

Italian market entry by superior chocolate marketing essay



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Superior Chocolate (SC) is a UK based producer of high quality organic chocolates. The firm has three product lines, namely (a) block chocolate, (b) chocolates for special occasions and (c) speciality chocolates. All chocolates are produced with high quality organically grown ingredients. Whilst the company is far smaller in size than the global and regional market leaders, the firm has established market presence in the UK, the USA and Australia and production facilities in the UK and Australia. The company has adopted a comprehensive marketing strategy for (a) improvement of competitive advantage by improvement of financial strength, and (b) expansion into other markets, in both emerging and developed countries. SC is now actively examining the potential of different foreign markets for entry and expansion, from various business perspectives.

Objectives

This study aims to investigate and analyse the potential of the Italian market for entry by Superior Chocolate. The study entails the conduct of a focused situation analysis of the Italian market and an examination of the various routes for entry. Such analysis and examination is followed by appropriate recommendations and a concluding section.

2. Analysis of Italian Market

The analysis of a national market for purposes of entry and expansion by foreign business organisations is a complex and multi-dimensional task that involves assessment of various market factors, environmental conditions, extent of competitiveness and existing opportunities and threats (Gilligan & Wilson, 2005, p 48-51). This study focuses on important market factors in

order to produce a representative snapshot of existing conditions and to thereby facilitate decision making on entry and expansion options.

Market Analysis

Whilst Belgium and Switzerland are globally known for the excellence of their chocolate making skills, chocolates are extremely popular in most European countries and both the UK and Italy have strong chocolate markets (Mintel..., 2010, p 1-2). Chocolate consumption in the UK at approximately 600, 000 tonnes per year is however much more than that of Italy, which consumes approximately 215, 000 tonnes every year (RTS Resource Ltd, 2010, p 1-2). The consumer expenditure on chocolates in European countries in 2007 is detailed in the chart provided below.

Consumption of Chocolates in Europe

(RTS Resource, 2010, p 1)

Information obtained from various surveys and reports lead to the following conclusions about existing market conditions in Italy and other European countries.

Expansion of the chocolate market in the immediate future appears to be limited because of low population growth forecasts, depressed economic conditions and competition from other snacks and indulgences.

The market is reaching saturation level and much of its growth is coming from market segments rather than from total expansion.

The market is in a state of maturity and growth is less than 1% every year.

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Marketing experts feel that European chocolate sellers should try to improve their market shares by (a) exploiting the health properties of chocolate, (b) engaging in product differentiation through use of shapes, ingredients and packaging, (c) increase in brand diversification, (d) introducing low calorie and low sugar products, and (e) developing the super premium sector. Whilst opportunities do exist in the chocolate market, they are becoming increasingly difficult to find because of increasing market competition and fragmentation (RTS Resource, 2010, p 2).

Environmental Analysis

Careful environmental analysis of target markets enables prospective market entrants to understand the various environmental features that are different, in small or large measure, in such target markets from those of their existing markets. An understanding of such differences helps organisations in shaping their entry strategies (Hooley, et al, 2008, p 81-86).

Such environmental analysis is normally carried out through the examination of political, economic, social, technological, environmental and legal aspects in line with the well known PESTEL format (Hooley, et al, 2008, p 81-86). It is however unlikely that any significant political, environmental and legal issues could cause concerns about the entry of Superior Chocolate in Italy because both Italy and the UK are governed by EU regulations and norms. SC should thus, for purposes of environmental analysis, focus mainly on economic and social issues (Mintel..., 2010, p 1-2).

Italy is an advanced and affluent nation with an annual GDP of 1. 74 trillion USD and a per capita income of 29, 900 USD. The ongoing economic

recession has however hurt the Italian economy significantly and both annual GDP and per capita income have reduced significantly from 2007 levels. Future growth prospects are also not very optimistic and the country expects to face bleak economy conditions for some years to come. Such depression in economic conditions has obviously led to reduction of discretionary incomes, losses of jobs and decrease in consumer spending (Central intelligence..., 2010, p 2-3). The consumption of chocolates has however not been affected, even though the segment has not shown any significant growth in the last two years (Mintel Snapshot, 2010, p 4-9). Whilst such trends provide reason for some optimism, continuance or worsening of economic conditions could well lead to reduction in demand and consumption of chocolates in Italy.

Italy is an ageing society and with the death rate exceeding the birth rate, the population of the country is decreasing steadily. The average age of the country, at approximately 44 years, is higher than the average European age and significantly higher than that of the UK. With consumption of chocolates being associated with children and young people, the growing average age of the country could lead to stagnation or even reduction in demand for chocolates in future. Italian society is also culturally very different from that of the UK (Central intelligence..., 2010, p 2-3). Italians are fiercely proud of their history, society and culture and tend to be ethnocentric in their choice of products. This is even more pronounced in personal preferences like clothes and food. Research has conclusively revealed that greater levels of ethnocentricity by and large lead to preferences for local products, thereby

making it difficult for foreign companies to enter and expand in such markets (Arvidsson, 2003, p 34-39).

Porters Five Forces Analysis

Porters Five Forces Model provides a useful tool for the analysis of the extent of competitiveness in a particular industrial or sector. Such analysis is done by investigation of five specific market forces, namely (a) the extent of rivalry between market participants, (b) the power of buyers, (c) the power of sellers, (d) the potential threat from new entrants, and (e) the threat from substitutes (Porter, 2008, p 7-15).

The extent of competition between market participants is intense. As a strong consumer of chocolates and cocoa products, the Italian chocolate market is crowded by global, regional and local suppliers. With Belgium and Switzerland being geographically proximal, numerous chocolate producers from these countries service the Italian market. The power of buyers is very high because of the numerous choices available to them. The power of suppliers is however low because the ingredients used for production of chocolates are essentially generic in nature and freely available. Chocolates are an easy entry business area in terms of investment and technology and the threat from new entrants, especially those of local origin is high. With new developments in foods and snacks occurring frequently, the threat from substitutes is also high.

It is evident from the above analysis that the market for chocolates in Italy is not just sophisticated, mature and slow growing, but also intensely competitive in nature.

Areas of Opportunity

Whilst the market for chocolates in Italy is undoubtedly slow-growing and intensely competitive, the popularity of chocolates among western populations is an undeniable fact. Italy, with a consumption of more than 200, 000 tonnes per year is the fourth largest consumer of chocolates in Europe (Mintel Snapshot, 2010, p 4-9). Such a strong market undeniably provides opportunities for new entrants.

Superior Chocolate, with its range of high quality chocolates produced with organically grown ingredients will essentially target the premium segment of the product. It should be able to find strong niche opportunities through careful differentiation of product qualities and carefully chosen marketing and distribution strategies. Consumption of chocolates is now being associated with a range of medical benefits and chocolates could in future become a strongly recommended consumption product for ageing populations (Stibich, 2009, p 1-2). Such changes in consumption patterns could be significantly important for the ageing Italian population and lead to strong growth in chocolate consumption in future. It is important to note that Italy just about one third of the chocolate consumed in the UK, even though its population is practically 80% of that of the UK. Increase in per capita consumption levels of chocolates in Italy to those of the UK can lead to significant market expansion and create substantial market opportunities for Superior Chocolate.

Entry Routes

International expansion and marketing not only requires very careful analysis of market situations and business environment but also an appropriate choice of entry strategy.

Business firms wishing to enter new markets can choose from a range of alternatives starting with direct export of products to importers in target markets to appointment of franchisees, setting up of joint ventures or investment in fully owned facilities (Kotler, et al, 2008, p 71-77). The choice of entry routes is shaped by a number of external and internal considerations like existing production capacity, distance of target market from current production centres, cost of investment in production facilities in target locations and local environmental considerations (Kotler, et al, 2008, p 71-77).

Most organisations that supply non-perishable products to proximal countries choose direct exports as the favoured mode of entry and support such exports by strong local marketing and distribution facilities (Hooley, et al, 2008, p 81-86). Whilst direct exports could facilitate the entry of Superior Chocolate into the European market, the additional freight and cold chain costs could well make the firm's products uncompetitive in the long run, especially in comparison with competitors in proximal countries or those who have local production facilities. SC must essentially aim to establish its captive production facilities in Italy, even though it can initially enter the market through direct exports. Such a medium term strategy will not only enable it to be more competitive in terms of costs and prices but will also enable it to adapt and customise its products in line with local preferences.

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The company must, if such a strategy is adopted, decide between putting up its own facilities and entering into a joint venture with a local business firm for production and manufacture of chocolates. The decision to set up own facilities in foreign countries, whilst keeping full control of the business within the organisation, is however far more difficult to implement because it calls for detailed environmental and cultural knowledge of the target market. The adoption of the joint venture route on the other hand entails entering into a partnership with a local organisation for sharing of investments, management control, responsibilities and profits of the proposed business (Adcock, 2000, p 35-42). Whilst joint ventures require mutual understanding, collaboration and a spirit of give and take and beneficial partnership, they enable foreign companies to associate with local business organisations and take advantage of their knowledge of local environmental, social and cultural conditions (Adcock, 2000, p 35-42).

3. Recommendations

The foregoing analysis of market and environmental conditions leads to the inescapable conclusion that the Italian market for chocolates, whilst strong and with potential for good future growth, is at present increasing very slowly and is furthermore fragmented and intensely competitive. With the Italian economy experiencing a prolonged period of economic downturn, Superior Chocolate will have to face and overcome intense competitive challenges and difficult market conditions in order to establish and expand its product line.

The demanding market and environmental conditions, coupled with the ethnocentric social and cultural environment, call for the careful selection of <https://assignbuster.com/italian-market-entry-by-superior-chocolate-marketing-essay/>

entry strategy. It is recommended that the firm should engage in planned market activity and enter into an agreement with a strong, reliable and well known local business firm for production and sale of chocolates. Such a strategy will enable SC to obtain extensive information about local market realities and customer preferences and adopt appropriate business strategies. Market leaders like McDonalds, KFC and Mark and Spencer are using the joint venture route successfully to expand their operations in foreign locations. Superior Chocolate will also benefit from adopting such an entry route.

4. Conclusions

Superior Chocolate is a UK based producer of high quality organic chocolates. The firm has three product lines, namely (a) block chocolate, (b) chocolates for special occasions and (c) speciality chocolates. The company has adopted a comprehensive marketing strategy for (a) improvement of competitive advantage by improvement of financial strength, and (b) expansion into other markets, in both emerging and developed countries. This study investigates and analyses the potential of the Italian market for entry by the company.

The analysis makes use of a focused situation analysis of the Italian market and an examination of the various routes for entry for its final recommendations. The analysis of market and environmental conditions leads to the inescapable conclusion that the Italian market for chocolates, whilst strong and with potential for good future growth, is at present increasing very slowly and is furthermore fragmented and intensely competitive.

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The demanding market and environmental conditions, coupled with the ethnocentric social and cultural environment, call for the careful selection of entry strategy. It is recommended that the firm should first enter the market through direct exports and thereafter enter into an agreement with a strong, reliable and well known local business firm for production and sale of chocolates. Such a strategy will enable SC to obtain extensive information about local market realities and customer preferences and adopt appropriate business strategies.