable differences in each of their strategies. These differences will be discussed in the coming chapters, but some of the basic comparative information is exemplified in Table 4.1.

As we will see through exploring more deeply each firm's expansion into Asia, marketing, operations, and procurement strategies have major effects on the effectiveness of each firm in its emerging foreign markets. Marketing plays a key link between the five firms and both their current and potential customers, so it is important that each firm's internationalization strategy rely on heavy product marketing. When entering new markets, it is essential to tailor this marketing strategy to each of their foreign markets and has a major effect on the effectiveness of a brand within them. The next chapter delves into the marketing approach that each firm has taken when entering the Chinese and Indian markets, and each of the following strategies will be explored in the subsequent chapters.

Table 4.1: Comparison of Main Chocolate Firms					
Firm	*Hershey*	*Cadbury*	*Nestle*	*Mars*	*Ferrero*
2008 Firm Revenues	$5.1 billion	$5.3 billion	$104.1 billion with 10% from confectioneries	$30.0 billion with 80% from confectioneries	$9.1 billion
Home Country	USA	UK	Switzerland	USA	Italy
Founding Date	1984	1905	1843	1911	1946
Global Market Share	4.6%	14.9% (with Kraft	7.9%	14.5%	4.5%

Chapter 5: Marketing Strategy & Globalization

5.1 Introduction

With the emergence of the middle income class and the world’s two largest populations, both India and China prove two very promising new markets for the global confectionery giants, and these chocolate firms have realized the significance of beginning their quest into the hearts and mouths of these important emerging consumer markets. Marketing has played a key role in reaching each firm’s target markets, and it is interesting to explore how each of the firm’s works to win over both its Chinese and Indian consumers. Target market, product offerings, and product packaging are all incorporated into each firm’s overall marketing strategy. Keeping in mind each firm’s previous internationalization strategies, it will be interesting to see if these previous strategies are appropriate forecasts for each firm’s behaviors in their new and emerging markets.

5.2 Target Market

Despite differences across firms, there seems to be a fairly uniform trend in relations to the confectionery giants’ target markets. With about one in three people living on less than a dollar a day in India, there is little disposable income for Indian citizens (“Green tea Kisses”), and the situation is not much better in the Chinese economy either. The extravagance of purchasing chocolate is saved for individuals with higher incomes, and this market is highly concentrated in the major cities as poor rural farmers flee to find higher paying jobs. With the rising middle income class and their increasing purchasing power, a new consumer has been created for firms to target. This middle income class is seen as the higher end market, and it is targeted because of its rapidly growing size and increasing affluence. Cadbury, for example, has positioned some of its products as lavish gift items designed to fulfill the gift giving traditions of the Chinese. These gifts are presented to individuals receiving rewards or couples who are getting married, for example, and are a sign of affluence. Consumer markets like these are growing rapidly in each of these economies.

Although companies have assumed strong positions in targeting the growing middle class, the firms are beginning to understand the importance and magnitude of the poorer populations within both India and China. Ferrero is an exception which has taken a more high-end market approach. India alone has 2/3 of its population living under impoverished conditions, and China’s conditions prove only moderately better. With such high numbers of low income individuals, the firms are developing their product lines accordingly to appeal to this enormous income group. For example, Nestle has experienced growth within China driven by its lowest priced products in its portfolio, and Nestle is not alone. Hershey, Nestle, Cadbury, and Mars are all jumping on the same bandwagon and are repositioning their product portfolio to include low priced products to harness this enormous low income class.

Yet another target market on which the chocolate firms concur is the young adult and teenage markets. Much of the population migrating to the cities is composed of younger adults and teenagers who hope to make a better living in the growing and industrializing cities. These individuals typically send money home to the rural family farm, but what little money they do have to spend, leads them to consumerism. With younger consumers mirroring practices of the West brought over to Asia by foreign companies, the chocolate firms find them an easy target market to capture. Furthermore, with 1/3 of the population under the age of 20 (Guay, "India" 23), India's large youth populace provides a market of extraordinary size. Tapping into such a large market uniquely requires only one common marketing strategy, which provides an easy opportunity to penetrate a large portion of the market. The global confectionery giants have hopes of capitalizing on this statistic and have acted accordingly.

In China, Mars now holds a domineering position by focusing on the importance of winning over this younger generation. Although it struggled to find a chocolate product that fulfilled Chinese palate preferences, it eventually tailored its product according to local tastes and won over its first generation of chocolate eaters. Today Mars successfully captures the teenage chocolate market as the youngsters spend the little money they have on small luxury goods like a chocolate bar. All the chocolate leaders have followed Mars's strategy of targeting the teenage and young adult markets.

Each of the chocolate firms has adopted the same target marketing tactics in their entirety except for the individualist, Ferrero. Ferrero has differentiated itself from the rest of the pack by targeting a high income, niche market with super premium products. In contrast, Hershey, Cadbury, Nestle, and Mars's marketing strategies harmonize by targeting middle income markets and are even expanding their product lines to include low priced items to successfully target the evidently reachable low income markets of both China and India.

5.3 Products

5.3.1 Overview

When facing differing tastes, preferences, and cultures, the firm's have had to modify their approaches in hopes of winning over their determined target markets in these emerging economies. Furthermore, without previously established chocolate markets, the firms have had to build these markets from the ground up. There was no previous, substantial chocolate industry that the firms merely needed to tap into to acquire market share. In contrast, Ferrero's expansion and success in the European market, for example, even as a newcomer, proved an easy task since there was already a chocolate industry and the European population was raised in a society overwhelmed by chocolate product options and flavor varieties. Unlike this previously established market, however, the Asian chocolate market was uninhabited domain. Companies soon learned that delivering a European or American style chocolate bar to an Asian consumer was an unsuccessful maneuver. The Asian palates demonstratively prefer salty and sour flavors over sweet; therefore, the high sugar content, within the Western-style chocolate bars proved unappealing to this market. The Asian region population not only prefers salty and sour, but it also prefers fruit as a dessert. With these varying flavor preferences, the firms have worked to tailor their products to appeal to and develop these emerging markets.

5.3.2 Hershey

A visit to an Asian chocolate store can be misguiding for vacationing Americans. Common, universal brand names are present on Asian shelves like Hershey's chocolate syrup, Hershey's Kisses, and Reese's, but their flavor profiles are nothing like those from home. Hershey's syrup was first introduced to the Indian market at a regional level, but as of 2009, its distribution expanded to an international scope. To appeal to its consumer's fruit-preferring mentality, Hershey extended its Indian product line to include its strawberry flavored syrup as well. Its syrup is also sold in China, along with some of its other products. Again, illustrating its understanding of local palates, in 2006 Hershey unleashed its new product line extension to the Chinese market – green tea flavored Hershey's Kisses. Furthermore, wanting to extend their ever-popular Reese's brand on a global scale, Hershey introduced Reese's cups with almond and hazelnut filling varieties since a peanut butter and chocolate combination did not appeal to local tastes. Clearly Hershey illustrates a dedication to the local palates of both China and India and has modified its product offerings accordingly.

5.3.3 Cadbury

With Cadbury's incorporation of both its brand names and the addition of locally tailored products to its foreign markets, Cadbury has a fairly extensive product line within the Asian region. Some of its globally, well known brands that are sold in these markets are Choclairs, Cadbury's Dairy Milk, Five Star and Perk chocolate bars. Cadbury also places a high emphasis on developing products to fit the tastes, preferences, and even traditions of its target markets. In India, for example, Cadbury has extensively developed products to mimic the qualities of local desserts and incorporate local ingredients. Its R&D created a product called Kakaland Cream. This product was based on a local Indian sweet that is made of chopped nuts and cheese. Although it has since been discontinued, products like this are not typical of Cadbury’s global product portfolio and cannot be found in its markets outside of India. Another example of Cadbury’s localization in India is its Celebrations Series. This product was initially created in 1992 and was fashioned to replace traditional gifts of dried fruits and Indian sugar confectionery that are shared over holidays. The traditional and iconic Cadbury Dairy Milk bar line has also been expanded to incorporate tastes and preferences of the local market. In India, it is offered in its traditional form but also in Fruit & Nut, Roast Almond, and Crackle, which has proved popular in the Asian markets (“Cadbury Dairy Milk”).

Cadbury has also tailored its Asian market products on a smaller scale as well. With the hot climate of its Asian markets, Cadbury raised the melting point of its products. By altering ingredient levels or by adding sugar shells to its products, Cadbury was able to service its customers despite inadequate retail conditions. Without these modifications, Cadbury’s chocolate confectionery items would melt in the un-air-conditioned stores and hot climate temperatures. Its Dairy Milk Shots, for example, are pea sized balls of chocolate. However, Cadbury added a sugar shell to maintain this shape and now successfully markets these chocolate balls within its Indian market. Such innovations help propel Cadbury’s chocolate sales in this unique market environment. By innovating to fit local tastes and also relying on its global brands, Cadbury positions itself as a global, yet local chocolate firm.

5.3.4 Nestle

Part of Nestle’s strategy involves simple flavor modifications of its products. Consider the Kit-Kat product in Japan, as an example. Within the Japanese market alone, this chocolate covered wafer cookie comes in over 20 different varieties. These flavors include miso, soy sauce, green tea, melon, baked corn, green beans, cherries, yuzu fruit, red potatoes, cantaloupe, azuki beans, and red wine. Clearly Nestle places high importance on tailoring flavors to foreign markets. One would expect this to lead to cannibalization of certain varieties. Nestle combats cannibalization concerns by employing a unique marketing strategy in this Japanese market where it develops the Kit-Kat brand into more of a collectable item. Nestle takes its localization strategy to the furthest extent by developing unique flavors for different regions *within* a country as well. As travelers visit different towns and cities within Japan, Kit-Kats provide a fun opportunity for these travelers to get a taste of the local region.

With the success of the Kit-Kat in Japan, it was also introduced in Nestle's Chinese and Malaysian markets as well. Also, in India, Nestle modified its original Munch bar to fit local tastes. It came out with a coconut Munch bar, which was designed with the Indian palate in mind. Although it was discontinued because of its lackluster appeal, it clearly illustrates Nestle's dedication to regional product modifications. Today the Munch bar is a top brand in India and is sold in many flavor varieties at prices that correlate to 12 United States cents ("Green tea Kisses").

In addition to these product modifications, Nestle has also developed local brands and products to fit each particular market. In India, for example, Nestle lured its customers with chocolate confectionery products that were designed to replace dried fruits and sugar confectioneries. Furthermore, in trying to appeal to the lower income classes, Nestle expanded its lines to include lower-priced chocolates by including bite-sized candies, an approach similar to that of Cadbury's. Another technique similar to

Cadbury’s that Nestle employed was the raising of its chocolate confectionery’s melting points. These modifications were made so that its chocolate products could be successfully sold in unaccustomed retail outlets on a grander scale to truly capture the full potential of the market.

5.3.5 Mars

With the United States successes of both its Snickers and M&M’s brands, Mars began pushing these products in the Chinese market upon its entrance in the early 1990s. To Mars’ surprise, however, the products struggled significantly and failed to penetrate this foreign market. Since chocolate was a sign of affluence and was viewed as a luxury Westerners good, the plain packaging and chunky qualities of the products failed to fit the refined, elegance that the Chinese consumers were looking for after experiencing Ferrero’s line. Mars also quickly introduced its more luxurious chocolate brand, Dove, and marketed its “silky elegance” in addition to asking a premium price, but yet again failed to win over the populace. It was not until Mars lowered the sugar content of its Dove brand that the firm finally won over its first generation of chocolate eaters. After cracking the market, its Snickers brand caught on as well in the late 1990s as teenagers began indulging in them. Today, Mars’s Chinese product portfolio holds similarly popular global brands and is also composed of its Twix and Bounty Miniatures brands.

5.3.6 Ferrero

Ferrero’s products defined the Chinese chocolate market and set the standard. Its luxurious, elaborate, and elegant product packaging won over the gift giving traditions of both its Indian and Chinese cultures, as it is seen as an affluent Westerners good and as a symbol of good life. Uniquely Ferrero's brands have been so successful that the firm has not yet modified its products flavors to appeal to local markets. Its Ferrero Rondoir, Ferrero Rocher, Ferrero Giotto, Nutella, and Kinder products have done extraordinarily well and have rapidly increasing market shares. Both the Chinese and Indian markets are composed of Ferrero's original and global product offerings, while Ferrero Rocher has proved the most popular. This brand really appeals to upscale and rising income consumers, while Ferrero's Kinder Surprise products target Indian and Chinese children with their surprise fillings and accompanying toys.

5.4.7 Concluding Comments

In developing the Asian chocolate markets from the ground up, firms have really dedicated themselves to research and development. Current product alterations have been made to ensure that the firm's products appeal to the local tastes and preferences of the Asian population. In addition to modifying their current brands, Cadbury, Nestle, and Mars have developed local brands and products that incorporate the local culture to again better appeal to their potential consumers. On the contrary, Ferrero has remained loyal to its original product line and is the only firm that has yet to make any product modifications. Although Ferrero has taken a different approach to its foreign market products than its competitors, Ferrero's strategy has been extremely successful as its brands have steadily gained market share in both India and China.

5.4 Product Packaging

Chocolate confectionery products have established a significant gift giving role in the Asian markets. With this role, the products provide an air of affluence and good life for their customers and recipients. Packaging plays a key role in luring consumers into their chocolate purchases, and to generate sales, the firms have creatively positioned their products to successfully appeal to this gift-giving mentality. Although still selling its best-selling brands in China, Hershey has modified its packaging significantly. In the United States, Hershey's kisses are sold in bundles packaged in simple plastic bags. To make these products more marketable in China, Hershey now sells its Hershey's kisses in more eye-appealing and fun shapes as you can see in Figure 5.1 alongside competitor's packaging. These kisses are packaged in a box shaped like the unique treat itself, complete with the paper string attached at the tip. This packaging style has proved such a hit in China that Hershey is even exploring bringing the innovative package back to its United States market.

Cadbury has also tailored its products to appeal to this gift-giving mentality. In India it created its Celebrations series to position its products to replace traditional gifts of dried fruits and Indian sugar confectioneries on holidays. These chocolate confectioneries are not packaged as Cadbury's standard purple and white chocolate bars but instead come in various shapes and assortments, as seen in Figure 5.1. This creative and unique packaging makes these chocolate confectioneries a more enticing consumer choice. Although this is just one example of Cadbury's unique packaging strategy, the firm has also expanded its packaging ideology to many of its other brands as well.

Cadbury capitalizes on attractively packaging its chocolate assortments to lure consumers to its brand.

Both Nestle and Mars have similarly tapped into the gift giving market as well with their creative packaging tactics, while Ferrero's products already fulfill this niche with their elaborate and extravagant packaging in foils and unique boxes. All firms have capitalized on the cultural gifting requirements of elaborate packaging, where Ferrero maintains its pristine packaging targeting elite consumers, the other firms have further modified their packaging to appeal to low income individuals as well. By creating low cost items with simplified packaging, Hershey, Cadbury, Nestle, and Mars hope to appeal to the expansive lower income populations in hopes of capturing a higher portion of the populations of both China and India.

5.5 Brand Strategy

Through product and packaging modifications, the five confectionery giants hope to better target their consumer markets. However, these alterations are not enough to win over the new Asian chocolate consumers so each firm takes unique approaches to position itself in the eyes of these emerging consumers. Below we focus on the marketing strategy of each of the firms in terms of how they reach and appeal to their customers.

5.5.1 Hershey

Hershey's success in the United States is a result of a well established and well known brand name. The company realizes that consumers generally eat chocolate as a treat. They want to take a break and enjoy a bit of sweet snack. Hershey has created its brand surrounding this mentality. Not only do Hershey's advertisements present the brand as fun, bright, and happy, but a visit to Hershey Park in Hershey, PA transports you into the fun world of Hershey's chocolate. Through rides at the amusement park, interactions with brand characters, and an exciting tour through Hershey's history and chocolate production, Hershey provides a unique opportunity for its customers, unlike any other chocolate firm, to get to know its enjoyable and exciting brand.

The challenge for Hershey, therefore, lies in the fact that outside of the United States, Hershey's brand is unrecognizable. A heavy reliance on its brand is the only strategy that Hershey has known, so it is no surprise that developing its brand in the Asian markets has become a top priority. In New York City, Hershey opened a Hershey's Chocolate World store. This store again provides a fun shopping experience with its animations, samplings, and entertaining characters that stroll through the store. Unlike its competitors, Hershey does not merely rely on convenience stores to sell its chocolate bars; instead, it developed this store to again create a fun Hershey's brand experience. This strategy differentiates Hershey from its competitors by taking the purchase of a Hershey's bar from just an impulse buy to an enjoyable chocolate experience. Recently, the number of Hershey's Chocolate Worlds has expanded to six locations. With three being in the Asian region in Dubai, Shanghai, and Singapore, Hershey illustrates its serious commitment to the Asian markets and the importance it places on developing its brand within them.

Not only does Hershey aim to create a global brand, but it also takes a local approach. In speaking with an employee from Hershey, Hershey calls it their "glocal" strategy. Hershey wants people around the world to recognize its Hershey's brand and to associate it with an enjoyable and amusing experience. Although its unfamiliarity outside of the United States market proves a daunting challenge, Hershey has taken steps in the Asian market to begin this global brand process. But with varying palate preferences, Hershey has realized that the sweet milk chocolate Hershey bars that the United States knows and loves will not sell in the salt-preferring Asian markets; therefore, it has adopted a local strategy as well. As illustrated with its product innovations, its marketing approach involves taking the Reese's brand, for example, and tailoring its flavor profile to fit Asian preferences, thus fulfilling the "local" portion of its "glocal" strategy.

5.5.2 Cadbury

Cadbury on the other hand takes a different approach than Hershey. Although there are some similarities, Cadbury's strategy involves a more extreme focus on localization. Cadbury's popular brand name products have been introduced to both the Indian and Chinese markets. Like Hershey, Cadbury wants people around the world to know of its brand. Since chocolate is an item that is typically an impulse buy, firms rely heavily on brand awareness and developing a high brand equity to continue to capture their consumers' eyes. This high brand equity development has been a significant part of Cadbury's strategy throughout its history and proves no less important in the development of its new Chinese and Indian markets.

The United Kingdom was known for its global pursuits and colonized countries around the globe. These aggressive global pursuits rubbed off on this British chocolate firm. Cadbury could more easily reach foreign markets tapped by British colonization. For example, since India was controlled and colonized by the United Kingdom and had a high British presence, Cadbury could more easily target the British population in India who missed the familiarity of home with its “Cadbury” branded products. In this way, bringing in the standard brands brings a bit of happiness to the British immigrants in India, and eventually, these brands won over the Indian population as well. Some of these brands include Cadbury’s Choclairs, Cadbury Dairy Milk bars, and Perk chocolate bars.

Although these global brands are made available to the Asian markets, Cadbury feels that chocolate is mainly a regional business where consumers seek a particular taste in each different market. Therefore, the firm relies heavily on product innovation in order to appease various palates. Cadbury has introduced country and region specific products through this innovation. Everything from packaging to flavors to product concepts is strategized to appeal to the locals. Cadbury goes so far as to mimic local desserts through its chocolate innovations to capture its share in the dessert market. With such a high commitment to locality in its marketing strategies, Cadbury has even organized its business around a regional management style of operations. Although this began changing prior to Cadbury’s recent merger with Kraft, to a more centralized, global management structure, Cadbury’s commitment to its foreign markets has proved strong.

5.5.3 Nestle

Nestle employs a similar strategy to Cadbury. For its overall firm marketing strategy, Nestle rejects a one world, one brand approach. This does not, however, mean that Nestle does not utilize already existing brands like Kit-Kat and the Munch bar. Instead Nestle tries to localize these brands to fit local tastes. For example, in India and similar to Cadbury’s approach, Nestle lured customers to buy its products by positioning itself to replace dried fruits and other sugar confectioneries offered as gifts over Indian holidays. Where Cadbury merely incorporated chocolate into these items and then discontinued the product, Nestle created its products and packaging extensively to fit the Indian's wants and needs. The firm's strategy, more specifically in emerging markets, is to develop a product that fits the local needs, wants, preferences, and culture and then designs an appropriate label for the item to target the appropriate market. It then focuses heavily on brand survival in the market. Although both Hershey and Cadbury, thus far, have employed a global brand push strategy, Nestle sees the value of a brand push, but localizes it.

Also, like Cadbury, Nestle has made small modifications to fit the high temperature climates of the Asian region as well with small ingredient level tweaks. In summary, Nestle prides itself on local innovations. It not only relies on its global brand and small product and flavor modifications, but goes so far as to develop local brands and product lines within each of its markets. So although Nestle employs a similar approach to that of Cadbury, it moves a step further than the United Kingdom based chocolate firm.

5.5.4 Mars

Mars takes an approach that is similar to Hershey's. Although it does not operate Mars amusement parks or its own Mars retail stores, it does rely on its high brand equity. Its brands are very important to its business strategy. Many of its brands are world-renowned through Mars's marketing and advertising strategies. For example, the M&M's brand is synonymous with its fun slogan, "it melts in your mouth, not in your hands". In addition to building successful global brands, Mars also works to develop pan-regional, regional, and local brands but on a smaller scale. Furthermore, it has taken drastic steps to unify and strengthen its overall brand to create even higher brand equity for its businesses. It recently operated under different division names, including Masterfoods, but through its new company initiatives, has consolidated all these titles into the unified Mars brand. This approach demonstrates its emphasis on creating strong, consolidated brand awareness that it can capitalize on worldwide as it continues to expand its markets.

Although the firm does rely on its global brand names, it has taken a more localized approach with its individual products by employing slight ingredient modifications. Consuming a Mars product in Asia will probably not fulfill a Westerner's expectations of its homeland Mars products. Mars has deemed it necessary, as illustrated through the failure of its initial product launches into the Chinese market, to tailor products to local tastes and preferences. By doing so, Mars can successfully capitalize on this already established brand, while appealing to the local Asian consumers. Again, in addition to modifying its product flavors, it has also worked to appease the local culture's gift giving traditions by offering more elaborately packaged products. Obviously, this global, yet local strategy of developing high brand equity has proved successful for Mars as it has captured a significant market share in the emerging Asian markets and holds the number one position in the growing Chinese market.

5.5.5 Ferrero

With Ferrero's effortless sales success upon entering the Asian markets, the firm has done little to modify its products. Its approach, globally, has been different than that of its competitors. Although it pushes its world-renowned brands, there has been no need to modify its product flavors to fit the tastes of the locals. The products alone have done extremely well without such modifications. Ferrero's Ferrero Rocher line, for example, proved the ideal symbol of luxury, wealth, and westernization for the increasing middle class in both the Chinese and Indian markets. Its sales have rapidly increased since its introduction, because its elaborate, extravagant packaging fulfills the expectations and requirements needed to successfully penetrate these growing chocolate industries. Ferrero's brands already successfully paint themselves as the symbol of good life, another attribute the Asian consumers look for in their chocolate purchases. For example, Ferrero Rocher holds an esteemed cultural position with its elegant packaging. Its purchase indicates a sign of affluence; while on the contrary, Ferrero's Kinder line fulfills its symbol of good life by offering fun toys and surprise fillings that spark the curiosity of its young consumers. Therefore, Ferrero's marketing strategy involves a brand push, and little, if any, modifications to fit the local tastes and preferences. This strategy seems to be successful, however, as Ferrero's brands have been experiencing increasing sales since their introductions to both the Chinese and Indian markets.

5.6 Concluding Comments

Each of the five firms has approached the new Asian markets differently. Although their target markets are fairly universal with the exception of Ferrero, the way they have gone about capturing these consumers varies across firms. Hershey has maintained its reliance on heavy brand awareness. It markets its current American brands in the Asian region but has made slight modifications to appeal more to the local palates.

With the creation of its fun, well known brand in the United States through its Chocolate World's and amusement park, it is no surprise that it is employing similar endeavors to create similar brand awareness in both China and India. Cadbury has taken a different approach. It too has introduced its global brands and has modified them to fit local tastes, but it has also developed new products in hopes of fulfilling cultural traditions with its product offerings. As a firm, it views chocolate as more of a regional business in which it must seek to appease particular consumer tastes in each of its markets. Nestle takes a very similar approach to that of Cadbury as well. It also rejects a one world, one brand strategy and really tries to localize its brands to fit local tastes, as exemplified with its 19 different Kit-Kat flavors in Japan alone. More similarly to Hershey, Mars relies on its high brand equity and seeks to increase brand awareness with its catchy advertising and marketing strategies. It has made minor modifications to appeal to the local Asian palates, however, and does work to develop a few more localized brands as well. Finally, Ferrero takes a very different approach to that of its competitors. It relies on its products to sell themselves and has been very successful with this. Both its products and product packaging have not been modified for each of its foreign markets, but instead its brands represent a common standard around the world.

Each type of strategy has worked extremely well for each of the five firms. A more tailored approach has helped Cadbury capture its 60 percent share of the Indian market, while a brand push strategy has pushed Mars into the lead in the Chinese market. Ferrero's unique strategy is also helping the firm gain on its competitors in both markets. Although marketing plays a key role in reaching consumers, there may be other reasons for the success of each of these firms. Manufacturing and distribution decisions greatly affect the ease of getting products to consumers once marketing has created product demand. This operational strategy will be explored in detail in the following chapter.

Figure 5.1: Chocolate Confectionery Packaging

From left to right: ("Cadbury Celebration 246gm"), ("Beyond Dried Fruit"), ("First Look"), (Sheetal), ("Hershey Kisses Chocolate"), ("Chocolate to China")

Chapter 6: Manufacturing Strategy & Globalization

6.1 Introduction

Another important business strategy encompasses the firm's manufacturing decisions. Each firm has invested at varying degrees in the developing Asian markets and more specifically in China and India. It is important to keep in mind the firms' overall globalization strategies when considering their tactics for operational expansion into these emerging countries. Whether it is through in-country manufacturing facilities, joint ventures, or exportation alone, each of the firms has pursued different operational measures to ensure accurate production capacities to supply their growing markets. However, an important correlation can be made between the firm's manufacturing approach and the market success of a company. Therefore, it will be interesting to note how the various firms approach the same markets in their own unique ways.

6.2 Hershey

When Hershey first entered the Asian markets, it relied on exporting its finished goods from its North American Hershey facilities to service its new foreign markets. After this initial and successful testing of the market Hershey decided to become more invested in the region. As of 2007 Hershey has increased its local presence through two joint ventures – one in China and one in India. In China, Hershey partnered with the Lotte Confectionery Company, a Korean confectionery giant with the number one position in the Asian confectionery market that is most known for its gum product line. Hershey paid US $39 million and holds a 44 percent stake in the company (Szalai). With this manufacturing deal, Lotte produces Hershey's products for the Asian market, particularly for China, to ease Hershey's supply chain and simplify supplying its Chinese market. This agreement has significantly strengthened Hershey's market share in the overall global confectionery market as well. Lotte holds the number eight position in this market with a 1.6 percent share. By combining forces the two represent a powerful threat to competitors on the global scene.

Hershey took a similar approach in India, although the joint venture has had less significant impact on the firm's success. Hershey entered the joint venture with Godrej Foods & Beverages Ltd, the largest consumer goods, confectionery, and food company in India. The joint venture company led to the name change of Godrej Hershey Limited, which now operates as a Hershey subsidiary (Szalai). Hershey owns a 51 percent share in the company and based this agreement around a manufacturing and distribution strategy (Azzara). Since distribution throughout the developing countries has proved one of the biggest challenges for the chocolate confectionery giants, this agreement should have extremely positive effects on Hershey's brand introduction to the Indian market as it eases the distribution concern.

With two joint ventures, only a small amount of the Hershey brand is still being imported into the Asian region as of 2009. Hershey's operating and distribution strategy relies heavily on foreign joint ventures. Hershey-owned manufacturing facilities are scattered throughout North America, and only two of them are outside of the United States. Hershey has a plant in both Guadalajara and Monterrey, Mexico, and these Mexican plants account for only 10 percent of Hershey's manufacturing capacity (Azzara). So although Hershey is emphasizing a dedication to foreign markets, Hershey may struggle to overcome its predominately American-based business operations portfolio. These significant joint ventures in China and India, however, will help the firm establish a more secure presence in the region and have proved successful thus far at increasing the firm's global market positioning. By establishing relationships from which it can learn the market and relieve its supply chain, Hershey hopes to become a more competitive player in this emerging chocolate confectionery market.

6.3 Cadbury

Where Hershey first placed a heavy reliance on exporting product to the Asian region and then moved into joint ventures, Cadbury's strategy involves a more aggressive one of placing a strong emphasis on in-country manufacturing facilities. Recall, of its 67 manufacturing plants, 20 are in the Asia Pacific region and 5 are in India alone. Cadbury obviously shows a strong dedication to its Asian markets and emphasizes long term commitments by being highly invested in its market communities. Its local plants create jobs for the local populace that in return help increase their wealth, economic flexibility and purchasing capacity. Obviously increased income can stimulate more chocolate sales, thus benefitting Cadbury in the long run in addition to establishing positive public relations.

Not only is Cadbury highly invested in this region, but it is also employing a more advanced operational strategy. Where some competitors are merely trying to tap the market, Cadbury is streamlining its Asian operations. For example, in India, Cadbury is moving its factories from more expensive city locations like Mumbai to rural, cheaper areas outside the city. It is also running its foreign business so efficiently that it has the capacity to cut some of its workforce and streamline its supply chain.

Although Cadbury's strategy diverges from Hershey's with its heavy in-country operations investment, Cadbury also relies on joint ventures and acquisitions as well. In Japan, the joint venture with Meito Adams Company, Ltd. now operates as Cadbury's Japanese subsidiary and helped Cadbury nearly double its global confectionery market share up to 10 percent ("Cadbury becomes world"). Cadbury also operates an Indian subsidiary, Cadbury India Ltd., holding over a 90 percent stake in this business ("India: Cadbury Schweppes"). Furthermore, within Japan, Cadbury acquired Sansei Foods Co Ltd, a large Japanese functional candy company. Yet again, Cadbury has proved its commitment to its Asian markets and seems to hold an advantageous position to successfully serve these emerging markets.

6.4 Nestle

Nestle has taken a very similar operational approach to that of Cadbury's. In 2009 alone, Nestle invested approximately $240 million into developing its Southeast Asian business (Venkat), which includes all product categories of which the chocolate business accounts for approximately 10 percent of its revenues. Nestle's business expanses across approximately 10 countries in the Southeast Region, and within this region alone, Nestle has 23 factories and about 15,000 employees ("Nestle to invest $241") Obviously Nestle has proved its commitment to the region through its heavy capital investment. Like Cadbury, it sees this region as an ideal market for business growth, thus, it wants to cultivate it and grow its business within the developing region. Its early presence and high investment put it in a prime position to do so and has made Nestle a dominant force to be reckoned with in Asia and globally.

Nestle's first Chinese plant was opened in 1990 after approximately 13 years of negotiation with the Chinese government. Although this plant manufactured milk and baby cereal, it was a step in the right direction for Nestle's chocolate business, since the business could learn from this first mover entrance and utilize Nestle's developing Chinese supply chain. Nestle's chocolate business could also capitalize on a similar scenario in India. The first Nestle Indian plant was opened in 1995, while Nestle's first chocolate manufacturing plant within the Asian region was in Malaysia. It is one of the region's main chocolate manufacturing facilities and serves a majority of its Asian business. For example, Nestle's most popular brand, Kit-Kat, is produced at this location in its slightly different flavor versions and is then distributed to its appropriate locality within the entire Asian region (Rapoport). Nestle also owns confectionery facilities in China, India, Indonesia, Japan, and Malaysia, although it is unclear whether these have chocolate production capabilities (*Nestle.com).*

Nestle has also illustrated its firm commitment to the developing Asian region by establishing in-country R&D facilities. For example, Nestle has invested $10.2 million into an R&D facility in Beijing, China. It also has R&D facilities in Shanghai and Singapore. Another interesting location, although not in Asia, is its Abidjan facility located in the Ivory Coast. With the Ivory Coast's significant cocoa supply, putting a facility here implies a firm commitment to its cocoa resources and overall chocolate business. It also emphasizes its dedication to improving the cocoa business for local farmers by applying its research to the region, which again fosters the positive relationships that Nestle continuously strives to build. These R&D facilities are unique to Nestle. Hershey, for example, relies on only one American research facility for all of its global business. Although this helps Hershey streamline its decisions by consolidating them all into one location, its lack of investment does not indicate a long term commitment to its developing markets. It is also important to note the magnitude of Nestle's overall business as compared to Hershey's though when analyzing these business decisions.

Not only does Nestle pursue in-country operations, but it also sees the importance of joint ventures and local acquisitions. For example, it realized the importance of establishing joint ventures with local partners within its foreign markets to develop relationships, get involved with its suppliers and to evade import duties on its products to Asian countries. It also emphasizes a strategy of acquiring big, local brands to gain economies of scale and capitalize on established supply chains and relationships. By working with the locals and learning from its newly acquired, locally run businesses, Nestle seeks to learn about the business environment and economics of the market it is entering.

Distribution has also been a unique and important business tactic for Nestle. Upon its entrance in China, Nestle developed its own distribution system from the ground up. It worked directly with is suppliers – farmers – instead of going through an intermediary. In this way, it could develop ideal and positive relationships with its suppliers which put it in an advantageous position since it established strong roots within the market. It fostered these positive relationships by promptly paying farmers who would drop off their milk each day to the milk plant. With the Chinese government delaying payments, farmers were much more inclined to sell their products to Nestle to receive these direct payments for their work. Not only did this help ease Nestle's reliance on intermediaries and ease its supply chain, it also was great public relations for Nestle's brand within the community.

Another unique tactic for distribution goes hand in hand with Nestle's marketing strategy. In Japan Nestle's Kit-Kats were marketed to students as good luck charms before exams because of their name correlation with "kitto katsu" which in Japanese means "I hope you win". The marketing strategy, therefore, created heavy demand before exams and encouraged friends and family to send Kit-Kats to their studying students. People utilized the Japanese postal service to send these gifts, and Nestle realized an opportune distribution strategy idea. Nestle, therefore, worked to establish a retail presence in the government-owned post offices around the country. Although no non-government owned retail items had been sold through the postal service, Nestle maneuvered its way into this system and is now the only one to have this outlet incorporated into its distribution channel. With this strategy Nestle eased the process of sending Kit-Kats to students and thus increased its sales and uniquely positioned itself in the Japanese chocolate market.

As we can see when Nestle enters a market it is fully committed in all aspects of its business. Nestle's 2009 Annual Report explicitly states that the firm prides itself on its long term commitments, and this is ever-apparent in the firm's approach to its developing Asian markets. With well-established in-house manufacturing facilities, with the establishment of local relationships through joint ventures, and with local business knowledge from its acquired local brands, Nestle puts itself in an advantageous position to adequately capture the developing Asian markets. Not only does Nestle focus on in-house operations and strategic relationships, but it also works to develop and establish positive relationships with its suppliers to create a more permanent in-country supply chain. Nestle further develops its foreign markets by capitalizing on both successful marketing strategies and unique distribution systems through its example in countries like Japan. Through all of its business endeavors, Nestle shows a dedication and long-term strategy in the growing Asian markets, and with its successful presence in the region, Nestle holds an ideal position to cultivate company growth.

6.5 Mars

Since Mars is a very secretive, privately held company, it is difficult to gather information regarding details of its chocolate business. Mars seems to take similar, dedicated approaches to that of Cadbury and Nestle when entering new markets. It was the first to manufacture chocolate in China and opened its initial Chinese facility in 1993 outside of Beijing in Huairo ("Mars Inc. History"). Mars now has a production facility in Nakhon Ratchasima, Thailand that services all-company manufacturing, not just chocolate confectionery. Furthermore, it recently opened a second plant location in Dubai, India that will produce its popular Snickers and Mars brands. The original plant produced Mars's line of Galaxy chocolate products, and together the two plants will distribute Mars's products to over 20 countries ("Mars opens new plant in Dubai"). With the addition of this additional $40 million manufacturing facility, Mars illustrates its commitment to foreign markets. By establishing in-house operations, Mars can best serve its local customers at international standards, and although little information has been discovered on its business strategy, whatever Mars is doing is leading to great success as it maintains the number two position in the global market trailing only slightly behind the recent Kraft and Cadbury merger. Furthermore, Mars' next closest competitor, Nestle, has a market share that is half that of Mars'.

6.6 Ferrero

Ferrero, like Hershey has placed a heavy reliance on its import strategy into China, although the firm's reasoning is unique. In China, Ferrero has utilized a state-owned import company since 1982 to distribute its products, including Ferrero Rocher, and relied on exports from its European and Australian markets to provide these products. To this day Ferrero still has not invested in a production facility in China. Although this seems contrary to Ferrero's historical, aggressive international expansion strategy, Ferrero has faced many problems and great competition in China. Ferrero's brand has been subject to counterfeiting by a company mimicking exactly, Ferrero's product packaging and chocolate confectionery with only a slight variation in the brand name (Davies). The company has grown significant market share and even applied for a trademark for its product brand following Ferrero's submission in 1986. Since that initial submission, Ferrero has spent almost $1 million fighting court cases in the Chinese judicial system against its counterfeiter, Montresor Food (Davies). The case was not closed until 2006 when the court finally ordered Montresor to compensate Ferrero for its mimicked chocolates. After such a lengthy judicial process and all the distractions caused by this debacle for Ferrero, it is no wonder the chocolate firm has not expanded its production into China. Although the fight is over, Ferrero may have little faith in the Chinese government to protect its firm's rights if it were to more heavily invest in the country. Thus, Ferrero has held back on its aggressive expansion strategy in this market, and it remains unseen whether Ferrero will work on in-country expansion in the future.

The Indian market has proved kinder to Ferrero, however. Ferrero began servicing this market through a local importer and 100 percent owned subsidiary, Imsofer Manufacturing. This subsidiary started its Ferrero production in 2008 and not only makes the Ferrero Rocher line, but also expanded to include its Kinder line. Ferrero wanted to pursue a more aggressive strategy in its Indian market (as we have seen it do it other foreign markets), so it has opted to quickly expand its production in India. Mumbai, India hosts Ferrero’s first production location in India and was built in 2009, and in 2010, Ferrero began expanding its in-house operations to Maharashtra, India. This facility will be operational in 2011 and will greatly increase Ferrero’s capacity to serve is Indian market (Keshri). Prior to this $125 million production facility, Ferrero has already invested approximately $75 million in India alone (Keshri), thus, clearly illustrating its dedication and long-term commitment to fostering company growth and brand awareness in this developing country.

6.7 Concluding Comments

Although each of the five firms is at varying stages of market penetration, it seems to hold true that the more dedicated they are to their markets, the more successful they will be. Nestle is far along in the process as it has created its own supply chain from the ground up. Cadbury’s strong emphasis on in-country facilities has not only led it to success in sales, but it has also allowed the company to advance itself within these markets efficiently to the point where it can now streamline its operations. Mars’ strategy, although less clear, has obviously led to success for this confectionery giant in its foreign markets as well. Although Ferrero has experienced judicial struggles in China, it is pursuing a very aggressive expansion strategy in India to better service and penetrate the growing market. Hershey, although emphasizing global expansion, has yet to capitalize on in-country operations, a strategy that has obviously proved successful for its competitors. Not only do such operations allow these firms to better service their customers, but they also show a dedication and long-term commitment to the market and the community in which they operate. The relationships that Hershey has built through its recent joint ventures, however, do seem to be promising endeavors and only time will tell whether Hershey has taken a better approach since it can capitalize on the expertise of its local partners who have been dominating the local markets for years.

Keep in mind that the firms' manufacturing strategies illustrate only a piece of the market development puzzle, but it does seem that the more highly invested strategies work in the firm's favor. This dedication to investment in its local markets also plays a key role in other aspects of the firm's strategies, more specifically in its supply chain.

Chapter 7: Procurement & Globalization

7.1 Introduction

Ingredient-wise, chocolate confectioneries are primarily composed of milk, cocoa, and sugar. Although they are a fairly simple product, the processing technique of each competitor is what makes each firm's chocolate products unique. Cadbury's chocolate, for example, has a lower concentration of cocoa than does Hershey's. This slight variation leads to a drastic flavor change. This difference is so apparent that United Kingdom citizens find Hershey's chocolate nearly inedible and Americans find the United Kingdom-based chocolate undesirable. Therefore, it is important for the five giant chocolate firms to find the appropriate mix of the three key ingredients – cocoa, milk, and sugar – in order to fulfill their unique chocolate flavor portfolios. Sourcing of both sugar and milk for the firm's confectioneries proves fairly easy, but cocoa proves a significant challenge, and the firms are taking drastic steps to support this component's supply through heavy investments.

7.2 Ingredients

7.2.1 Cocoa

Cocoa is a tropical crop that only grows in humid regions within 15 degrees above and below the equator ("Growing cocoa"). With this growing requirement, cocoa's supply is limited to a few countries located within these critical geographic coordinates. Annually, 3.7 million tons of cocoa are produced globally ("Analysis of the chocolate genome"). The majority of this cocoa supply is sourced from underdeveloped African countries with a total of 70 percent coming from West and Central Africa ("What We Do"), and about 35 percent of the world's cocoa supply from the Ivory Coast in Western Africa alone (Palk). The Ivory Coast is the leading supplier and produces about 1.2 million tons of cocoa annually (Palk). Ghana is the second largest producer, but its output is half that of the world's leader (Palk).

With political problems, these locations are not an ideal region from which to source. In 2002, the Ivory Coast was split in half by a civil war that tore the country apart. Today, the South is ruled by the government, while the North is controlled by rebels. In addition to these political problems, the cocoa crop has been suffering its own troubles. Crop diseases have great affects on the global cocoa supply, as nearly 1/3 of the global crop is lost to diseases annually (Palk). For example, Black pod is a fast spreading disease that causes the valuable cocoa pods to turn black and rot, spoiling the hard work of the farmers (Palk). Furthermore, the current cocoa trees are significantly aging. With the political strife that is destabilizing the country, money has been delayed for reinvestment in the cocoa sector, despite its position as a crop of high economic importance. To help maintain the efficiency of these aging trees, however, reinvestment for fertilizers and other supplies is needed. With such an unreliable crop because of both political and biological factors, many farmers are seeking profits elsewhere either by switching to more reliable crops or by seeking work in developing cities.

With fewer committed farmers, the crop is suffering. The cocoa supply, over the last 10 years, has flat-lined while its demand has increased with the increasing chocolate industry. This proves an extreme problem as, for example, 11 percent of the world's cocoa supply is purchased by Nestle alone with a majority of this supply coming from the

Ivory Coast (“Sourcing Cocoa”). The other firms have similar reliance on this component of their supply chain. Furthermore, with the exception of the 2008-2009 crop season correlating with the economic downturn, 3 of the past 4 years’ cocoa supply have failed to meet the industry’s demand. Since the industry’s cocoa supply is heavily reliant on the Ivory Coast for its supply, crop failures here lead to increased cocoa prices that have drastic affects on the chocolate business. Firms have sought to decrease their reliance on the crop by reformulating their product recipes with less cocoa and also by reducing product portion sizes to cut back on necessary cocoa amounts. Although not an ideal alternative, some firm’s have even found it necessary to raise product prices. Therefore, the situation in the Ivory Coast proves a high priority for the global chocolate firms as its effects perpetuate through the supply chain and greet an unhappy end consumer.

7.2.2 Fluid Milk

China is the third largest global milk producer, but is a relatively small player behind New Zealand and Australia (“Milk and Milk Products”). Recently, however, the growth of China’s milk industry has decreased. In 2008 there were quality control problems with China’s milk supply that involved purposeful melamine supplementation. This supplementation caused a lack of confidence and credibility of China’s milk market. With this scare and jostle of the Asian country’s industry, greater emphasis has been placed on milk imports. With New Zealand and Australia holding the leading milk production positions, sourcing is fairly easy for the chocolate firms’ Asian milk requirements with the countries’ close regional proximity to both emerging chocolate markets.

7.2.3 Sugar

Brazil is the leading producer (“World Sugar Market Review”). With less growing contingencies than cocoa as far as regional sensitivity, however, it is a much easier product to source, so Brazil’s environment has less of an effect on pricing and sourcing stability. Thailand is the second largest sugar exporter, while Indonesia has switched from an exporter to an importer as it cannot keep up with its current demand (“World Sugar Market Review”). Chocolate firms, therefore, cannot capitalize on this Asian country’s supply any longer and must look elsewhere, although this does not pose much of an issue for the firms’ supply chains.

7.3 Corporate Social Responsibility

7.3.1 Overview

Although these are the three main ingredients in chocolate confectionery production, there are additional items that are supplemented in certain products including vanilla, peanuts, almonds, and coconut. Sourcing of these related components remains a concern for the chocolate firms. However, cocoa proves the most sensitive sourcing issue for the chocolate confectionery market since it has strict regional growing contingencies and is faced with drastically fluctuating prices due to its heavy reliance on the unstable Ivory Coast cocoa production. Furthermore, globally, the crop faces inherent diseases that drastically decrease the crop output, further limiting the supply for the giant confectionery firms. With this in mind, it will be interesting to explore how each of the firms addresses these instabilities.

7.3.2 Hershey

Since Hershey's Asian strategy embodies components of its competitors', it can provide a platform on which to expand each firm's unique procurement strategy. Typically with its cocoa products, including liquor, butter, and powder, Hershey relies on futures contracts and third party suppliers, like Cargill, who source the required cocoa beans from Far Eastern, South American, and West African equatorial regions. With approximately 70 percent of the world's supply of cocoa beans coming from West Africa, Hershey's competitors obviously must rely on this large source as well; however, they do pursue other strategies to decrease reliance on this supply. After moving one of its plants to capitalize on the sugar-rich Mexico, Hershey demonstrated its heavily reliance on this region for its sugar supply. The final main component in chocolate confectionery products is milk. Hershey and many of its chocolate manufacturing facilities sit in the middle of rural Pennsylvania, which is the fifth largest producer of milk in the United States ("Market Service Bulletin").

One way that Hershey has acknowledged the problems with its cocoa sourcing strategy is by funding research at The Pennsylvania State University. Ingenic is the independent group that Hershey funds and it is composed of over 200 members representing more than 35 developed and developing countries. The organization helps spread knowledge primarily on cocoa breeding and the promotion of genetic diversity to increase the plant's resistance to diseases. By allotting some of its resources to this cause, Hershey demonstrates a firm commitment to corporate social responsibility.

7.3.3 Cadbury

The chocolate ingredients have many sources, with cocoa being the only component with significant sourcing constraints. Although Hershey's competitors have to rely on similar cocoa sourcing strategies, each has in fact employed a more unique cocoa procurement strategy than that of Hershey's. Cadbury, for example, established a Cadbury Cocoa Partnership in countries like Ghana, the Caribbean, Indonesia, and India. This program is being implemented over a ten year period, develops a reliable, long term supply of cocoa, and ensures the right quality of life for its cooperating cocoa farmers since it helps increase the income of participating cocoa farmers, introduces new sources of income, and leads to community development. The partnership entails a $72 million investment that provides cocoa saplings and agricultural knowledge to local farmers ("Cadbury 2008"). These saplings can be planted right next to the current farmer's coconut trees so additional land does not need to be cleared. In India, for example, Cadbury hopes to convince approximately 20 percent of coconut farmers to also include cocoa trees on their plantations by offering free saplings and technical expertise ("Cadbury 2008"). In 2008, 5 million saplings were planted in India alone. By 2009, Cadbury hoped to increase this number to 7.5 million ("Cadbury 2008"). The ultimate deadline is 2015 when Cadbury hopes to make India self sufficient in cocoa production. Unlike Hershey's approach, however, Cadbury illustrates its heavy investment in stabilizing this aspect of its supply chain and in creating positive relations with the communities it serves.

7.3.4 Nestle

Nestle also emphasizes a focus on community development. We saw how Nestle committed to and developed its milk production supply chain from the ground up when it entered China. Nestle wanted to utilize any sort of local supply that it could get its hands on, so it tapped into this fifth largest producer's supply. It is not surprising that it has taken similar approaches for its chocolate confectionery supply chain as well. One of Nestle's 23 Asian facilities is in Malaysia and it manufactures Nestle's chocolate confectionery. Since most companies want to source locally to avoid import tariffs and decrease transportation costs, it is not surprising that Nestle has focused its attention on its Malaysian cocoa supply. It now sources cocoa locally to supply the crucial ingredient needed for the Malaysian plant's operation.

Nestle also employs a similar cocoa partnership program to that of Cadbury's called The Cocoa Plan. Instead of focusing on Asian suppliers, however, Nestle's plan focuses on its key sourcing region, Western Africa. The vision of The Cocoa Plan "is to help cocoa farmers run profitable farms, respect the environment, have a good quality of life and for their children to benefit from an education and see cocoa farming as a respectable profession" ("The Cocoa Plan"). Nestle is investing over $113 million into this plan over the next decade and has already invested $62 million over the past 15 years. Although most of these efforts are centered out of West Africa's Ivory Coast, these efforts show Nestle's long term commitment to the chocolate confectionery business and dedication to its business's supply chain.

7.3.5 Mars

Mars has a similar approach to that of both Cadbury and Nestle and has focused its attention on developing its Asian cocoa sources. Mars Symbioscience is a division of Mars that was created in 2007 and focuses on life science research. The Botanical sector within this division "works closely with native cocoa farmers, pursuing the best ways to plant, cultivate and harvest their fruit – ultimately increasing the profitability and improving the quality of life for local communities" ("Mars Botanical"). This sector has also created a program, similar to Cadbury's, in Southeast Asia called the Cocoa Sustainability Partnership. Through this partnership, Mars cultivates relationships with local cocoa farmers by educating them, providing training and technical expertise, and helping them plant millions of cocoa saplings. Not only does this benefit Mars' cocoa supply, but it also benefits the communities in which it operates and generates positive public relations. Also, like Cadbury, it shows a dedicated, long term commitment to this developing region and its new Asian chocolate markets.

Sticking closer to home, Mars funded cocoa research at The Pennsylvania State University, like its competitor Hershey. By doing so, Mars hoped to capitalize on the university's resources and knowledge to further improve the genetic diversity on its important input.

7.3.6 Ferrero

Little information is available on Ferrero's procurement strategies. Its Indian manufacturing facilities all rely on some locally sourced ingredients for production. Another heavily used component in Ferrero's chocolate is hazelnut. This ingredient, although used in several competitors' products, encompasses a large portion of Ferrero's chocolate confectionery products, and thus represents another important ingredient in Ferrero's sourcing portfolio.

7.4 Concluding Comments

Each of the firms has taken different approaches in their sourcing strategies. Both Cadbury and Mars have shown serious commitments to developing Asian cocoa supplies by investing heavily in the region and developing and cultivating relationships with local cocoa farmers. These strategies seem ideal as they decrease the reliance on the Ivory Coast's fluctuating cocoa supply and prices. On the contrary, Nestle has focused its cocoa sourcing strategy in the Ivory Coast where it has also shown serious dedication to maintaining and improving the region's development. This strategy will have potential benefits for each of the firms since any stabilization of the region affects the overall global cocoa supply. Hershey, on the contrary, takes an elementary approach to its ingredient sourcing. It relies on third party suppliers and plays the market, yet also funds university cocoa research at home. Perhaps as its global strategy evolves, it will pursue more advanced sourcing strategies and work to develop better supply partnerships in its foreign markets.

Chapter 8: Prospects for Success

8.1 Introduction

Without a previously established chocolate industry in Asia, the leading firms in the global market have experienced a level playing field in starting their Chinese and Indian chocolate confectionery businesses. The region is not attuned to eating, liking, or purchasing chocolate confectioneries, so the firms have dedicated themselves to stimulating local demand. Globalization has played a key driver to success, because Asian consumers are looking to Western patterns of consumption with chocolate being one of them. Although there is simpler differentiation in choosing chocolate products in Asia than in the saturated markets of Europe and the United States, some key factors have proved successful in positioning the firms as global leaders and could prove helpful to forecast similar success in the emerging Chinese and Indian markets.

8.2 Acquisitions

The chocolate industry strategy seems to be based on big market players acquiring smaller market players to grow even more expansive. This is illustrated through the recent takeover of Cadbury by Kraft. Kraft saw this endeavor as a strategic way to expand its business, not only in the chocolate industry, but also firm-wide. Kraft was motivated, in part, to capitalize on Cadbury's significant market share, widespread local Indian presence, and most importantly, sufficiently developed Indian supply chain. This acquisition strategy is employed by other chocolate firms as well, as they acquire local brands and companies in their foreign markets to utilize previously established relations and business expertise to gain economies of scale.

In the Asian region, Hershey recently developed relationships with local firms in both China and India for similar purposes and now has established Asian subsidiaries. Cadbury also employed acquisition strategies even beyond its chocolate business through diversification measures. In the Asian region, it too acquired large, regional brands to capitalize on the expertise and success of these local firms. Furthermore, Nestle employs a similar acquisition strategy. Although this regional strategy helps firms compete successfully on a local scale, as firms seek to stay competitive in the global market, they must look to larger acquisitions and ventures.

Nestle had led the confectionery industry, but was knocked from its number one position after the 2002 acquisition of the Adams group by Cadbury. By combining forces, the firm increased its global presence, supply chains, and international business expertise. It was a successful business endeavor for the United Kingdom based firm. In 2008, Cadbury was bumped from its leading confectioner position by the acquisition of Wrigley by Mars. This large acquisition cost Mars $23 billion but combined two successful international businesses and product offerings to further drive Mars's confectionery success ("Wrigley"). The leading firms continually seek various acquisitions to improve their position over competitors. A few years prior, it was noted that Cadbury had even contemplated acquiring Hershey to successfully dominate the expansive United States chocolate business and further increase its global presence. But then as Kraft was eyeing Cadbury, speculations were alternatively made that Hershey would offer a bid as well, illustrating the volatility of the market.

Although these acquisition strategies have historically proved an effective way to excel in the business, Ferrero broke the mold with its early, widespread success. When Ferrero began its business, it sought to develop relations with the previously established Hershey to successfully compete in the competitive chocolate market. Just starting out, Mr. Ferrero already understood the need for economies of scale but Hershey refused, and Ferrero decided to embark on his own (Zoumas). His belief in his product offerings and ambition drove him to propel and excel his brand in the market over a brief period of time. Today, Ferrero has developed into a leading, competitive global chocolate firm by building its business from the ground up, evading the need for firm advancement through successful acquisitions. Ferrero further exemplifies the unpredictability and volatility of the industry by taking a small firm and quickly developing it into a global market leader through successful penetration of a saturated and competitive industry landscape.

8.3 In-Country Facilities or Marketing?

Another way firms have achieved great success in the emerging markets of China and India is through heavy investment strategies. By acquiring and building local brands, building in-country manufacturing facilities, and heavily investing in local farming, firms are not only helping to develop the native communities but are also creating positive public relations with their potential and current consumers. Through the establishment of a local supply chain and heavy local presence, the firms make it easier to serve their customers and are more attuned with the local market needs. These heavy investment strategies proved successful in obtaining leading market positions in the Asian countries for Cadbury, Nestle, and Mars, while Hershey's less invested strategy has been less successful thus far.

Although the level of investment seems to play a role in the success of a firm in both the emerging markets of China and India, the success of Ferrero has spoiled this conclusion as well. Ferrero demonstrates a heavy investment strategy in many of its foreign markets, but its great success in China is void of in-country facilities and product development to appeal to the local palates. With no product modifications tailored to fit local tastes within this foreign market, Ferrero's product merely struck a chord in the region. Its elaborate packaging ideally portrayed it as a luxury Western indulgence, positively positioning it in the eyes of local consumers despite a lack of in-country facility or investment presence by Ferrero. Therefore, Ferrero illustrated the importance of marketing endeavors such as brand development and presentation to rapidly and successfully penetrate the emerging Asian markets.

8.4 Product versus Experience

The success of Ferrero's products has little to do with product taste but instead heavily relies on product packaging, which adds to the creation of an important consumer experience. The individually gold tinfoil-wrapped, bite-size chocolates of Ferrero's Ferrero Rocher line, for example, encased in an extravagant, decorated box creates a luxurious and high-class experience for the firm's consumers. Through its gift giving role, the product gives the recipients a regal experience and transports them from their middle class state to an experience of consumer freedom that exemplifies mentalities of

Western cultures' consumerism. This experience that Ferrero has created is what drives sales success in the Asian markets more extensively than product flavor.

Hershey has a similar goal to Ferrero. Through its brands it is also trying to create a consumer experience, as illustrated through its three Asian Chocolate World stores' openings. Since brand development and product experience have been key drivers to success in its United States market, Hershey hopes to mirror this success in its new foreign markets. Furthermore, Hershey has realized, unlike its main United States market consumers, Asian consumers do not look to buy chocolate because they enjoy the flavor of the products. Instead they buy it for its correlation with Western indulgences. Their purchases are not driven by their chocolate palate preferences, so Hershey is heavily investing in marketing its products to create the desired consumer experience, although this experience is less high-end that Ferrero's. Although the extent of success of Hershey's approach is yet to be determined, with Ferrero's product experience appeal, Hershey's strategy seems to be in line to hit a similar chord within its emerging Asian markets. One drawback for Hershey's approach as compared to Ferrero's, however, is its lack of high-class appeal, since it is going for more middle income consumers with its "fun" brand experience.

Although Mars' strategy most resembles Cadbury's and Nestle's, its "fun" products do create a bit of a consumer experience, but to a far less extent than Hershey's Chocolate Worlds. However, this experience has proved successful with Mars leading in the Chinese market. Cadbury and Nestle have employed a different marketing approach to that of Ferrero and Hershey. They tend to promote their products by heavily investing in local product modifications and developments that will appeal to the local consumers.

This strategy fails to create a significant product experience, and although they have worked to develop unique packaging, their product push is proving less momentous than Ferrero's successful experience approach.

8.5 Concluding Comments

Although each of the five firms has experienced great success within certain markets, making them global leaders, this success is not necessarily transferable to the unique and emerging Asian chocolate confectionery markets. By building an Asian chocolate market from the ground up, the firms experienced a level playing field and have learned the hardships of cultivating new consumers who were not originally attuned to eating, enjoying or purchasing chocolate. Localization has proved a key driver to success and has shown itself through local brand development, product modifications to appeal to the Asian palates, and in-country facilities and localized business strategies to build positive relations with the local communities and potential customers. This local appeal has helped Mars, Nestle, and Cadbury lead in the Chinese and Indian markets, as illustrated by Mars' number one position in China and Cadbury's and Nestle's number one and number two positions in India, respectively. Their strategies harmonize with their heavy investment manufacturing, marketing, and procurement approaches.

Ferrero has proved a unique competitor, however, and may unravel these three giants' historic success with its product experience approach. Although Ferrero did not extensively research the market to understand that this is what the Asian consumers wanted out of their chocolate purchases, its recent, rapid growth and success within both China and India has proved this theory. Product packaging and product experience are clearly key drivers to success in the emerging markets of both China and India. Only time will tell if Hershey's similar, yet less high-end approach will cater to this market need as well.

Consumerism and globalization are key drivers to the success of the chocolate confectionery industry in the emerging economies of China and India. Local Asian consumers hope to mirror aspects of Western culture by purchasing these Western indulgences. The five leading, global firms all understand the need to cultivate and then capitalize on these expansive, potential markets and have tailored their product flavors and packaging accordingly. Ferrero's rapid success, however, has emphasized the importance of packaging and the consumer experience rather than the appeal of the product's flavor and taste itself. It poses as a significant threat as its share in each of the markets is quickly gaining on its competitors. Hershey's future success or failure in these emerging markets may be another clear indicator of the extent that consumer experience plays in leading the Asian cultures' chocolate purchases. Since markets are unpredictable, however, as we have seen with Ferrero's defying successes, only time will tell how the emerging chocolate confectionery markets in both China and India unfold.

References

"About Ingenic". *Ingenic*. 6 Nov 2010 < http://ingenic.cas.psu.edu/about.htm>.

"Analysis of the chocolate genome could lead to improvement". *Penn State Live*. 16 Sept 2010. 19 Oct 2010 <http://live.psu.edu/story/48473>.

"Annual Report 2009". *Nestle.com*. 30 Sept 2010 <http://www.nestle.com/Resource.axd?Id=585806D1-BC1B-404B-A03F-F7A68A68F436>.

Arnold, Wayne. "Dairy producers milk global demand". *The Age*. 5 Sept 2007. 10 Nov 2010 < http://www.theage.com.au/news/business/dairy-producers-milk-global-demand/2007/09/04/1188783235788.html>.

Azzara, Dan. "The Hershey Company: Filling the New Product Funnel". The Pennsylvania State University, University Park, PA. 20 Oct 2010.

Badget. "The Creamery, Selecta Kids Universe at Mall of Asia". 10 Feb 2010. 2 Sept 2010 < http://www.badudets.com/the-creamery-selecta-kids-universe-at-mall-of-asia/>.

Barboza, David. "China Passes Japan as Second-Largest Economy". *The New York Times*. 15 Aug 2010. 28 Oct 2010 < http://www.nytimes.com/2010/08/16/business/global/16yuan.html?_r=1>.

"Beyond Dried Fruit". *Bloomberg Businessweek*. 20 Nov 2010 <http://images.businessweek.com/ss/08/01/0116_world_chocolate/source/4.htm>.

"Boost chocolate profits in Asia, says report". *Confectionery News*. 12 Oct 2007. 10 Sept 2010 < http://www.confectionerynews.com/Markets/Boost-chocolate-profits-in-Asia-says-report>.

BRIC Focus on the BRIC Economies. BRIC Group. 1996. 20 Nov 2010 <http://www.bric-investment.com/bric_economies.html?source=MSN-CN-ECO-01>.

Byrne, Jane. "Chocolate category proving winner for Nestle in India". *Confectionery News*. 12 Aug 2010. 3 March 2010 <http://www.confectionerynews.com/Financial/Chocolate-category-proving-winner-for-Nestle-in-India>.

Byrne, Jane. "Godrej Hershey set to introduce chocolate products in India, report". *Confectionery News*. 10 Jun 2010. 10 Sept 2010 < http://www.confectionerynews.com/Markets/Godrej-Hershey-set-to-introduce-chocolate-products-in-India-report>.

"Cadbury 2008". *Cadbury.com*. 2008. 2 Jan 2010 <http://cadburyar2008.production.investis.com/en/financial-statements/~/media/Files/C/cadbury-ar-2008/pdf/cadbury_ra_13mb_compressed.ashx>.

"Cadbury becomes world leader with Adams acquisition". *Confectionery News*. 17 Dec 2002. 16 Oct 2010 <http://www.confectionerynews.com/Markets/Cadbury-becomes-world-leader-with-Adams-acquisition>.

"Cadbury Celebration 246gm". *Gifts to Indians*. 20 Nov 2010 <http://www.giftstoindians.com/productdetail/Cadbury-Celebration-246gm-/3169/>.

"Cadbury Dairy Milk". *CadburyIndia.com.* 11 Nov 2010 <http://www.cadburyindia.com/brands/choco1.asp>.

"Cadbury to cut jobs to become the best". *Express India*. 19 Jun 2007. 1 Nov 2010 <http://www.expressindia.com/news/fullstory.php?newsid=88384>.

"China's taste for chocolate". *Shanghai Daily*. 16 Sept 2008. China.org.cn. 2 Sept 2010 < http://www.china.org.cn/business/2008-09/16/content_16461850.htm>.

"Cadbury Limited". *Hoovers.com.* 7 Nov 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/boneyard/factsheet.xhtml?ID=crkjkffffffff>.

"Chocolate Manufacturers". *Chocolate World*. 2 Sept 2010 < http://www.chocolate-world.net/list-of-chocolate-manufacturers>.

"Chocolate: Sweet deal". *The Economist Intelligence Unit Limited 2009*. 24 June 2009. 30 May 2010.

"Chocolate to China: Send dove chocolate to China". *FlowersToCN.com.* 20 Nov 2010 <http://www.flowerstocn.com/Gifts/Chocolate-gift/dove-chocolate-a.html>.

Clarke, Jody. "Is this the end for the Mars bar?". 1 Feb 2008. *MoneyWeek.* 2 Sept 2010 < http://www.moneyweek.com/investment-advice/is-this-the-end-for-the-mars-bar.aspx>.

"Cocoa Sourcing Commitments". *Cadbury.com.* 10 Nov 2010 <http://www.cadbury.co.uk/cadburyandchocolate/OurCommitments/CocoaSourcing/CadburyCocoaPartnership/Pages/CadburyCocoaPartnership.aspx>.

"Company Profile". *Ferrero Australia*. 2 Sept 2010 <http://www.ferrero.com.au/about-us/company-profile/>.

"Confectionery in China". *Datamonitor.* Sept 2009. 13 Jan 2010.

"Confectionery in India". *Datamonitor.* Sept 2009. 13 Jan 2010.

Das, Anupreeta. "U.S. dark chocolate sales soar on health benefits". *Reuters.* New York: 4 May 2007. 15 Nov 2010 < http://www.reuters.com/article/ idUSN2327525120070505>.

Davies, Will. "Italian chocolate-maker Ferrero Rocher wins China lawsuit – report". *Forbes.com.* 11 January 2006. 7 Nov 2010 <http://www.forbes.com/feeds/afx/ 2006/01/11/afx2444090.html>.

de la Merced, Michael J. and Chris V. Nicholson. "Kraft to Acquire Cadbury in Deal Worth $19 Billion". *New York Times*. 19 Jan 2010. 30 Sept 2010 <http://www.nytimes.com/2010/01/20/business/global/20kraft.html?_r=1>.

Demetrakakes, Pan. "Nestle's packaging wraps up the world: a truly international food company combines local and global strategies in packaging its huge array of products". *AllBusiness.* 1 Oct 2004. 6 Aug 2010 < http://www.allbusiness.com/ marketing-advertising/marketing-collateral/251127-1.html>.

Dube, Clayton. "China's Largest Cities". *UCLA Asia Institute*. 13 July 1998. 20 Sept 2010 < http://www.international.ucla.edu/eas/statistics/chinacty.htm>.

Ferrero.com corporate website. 20 Nov 2010 < http://www.ferrero.com/>.

"Ferrero Asia Ltd". *Hong Kong Trade Development Council*. 2 Sept 2010 <http://www.hktdc.com/sourcing/hk_company_directory.htm?companyid=1X02XIG2&locale=en>

"Ferrero History". *Ferrero Chocolates USA*. 2 Sept 2010 <http://ferrerochocolatesusa.com/>.

"Ferrero SpA". *Answers.com*. 12 Oct 2010 <http://www.answers.com/topic/ferrero-spa>.

"Ferrero S.p.A.: Financial Data". *Hoovers.com*. 10 Oct 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/fin/factsheet.xhtml?ID=syckrcyfhcrhtc>.

"Ferrero S.p.A.: Full Overview". *Hoovers.com*. 10 Oct 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/overview.xhtml?ID=syckrcyfhcrhtc>.

"Ferrero S.p.A.: History". *Hoovers.com*. 10 Oct 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/history.xhtml?ID=syckrcyfhcrhtc>.

"Ferrero S.p.A.: Product/Operations". *Hoovers.com*. 10 Oct 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/ops.xhtml?ID=syckrcyfhcrhtc>.

"Ferrero To Scale Up In Booming Indian Confectionery Sector". *Business Monitor*. 19 Aug 2010. 2 Sept 2010.

"Ferrero to set up second chocolate unit in India". *New Europe*. 22 Aug 2010. 2 Sept 2010 < http://www.neurope.eu/articles/102155.php>.

"First Look: Tempting dark chocolate for Diwali!". *rediff NEWS*. 10 Oct 2007. 20 Nov 2010 <http://www.rediff.com/getahead/2007/oct/10choc.htm>.

Fishbein, Jennifer. "Chocolatiers Look to Asia for Growth". *Bloomberg Businessweek*. 17 Jan 2008. 2 Sept 2010 < http://www.businessweek.com/globalbiz/content/jan2008/gb20080117_692876.htm>.

"Form 10K: The Hershey Company". *United States Securities and Exchange Commission*. 2009. 10 Nov 2010 <http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MzczOTEyfENoaWxkSUQ9MzcxODQyfFR5cGU9MQ==&t=1>.

Freund, Ryan. "Chocolate in Asia: A Very Sweet Megatrend". *Fool.com*. 4 June 2008. 10 Sept 2010 < http://www.fool.com/investing/general/2008/06/04/chocolate-in-asia-a-very-sweet-megatrend.aspx>.

Frost, Randall. "Hershey's Chocolate Dips Into Foreign Markets". *brandchannel*. <http://www.brandchannel.com/features_effect.asp?pf_id=397>.

"Global R & D". *Nestle.com*. 10 Sept 2010 <http://www.nestle.com/NestleResearch/GlobalRnD/GlobalRnD.htm>.

Godrej Hershey. 30 Oct 2010 <http://www.godrej.com/godrej/GodrejHersheys/index.aspx?id=15>.

"Green tea Kisses and almond Reese's cups?". *Associated Press*. 1June 2010. 2 Sept 2010 < http://www.msnbc.msn.com/id/18401499/>.

"Growing cocoa". *Queensland Government*. 10 Nov 2010 < http://www2.dpi.qld.gov.au/horticulture/6222.html>.

Guay, Terrence. "Business Environment of Africa". IB 403 Class. The Pennsylvania State University, University Park, PA. 9 Nov 2010.

Guay, Terrence . "China in Transition". IB 403 Class. The Pennsylvania State University, University Park, PA. 19 Oct 2010.

Guay, Terrence . “Comparing European Economies”. IB 403 Class. The Pennsylvania State University, University Park, PA. 14 Sept 2010.

Guay, Terrence . “India”. IB 403 Class. The Pennsylvania State University, University Park, PA. 28 Oct 2010.

Hershey’s: Home. 20 Nov 2010 < http://www.hersheys.com/>.

Hershey’s: The Hershey Company. 20 Nov 2010 <http://www.thehersheycompany.com/>.

“Hershey Goes International”. *Hershey’s.* 5 May 2010 <http://www.hersheys.com/ discover/history/hershey_international.asp>.

“Hershey: hoping to taste success in India”. *Food Business Review*. 5 April 2007. 20 Sept 2010 <http://www.food-business-review.com/comment/ hershey_hoping_to_taste_success_in_india>.

“Hershey Kisses Chocolate” 10 Nov 2010 <http://www.designsuccess.cn/en/ list.aspx?season=2009&page=4>.

“Hershey Names Snack Leader”. *Prepared Foods Network*. 11 April 2005. 7 Oct 2010 <http://www.preparedfoods.com/Articles/e_newsletter_market/d2f592deb578801 0VgnVCM100000f932a8c0____>.

“Hershey’s Syrup Strawberry Flavor”. *rediff.com.*<http://shopping.rediff.com/product/ hersheys-syrup-strawberry-flavor/10496941>.

“India: Cadbury Schweppes Acquires Over 90% in Its Indian Subsidiary”. *IPR Strategic Business Information Database*. HighBeam Research. 26 Feb 2002. 10 Nov 2010 <http://www.highbeam.com/doc/1G1-83299792.html>.

India’s Global Ambitions: High-tech India Contrasts With Rural Ways. *PBS NewsHour.* 8 April 2009. 5 Nov 2010 <http://www.pbs.org/newshour/video/ module.html?mod=1&pkg=033009india&seg=1>.

“Japan’s Geography”. *Asia for Educators.* Columbia University, East Asian Curriculum Project. 28 Oct 2010 <http://afe.easia.columbia.edu/japan/japanworkbook/ geography/japgeo.html>.

“Japan’s sweet tooth helps boost U.S. chocolate exports”. *AllBusiness*. 1 April 1993. AgExporter. 2 Sept 2010 < http://www.allbusiness.com/agriculture-forestry-fishing-hunting/367061-1.html>.

Jintao, Hu. “Why China Loves Globalization”. *The Globalist.* 7 June 2005. 14 Oct 2010 < http://www.theglobalist.com/StoryId.aspx?StoryId=4606 >.

Keshri, Gyanendra Kumar. “Italy’s Ferrero to Set Up $125 Mn Second Chocolate Unit in India”. *Indo-Asian News Service*. 16 Aug 2010. 2 Sept 2010 <http://business.gaeatimes.com/2010/08/16/italys-ferrero-to-set-up-125-mn-second-chocolate-unit-in-india-91880/>.

“Latest Press Releases”. *theHersheyCompany.com*. 19 Sept 2010 <http://www.thehersheycompany.com/newsroom.aspx?releaseID=16007>.

Lee, Min. “Cadbury pulls melamine-laced chocolate made in China”. *USA Today*. 29 Sept 2008. 10 Sept 2010 < http://www.usatoday.com/money/industries/food/2008-09-29-cadbury-chocolate-recall_N.htm>.

Madden, Normandy. “Soy-Sauce-Flavored Kit Kats? In Japan, They’re No. 1”. *MediaBuzz*. 30 March 2010 < http://mediabuzz.monster.com/news/articles/872-soy-sauce-flavored-kit-kats-in-japan-theyre-no-1>.

“Market Service Bulletin: 2001 Milk Production”. 2001. 20 Nov 2010 <http://www.fmmacentral.com/PDFdata/msb0202.pdf>.

Mars.com – Home. 20 Nov 2010 < http://www.mars.com/global/index.aspx>.

“Mars battles against cocoa pest”. *BBC News*. 7 Aug 2006. 17 May 2010 <http://news.bbc.co.uk/2/hi/business/5254410.stm>.

“Mars Botanical”. *Mars Symbioscience.* 20 Nov 2010 <http://www.marsbotanical.com/about.html>.

“Mars China headquarters office groundbreaking ceremony held in Beijing”. *China Business News.* 15 Sept 2010. 29 Oct 2010 <http://cnbusinessnews.com/mars-china-headquarters-office-groundbreaking-ceremony-held-in-beijing/>.

“Mars opens new plant in Dubai”. *Khallej Times.* 27 May 2010. 20 Sept 2010 <http://www.khaleejtimes.com/biz/inside.asp?xfile=/data/uaebusiness/2010/May/uaebusiness_May106.xml&section=uaebusiness>.

“Mars in China”. *Mars.com*. 13 Nov 2010 <http://www.mars.com/global/who-we-are/where-we-operate/china.aspx>.

“Mars Inc. History”. *Mars.com.* 20 Nov 2010. <http://rd.mars.com/Brazil/en/Who+we+are/Mars+Inc.+History.htm>.

“Mars Inc – Packaged Foods – World”. *Euromonitor International: Global Company Profile.* May 2008. 2 June 2010.

"Mars, Incorporated". *Bloomberg Businessweek*. 2 Sept 2010. 2 Sept 2010 < http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId =184468>

"Mars, Incorporated: Financial Data". *Hoovers.com*. 10 Oct 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/fin/factsheet .xhtml?ID=ffffcftskffythfjxh>.

"Mars, Incorporated: Full Overview". *Hoovers.com*. 10 Oct 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/overview.x html?ID=ffffcftskffythfjxh>.

"Mars, Incorporated: History". *Hoovers.com*. 10 Oct 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/history.xht ml?ID=ffffcftskffythfjxh>.

"Mars, Incorporated: Products/Operations". *Hoovers.com*. 10 Oct 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/ops.xhtml?I D=ffffcftskffythfjxh>.

"Milk and Milk Products". *Food Outlook: Global Market Analysis*. FAO Corporate Document Repository. 13 Nov 2010 <http://www.fao.org/docrep/010/ah876e/ ah876e09.htm>.

"Mars opens new factory in Dubai". *Khaleej Times*. 27 May 2010. MENAFN. 2 Sept 2010 < http://www.khaleejtimes.com/biz/inside.asp?xfile=/data/uaebusiness/ 2010/May/uaebusiness_May106.xml&section=uaebusiness>.

McGregor, Ken. "Dynamic trends continue Asia's confectionery growth". *AllBusiness*. 1 Nov 1996. 10 Sept 2010 < http://www.allbusiness.com/wholesale-trade/merchant-wholesalers-nondurable/587828-1.html>.

Nestle.com. 10 May 2010 <http://nestle.com/>.

"Nestle S.A.: Financial Data". *Hoovers.com*. 10 Oct 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/fin/factsheet .xhtml?ID=ffffcrxrhcxfkfxxkc>.

"Nestle S.A.: Full Overview". *Hoovers.com*. 10 Oct 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/overview.x html?ID=ffffcrxrhcxfkfxxkc>.

"Nestle S.A.: History". *Hoovers.com*. 10 Oct 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/history.xht ml?ID=ffffcrxrhcxfkfxxkc>.

"Nestle S.A.: Products/Operations". *Hoovers.com*. 10 Oct 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/ops.xhtml?ID=ffffcrxrhcxfkfxxkc>.

"Nestle to invest $241 mln in South-east Asia this year". *Khallej Times.* 13 June 2009. 10 Nov 2010 <http://www.khaleejtimes.com/biz/inside.asp?xfile=/data/business/2009/June/business_June564.xml&section=business>.

Palk, Susannah. "Bittersweet times for Ivory Coast's cocoa industry". *CNN.com*. 30 Sept 2010. 19 Oct 2010 < http://edition.cnn.com/2010/BUSINESS/09/30/ivory.coast.cocoa/index.html>.

Patton, Dominique. "Ferrero hanging on court decision for Chinese expansion". *AP-Food Technology.com.* 2 Sept 2010 < http://www.ap-foodtechnology.com/Industry-drivers/Ferrero-hanging-on-court-decision-for-Chinese-expansion>.

Rapoport, Carla. "Nestle's Brand Building Machine". *Fortune*. CNNMoney.com. 19 Sept 1994. 23 May 2010 < http://money.cnn.com/magazines/fortune/fortune_archive/1994/09/19/79744/index.htm>.

Redruello, Francisco. "Key Confectionery Trends in Asia". *Euromonitor Archive*. 26 Nov 2007. 10 Sept 2010 < http://www.euromonitor.com/Articles.aspx?folder=Key_Confectionery_trends_in_Asia&print=true>.

Reuters. "Hershey Sells Pasta Unit to New World". *Los Angeles Times*. 16 Dec 1998. 15 Oct 2010 <http://articles.latimes.com/1998/dec/16/business/fi-54467>.

Rosenberg, Matt. "Largest Countries". *About.com*. 17 Nov 2010 <http://geography.about.com/cs/worldpopulation/a/mostpopulous.htm>.

Sheetal, Mike. "Ichimi Kit Kat". 20 Nov 2010 <http://hitflavor.com/2010/01/07/ichimi-kit-kat/>.

Shen, Samuel. "Chocolate makers try to satisfy a picky Chinese palate". *The New York Times*. 3 July 2008. 10 Sept 2010 < http://www.nytimes.com/2008/07/03/business/worldbusiness/03iht-choco.1.14202940.html?_r=1>.

"Sourcing Cocoa". *The Cocoa Plan – Nestle.* 13 Nov 2010 < http://thecocoaplan.com/sourcing-cocoa/>.

Szalai, Ildiko. "Hershey looking to accelerate in Asia". *Euromonitor*. 6 Jul 2009. 2 Sept 2010 <http://www.euromonitor.com/Hershey_looking_to_accelerate_expansion_in_Asia>.

"The Cocoa Plan". *Nestle.com.* 10 Nov 2010 < http://www.nestle.com/CSV/CSVinAction/AllCaseStudies/Nestl%C3%A9SustainableCocoa.htm>.

The Global website of Nestle SA. 20 Nov 2010 < http://www.nestle.com/>.

"The Hershey Company (HSY) Company Profile". *Reuters*. 10 Sept 2010 <http://www.reuters.com/finance/stocks/companyProfile?symbol=HSY.N>.

"The Hershey Company: Financial Data". *Hoovers.com*. 10 Oct 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/history.xhtml?ID=ffffrffffrfkttffyf>.

"The Hershey Company: Full Overview". *Hoovers.com*. 10 Oct 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/overview.xhtml?ID=ffffrfkttffyfftfht>.

"The Hershey Company: History". *Hoovers.com*. 10 Oct 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/history.xhtml?ID=ffffrffffrfkttffyf>.

"The Hershey Company: Products/Operations". *Hoovers.com*. 10 Oct 2010 <http://premium.hoovers.com.ezaccess.libraries.psu.edu/subscribe/co/ops.xhtml?ID=ffffrffffrfkttffyf>.

Venkat, P.R. "Nestle to Invest in Southeast Asia". *The Wall Street Journal Online*. 13 June 2009. 10 Nov 2010 <http://online.wsj.com/article/SB124488186306712373.html>.

West, David J. "The Hershey Company". *CEO Presentation.* 16 Feb 2010.

"What We Do". *World Cocoa Foundation.* 12 Nov 2010 <http://www.worldcocoafoundation.org/what-we-do/africa.html>.

"Why patience brings rewards in Asia". 8 May 2006. *Managing Intellectual Property*. 2 Sept 2010 < http://www.managingip.com/Article.aspx?ArticleID=629456>.

"Workshop Conclusions". *Ingenic.* 6 Nov 2010 <http://ingenic.cas.psu.edu/conclusions.htm>.

"World Sugar Market Review". *Indian Sugar Mills Association*. 10 Sept 2010 <http://www.indiansugar.com/briefings/wsm.htm>.

"Wrigley: acquisition by Mars could threaten Cadbury". *Datamonitor*. 28 April 2008. 20 Sept 2010 <http://www.datamonitor.com/store/news/?productid=8C7ECD28-F353-4419-87DE-C9406CA4278B>.

Zoumas, Barry, Retired Corporate Vice President for Science and Technology of The Hershey Company. Personal Interview. 18 Oct 2010.

The Academic Vita of:

CHELSEA E. FRANCIS

EDUCATION

The Pennsylvania State University, University Park, PA — December 2010
Schreyer Honors College
Bachelor of Science in Agribusiness Management
International Business Minor, Smeal College of Business

IES Abroad Rome Center, Rome, Italy — February 2009 - May 2009

CAMPUS LEADERSHIP

Sigma Kappa Sorority, Theta Psi Chapter

President — Spring 2008 - Fall 2008

- Responsible for all sorority affairs of 85 member sorority
- Attended leadership training programs directed by the Pan-Hellenic Council as well as National Headquarters
- Led weekly Executive Council Meetings and biweekly chapter meetings
- Improved relations with National Headquarters by increasing weekly communication

Public Relations Chairperson — Spring 2007- Fall 2008

- Created advertisement for the chapter's philanthropy to be published in Penn State's daily newspaper
- Liaison between Theta Psi and the community

WORK EXPERIENCE

Cargill, Inc., Animal Nutrition Division, Albany, NY — May 2010-August 2010
Business Manager Intern

- One of three applicants chosen across North America through highly competitive selection process
- Executed marketing survey, competitive analysis, and market segmentation
- Developed business plan for the Northeast Region's wholesale mineral business
- Presented innovative communication technologies to regional staff of 100 people
- Collaborated with regional leads in understanding team needs to establish a site framework that fulfilled needs and captured the value of the SharePoint site

Wagsworth Manor Pet Resort, Malvern, PA — August 2007- August 2009
Operations Manager

- Managed operations of $6 million facility including functions of customer service, public relations, finances, and human resources
- Visited local pet-related businesses to develop and strengthen business relationships
- Implemented "Stay-N-Play" marketing initiative to promote facility services to potential customers
- Trained 60 employees and all newly hired employees
- Ensured the safety and well-being of 180 guests at all times
- Created procedures and employee manuals for operations that increased efficiency

Land O'Lakes Purina Mills, Harrisburg, PA — January 2007
Sales Extern

- Assisted sales representatives during meetings and in expanding clientele

- Learned general management of retail businesses including customer relations, inventory management, and retail pricing strategies

Great Valley Pet Hotel, Malvern, PA March 2003- August 2007
Receptionist

- Facilitated tours of all operations and services for potential customers
- Communicated customer needs and accommodation preferences to the rest of the staff upon check-in
- Answered phones to make reservations, inform of the facility, and address customer questions and concerns
- Created and managed invoices