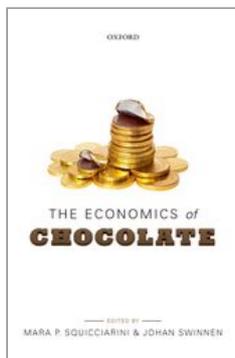


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The Economics of Chocolate

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Chocolate Brands and Preferences of Chinese Consumers

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Abstract and Keywords

Although global exporters, foreign producers, and domestic producers have been battling each other in China's chocolate market for decades, it is not clear how Chinese consumers respond to the various brands. This chapter discusses the implementation of two tasting experiments to test the preferences of Chinese consumers. A 'blind condition', where participants were not told about the chocolate brands, was compared with a 'non-blind condition', where participants were informed about the brands before tasting. The results suggest that brand information does influence tasting experience. Chinese consumers have higher preferences for imported brands as compared with domestic brands or foreign brands which are produced in China.

Keywords: blind condition, Chinese consumers, preference of Chinese consumers, chocolate brands, tasting experiments, experiments, imported brands

Chocolate is a relatively new food product to the consumers in China. Thirty years ago, almost no one in China had ever tasted chocolate. However, chocolate consumption has grown rapidly since the mid-1990s. In recent years the average annual growth rate was over 10 per cent. Per capita consumption is still low by international standards. Because of this and the rapidly growing economy and urbanization, the potential for growth in China is estimated to be huge. Experts believe China someday could consume up to 7 billion USD per year (*China Daily*, 2004). Such potential, of course, in part accounts for the fact that the top 20 world chocolate producers have all entered the China market (Scott-Thomas, 2011). Most of the chocolate (around 80 per cent) is produced by foreign companies, either in China or abroad. Foreign brands entered in the 1980s. In 2008 the largest chocolate producer in China, Mars, had a market share of around 40 per cent (Wang, 2008). Domestic players have been growing, although their market share is still relatively small. The largest domestic competitor, China National Cereals, Oils and Foodstuffs Corporation (COFCO), holds a market share of around 10 per cent. It is estimated that China now has around 250 chocolate companies with an annual production capacity of chocolate of 150,000 tons (Buffy, 2011).

In pursuit of China's potential chocolate bonanza, foreign companies have tried many different strategies. Foreign chocolate companies, like foreign companies in other sectors, have tried to build strong brands as a way to create an image of a company that produces authentic chocolate. The advertising and marketing strategies of many foreign chocolate firms have been to build brand images symbolizing wealth and good fortune (Ferrero), luxurious self-indulgence (Mars), or being cute and whimsical (Hershey). Most of these companies have been open about their foreign roots.

Some of these foreign chocolate brands have also tried to localize their taste and adapt to the Chinese culture (Wood and Grosvenor, 1997). For instance, Mars, Hershey, Cadbury, and Nestlé set up factories in China. They adapted their chocolate recipes as they began to believe that ‘creamy’ and ‘nutty’ are the favoured **(p.171)** tastes of China’s nascent chocolate fans. Following the path-breaking strategy of Ferrero in the 1980s,¹ chocolate companies have continued to push their product as a way to give unique gifts, using this as a cultural gateway. In doing so, foreign chocolate makers devote much in advertising and packaging to their efforts to promote chocolate as a gift that symbolizes love and friendship (Allen, 2010). Many of the earliest chocolate brands that used this strategy in the 1980s and 1990s still dominate China’s market, despite the large number of local firms that emerged later.

During the past decade, global firms have sought to penetrate China’s market in a different way: by directly exporting their chocolate products to China. During this time a large number of imported brands have entered China. Chocolate imports grew from \$17.7 million in 1999 to nearly \$50 million in 2003 (Freeman, 2005). If they so desire, consumers in China now have access to more than 70 foreign chocolate brands in supermarkets in the nation’s large urban cities (*Chocolate News*, 2009). Consumers can purchase some of the world’s most prestigious and popular brands. They can buy truffles from Belgium. They can purchase Côte d’Or milk chocolate. Imported brands have mostly been promoted as luxury food and are marketed to the top end of the China’s consumer market (Freeman, 2005).

Importers are not alone in the battle for the hearts and wallets of China chocolate lovers. Local competitors have also joined the battle. Around 20 per cent of China's chocolate market is provided by domestic firms (*Shanghai Daily*, 2008). They, like their foreign competitors, have launched efforts to establish their brands among Chinese consumers. These brands often emphasize Chinese culture and tradition in advertising to invoke the patriotism of consumers (World Executive, 2004). It is believed that the growth of the market share of domestic brand can be partly attributed to Chinese consumers' support for domestic industries. However, partly due to their less-developed technology and less sophisticated marketing strategies, and partly due to the shorter history of production inside China, at least so far, domestic firms have been less competitive than the foreign ones in winning the China market (Allen, 2010). As a result, brands of domestic firms are mostly still underdeveloped. Advertising budgets are low. Surveys indicate that consumers believe that domestic firms use inferior ingredients (Buffy, 2011). In part because of this perception, Chinese chocolate firms (e.g., LeConte, a branded chocolate of COFCO, China's largest food company) price their product at only 75 to 80 per cent of the prices of their foreign competitors.

Although these chocolate brands have been battling it out in the Chinese chocolate market for decades, it is not clear how Chinese consumers respond to the various brands and how their perception actually affects their tasting experience. It is often hard to disentangle the impacts of branding and other characteristics of the food product (like chocolate) on consumer preferences. The current **(p.172)** study is the first to rigorously test the impact of (foreign) branding on consumer tasting experience in China's chocolate market, and separate it from the impacts of other features of the chocolate products.

The rest of the chapter is arranged as following. The section 'Influence of Brand Information on Consumer Preferences' provides insights from the economics and psychology literature on the consumer preference in branding. Then, we describe the research approach and present the results. We end with concluding remarks.

**Influence of Brand Information on Consumer Preferences:
Insights from the Literature**

There is a large literature on how information about food products shapes the tasting experience of consumers (Deliza and MacFie, 1996). Consumer judgements can be influenced by information about a food product and/or its production (Caporale and Monteleone, 2004; Kihlberg et al., 2005). Among the various information cues, brands (or brand names) can influence consumer choice (Allison and Uhl, 1964; Aaker, 1992; Keller, 1993; de Chernatony and McDonald, 1998). Neuroscience research indicates that brand preferences recruit specific parts of the brains of potential buyers when they are making choices among different brands (Shiv et al., 2005; Lee, Broderick, and Chamberlain, 2007; Kenning and Plassmann, 2008). Brand names influence consumer choice by triggering a variety of associations, such as prior experiences with the brand and quality inferences (Erdem and Swait, 1998), and values and images that companies have tried to build through marketing and advertising strategies (Deliza and MacFie, 1996).

In developing and transitional economies, brands of new products that have arrived inside their borders from developed countries can be powerful sources of information. In particular, foreign brands are often associated with authenticity and high quality. When a product enters a new market where consumers have minimal prior experience with the type of product before its arrival, it is often difficult or impossible for consumers to make initial judgements about a product's legitimacy or quality (Carpenter and Nakamoto, 1989). In this case, foreign products lay claim to country-of-origin effects which may induce consumers to identify authenticity with foreign brands (Zhang, 1996). Indeed, Wong and Ahuvia (1998) found that many foreign products shape the expectations and desires for consumption of genuine products among consumers in East Asia.

Beyond authenticity, the information cues of foreign products also, in some cases, are associated with social and symbolic values. These values have been linked with concepts such as sophistication, modernity, novelty, and Western civilization (Zhou and Hui, 2003). Consumption of foreign products often becomes part of the path that individuals take towards a contemporary lifestyle. As the brand-associated values are widely accepted, consumers may prefer to buy foreign brands as this also enhances their self-image and makes them feel they are being cosmopolitan and modern (Friedman, 1990).

(p.173) Despite the benefits that foreign products have in terms of shaping consumer preferences, there are challenges to their promotion in all countries, including China. One of the most well-known challenges is consumer patriotism. Pro-nationalist consumer preferences have been identified as influencing consumer choices between domestic brands and foreign brands (Han, 1988; Rawwas et al., 1996; Klein et al., 1998). Patriotism plays a significant role in consumer decision-making, especially when products are not necessities and when consumers perceive that the domestic industry is being threatened by imported products (Shimp and Sharma, 1987; Sharma, Shimp, and Shin, 1995). Facing patriotism, protectionism, and other challenges from local firms, multinational enterprises are sometimes forced/choose to cooperate with local firms instead of developing an independent brand (Arnold and Quelch, 1998).

Foreign companies, of course, recognize the partisanship of consumers in the domestic markets and often take measures to offset consumer patriotism. For example, foreign companies may have local branches or use local standards (for example, advertising content and packaging) to launch the production of certain products inside China (Batra, 1997; Yin, 1999). Belk (2000) has shown that McDonald's make conscious efforts to adapt their menu to local culinary types. They also choose facades and decor that reflect local sources of pride.

Experiment to Measure Chocolate Preferences

In this experiment, participants were randomly assigned to one of two conditions (Figure 9.1). In the blind condition, they tasted a series of chocolate samples without any information about the brands. In the non-blind condition, they

(p.174) were told the brands of the chocolate samples before they tasted them. A total of 234 participants were recruited and randomly assigned to one of the two conditions. Participants were randomly recruited at Renmin University and at the Olympic Forest Park in Beijing. We

made sure that there was no interaction among participants.

Sample Chocolates

Chocolate samples were one of four 'different types' of chocolate: Chinese Domestic Milk Chocolate, Foreign-Branded Milk Chocolate/Produced in China, Imported Milk Chocolate, and Imported Truffles (one of the most sophisticated and expensive types of chocolate). These brands differ by the location of the producer's home firm (foreign or domestic), production location (foreign or domestic), and type (milk chocolate or truffle).

Three brands of milk chocolate and one brand of truffle were chosen from a supermarket in Beijing to represent the four different types of chocolates. They were selected from among the best-selling brands (according to interviews with the manager of the supermarket). In particular, we chose LeConte chocolate, produced by COFCO, to represent Chinese Domestic Milk Chocolate. We chose Dove Chocolate, produced by Mars, to represent Foreign Branded Milk Chocolate/Produced in China. We chose Belgian Côte d'Or to represent Imported Milk Chocolate. Belgian Truffles were chosen to represent Imported Truffles.

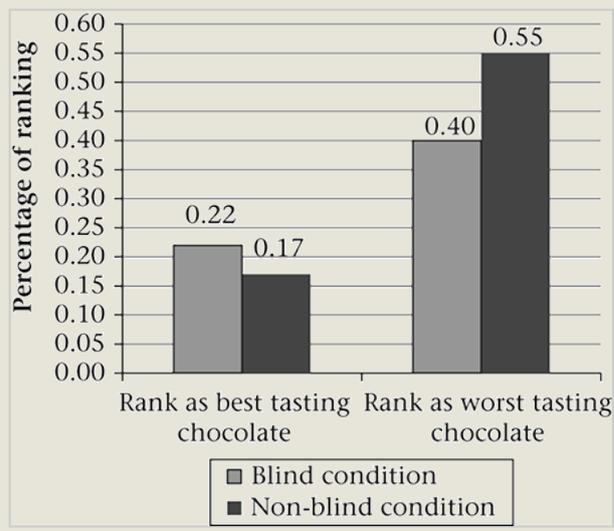


Figure 9.1 Percentage of participants that ranked Chinese domestic milk chocolate as the best-tasting or the worst-tasting chocolate in Experiment 1

The three brands of milk chocolate all are known to have similar basic ingredients. According to the packaging, each type of milk chocolate contains cocoa powder, cocoa butter, sugar, and milk. However, the packaging also demonstrates that the ingredients vary slightly in amount. For example, the Chinese Domestic Milk Chocolate has a minimum of 25 per cent cocoa butter. In contrast, the Foreign-Branded Milk Chocolate/Produced in China has a minimum of 17 per cent cocoa butter. The Imported Milk Chocolate has a minimum of 18 per cent cocoa butter.

As real chocolate fans know, of course, the ingredients of Imported Truffles differ from those of milk chocolate. Specifically, because truffles contain more cream than milk chocolate, and they are dusted in cocoa powder, they have a different texture and are softer. Because of this, the taste is more exotic to Chinese consumers (as stated by many of the participants in the interviews after the experiment).

Different information was provided. In the ‘blind condition’, participants were not told about the chocolate brands that they tasted (or any other information). In the ‘non-blind condition’, before the tasting they were shown the chocolate brands and instructed about the nature of the chocolate—where it was made (inside China or outside of China); the country of firm that produced the chocolate (was it imported or not); and what type of chocolate it was (milk chocolate or truffles). The participants tasted sample chocolates and ranked the chocolates from the best tasting to the worst tasting.

The study includes two experiments. Experiment 1 included only the three milk chocolate brands: the Chinese Domestic Milk Chocolate, the Foreign-Branded Milk Chocolate/Produced in China, and the Imported Milk Chocolate. Experiment 2 (**p. 175**) added the Imported Truffles. Despite this difference, the experimental procedures were exactly the same.

Results

Experiment 1

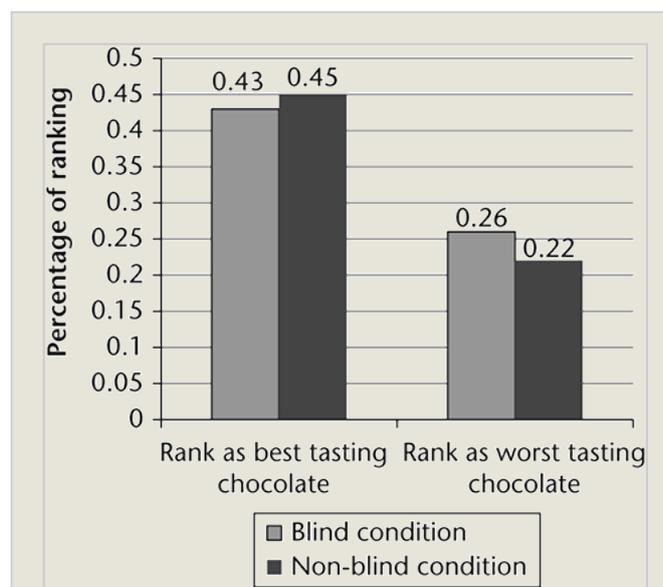
The experiment shows that preference for chocolate is influenced by the information provided (Figure 9.1).

Participants in the non-blind group, when participants received information about the chocolate brands, were 5 per cent less likely to rank the Chinese Domestic Milk Chocolate as the best-tasting chocolate than the blind group. Participants were 15 per cent less likely to rank the Chinese Domestic Milk Chocolate as the best- or second-best-tasting chocolate in the non-blind condition. In other words, the non-blind participants were 15 per cent more likely to rank the tastings of the Chinese Domestic Milk Chocolate as the chocolate that they favoured the least.

However, no significant difference was observed for the preference for Foreign Branded Milk Chocolate/Produced in China. The preferences are similar across the blind and non-blind conditions (Figure 9.2). Participants were 2 per cent more likely to rank the Foreign Branded Milk Chocolate/Produced in China as the best-tasting chocolate. At the same time, participants were 4 per cent less likely to rank the Foreign Branded Milk Chocolate/Produced in China as the worst-tasting chocolate in the non-blind condition than in the blind condition.

Interestingly, the Imported Milk Chocolate was ranked higher by participants that were in the non-blind condition than those in the blind condition (Figure 9.3). When participants received information about the brands (non-

(p.176)



blind), they were 4 per cent more likely to rank the Imported Milk Chocolate as the best-tasting chocolate and 12 per cent less likely to rank it as the worst-tasting chocolate.

Experiment 2

In the second experiment, Imported Truffles were added.

Participants demonstrated higher preference for the Imported Truffle when they were informed about the

brands (Figure 9.4). The Imported Truffle was 14 per cent more likely to be ranked as the best-tasting chocolate and 14 per cent less likely to be ranked as the worst-tasting chocolate in the non-blind condition. Non-blind participants were 29 per cent more likely to rank Imported Truffle as the best- or the second-best-tasting chocolate among the four brands of chocolate than the blind participants.

To identify the source of change in preference, the rankings of brands in pairs between the blind participants and non-blind participants were compared. Four pairs of chocolate brands were compared: Chinese Domestic Milk Chocolate and Foreign Branded Milk Chocolate/Produced in China; Chinese Domestic Milk Chocolate and Imported Milk Chocolate; Foreign Branded Milk Chocolate/Produced and Imported Milk Chocolate; and Imported Milk Chocolate and Imported Truffles.

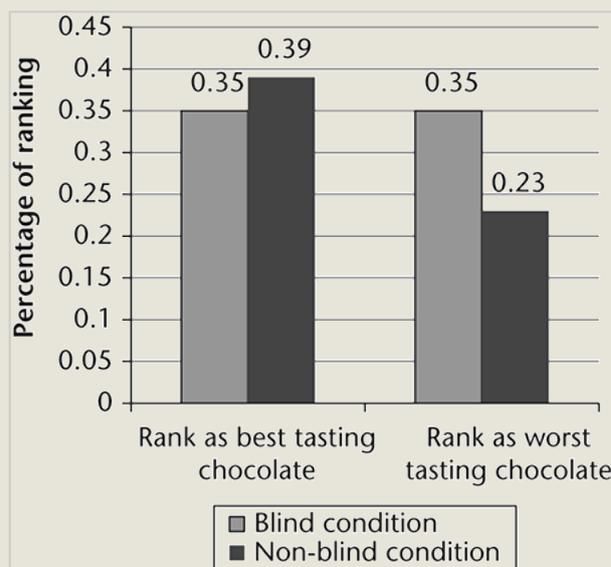


Figure 9.3 Percentage of participants that ranked imported milk chocolate as the best-tasting or the worst-tasting chocolate in Experiment 1

Figure 9.2 Percentage of participants that ranked foreign-branded milk chocolate/produced in China as the best-tasting or the worst-tasting chocolate in Experiment 1

The results demonstrate a higher preference of Chinese consumers towards imported brands. The Imported Milk Chocolate was more likely to be preferred in the non-blind condition over both the Chinese Domestic Milk Chocolate and the Foreign Branded Milk Chocolate/Produced in China, by 11 per cent.

Interestingly, the biggest effect was for Truffles. Truffles are a special type of chocolate. Many Chinese consumers are not used to them. As a result, when moving from the blind (the condition in which most participants did not prefer **(p.177)**

Truffles) to the non-blind condition (in which the participants were told this was an Imported Truffle), participant preference for Truffles increased from 0.29 to 0.57.

This is the largest shift that was observed. Between the imported brands, Truffles were

also more preferred by 28 per cent over Milk Chocolate when participants received the brand information. As a more exotic and unknown type of chocolate, it seems likely that the signalling effects of Truffles (all types of associations with imported brands) were the strongest for Chinese consumers.

Conclusion

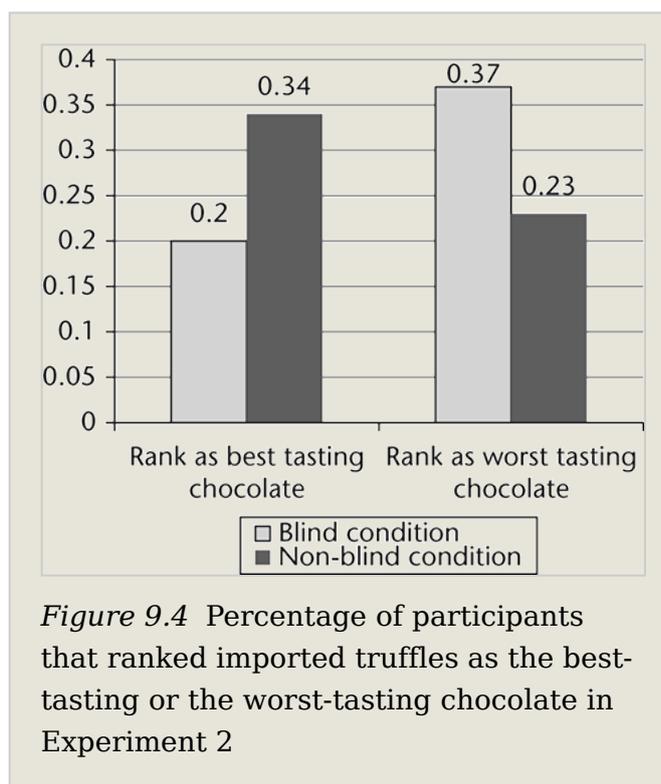


Figure 9.4 Percentage of participants that ranked imported truffles as the best-tasting or the worst-tasting chocolate in Experiment 2

The results suggest that brand information does influence Chinese consumers' preferences for chocolate. More specifically, Chinese consumers have higher preferences for imported brands than the domestic brand or the foreign brand which is produced in China when they are informed about the brands. The reason for the higher preference for the imported brands is likely to be associated with the image of authenticity, high quality, or the social and symbolic value that Chinese consumers associate with the brands.

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Notes:

(¹) Ferrero, one of the world's largest chocolate firms, arrived in China in 1984, but chose not to target the traditional consumer market. Instead, it decided to focus on gift-giving. The firm designed packaging and advertising that catered to China's gift-giving culture (Allen, 2010). It succeeded. Today the Ferrero brand can be found throughout China.



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