The Impact of Customer Orientation on the Business Strategies: the Customisation Case of Nestlé on French and Chinese Dairy Markets

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Abstract

Background: As Porter’s diamond (1990) suggested, the business environment highly influences firms’ strategies. Today, most of the companies have to decide their strategy depending from a worldwide business environment. Yet, strategy researches and the growing importance of marketing for business success also show that customer dimension must be taken into consideration. On some markets and in certain industries, the offer is much higher than the demand and then, companies need to attract customers. On the national level, companies multiply customer surveys in order to reach their expectations. On the global level, this is more complicated. Adaptation seeks to customise product offerings to be more tailored to a particular culture’s needs and tastes, and thus, can gather a greater market share than would be allowed by offering only a standardised product. In this thesis, we decide to look deeper at industry circumstances, corporation’s customisation strategies and competitive advantages of customisation in order to know whether companies can use customisation to be more profitable.

We also want to investigate how the development situation of the industry and the function of customer orientation influence the company’s strategies; and how companies use their customer adaptation strategies to adapt their products and marketing to local markets.

Purpose: The purpose of our work is to develop companies’ awareness on the effects of customisation and of adapting their products to customer behaviours by developing customers’ point of view and by comparing it to companies’ strategies.

Results: According to the research results, Nestlé has adopted the customised strategies to adapt to French and Chinese dairy markets. Based on the Sheth’s model, we refined a new model by completing Sheth’s one with two dimensions—customer focus dimension and market type dimension. We characterised the customer orientation strategy and the standardisation strategy, which are the two principal choices the companies need to do regarding the product design. Moreover, to add a new element in those well-known strategies, we introduced a nuance into the corporate strategies depending on the aiming market situation.

Keyword
Customer orientation, customisation, corporate marketing strategy, Nestlé, French/Chinese Dairy market
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1. INTRODUCTION

The goal of this chapter is to clarify the topic of our study. We will explain the context of our subject through a short introduction and a problem discussion regarding the chosen vocabulary. We will finish that part by developing the purpose of our research and by presenting the disposition of this thesis.

1.1 Background

As Porter’s diamond (1990) suggested, the business environment highly influences firms’ strategies. This is more and more accurate as the business environment is growing. Today, most of the companies have to decide their strategy depending from a worldwide business environment. However, strategy researches and the growing importance of marketing for business success also show that customer dimension must be taken into consideration. On some markets and in certain industries, the offer is much higher than the demand and then, companies need to attract customers. On the national level, companies multiply customer surveys in order to reach their expectations. On the global level, this is more complicated.

Some companies, such as Mc Donalds, develop a product standardisation strategy. They create a standard product likely to be bought by any national customer all over the world, without adapting to it or adapting to the marketing strategy. However, while many professionals and academicians see product standardisation as the most efficient way to develop and manufacture a product for international commerce, there is still a very strong following of professionals and academicians who believe that product adaptation is the better system for international trade. Adaptation seeks to customise product offerings to be more tailored to a particular culture’s needs and tastes, and thus, can gather a greater market share than would be allowed by offering only a standardised product.

In this thesis, we decide to look deeper at industry circumstances, corporation’s
customisation strategies and competitive advantages of customisation in order to know whether companies can use customisation to be more profitable. We also want to investigate how the development situation of the industry and the function of customer orientation influence the company’s strategies; and how companies use their customer adaptation strategies to adapt their products and marketing to local markets.

1.2 Problem discussion

1.2.1 Marketing

Marketing like most of the business concepts is intangible and is really difficult to define as discussions in the literature prove it. The first official definition of marketing was adopted in 1935 by the National Association of Marketing Teachers. This original definition said that "[Marketing is] the performance of business activities that direct the flow of goods and services from producers to customers" (National Association of Marketing Teachers on http://www.visionedgemarketing.com/reports.aspx?page=70, 2004/11/07). In the mid-1980s, the need of revision appeared. Indeed, the last definition of marketing had been used for fifty years and didn't talk about planning, customer satisfaction or feedbacks. Already at that time, there was a discussion about marketing being about "collaborating with customers and partners"(Lusch in Keefe, 2004) but many argued this idea was not yet practiced in firms even if it was what marketing should be.

They finally agreed on a new definition that said that "[marketing is] the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives" (from the National Association of Marketing Teachers in Keefe, 2004).

The latter definition did not survive to the strategy trend of the latest and future ten years and the increasing role of marketing in organisations. Already in 2000, Sheth
and Parvatiyar wrote in the Handbook of Relationship Marketing that "an alternative paradigm of needed [was] needed, a paradigm that accounts for the continuous nature of relationships among marketing actors" (Sheth, Parvatiyar, 2000, in Keefe, 2004). Hence, in July 2004, the new and current definition, as released by the American Marketing Association, asserts that "marketing is an organisational function and set of processes for creating, communicating and delivering value to customers and for managing customers relationships in ways that benefit the organisation and its stakeholders" (from the American Marketing Association in Keefe, 2004).

Other authors (e.g. Scott, 2004) assert that one unique definition of marketing is impossible to get because of the intangible aspects of the concept and because of the many sub-disciplines, such as strategic marketing, product marketing, and marketing communications that exist. This is the reason why when looking at the literature about marketing people can't find two authors giving the same definition of marketing. Scott, for instance, turns around the problem defining marketing by comparing it to sales: "Sales is getting someone to buy the product you have, while marketing is developing and positioning a product someone will want to buy" (Scott, 2004).

Anyway, even if authors in marketing literature don't agree on a unique definition, almost none of them doubt that marketing is crucial to the successful implementation of business strategies because the current competitive business environment calls for a continuous emphasis on delivering superior quality products and services to customers. Today, marketing is part of the decision matrix and can help the organisation to decide where to spend resources and take advantage of opportunities. Hence, managers are giving much attention to the marketing concept as the cornerstone of the marketing discipline as well as a business philosophy. (Day and Wensley, 1988)
1.2.2 Market orientation and customer orientation

The principal element underlined by the current marketing implementation is the customer aspect. Thus, Kotler, author and professor of International Marketing at Kellogg School of Management, describes the evolution of marketing and the influence of customers. According to him, marketing has moved from a focus on the mass market to a focus on market segments to a focus on one-to-one customer relations. He thinks that current marketing is moving from a transaction-orientation to a customer-relationship-building orientation. Already in 1954, without talking about marketing, Drucker explained the importance of customers and asserted that "There is only one valid definition of business purpose: to create a customer ... It is the customer who determines what the business is" (Drucker, 1954 in Marketing Redefined, 2004). In a simple definition, Clancy as well emphasises the importance of customers in the role of marketing: "Marketing is making sure you make the stuff customers want" (Clancy, in Marketing Redefined, 2004).

On market places, companies have also realized that adapting the products to the customers' needs or tastes was more profitable than attempting to change the customers to fit the firm's purposes (McKitterick, 1957). Today, customers are becoming better organised, well informed and more demanding. Those changes are the reason why companies may develop customer-orientation. In the literature, it is sometimes really hard to make the difference between “customer-oriented” and “market-driven” or “customer-driven” and “market-oriented”. The goals of those four concepts are to create or adapt products to the customers on the national or on foreign markets. Along this thesis, we will focus and study the customer-orientation dimension. Hence, we need to differentiate it from the other terms.

Narver and Slater define market orientation as "the organisation culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus, superior performance for the business" (Narver and Slater, 1990). Thus, market-orientation is composed by the dimensions of customer orientation, competitor orientation, and interfunctional coordination. Several studies showed that there is a link between market-orientation and
performance or profitability. Indeed, they suggested the moderating influence of the industry environment on the market orientation-performance relationship. They explained in their study that firm orientations (other than marketing) may be important in certain industries. Those authors also introduced that there is a potential for differing influences of market orientation across industry environments. They found a positive relationship between market orientation and profitability (relative return on investment) for specialty strategic business units with differentiated products, but a negative relationship for commodity SBUs (Strategic Business units) with undifferentiated products. (Narver & Slater, 1990).

As we saw before and according to Narver and Slater (1990), customer-orientation is a part of market-orientation but some authors defined it more precisely. According to Shapiro (1988), customer-orientation is "the dissemination of information about customers throughout an organisation, formulation of strategies and tactics to satisfy market needs inter-functionally and achievement of a sense of company-wide commitment to these plans" (Shapiro, 1988). Customer-orientation is here presented as an organisational culture that is devoted to satisfy customers' needs on their market. That culture is developed through communication or "dissemination of information" (Shapiro, 1988) throughout the company. Kohli and Jaworski (1990) also suggest that customer orientation "represents the degree to which customer information is both collected and used by the business unit". They emphasise the need to "collect" the information of customer needs or tastes and also introduce the term of "business unit" instead of "organisation" to be closer to the customers (Kohli and Jaworski, 1990). Finally, for Deshpande et al. (1993), customer-orientation is "the set of beliefs that puts the customer's interest first, while not excluding those of all other stakeholders such as owners, managers, employees, in order to develop a long-term profitable enterprise" (Deshpande et al., 1993).

Thus, customer orientation is a crucial component of an organisational culture and attention to information about customers' needs should be considered as a basic value of the firm. In other words, "customer orientation [is] a concept comprising customer understanding orientation and customer satisfaction focus" (Appiah-Adu
and Singh, 1998). This is the reason why customer orientation involves cultural attitudes such as developing and enhancing value to customers. Customer orientation is all about implementation and since culture is "the way things are done" customer orientation should permeate the overall activities of a company. (Appiah-Adu and Singh, 1998)

1.2.3 Customer and Consumer

Customer can be defined as a person or business that purchases a commodity or service; a person or entity having an account with a bank or on whose behalf the bank has agreed to collect items: a person or entity for which an issuer issue a letter of credit (http://dictionary.reference.com/search?q=customer, 2004/12/26). This definition has been regarded as broad sense. In its narrow sense, it means one that buys goods or services (http://dictionary.reference.com/search?q=customer, 2004/12/26). Yet, consumer is identified as the one that utilises economic goods or, specifically, an individual who purchases goods for personal use as distinguished from commercial use (http://dictionary.reference.com/search?q=consumer, 2004/12/26). The definition of consumer overlaps the narrow sense of customer. Therefore, in our study both customer and consumer have been used as the one who purchases and consumes goods or service for personal use.

1.3 Research questions

Many questions arise from the study of customisation strategy. However, in our thesis we are focusing on the questions we consider as the most relevant ones. Why can companies choose customisation as a strategy? How can customisation be characterised with a concrete example? How do companies customise in a foreign market? Is there only one type of customisation?

1.4 Purpose

The purpose of our work is to develop companies’ awareness on the effects of
customisation and of adapting their products to customer behaviours by developing customers’ point of view and by comparing it to companies’ strategies.

1.5 Scope

Due to the limited time, we position our research in the dairy industry and the investigated markets will be the French and Chinese markets. From the standpoint of the awareness on the benefits of customisation, it is important for us to distinguish the French market’s customer behaviour from the European market’s customer behaviour, as well as the Chinese market’s customer behaviour from the Asian market’s customer behaviour. As an outstanding company that successfully customises its strategies in dairy industry, Nestlé has been chosen as our case study to understand its corresponding strategies in both French and Chinese dairy markets.

1.6 Disposition

This paper will be disposed in three parts. The first one, called “Theoretical Part”, will present customer and market orientation using the previous literature in that field. We will particularly develop Sheth’s model of determinants of industrial competitive structure (1985), explain the concept of customer orientation as a strategic process and present the countries we will focus on later.

In the second part, the empirical one, we will describe the food industry and particularly the industry of dairy products. After that, we will present the customer behaviour of China and of France. Then, we will study the implementation of the customer orientation strategy in China and in France by using the case study of Nestlé, a Swiss dairy company.

The third part will be the analysis. There, we will compare the two countries’ customer behaviours. Thus, we will try to characterise them by analysing the previous information. We will summarise the information and give out our own
model to implement customer orientation strategies in dissimilar markets considering the local customer behaviours and the market situation in certain industry.

Finally, we will end this thesis by presenting our conclusions and by giving new ideas for the future potential researches.

The process of our project is shown in Figure 1.
**THEORETICAL PART**

**Introduction**

**Market Orientation Discussion**

**Sheth’s Model**

- **Customer Differentiation**
- **Production Differentiation**

**Customer analysis** \(\rightarrow\) **Segmentation** \(\downarrow\)** Implementation** \(\leftarrow\) **Strategy**

**EMPIRICAL PART**

**Dairy Industry Introduction**

**Nestle in Dairy industry**

**French Market Condition**

- **French Dairy Market**
- **Consumer Behaviors for Dairy Products**

**Chinese Market Condition**

- **Chinese Dairy Market**
- **Consumer Behaviors for Dairy Products**

**Nestle Dairy Products in France**

**Nestle Dairy Products in China**

**Comparison & Summary**

**Analysis & Deduction of our own model**

**Conclusion & Future Study**

*Figure 1: Project process*
2. METHODOLOGY

The aim of this part is to provide the reader with a clear methodology process to unsightly discern the holistic structure and procedure of the thesis. Moreover, it is the introduction of the how-to connection between scientific ways and our view of the phenomenon in the project.

2.1 Research Position

Doing research in management, marketing and consumer research needs an efficient approach that combines the practical hints with the existing theories and emphasizes on the changing management problems. Interpretive approaches offer a way of researching a given topic in depth and with sophistication without a statistically secure universalisation of findings (Chris, 2003). These approaches have become highly influential in social science research and have included vast ramified approaches such as ethnography, depth interviews, semiotics, hermeneutics, phenomenological methods, and literary analysis. According to the purpose of the thesis, hermeneutics and ethnography are the essential ways to proceed.

In hermeneutics, the “hermeneutic circle” helps us to interpret our thesis process. Holbrook and O'Shaughnessy (1988) explain, “In the Hermeneutic Circle, an interpreter’s tentative grasp of the whole text guides an initial reading of its parts. The detailed reading, in turn, leads towards a revision of the original overview. This dialogue between reader and text proceeds through subsequent interactions of a circular process that […] tends towards its own correction” (Holbrook and O’Shaughnessy, 1988).

This circle can be applied and illustrated in the thesis as the interactive relation between the theory, researchers (us), and phenomenon. From the market orientation perspective, we found a holistic theoretical framework for the readers
to understand what kind of research results achieved. Then, through the empirical description and study of the experience in the successful company, the theories can be re-interpreted and substantial. All these factors are engaged in the positive cycle as the Figure 2 shows.

![Figure 2 Positive cycle](image)

This process is, as Thompson et al. (1994) said, “to elicit insights into the ‘unspoken’ background of socially shared meanings by which a person interprets his/her experiences” (Thompson et al., 1994).

In addition, our focus will be in French and Chinese markets that both embody and reflect the distinct western and eastern cultures. In the consideration of the scientific interpretive research method, *Ethnography*, one of the most important informing traditions with phenomenology, is widely run through the thesis. Arnould (1998) suggests that ethnography aims to “clarify systematically the ways that culture (or sub-culture) simultaneously constructs and is constructed by the behaviours and experiences of members” (Arnould, 1998). He also suggests that this entails four main principles:

- Ethnographic description
- Experiential participation in cultural context
- A focus on particular rather than general insights
- Multiple methods of data collection.
From the data collection perspective, there are enormous methods of data gathering, including analysis of other textual data, historical documents, observations and field-notes of researcher reflections and ideas. Due to the limitation of our resources and time, the thesis will use second-hand data and our own experience and realisation to our cultures to analyse the interaction between these two markets and cultures.

Apart from the application of these two methods in the interpretive research, the terms “deductive” and “inductive” are also used in our work. Chris (2003) describes these two terms as follows: *Inductive* means reasoning from the general to particular. For example, if something seems true in many varied circumstances, it may also be true in specific circumstances. *Deductive* means reasoning from the particular to general. Generally, a deductive research design would test a theory, link or relationship that has been suggested, claimed or postulated by a particular theory. The findings would support or modify the theory, or perhaps cast doubt on its assumptions. In this research, French and Chinese dairy-product market data will be induced into existing market orientation model; and at the same time, the synthesis of the market orientation theories will conduct the empirical study to compare the differentiation and similarity in the two markets. Yet, the start point is to develop from the deductive way, then to arouse the questions and seek the answers.

**2.2 Research Type**

Basically, “quantitative” and “qualitative” are two usual research approaches in interpretive studies. Quinn (1990) explains that the advantage of a *quantitative approach* is the possibility to measure the reactions of a great many people to a limited set of questions. Thus, it facilitates comparison and statistical aggregation of the data and gives a broad, illustrative set of findings presented succinctly and parsimoniously. *Qualitative* methods typically produce a wealth of detailed information about a much smaller number of people and cases. This increases understanding of the cases and situations studied, but it also reduces the possibility
of generalising. (Quinn, 1990)

In our case, qualitative methods are introduced. Through our or others observation and analysis, the insight of the dairy product markets in France and China will be annotated from people’s activities, behaviours, actions, a full range of interpersonal interactions, and strategies taken by organisations. However, the challenge is to make sense of massive amounts of data, reduce the volume of information, identify significant patterns, and construct a framework for communicating the essence of what the data reveal (Quinn, 1990) and then to deduce our generalised model for entering or penetrating markets. This is mostly decided by our own skills, training, insights, capabilities and our intellectual analysis. Therefore, in this process, the knowledge is transferred and communicated between the readers and us.

2.3 Research Design

The purpose of our research design is to set up clearly analytical frame based on the data collection, and to logically deduce the expected results or deal with the problems with the intention of better understanding of readers. As Quinn (1990) mentions, the centrality of purpose in making methods decisions is evident from examining alternative purposes:

- Basic research to contribute to fundamental knowledge and theory
- Applied research to illuminate a societal concern
- Summative evaluation to determine program effectiveness
- Formative evaluation to improve a program; and
- Action research to solve a specific problem.

As we described in research position part, the basic research in our thesis has gathered and synthesised the existing market orientation theories, Sheth’s product and customer differentiation model (1985), consumer behaviours analysis and its relevant corporate strategy used in French and Chinese markets. In applied research, the strong cultural factors influence the consumption habits of dairy-product in France and China, which stimulate companies to take actions
towards market orientation or to adjust the present measures. In the description of those interactive complex elements, it is essential to simply and identify the potential relation. The summarised results, as a kind of experience, can be referred and applied.

We choose the Chinese and French markets because of their diversity. First, France is a European country and China is an Asian one. This offers a good opportunity of studying different customers’ habits and tastes, as well as different companies’ approaches of customer orientations. Moreover, France is considered as a mature market regarding dairy products and thus with particular customer behaviours due to a real historical dairy consumption, whereas China is a rather new dairy market. It is also important to mention that the researchers (we, Hui He and Ingrid Mignon) come from the two studied markets, which can help sometimes to interpreter the data, especially regarding customer behaviours. However, we are absolutely aware that coming from the countries we are studying may bring a special way to create information. For instance, collecting and interpreting data about our own countries may different from researching on other countries. Despite that, we will do our best to stay as neutral and as objective as it is possible to be, and we think being aware of that possible limitation will increase our attention on that aspect.

To facilitate the outcome of the thesis easily understood by the readers, case study research has been adopted. Strauss and Glaser (1970) define case study as two types—general conclusions from a limited number of cases and specific conclusions regarding a single case because this “case history” is of particular interest. In addition, Yin (1984) distinguishes three types of uses of case study research: exploratory, descriptive, and explanatory. Exploratory case study describes a pilot study that can be used as a basis for formulating more precise questions or testable hypotheses. Descriptive one is an attempt to describe and contrasted with prediction and prescription. Explanatory one is looked upon with scepticism or even horror by mainstream scientist. (Yin, 1984)

Actually, these three types are closely connected with each other and widely used
in business research studies. Case study provides us with a valuable social scientific tool, has an important advantage to view holistically the business phenomenon. Valdelin (1974) points that: “The detailed observations entailed in the case study method enable us to study many different aspects, examine them in relation to each other, view the process within its total environment and utilise the researcher’s capacity for Verstehen. Consequently, case study research provides us with a greater opportunity than other available methods to obtain a holistic view of a specific research project” (Valdelin, 1974).

In our case, both French and Chinese dairy markets will be explored and described in these aspects, which consist of the status quo in each market, the consumption structure and the consumer habits and preference influenced by the history and cultural factors. Yet, Nestlé, the world’s oldest multinational company and one of the world’s largest well-known food manufacturers, becomes our research objective from company perspective. The successful experience and history of Nestlé in milk-product industry will be exploited and investigated. Kjellen and Soderman (1980) argue, “It is not possible to understand the actual state of an organisation without an insight into the company’s history, i.e. the processes that have led up to the company’s present condition. Moreover, it is inherent to the nature of organisations and other social systems that some of their principal characteristics cannot be readily observed at a surface level. It is difficult to reach any conclusion without studying their behaviour over a fairly long period of time” (Kjellen and Soderman, 1980). Hence, while exploring Nestlé’s marketing strategies on these two markets, we closely connect those strategies with the local market circumstances and the company’s vision. Although there is limitation to study only one company case, we expect to advance our project from reductionism to holism. After all, in the business study, company case always testifies the theories and then updates or urges the development of the theoretical studies.

All the information we get from the empirical study includes the market situation, consumption configuration and Nestlé’s successful experience on these two markets. All those data are the original and basic elements that we will use to
analyse and to build up our own model. This model will combine the present theories and then provide companies with generally feasible strategies from market orientation aspect. We want to create that model after the running of the empirical observations. In that way, we will be able test the main theoretical model of product and customer orientations created by Sheth (1985) that we explain in the theoretical part. From that moment, we will realise whether a new model is needed or not, and create it if necessary.

2.4 Data Collection

As mentioned, data-collection methods are intrinsically theoretical as they carry assumptions about what qualifies as “good” data and about how that data might be “read” and understood (Chris, 2003). There are various techniques of data gathering and two basic data types—primary data and secondary data. Primary research includes first hand observation and investigation (Gibaldi, 1999), including interviews, surveys, laboratory experiments, statistical data, etc. Secondary data are the evaluations done by other authors in the same subject as the studied in the paper (Gibaldi, 1999), such as research articles, scientific debates, essays, historical events, books. No matter which kind of data we are collecting, the most important thing is to interpret efficiently those data.

In our study, we adopt secondary data from the literature, market data, published reports, website information, other researchers’ results and so on. Then we apply our own knowledge, experience and world-view to interpreting, and understanding, those data. The data for theoretical part are collected from the literature, periodicals, and books to give us holistic theory view. In the empirical, multiple methods will be taken to configure our interpretation. For the French and Chinese market information, we collect them from the quantitative research from other researchers, government data information, published reports of relative institution centres and even the knowledge from local people to ensure the validity and reliability of our data. For Nestlé company study, the data are from the company documents, company website and the periodicals about Nestlé. No interviews will
be held with Nestlé since we do not want to run deep into particular Nestlé’s strategic thinking but emphasise more on the generalisation of marketing strategies for regular corporations from market orientation facet. However, even if we think that considering only secondary data to study Nestlé’s strategy will be the best solution to keep the objectivity of the data, we are also aware of the risk that may occur when reinterpreting information that may have been interpreted by somebody else before.

Above all, the guideline of this research will be the following: firstly, flexible and explorative data collection; secondly, stressing on perception and interpretation; thirdly, optimum amalgamation of both market information and organisational behaviours; finally, deduction of our model for companies to enter or penetrate differentiate markets.
3. THEORETICAL PART

3.1 Why customer orientation?

Market-orientation, and especially customer-orientation, has been indicated as having positive effects on firms' performances (e.g. McKee et al., 1989; Ruekert, 1992; Slater and Narver, 1994). Some researchers argue that profit is a consequence of customer orientation (Bell and Emory, 1971) and some others assert that the best way to beat the competition is through customer orientation rather than competitor preoccupation (Perreault and McCarthy, 1997). Moreover, there are a growing number of contexts wherein market orientation is found to be appropriate (Harris & Ogbonna; 2001). However, many managers do not use this strategy to run their companies.

3.1.1 Organisational Culture

Several marketing researchers tried to look for the reasons and the possible barriers to market- or customer-orientation (Messikomer, 1987; Day and Wensley, 1983; Wensley, 1983; Sheth, 1985). Some argue that the principal barrier to market orientation is organisational culture. Messikomer (1987), for instance, explains that the development of market-orientation depends from the ability of an organisation to overcome its cultural barriers. Appiah-Adu and Singh (1998) did a research in order to evaluate the use of customer-orientation in small and medium firms of United Kingdom and they came to the conclusion that a firm’s level of customer orientation is positively related to its performance and that there is a positive link between the extent of adoption of innovation orientation and the degree of customer orientation in small and medium enterprises. They also realised that small and medium are less likely to use the customer-orientation strategy than larger firms.
Indeed, the findings of their research indicate that high levels of market dynamism and competitive intensity do not tend to result in an increased emphasis on customer-oriented strategies amongst SMEs (Small and Medium Enterprises): "although some firms are likely to engage in increased customer-oriented activities in highly dynamic or competitive conditions, others may adopt cost or price cutting strategies in an effort to counter or respond to the competitive pressures" (Appiah-Adu and Singh, 1998) even if the other strategies are expected to be short-term but without any effect on profitability on the long-term. Their explanation for the non-significant influence of the extent of competitive intensity on SME customer-orientation levels is that the "malleability and adjustability of smaller businesses diminishes the effects of competitive intensity on the ability to improve performance levels via a customer-oriented culture". (Appiah-Adu and Singh, 1998)

### 3.1.2 Management Influence

A lot of other studies explain that an organisation has or does not have a customer- or market-orientation depending from its management. Felton (1959) is the first to identify and discuss four potential pitfalls to market orientation: lack of inter-functional integration; political manoeuvring; weak management skills; and executive inexperience. Felton states that those behavioural obstacles can severely restrict market orientation development and thus organisational performance. In addition, Harris (1998) looks deeper at shop floor employee behaviour and market orientation with the aim of exploring operational level behavioural barriers. Although he agrees with Felton (1959) to recognise management as a source of barriers to customer-orientation, he identifies seven different barriers at the shop floor level, including: instrumentalism; short-termism; and weak management support. As far as they are concerned, Chaganti and Sambharya (1987) find that the orientation of an organisation is contingent on the ability and commitment of executives.
On the same perspective, Messikomer (1987) argues that managers and executives often share the notion of improving market orientation levels but behave in a different manner. Thus, he claims that this "illogical" behaviour is caused by different cultural beliefs and concludes that "the difficulty often is not so much in getting management to accept this vision, but rather in overcoming the inertia bred of individual corporate cultures" (Messikomer, 1987). In another study, Harris and Piercy (1999) develop a case study of three companies and hypothesise links between four key management behaviours and market orientation. Finally, their findings indicate that management behaviour which is formalised, conflictual or politically motivated is negatively associated with the extent of market orientation. Chaganti and Sambharya (1987) also discovered factors that influence the development of market orientation by analysing how the characteristics of top managers affected the strategic orientation of the organisation. Then, they found out that the background, the commitment and the ability of top managers strongly affect the orientation of an organisation.

3.1.3 Market and customer types

Day and Wensley (1983), unlike the previous type of authors, think that the level of market- or customer-orientation depends from the type of markets and customers that the organisation targets. According to them, companies have the possibility to choose between a market-, and thus customer-orientation or a competitor-orientation. By adopting a competitor-orientation strategy, companies choose to follow the strategy of the competitors and to try to influence them in order to get the large market share as well as the competitive advantage. Thus, the authors explain that "when market demand is predictable, the competitive structure is concentrated and stable, and there are a few powerful customers, the emphasis is necessarily on competitors" (Day and Wensley, 1983). However, they also argue that, even in homogeneous product markets, completely price-oriented, competitor-centred measures have drawbacks. That is the reason why they suggest that "the preoccupation with costs and internal activities may obscure opportunities
for differentiation through creative linkages of seller, distributor and buyer value chains. Such a perspective also deflects attention from changes in market segment structures or customer requirements that might shift attribute judgments. Further, the competitors are assumed to be doing a proper marketing job" (Day and Wensley, 1983). In other words, even if the competitor-orientation seems to be the better strategy to gain market shares and competitive advantage, customer- or market-orientation may also be a great opportunity for differentiation and so, for a better adaptation to customers' needs or tastes.

Furthermore, Day and Wensley disagree with Appiah-Adu and Singh's idea (1998) that small or medium firms are less likely to have a market- or customer-orientation. Indeed, they affirm that "a small firm with a high level of market orientation may secure a strong competitive advantage in a commodity product environment because most large firms respond to the very high level of price-oriented competitive intensity with an emphasis on cost-oriented activities" (Day and Wensley, 1983). A market-oriented small firm might be able to achieve high customer satisfaction levels in a commodity market niche by emphasis on superior service or a highly customised product application. (Day and Wensley, 1983)

### 3.1.4 Sheth’s model of product and customer differentiations

Sheth (1985) argues that different types of competitive structures are emerging in business markets. According to him, high and low product and customer differentiations are the determinants for competitive intensity, technical dynamism, market dynamism, market growth and market orientation. He suggests four competitive structures: differentiated markets, fragmented markets, commodity markets and segmented markets (Figure 3).
Sheth's fragmented markets quadrant is described as high in customer differentiation and in product differentiation. Examples of industries in this quadrant are electronics and instruments. As we can see in the table, the driving force of that structure is niching or ultra specialisation. Hence, a high level of market orientation is necessary to implement effectively a niching strategy and to focus effectively on R&D efforts. A market orientation is critical in that case to reduce the risks due to introduction of innovations especially because of the
difficulty of understanding and dealing with "the complex array competitive product features/benefits" (Pelham, 1997). Market orientation is also needed to balance the difficulty of developing and updating products in an environment with diverse and fast changing customer needs/buying motivations. The complexity of specialty products also makes the customer satisfaction task more difficult because of quality control concerns (Pelham, 1997).

Another type of markets classified in Sheth's model is explained on the differentiated markets quadrant. In that case, product differentiation is high but customer differentiation is low as for instance in the industrial machinery industry. The driving force for competitive advantage is this time the R&D success, which may even overshadow market orientation. The lower diverse set of customers reduces the complexity due to the importance of market orientation but the higher level of competitive intensity from opportunities to market products reinforces the need of industry market orientation.

Then, the third type of structure developed in Sheth's model is the segmented markets quadrant. This one is described as low in product differentiation, but high in customer differentiation, such as packaging industry. In that type of market, companies consider that a production orientation, with a focus on low costs, would be a stronger source of sustainable competitive advantage, compared to a market orientation. However, understanding of diverse sets of customers is important to successfully implement application based on customisation. The competitive intensity is medium, because if more outlets for the company's product. This reduces the pressure to foster market-orientation behaviours (Pelham, 1997).

Finally, the commodity markets quadrant has a low level of product and customer differentiation. The industry example is here the basic metal industry or the chemical industry. As the segmented markets quadrant, the product differentiation is low because the company considers low cost strategy as better than market orientation strategy to reach a sustainable competitive advantage. Moreover, there is a homogeneous set of customers which results in easier understanding of
customer needs/buying criteria.

### 3.2 Customer Orientation and Global Corporate Strategy

“Customer is king”, as a motto, lead the company to succeeding on the crowded and fiercely competitive market. From market orientation perspective, the company should learn how to adapt to customer and to changing consumer lifestyle and behaviour. Studying and understanding consumer behaviour, which provides insights into product, pricing, retail, advertising, and communication, is prerequisite to build up and strengthen the market place of a company. This is described as the marketing concept—the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organisational objectives (Roger & James, 2001).

Traditionally, most of the studies emphasise on “why people buy” or “what makes them buy”. Lately, why and how people consume comes into consideration. Customers only want to buy some valuable things that can meet their satisfaction. To create value is the primary task of a firm. Now, let us look at the consuming process (Figure 4).
Obviously, there are many variables that affect the consuming process and organizational influences finally determine what customer can buy from manufacture to retail. When we look at the large global corporation, most of the strategies, such as market segmentation, a focus on customer service, monitoring consumer trends, database management, and global marketing, regard customers as the business centre to extend their enterprise. Considering customer orientation as the most critical market-driven factors, the firm formulates and executes its strategies on the basis of the following characteristics:

- Developing a shared vision about the market and how it is expected to change in the future
- Selecting avenues for delivering superior value to customers
- Positioning the organization and its brands in the marketplace using distinctive competencies
- Recognizing the potential value of collaborative relationships with customers, suppliers, distribution channel members, internal functions, and even competitors
- Reinventing organizational designs to implement and manage future strategies (David et al, 1997).

In order to strive for more customers, the company should create more value than the competitors do in the products. In today’s value-conscious environment, the company must stress the overall value of their products not only in quality but also in the combination of other components of value, such as brand, image, price and product features. For example, Nike used Michael Jordan to endorse their brand and build up a kind of fashion trend in the youth. Based on the customer needs, the corporate strategy involves the allocation of resources to develop and sell products or services that consumers will perceive to provide more value than competitive products or services. Customer-driven marketing strategy can be illustrated by the below Figure 5. (Roger & James, 2001)
The strategy process includes four cycled steps: Firstly, **Market analysis** is the process of analysing changing consumer trends; current and potential competitors; company’s strength and resources; and the technological, legal, and economic environments. Secondly, **Market segmentation** is the process of identifying a group of people similar in one or more ways, based on a variety of characteristics and behaviours. Thirdly, in **Marketing mix strategies**, *product* includes the total bundle of utilities (or benefits) obtained by customers in the exchange process. *Price* means the total bundle of costs given up by consumers in exchange for a product. *Place* means distribution channels. *Brand* is defined as promise that customer desire most of the attributes obtained while buying the preferred brand. Finally, *promotion* includes advertising, public relations, sales promotion, and personal sales. As far as **Implementation** is concerned, its role is to transform strategy into reality. (Roger & James, 2001)

After the customer spectrum extends to global, “thinking globally” supplements...
the strategy process of the corporation. Nowadays, international companies, such as Coca-Cola, IBM, Gillette, Nestlé, Sony or Unilever, drive more than 50 percent of their sales outside their country of origin. In addition, today’s consumers have the opportunity to buy thousands of foreign-made and globally branded products in the local place or through the Internet. However, exploiting the diverse markets is a tough task for firms due to the cultural, ethnic, and motivation variables that affect the consuming process. In the global marketing strategies, there are two critical issues should be concerned. One is to standardise or customise marketing. The other is advertisement effectiveness.

- To standardise or customise marketing firstly need cross-cultural analysis. That means that there is a comparison between similarities and differences in behavioural and physical aspects of cultures. Included are “meaning systems” of consumers in a nation that are intelligible within the cultural context of that country. (Roger & James, 2001) The more that is known about the cultures of the parties involved in the transaction (different styles and habits for example), the greater the likelihood of successful negotiation (Brian and Judith, 1991).

- Regarding advertisement effectiveness, the firm must pay attention to the cultural variables in the communication way, language, brand image etc. Advertisement focuses on the messages sent to the customers but localised campaigns create a corporate image that fits to the norms of the different cultures addressed on specific markets. Some advertising messages and specific product characteristics tend to suit better than others for a global advertisement. For instance, marketing managers need to remember than even on foreign markets, the communications message is based on similar lifestyles; the appeal of the advertisement is based on human needs and emotions; and finally the product needs to satisfy universal needs and desires. (Roger & Kristina, 1991)

Generally, global brands can help firms to set up awareness of products or services. In conformity with customer orientation principle, cross-cultural element should be
taken into consideration for companies penetrating markets and expecting to dominate successfully local markets. To illuminate the relation between market orientation and corporate strategies, we choose the typical markets—French and Chinese markets as our analytical base, either of which is influential in both western and eastern cultures.
4. EMPIRICAL PART

4.1 Dairy Industry Introduction

In our daily life, food, as the substance to provide human being with sustainable energy, has always been important. Along with the human development history, milk, one of the most important elements of balance food, has been widely discussed and written. In fact, in the food history, milk is regarded as the most venerable human nutriments and as an essential part of human diet. Everette (1949) describes the evolution of dairy history: “Man’s making friends with the lactating animals, such as the cow and the goat, was a significant step in the advancement of human nutrition and therefore of civilisation as well. Butter and cheese proved to be important ways of preserving the food values of milk, and their invention, though probably accidental in both instances, was an important contribution to human nutrition. In the long history of dairying, custom and accidental discovery have probably been more important than conscious experimentation and innovation” (Everette, 1949).

In order to understand better the dairy industry, the categories of dairy products need to be introduced. Dairy products are defined as the foodstuffs produced from milk after the processing (http://www.free-definition.com/Dairy-product.html, 2004/11/18). To date, numerous of milk products have been exploited and the main sorts are: Milk, including cream, cultured buttermilk, milk powder, condensed milk, evaporated milk, Khoa, and infant formula; Butter, including buttermilk and ghee; Cheese, including curds, whey, cottage cheese, cream cheese, fromage frais; and Yogurt, Gelato, Ice cream. (http://www.free-definition.com/Dairy-product.html, 2004/11/18) To cater for the changing taste, the dairy firms have continually developed dairy products to meet the needs of different ages and regions.

Nowadays, milk has been produced all around the world. Due to the relatively large cow numbers and high yield, European Union and United States are leading
in the mild production but New Zealand and Australia are also coming up (Ed Jesse, 2003). Figure 6 shows the total cow’s milk production in the major countries. According to Babcock institute’s report (Ed Jesse, 2003), the United States showed the largest gain in milked production, followed by China, Australia, and New Zealand in the evolution of dairy sectors during 1997 to 2002.

![Figure 6](source: Babcock Institute Discussion Paper No. 2003-2 (Ed Jesse, 2003))

Generally, imports of goods are considered as a sign that the country needs something for nation. From this perspective, countries’ demands in dairy products have been summarised by Babcock institute (Ed Jesse, 2003): Butter is the only major traded dairy commodity for which a single country (both the EU and the Russian Federation) accounts for more than 25 percent of total imports. The U.S. was the leading importer of cheese in 2002, but was nearly matched by Japan. Russia is in third place followed by the EU, whose cheese imports represent more than one fourth of its exports. Regarding imports of milk powders (skim and whole milk) Mexico is the largest non-fat dry milk importer, much of which is used for reconstitution into beverage milk for distribution to needy families. Pacific Rim countries are major buyers of both whole and skim milk powder. (Ed Jesse, 2003)
Customer orientation, in the fierce dairy industry, is the decisive and pivotal factor for the exploration and exploitation of the dairy product development. Dairy foods journal (2004) pointed out that four-mega drivers shape today’s food industry for the reason that complex consumers pose marketing challenges. They are Convenience—on-the-go, harried lifestyles require products that travel well; Health—more nutritionally aware; Mood enhancement—a stressful, complex life needs little boosts throughout the day; Self-indulgence. These four drivers have already been applied in the dairy industry. Based on the consumer research by Mintel International Group, 43% of respondents express they purchase functional foods and beverages occasionally and 56% would like to know more about their benefits. In fact, it describes a food or beverage that provides health benefits or desirable physiological effects beyond basic nutrition. (Dairy Foods, Vol. 105, Issue 10, 2004/10)

Therefore, in order to occupy larger market share, dairy firms should see beyond the milk products. They should for instance elaborate an attractive message for consumers to make them feel the benefits of the products in their personal life. There are various opportunities for the dairy firms to innovate and to satisfy consumers. They can use new ingredients and technology but also new occasions and venues. The principle is to supply consumers with healthy, indulgent, nutritious and fun products, and with a new familiar life.

With the progress of human, dairy industry continually matures. In the past hundred years, through mergers and acquisitions, many firms have become international companies and they control today most of the dairy markets. These international companies such as Fonterra, Nestlé, Kraft Foods, Kerry Group, Parmalat, and Dean Food, the protagonists, actively proceed and present the successful stories in the evolution of dairy industry. Most of them enlarge their division from dairy products to ordinary food or even beverage, in which the product divisions mutually support and impel the market development. In the interest of the general knowledge of dairy industry condition, Figure 7 lists the top 20 international companies in 2000.
Facing the altering market signals, firms adjust efficiently to the economic environment and struggle for increasingly growth of the organisations. W. D. Dobson and Andrew Wilcox (2002) conclude some characteristics or guidelines followed in the dairy company’s growth:

- Become more efficient in manufacturing.
- Open new markets.
- Gain market share and market power.
- Expand their brand portfolio.
- Strengthen their innovative capacity.
- Secure milk supply.
- Improve their access to capital.

Thus, the driving force that transforms the internal capability to external one lies in the enlargement of the markets. Still, the original limited market needs, the capital constraint and the cross-border barriers such as the local culture factor and policy-related deterrents exist. The common strategy for the company is cross-border alliance, expansion of sales in developing countries, producer cooperation, and product, customer differentiation and etc. The core of the strategic success is to gain enough market knowledge. Without this knowledge base, the entry of new markets is easy to be sunk and lost in the changing circumstance.

To discover the inner relation between the consumer behaviours and corporate

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**Figure 7: Source: Zwanenberg, 2001**

<table>
<thead>
<tr>
<th>Company</th>
<th>Sales ($ Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nestle</td>
<td>$13.0</td>
</tr>
<tr>
<td>Dean Foods</td>
<td>9.0</td>
</tr>
<tr>
<td>Dairy Farmers of Am</td>
<td>6.7</td>
</tr>
<tr>
<td>Kraft Foods</td>
<td>6.1</td>
</tr>
<tr>
<td>Danone</td>
<td>6.0</td>
</tr>
<tr>
<td>Parmalat</td>
<td>5.7</td>
</tr>
<tr>
<td>Snow Brands</td>
<td>5.5</td>
</tr>
<tr>
<td>Lactalis</td>
<td>5.1</td>
</tr>
<tr>
<td>Fonterra</td>
<td>5.0</td>
</tr>
<tr>
<td>Unilever</td>
<td>5.0</td>
</tr>
<tr>
<td>Arla Foods</td>
<td>$4.4</td>
</tr>
<tr>
<td>Friesland-Coberco</td>
<td>4.2</td>
</tr>
<tr>
<td>Campina-Melkunie</td>
<td>3.6</td>
</tr>
<tr>
<td>Bongrain</td>
<td>3.6</td>
</tr>
<tr>
<td>Land O'Lakes</td>
<td>3.5</td>
</tr>
<tr>
<td>Meiji Milk Products</td>
<td>3.2</td>
</tr>
<tr>
<td>Morinaga Milk</td>
<td>2.9</td>
</tr>
<tr>
<td>Sodiaal</td>
<td>2.8</td>
</tr>
<tr>
<td>Dairy Crest</td>
<td>2.5</td>
</tr>
<tr>
<td>Nordmilch</td>
<td>2.4</td>
</tr>
</tbody>
</table>
strategies, we will put emphasis on the French and Chinese dairy markets on the basis of their different consuming modes affected by cultural differentiation. Synchronously, Nestlé with more than a century of experience in foreign markets will be our study object to formulate detail analysis of the customer orientation and corporate strategies in both France and China. Above all, the basic company condition of Nestlé will be illustrated.

4.2 Nestlé

Nestlé whose headquarters are situated in Vevey (Switzerland) was founded in 1866 by Henri Nestlé and is today the world's biggest food and beverage company. Sales were CHF 88 billion at the end of 2003, with a net profit of CHF 6.2 billion. It employs around 253,000 people and has factories or operations in almost every country in the world. (http://www.nestle.com/All_About/Glance/Introduction/Glance+Introduction.htm, 2004/11/17) The company traces its origins to the Anglo-Swiss Condensed Milk Company founded in 1866 in Cham (Switzerland). Over the years, the company has developed or acquired such well-known brands such as Carnation, Klim, Nescafe, Libby's, Friskies, Stouffers, Kitkat, and Perrier. These brands understate Nestlé's worldwide brand presence. The company has about 8,000 brands, but only about a tenth of the brands are registered in more than one country. The company is the world's largest seller of powdered/condensed milk, non-dairy creamers, soluble coffee, mineral water, and chocolate and confectionery products. The firm is the No. 2 seller of ice cream, behind Unilever. (Dobson and Wilcox, 2002)

Since a long time, Nestlé has been a major player in the dairy industry, originally with well known shelf stable brands such as Nido, Nespray, La Lechera and Carnation, then building a strong international presence in Chilled dairy and Ice cream under the Nestlé brand. Innovation and renovation played a major role in the development of milk-based products and of breakfast cereals, managed as a joint venture with General Mills. The area of Nutrition, with its benefits to health and well being, is having a significant impact on the development of the business. A
wide range of proven, science based solutions such as starter and follow-up formulas, growing-up milks, cereals, oral supplements and performance foods are actively developed and successfully sold on market under the Nestlé brand. (http://www.nestle.com/Our_Brands/Dairy_Products/Overview/Overview.htm, 2004/11/17)

As the pacemaker in the international stage, Nestlé has already exploited the five continents markets and set up production bases outside Switzerland for better consideration of raw materials, economic climate, consumer tastes and purchasing power, etc. Nestlé's current CEO, Brabeck, said that the firm is not “…made for quick ins and outs. It took my predecessors years to build a profitable business in countries like Japan and Korea; the invaluable experience we have acquired in emerging countries took decades to develop. Now we are harvesting the fruits of those long labours....” (Brabeck in Wetlaufer, 2001). Decentralisation is also untouchable. Brabeck notes that “…people have local tastes based on unique cultures and traditions…Therefore decision making needs to be pushed down as low as possible in the organisation, out close to the markets. Otherwise, how can you make good brand decisions? A brand is a bundle of functional and emotional characteristics. We can't establish emotional links with consumers in Vietnam from our offices in Vevey” (Brabeck in Wetlaufer, 2001).

Understanding and interpreting Nestlé’s long history and successful experience in strategies will be worth and precious in our research work. Hence, in the following illustration process, firstly, the matured French dairy market and the developing Chinese market will be expiated. And then, Nestlé, as a paradigm, will be exemplified, the analytical results of which will be regarded as added value to our project.
4.3 France

France is a country located in Western Europe. It is a founding member of the European Union. Its capital, Paris, is also the largest city of France with approximately two millions of inhabitants, and its total area is 547,030 square kilometres. The total population is 60,180,529 (July 2003 est.) 65.1% of who is between 15 and 64 years old, the total GDP of France was in 2002 $1.558 trillion and the GDP real growth rate was 1.2%. (http://www.cia.gov/cia/publications/factbook/geos/fr.html, 2004/11/18)

Unlike the typical western society such as U.K. or U.S., France is considered as an individualistic society with absolutist and centralist institution (Hofstede, 1980). As its core cultural value, interpersonal harmony is a standpoint for a company to build and develop business. The vast majority of French people believe the family is very important. Individualism and cultural liberalism continue to rise; however, there also appears to be a collective trend in opposition to liberal ideals — a demand for greater public order and a greater respect for community standards. (Meunier, 2000)

France owns a unique culture making French proud of and highly respectful. Yet, globalisation has been devaluated because it threatens the very foundation of French culture. For example, the American lifestyle can be considered as having a kind of fast food, bad clothing, and bad sitcoms. In contrast, the French cultural model is portrayed as a "high" culture of philosophers, fine dining, and intellectual films. Indeed, one of Bove's public-relations victories was to fuse the issues of agriculture and culture. In an editorial titled "Vive le Roquefort libre!" the respectable newspaper Le Monde intoned, "resistance to the hegemonic pretences of hamburgers is, above all, a cultural imperative." (Meunier, 2000)

Strongly influenced by the French culture, companies, in one side, peer in the potential consuming ability, and in the other side adapt their strategies to local necessity. However globalisation trend is not going down in France. Containing
and absorbing diversity into the French culture still keeps on.

4.3.1 French dairy market

4.3.1.1 Presentation

For several centuries, culture and gastronomy have been characterising France. The French diet is known as being varied and the “most vehement demands for safe food go hand in hand with a predilection for "live" products such as cheese made from unpasteurised milk. Today, a long gastronomic tradition coexists with the increasing popularity of "ready-to-serve food" or ready-prepared meals served in canteens, fast-food restaurants, etc”. (Guillou, 2001)

The food in France of course varies across age groups, socio-professional categories and across areas or regions. Indeed, in France, each region has a typical food. However, with the development of French agriculture, the food production is becoming business orientated and intensive. Food began to be mass-produced and, thanks to technological advances, can now be consumed long after production and far from its place of origin. (http://www.maison-du-lait.com, 2004/12/03)

Today, the French diet is mainly composed of wheat bread, potatoes, meat, vegetables and milk.

Consumption of main food groups (1950-1996)

<table>
<thead>
<tr>
<th>In kg or litres per year and per inhabitant</th>
<th>1950</th>
<th>1980</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bread</td>
<td>121.7</td>
<td>70.6</td>
<td>60.0</td>
</tr>
<tr>
<td>Potatoes</td>
<td>152.7</td>
<td>89.0</td>
<td>64.5</td>
</tr>
<tr>
<td>Fruit</td>
<td>37.7</td>
<td>67.0</td>
<td>65.0</td>
</tr>
<tr>
<td>Vegetables</td>
<td>59.5</td>
<td>107.9</td>
<td>115.7</td>
</tr>
</tbody>
</table>
Europe produces 24% of the worldwide milk production and within Europe, France is the second biggest producer after Germany. In 2003, 22.4 billion of litres of cow’s milk have been produced in France and 0.6 billion of litres of goal and ewe’s milk which makes the milk production one of the major sectors of the food-processing industry. In 2003, 3.8 billion litres of milk have been packaged. Yogurts, chilled dairy desserts, cream and butter represented 2.8 million of tons and 1.8 million of tons of cheeses have been produced during the year 2003. (http://www.maison-du-lait.com, 2004/12/03)

### 4.3.1.2 French dairy consumption

A French person drinks in average 73.3 litres of milk per year, which is not that much compared to an English person, 119.5 litres a year, a Finish one, 159.4 litres a year or an Irish one, 156.7 litres a year. 97% of French household buy some milk at least one time a year. (http://www.maison-du-lait.com, 2004/12/03)

However, every household buys cheese at least one time a year. The average consumption of cheese per inhabitant is evaluated at 24 kilos; thus, French people are the second largest cheese consumer in the world, after Greek people, and before Italian and German people. This may be explained by the huge variety of

<table>
<thead>
<tr>
<th>Food Type</th>
<th>2003 Production</th>
<th>2002 Production</th>
<th>2001 Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat</td>
<td>44.4</td>
<td>86.0</td>
<td>84.6</td>
</tr>
<tr>
<td>Milk (liquid form)</td>
<td>77.6</td>
<td>74.0</td>
<td>66.2</td>
</tr>
<tr>
<td>Fish</td>
<td>10.5</td>
<td>18.1</td>
<td>25.4</td>
</tr>
<tr>
<td>Fats and oils</td>
<td>11.8</td>
<td>22.6</td>
<td>23.6</td>
</tr>
<tr>
<td>Carbonated drinks/juices</td>
<td>8.4</td>
<td>26.3</td>
<td>48.7</td>
</tr>
<tr>
<td>Wines</td>
<td>123.4</td>
<td>93.7</td>
<td>~68.0</td>
</tr>
</tbody>
</table>

Figure 8: Source: French annual statistical report, 1999
(http://www.frenchfoods.com/statique/fr/consommation_produits_laitiers.php, 2004/12/03)
cheeses that can be bought: 400 types of cheeses are produced in France. (http://www.maison-du-lait.com, 2004/12/03)

Even if France is the first cream producer, it is not the largest consumer. Indeed, a French person eats approximately four kilos a year while ten kilos are consumed in the Nordic countries. However, French people like butter a lot as they consume around eight kilos a year per inhabitant. (http://www.maison-du-lait.com, 2004/12/03)

Finally, chilled dairy desserts, such as yoghurts, fromage blanc, ice creams, etc are one of the most dynamic and creative areas of that market as 207 new products have been created in 2003. More than 336,424 tons of milk-based desserts have been produced in 2000. This consumption amounts to 1,196 tons, that is to say approximately 20.3 kilos per year and per inhabitant. (http://www.maison-du-lait.com, 2004/12/03)

4.3.1.3 French consumption habits and tastes

The French consumption of dairy products is much specified. Indeed, it can be characterised by four elements: the need of being reassured, the taste for healthy products, the taste for sharing and the taste for dessert.

The need of being reassured Since the nineties and the beginning of the doubts around the evolution of the world, the fastness of globalisation, etc, the French consumer needs to reassure himself/herself. Thus, he/she started to develop his/her taste for traditional products also called “produits du terroir” (Raynal, www.diplomatie.gouv.fr, 2004/11/28). In the dairy products, this is characterised by a traditional way of cooking, with a “home-made” feeling in the taste, in the packaging or in the advertising. For the French consumer, those characteristics are a proof of quality and security. That coming back to the traditional values can
explain the reason why French people haven’t been so influenced by the “Americanism” in their food. In France, it is still really important to take meals in family and even if the time to prepare the meals has been shorten, the time to eat is still the same.

The need of sharing As we said before, it is really important to take meals together or in family. For French people, eating is not individualist but collectivistic (Raynal, www.diplomatie.gouv.fr, 2004/11/28) Thus, dairy products need to be packaged and sold at least several in their packaged: it is almost impossible in France to buy a yogurt without buying at least four of the same kind!

The tastes for healthy products French consumers are really careful with their food. For the last five years, products supposed to protect health have been largely developed. This is the case of Actimel for instance, a product from Danone, which is one of the biggest dairy companies in France. Bio, a product from Danone, is also a product supposed to help the body of its consumers in order to fight again the aggressions of the environment. French consumers also need transparency. As we said before, they are afraid of risks that may be brought by their food and this is increasing since the apparition of the GMO in the media. This is the reason why for every product, and especially for dairy products, the exact composition needs to appear on the package and as well as the consumption limit.

The taste for desserts In France, it is a cultural habit for people to eat cheese and dessert at the end of the meal. Thus chilled milky desserts need to innovate in order to be different in taste from cheese. Consumers need to forget that their dessert is based on milk and the products have to stimulate their greediness. This is the reason why companies such as Yoplait or Danone developed fruit yogurt containing real pieces of fruits or chocolate cream, etc.

4.3.1.4 Main actors on the market

Four main competitors occupied the French dairy market: Danone, Yoplait, Candia
Danone

Danone is the first producer of chilled dairy products on the French market. This company is also the first producer of packaged water and the second producer of cookies and cereal-based products. It is an international company with French ownership. The four main brands Danone for the dairy products, LU for the cookies and cereal-based products and finally Evian and Volvic for the packaged water, represent more than 50% of the income. Their international brands are often leader on the foreign national market, for instance Wahaha, leader in China and second largest brand of packaged water or Aqua, leader in Indonesia and also largest brand of packaged water in the world. (www.danone.fr, 2004/11/28)

Danone developed many dairy products first for the national market and now for the international one. One example is Actimel, which is launched in the middle of the nineties in France and now commercialised in fifteen countries with a growth of 40% in 2000. (www.danone.fr, 2004/11/28)

Yoplait

Yoplait is the second largest company producing chilled dairy products in France. It has been created in 1965 by farmers from Sodima, which was a grouping of farming co-operative, today called Sodiaal that sells its own products in France. Thus, Yoplait has been created to create a unique brand whose name is used to sell and develop dairy products. Yoplait is today the largest yoghurt and fruit-yoghurt seller in France. This is also an international company selling mainly in Europe, as well as in the US, in Asia and in Africa. Some of its products are known internationally such as Crème Fraîche, Panier de Yoplait or Yop. (www.yoplait.fr, 2004/11/28)

Candia
Candia is a company selling packaged milk and powdered milk. It has been created in 1971 like Yoplait, with a grouping of several milk co-operatives. Today, it commercialises 203 millions of litres of milk in Europe and in the Middle East. As Yoplait, Candia belongs to Sodiaal, the French leading co-operative group. (www.candia.fr, 2004/11/28)

4.3.2 Nestlé in France

Nestlé is the leader of the food industry in France. The French market represents for Nestlé the second biggest market after the United States. In 2003, its turnover amounted € 6552 millions, among which €1164 millions for the exports, and it employed 18,576 persons (http://www.nestle.fr/Entreprise/Essential/Nestle_en_francais/LeaderIndustryAlimentaireFrance.htm, 2004/11/25; 2004/11/28; 2004/12/03). Dairy products represent 14.7% of the income (10.8% for chilled dairy products, 3% for ice creams, 0.9% for milk and desserts), that is to say €961.7 millions (http://www.nestle.fr/Entreprise/Essentiel/Nestle_en_france/Nestle_en_france.htm, 2004/11/28).

The origins of the company started when Henri Nestlé created the first baby cereal in 1867 in order to decrease the malnutrition problems among young children. The internalisation of that product already started in 1868 when it was introduced in France, Germany and Great Britain. In 1921, the other brand of Nestlé’s baby cereal, Guigoz, was established in France and launched its first range.

Today, Nestlé is a major actor in France as it has created 24 factories in the national area and uses local manpower and raw products in its production process.
<table>
<thead>
<tr>
<th>Location</th>
<th>Products/Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andrézieux</td>
<td>chilled dairy, yogurts</td>
</tr>
<tr>
<td>Arcachon</td>
<td>Abatilles mineral water, Nestlé Aquarel mineral water</td>
</tr>
<tr>
<td>Aubigny</td>
<td>Pets food</td>
</tr>
<tr>
<td>Barbezieux</td>
<td>Frozen pastry-based products</td>
</tr>
<tr>
<td>Beauvais</td>
<td>Frozen meals, Ice-creams</td>
</tr>
<tr>
<td>Boué</td>
<td>baby cereals, condensed milk, powdered milk and coffee</td>
</tr>
<tr>
<td>Caudry</td>
<td>Pizzas</td>
</tr>
<tr>
<td>Challerange</td>
<td>powdered milk</td>
</tr>
<tr>
<td>Contrexéville</td>
<td>Contrex mineral water</td>
</tr>
<tr>
<td>Creully</td>
<td>complementary food-products, dietetics</td>
</tr>
<tr>
<td>Cuincy</td>
<td>chilled dairy, yogurts</td>
</tr>
<tr>
<td>Dieppe</td>
<td>powdered coffee and chicory</td>
</tr>
<tr>
<td>Dijon</td>
<td>chocolate confectionner, saison specialties</td>
</tr>
<tr>
<td>Épinal</td>
<td>Baby food</td>
</tr>
<tr>
<td>Épinal</td>
<td>Baby food</td>
</tr>
<tr>
<td>Ispagnac</td>
<td>Quézac mineral water</td>
</tr>
<tr>
<td>Itancourt</td>
<td>stocks, soups, sauces, culinary supports, cereals</td>
</tr>
<tr>
<td>Lisieux</td>
<td>chilled cheeses</td>
</tr>
<tr>
<td>Marconnelle</td>
<td>Pets food</td>
</tr>
<tr>
<td>Montfort-sur-Risle</td>
<td>Pets food</td>
</tr>
<tr>
<td>Offranville</td>
<td>Frozen and refrigerated products</td>
</tr>
<tr>
<td>Plancoët</td>
<td>Plancöet and Saint Alix mineral waters</td>
</tr>
<tr>
<td>Pontarlier</td>
<td>chocolate powders</td>
</tr>
<tr>
<td>Quimperlé</td>
<td>Pets food</td>
</tr>
</tbody>
</table>

**Figure 9: Implantation of Nestlé in France** (Source: Nestlé, brochure 2004) ([www.nestle.fr](http://www.nestle.fr), 2004/11/28)

Nestlé, as the leader in dairy products on the French market, has been able to reach and attract French customers. This has been possible through development and creativity towards products, through marketing, advertising, packaging, price and distribution. Let us develop further those aspects regarding Nestlé France.

### 4.3.2.1 Product

As we mentioned before, Nestlé has been present on the French market since the
beginning of the twentieth century and thus, its range of product has been able to grow with the evolution of the dairy market. This is the reason why this company is nowadays so well integrated in the French households and is recognised as if it was selling traditional French dairy products. However, Nestlé is also constantly innovating and creating new products and it has especially one centre for fundamental research (based closed to Lausanne in Switzerland and with several subunits all over the world) as well as nine centres for product technology and seven centres for research and development. It develops approximately fifty to seventy new products per year.  (http://www.nestle.fr/Entreprise/img/home/brochure2004.pdf, 2004/11/28)

**Baby food** Since the creation of the first “farine lactée” by the pharmacist Henri Nestlé in 1867 to settle the malnutrition problems among young children, Nestlé Company has always been developing the baby food area. In France, this started in 1921 with the launching of the brand “Guigoz”. Today, while the children nutrition market represents a turnover of €900 millions, this brand still exists and many other products have come to bring new value to its range. (http://www.nestle.fr/Entreprise/Essentiel/Nos_marques_et_produits/Nos_marques_et_nos_porduits.htm, 2004/11/28)

Among baby food, Nestlé’s products can be divided into two categories. First, infant formulas that gather, under the two brands Guigoz and Nidal, which are nutrition powdered milks for children from ten months to three years. Among those products, we can mention **Guigoz Evolia**, which offers a variety of milks varying with the age of children (1\textsuperscript{st} age, 2\textsuperscript{nd} age, etc), **Guigoz Confort, Guigoz Transit, Nidal Bifidus** and **Nidal Novaïa** that are milks adapted to and for the well-being of children. (http://www.nestle.fr/Entreprise/Essentiel/Nos_marques_et_produits/Nos_marques_et_nos_porduits.htm, 2004/11/28)

The other category of Nestlé’s baby food products is the chilled dairy products for
young children. **P’tit Goûter, P’tit Gourmand** and **P’tit Brassé** are some of those products presented in small cups and intended for children’s snacks or desserts, as well as **Lait & Fruits**, which is presented in small cartons. (http://www.nestle.fr/Entreprise/Essentiel/Nos_marques_et_produits/Nos_marques_et_nos_porduits.htm, 2004/11/28)

*Chilled dairy products* Nestlé appeared on the chilled dairy market in France in 1978, when it bought the company Chambourcy but it became a leader on the French market when it bought La Roche aux fées, another French company that produced dairy products at the time, and made it merged with Chambourcy in 1985. From that moment, Nestlé’s brand **La Laitière, Yoco** and **Viennois** started being mainstays on the market and they are today known by all customers.

Nestlé has moved on the right way towards creativity to become and stay the leader on a market that represented in 2003 a volume of 1.55 millions of tons and increasing in 2.6% that is to say an increase in €4 billions. http://www.nestle.fr/Entreprise/Nosactivites/grande_conso/produits_laitiers/activites_produits_laitiers/Produits_laitiers_frais.htm, 2004/11/28)

We can divide Nestlé chilled dairy products into two kinds: the yoghurts and the desserts. Among the yoghurts, Sveltesse, one of the corporate brands, offers a large range of diet products, especially fat free yoghurts with pieces of fruits. For those types of yoghurts, Nestlé tries to propose many kinds of fruits, such as strawberry, apricot, raspberry, blueberry, cherry, pineapple, or blackberry. Here also, Nestlé tries to innovate as the example of **Sveltesse Geste Minceur**, which is a fat free milky drink supposed to help to stay slim. That product can also be found in different flavours such as natural, pineapple and strawberry. http://www.nestle.fr/Entreprise/Nosactivites/grande_conso/produits_laitiers/activites_produits_laitiers/Produits_laitiers_frais.htm, 2004/11/28)

Among the yoghurt category, the brand Yoco also offers many tastes
of yoghurts but contrary to Sveltesse, Yoko yoghurts don’t contain fruit pieces. The Yoco brand is primary focused on children and like Sveltesse, Nestlé has also developed liquid yoghurt for Yoco called **Yoco à boire**, which is available in the usual favours, as well as **Yoco Pote**, a mix with yoghurt and compote. Finally, **Yoco Acti-Fortis** is a new product of Nestlé that contains many vitamins necessary for children development. ([http://www.nestle.fr/Entreprise/Nosactivites/grande_conso/produits_laitiers/activites_produits_laitiers/Produits_laitiers_frais.htm](http://www.nestle.fr/Entreprise/Nosactivites/grande_conso/produits_laitiers/activites_produits_laitiers/Produits_laitiers_frais.htm), 2004/11/28)

The desserts, second category of chilled dairy products, are represented by the brands La Laitière and Nestlé. La Laitière offers fresh traditional desserts, such as **La laitière Crème Brulée**, **La Laitière Mousse au chocolat**, as well as some traditionally made yogurts, for example **La laitière fruits pâtissiers**. Nestlé dairy brand also offers traditional desserts such as **Viennois**, **Marronsui’s** and **Yaourt à la grecque**. ([http://www.nestle.fr/Entreprise/Nosactivites/grande_conso/produits_laitiers/activites_produits_laitiers/Produits_laitiers_frais.htm](http://www.nestle.fr/Entreprise/Nosactivites/grande_conso/produits_laitiers/activites_produits_laitiers/Produits_laitiers_frais.htm), 2004/11/28)

**Ice creams** For ice creams again, Nestlé is one of the main actors on the French market as more than one ice cream on five is produced by the Swiss company. Nestlé appeared on this market in the 1930s when it acquired a part of the Gervais Ice cream’s capital. Since then, Nestlé has continued developing new products, which have been successful even if in France, the sales are concentrated from April to September.

Thus, regarding ice creams, Nestlé offers products in a variety of forms: cones especially with the brand **Extrême**, ice trays of the brand **La Laitière** that offers traditionally made ice creams, products focused on children with many tastes and colors from the brand **Yoco** and finally, some specially of the Brand Nestlé such
4.3.2.2 Marketing

Despite that large range of products, Nestlé needs to develop a marketing strategy to stay the leader on the market and to turn down its competitors. Thus, Nestlé has developed a strong brand and several corporate brands, through advertising as well as through promotion, packaging, price and distribution strategies.

4.3.2.2.1 Brand

To create a strong brand recognised internationally, Nestlé owns a logo, symbol of the company all over the world. That symbol is the same since the creation of the company and hasn’t been adapted to the French market. However, the French letter “é” of “Nestlé” makes the noun sound French; thus, it is regarded as a French brand or company by French people. The origin of the name Nestlé comes from the German noun “Nest” as it is suggested in the drawing represented the Nestlé brand. However, in French, Nestlé or nest doesn’t mean anything and has not been translated any way. This can be explained by the early apparition of Nestlé on the French market: at the beginning of the century, marketing wasn’t a priority in business. Because French people don’t understand the concepts of care, nutrition and love that are contained in the name but this can still be expressed by the drawing, which is always included in the logo.

Under that major brand, Nestlé has developed many sub-brands representing its activities. For baby food, especially for powered milks, the two major brands are Guigoz and Nidal. Nestlé, as a brand also offers a range of products such as yoghurts. In that case, it is presented with another logo, without the drawing and with the colours blue and white that can be seen as

as Mystère or other ice cream Yule logs. (http://www.nestle.fr/Entreprise/Nosactivites/grande_conso/glaces/activites_glaces/Glaces.htm, 2004/11/28)
symbols of freshness and of milk. On young children products, a blue and white bear cub is present. This bear cub can be assimilated as a reference for parents as well as for young children, who can thus recognize a Nestlé product from the first look.

(http://www.nestle.fr/Entreprise/Essentiel/Nos_marques_et_produits/Nos_marques_et_nos_porduits.htm, 2004/12/03)

For chilled dairy products, four sub-brands exist: Sveltesse, Yoco, La Laitière and Nestlé. Sveltesse is a brand that offers the range of fat free and diet dairy products. Its logo is drawn in blue and white that can again be assimilated to milk and freshness, and in red that can here remember the fruits contained in the yoghurts. It also represents a sun shining on the background and the brand Sveltesse represents a smile. The logo also contains the number zero for the fat free aspect.

Yoco’s targets are children. Everything in its products is done to attract children: the tastes of yogurts, the colours, the design of the bottles for Yoco à boire, the liquid yogurt and even, the harebrained idea of mixing compote and yogurt. Thus, its logo is really simple and colourful. Again, the colors are blue, white and red that represent, as for Sveltesse, the milk, freshness and fruit tastes. Finally, the last letter of Yoco is transformed in an apple in the drawing, which makes it childish and attractive for children.

La Laitière represents tradition and quality of chilled dairy products. We explained the needs to be reassured and to know the origins of the food when identifying the French consumption habits. With La Laitière, Nestlé answers the needs of customers. The name of the brand La Laitière, which can be translated as “the Milkwoman” in English, emphasizes those traditional and “home-made” aspects. The logo, designed by using a king of quill-pen writing, also emphasises the tradition aspect.

Finally, some chilled dairy products are sold under the brand Nestlé, especially the
desserts. Thus, Nestlé has developed another logo, this time white, blue and green, to remember the color of field that is assimilated with natural and fresh product. For the same reason, a flower appears on the top of the name of the company.

As far as ice creams are concerned, the same main brands, such as La Laitière and Yoko, are still present, and Extrême and Nestlé Glaces are added. Extrême in French means “extreme” and can mean “the most intensive” or “the highest”. That adjective is often used to describe something really cold or something really good. The form of the ice creams, in cone, can mean that they are especially big, as the slogan for the brand mentions it “Jusqu’au bout et même un peu plus loin”, which means “until the tip, and even a bit further”.

4.3.2.2.2 Advertising

Advertising is the main focus of Nestlé’s marketing strategy. The main tools used by the company to advertise are TV commercials, advertisement in magazines, on billboards and in their website. Nestlé’s goal is to occupy the daily life of its customers. Nestlé has even set up Consumer Relation Marketing, a strategy to show to its customers its desire to be close to their needs. That desire can also be found in the French translation of the international English slogan: “Good food, good life”. Indeed, in French, this has been translated into “Ensemble, mieux manger, mieux vivre” that is to say “Together, eat better, live better” in English. Nestlé describes that slogan as been a summary of its culture and of its relationships with customers. To illustrate that desire of continuous exchange and relationship with the customers, Nestlé has created a phone number that customers can use to get advices, and to express their wishes, their worries, their critics or their complaints. (http://www.nestle.fr/Entreprise/NotreResponsabilité/nosvaleurs/proximteconso/proximite_conso/proximite_conso.htm, 2004/12/03)
The focus of TV commercials is on the brands Extrême, La laitière, Yoco and Sveltesse. Nestlé especially bought the licence Disney to be able to use the Disney characters in the commercials, for their products and for their packages.

For the entire advertising regarding dairy products, Nestlé emphasizes the quality and security aspects of the products. It mentions the importance of well-being and health for children, but also for adults and seniors. In the website, for instance, customers can find recipes for well-balanced nutrition.

4.3.2.2.3 Promotion

Nestlé’s promotion is particular as most of its products are sold in hypermarkets. Thus, hypermarkets are the ones directly responsible for the promotion. In hypermarkets, some decreases on prices can occur and in that case, people receive advertisements at home to make them aware the prices, promotions, etc that occur in the several hypermarkets. Those paper advertisements are distributed once a week. Thus, hypermarkets are forced to change their promotion campaigns every week or every two weeks. However, even if Nestlé cannot directly promote its products in hypermarkets, it can encourage them to do it. Indeed, it often happens in French hypermarkets that a product or a brand is presented in a strategic area of the shops in special displays that attract customers’ eyes; in that case, Nestlé provides those special displays and can even hire people to do the promotion inside the shops. Nestlé also participates to the promotion of its products by integrating free assets during the production. In that way, the customer will be encouraged to buy Nestlé’s products because he/she will have the possibility to get six yoghurts, for instance, for the price of four yoghurts. If Nestlé wants to make customers discover a new product of its range, it can also integrate a sample in the package of the product. For instance, a customer willing to buy a box of powered milk will find in the package of that product a miniature of another kind of baby product.
4.3.2.4 Packaging

Regarding dairy products, the packaging of Nestlé in France is quite simple. For powdered milks, the package is most of the time composed of metal cylindrical boxes with a plastic opening in order to stock the product longer and in security as it is most of the time for young children or for babies. As far as yoghurts are concerned, those are always packaged into individual carton pot. Those are always sold by 4, by 6, by 12 or by 24. The liquid yoghurts sold under the brands Sveltesse or Yoco are always in individual bottle as well and sold by 4. Some of the products sold by La Laitière are sold in glass pots in order to emphasize the traditional and “home-made” aspects. Finally, ice creams from Extrême and Yoco are sold in boxes of 6 pieces that are packaged individually, however, La Laitière and Nestlé glaces sell their ice creams in plastic package of one litre. The customer is thus the one distributing the product.

On each package of Nestlé, the customer can find the guarantee stamp of Nestlé that remembers him about the quality of the product and the certification of Nestlé. The customer can also find some ways to contact Nestlé in case of problem with the products to complaint. (http://www.nestle.fr/Entreprise/NotreResponsabilite/nosvaleurs/proximiteconso/proximite_conso/proximite_conso.htm, 2004/12/03)

4.3.2.5 Price & Distribution

On the French market, Nestlé focuses on middle- and high-buying-power customers. It is one of the only sellers of baby food in hyper- or supermarkets and thus, its prices are quite high regarding baby nutrition. For yoghurts, the diet products are quite expensive compared to other yoghurts as it is specific. However, the Yoco range that doesn’t contain real specificities can be situated in the middle level of price compared to other yoghurts. Nestlé desserts are also in the middle
level of price compared to products of the same kind. However, La Laitière is one of the most expensive ranges of desserts, probably due to the price of its packaging, the quality and the elaboration of its products. For ice creams, the same levels of prices can be distinguished regarding the brands: Yoco ice creams are in the middle level, Nestlé glaces and Extrême as well, and La Laitière ice creams are among the most expensive one-litre packages of ice creams.

As far as the distribution is concerned, we mentioned before that the Nestlé products are sold in super- and hypermarkets. This is where most of the distribution occurs. Baby dairy food and powdered milks are also sold in pharmacies. Most of the chilled dairy products and ice creams are sold in restaurants and in catering in general.

4.3.2.3 Short Conclusion

To conclude that marketing study of Nestlé in France, we can say that the firm is now recognised as the market leader thanks to its early penetration of the market in the end of the nineteenth century and at the beginning of the twentieth century. It has been able to follow the evolution of the market and of the consumer behaviour, adapting its products to those elements. Even today that the French dairy market is really mature, Nestlé still attracts consumers by focusing on the innovation, on the creation of new products, and by adapting them to their wishes.
4.4 China

China has a population of about 1.3 billion and an estimated population growth of 0.87%. Its GDP, based on purchasing power parity, equates to US$ 6 trillion, making it the second largest economy in the world. (http://epc-china.tripod.com/df3.html, 2004/11/18) Enormous foreign investments in various industries entered China in different forms in order to exploit a prosperous consumer market and its potential resources. However, culture barriers between the east and the west need to be taken into consideration.

Researchers in the study of Chinese culture values may find surprising to learn that Chinese values have formed a clear and consistent system throughout generations (Kindle, 1982; Hsu, 1970). Of course, changes in the cultural value have undergone. Basically, Chinese cultural values are largely formed and created from interpersonal relationships and social orientation. As for an individual person, the family is the source. It constantly diffuses cultural influences on him/her throughout his/her whole life. (Oliver, 1994) According to Oliver’s (1994) analysis of Chinese cultural value, we can mention the following points:

- Chinese strong collectiveness may imply that the informal channel of communication is important in the society. Given that both facts and rumours are carried, Chinese consumers are much more likely to rely on and make use of the hearsay element of the informal channel, rather than on what is actually stated in the message.
- Chinese consumers often endeavour to follow group norms and therefore have a high tendency to purchase the brand or product that members of the group recommend.
- The concept of the extended family is important in advertisements of family products. In contrast to Western societies, the Chinese concept of family is of the extended family and it includes even distant relatives.

To penetrate Chinese market, corporations are required to be prepared to the traditional cultural environment and the changing elements of that society.
4.4.1 Chinese Dairy Market

4.4.1.1 Presentation

The Chinese diet has experienced a few changes for the past decades. However it is still mainly composed of cereal grains, vegetables and small amounts of meat. Rice in south China and wheat and corn in north China are the staple food. With the continuous economic development, Chinese diet becomes more diversified with for instance the addition of more livestock products. Diary industry has a rather short history on Chinese market, where dairy products are only consume in small amounts. Yet, this market condition has been improving over the last two decades with the changing consumption habits. With increasing incomes, the growing middle class is demanding more convenience for its food and the access to greater value-added food such as dairy products, fresh fruits, and processed foods (Gale and Lohmar, 2002). Hence, the U.S. Dairy Export Council (U.S. Dairy Export Council, 2000) predicts an 8.5% annual average growth rate over 2000-2004 for cheese consumption in China. It estimates that the 360 million Chinese living in urban coastal areas are the markets that had the biggest potential for U.S. dairy products (U.S. Dairy Export Council, 2000).

Even if the beginning of dairy industry in China occurred later than in other countries, the milk production has been highly

**Figure 10:** Source- Babcock Institute discussion paper No.2002-3 (Michel, Gary, Mark, Zhiguo & Yuyuan, 2002)

* The number next to each location is the percentage of milk contributed to national production (8.069 million metric tons). The gray shading is proportional to each province’s contribution to national output—the darker the gray, the greater the contribution.
distributed and regionalised especially in pastoral regions and intensively urbanised areas. According to Babcock Institute discussion paper (Michel, Gary, J. Mark, Zhiguo & Yuyuan, 2002), the collective data for Chinese regional dairy production in 1999 has been shown in Figure 10. In those provinces, Heilongjiang is named “Chinese Dairy land”, with 18 percent of national output in 1999. Hebei Province and Inner Mongolia, located in Chinese pastoral northeastern region, are the second and third largest milk producing areas of China. On the contrary, the south and southeast China contribute the lowest to the total volume. (Michel, Gary, Mark, Zhiguo & Yuyuan, 2002)

China’s total raw milk production for 2005 is forecast to increase by 25 percent compared to 2004, the same increase than from 2003 to 2004. The pace of cow milk production growth is faster than other milks. The National Statistics Bureau (NSB) data shows that the “other milk” share has dropped from 14 percent in 1996 to 5 percent in 2003 because Chinese consumers considered cow milk as more nutritious. This trend is expected to continue in China. (USDA Foreign Agricultural Service GAIN Report CH4050, 2004/10/22)

In the analysis of Chinese dairy industry, due to the cultural and historical reasons, milk product consumption keeps a relative low level of the world consumption volume. According to the NSB, per capita, urban residents consumed 2.1 kg of dairy products (conversion rate of powdered for raw milk is 7 kg), an increase of 4.5 percent over the same period of 2003. Of this, fresh milk was 1.5 kg, up 3.3 percent, powdered milk was 0.047 kg, down 6 percent, and yoghurt was 0.23 kg, up 35.3 percent. Dairy consumption increases occur mainly in urban, wealthier areas. However, per capita milk is still only around 11 kilograms (KG), much lower than the world average of 98 KG. The low average illustrates the tremendous potential for future growth in the dairy market. From January to May 2003, monthly urban consumption of dairy products was 2.05 KG, up 20.2 percent over the same period of the previous year. Per capita fresh milk consumption accounted for 1.53 KG (up 24.4 percent), powdered milk accounted for 0.05 KG (no change) and yoghurt accounted for 0.17 KG (up 21.4 percent). China's skyrocketing
economic growth and rising incomes are behind the country’s rising dairy consumption levels. (USDA Foreign Agricultural Service GAIN Report CH3127, 2003/10/20)

The Chinese Ministry of Agriculture, in June 2000, published an ambitious long-term plan for milk production and the government agreed on the fact that milk production and large consumption by the population as a way to improve public health. Concerning nowadays-Chinese dairy industry conditions, the uncertain, rapidly growing and undeveloped market provides more opportunities than other saturated markets to both domestic and foreign firms. For instance, in milk powder products, the high-end market is dominated by foreign products and among the top 10 sellers, six of which are foreign companies such as Nestlé, Mead Johnson, and Abbott Laboratories. In 2003 USDA report, four major factors that determine Chinese dairy industry are pointed out. First, China’s inferior methods of domestic milk production hamper efficiency and quality, particularly in supply chains. Then, the distinction between urban and rural consumers determines where opportunities for foreign companies exist and with what types of products. Third, China’s complex distribution network for dairy products works well on its own and thus, leaves little room for new foreign players. Finally, even if the uncertainties of the market have created difficulties for many foreign firms, some other factors including post-WTO tariff rates, increased product awareness and improvements in distribution are going to improve the foreign investment environment for the dairy industry. New industry dynamics have also encouraged the Chinese government to invest in revamping production and increasing consumption. (USDA Foreign Agricultural Service GAIN Report CH3814, 2003/5/7)

4.4.1.2 Chinese dairy consumption

As one of the big emerging markets, China represents both marketing opportunities and uncertainties to foreign investors. The difficulties come from the wrong idea that China is a homogeneous market. These explain the wrong way foreign companies adopt to assess the consumer demand and to choose relevant corporate
strategies. Basically, the uneven economic development between the inland and coastal, rural and urban China is considered as the embedded point to learn the market. The disparity between the rural and urban is noticeable especially in the analysis of consumer behaviours. Most of the researches put their emphasis on the urban consumers as a particular subset due to the relative higher income and the ability to accept fresh goods. At the same time, the effect of the urban consumers on the rural area is anticipated, potential and gradual. Nevertheless, in dairy industry, the urban and rural consumption of dairy products is obviously different shown in Figure 11.

As the consumption of dairy products is really low in rural areas, the focus of our following discussion will be generally on the consumption of dairy products in the urban areas.

4.4.1.3 The factors influencing Chinese dairy consumption

Till now, the researches on the dairy products consumption in China are limited.
According to those studies and scattered information, the income level, knowledge to dairy products, culture forces and other organisational influence have a big impact on dairy consumption.

**Income** As relatively few estimates are available, expenditure and income elasticities for milk and dairy products for China’s consumers tend to be among the highest for aggregate food categories (Zhang and Wang, 2003; Huang and Bouis, 1996). As these findings suggest, the future households’ incomes raise will continue spurring the growth in dairy consumption in China. The recent rapid growth has testified to some extent that China’s dairy market attracts much more international attention. However, the different income levels mostly influence consumers’ choice trends to correspond to price level brands. Even in the same level of price, due to the multiple brands for the same ranges of dairy products, consumers wander around them and do not choose specific brand. To differentiate them, firms take on or rely on marketing to make the purchase behaviour turn towards their products.

**Knowledge to dairy products** The nutritional value and health benefits of milk products, very important for rural population, have been progressively recognised and understood in the urban areas. Milk is often assimilated as a “warming” food that should be consumed in moderate amounts (other “warming” foods include fried chicken and litchi fruit). In Chinese tradition, excess consumption of warming food may result in sore throats and oral blisters. In contrast, excess consumption of “cooling” foods, such as watermelon and pears, may result in frequent urination, sweating and diarrhoea. A mix of cultural, educational, and economic constraints often limits milk consumption in China. Even among the urban populations that tend to have more exposure to Western ideas, higher educational levels, and a greater standard of living, only 20 percent are regular dairy product consumers. Thirty to forty percent of urban Chinese do not consume dairy products at all. (Michel, Gary, Mark, Yuyuan and Zhiguo, 2002) In addition, as slimness is one of the fashion trends among young women, dairy products are widely considered to produce fat and calorie, which are disadvantageous to keep
slim, but good to improve the skin in whitening, tender and elastic facets.

**Culture Forces** As we know, culture as a visible and invisible factor has great influence on the drives and motives of the purchase behaviour. Here our analysis proceeds in both psychological aspect and consumption habit aspect.

- Regarding *psychological aspect*, we need to formulate marketing strategies and their consequent implementations so that companies could understand the fundamental consumption psychology of Chinese consumers.

First, *public praise* comes as one of the most important aspects of psychological determinants for consumption. China is a strongly collective society. The informal channel of communication is essential in the society. Relying more on word-of-mouth communication in this highly contacting community, Chinese consumers can quickly get the purchasing information of a given product. Good reputations of products need certain time to set up but bad effect can promptly spread. After the informal channel, the formal one manifests the importance of influence on consumers from health and quality perspective in the dairy products. For the latest few years, the government has enforced the education and dissemination of the health provided by milk products, which has been widely recognised and accepted in the public. Chinese consumers do consider the product quality from the periodic national quality reports. In their propagandising activities, firms integrate dairy product knowledge in the scientific and nutritious diet, such as the detailed nutrition ingredients, to formulate the common recognition. All these actions have benefits and react on the hearsay element of the Chinese consumers.

Secondly, there is *the usage situation effect*. Magnusson (1981) agreed that situations would steer an individual’s expectations towards specific stimuli and events. It means that usage situation has a significant impact on both purchase anticipation and satisfaction. In China, food and especially dairy products can be consumed by the consumer or sent as a gift. Except taste, nutrition and quality,
consumers can also be seduced by the convenient package, reasonable price, etc during the ordinary consumption. Although what means reasonable price depends from different income levels, domestic dairy products mostly sell on low-end and mid-end markets and foreign brands get the advantage on mid-end high-end market. Nevertheless, when products are used as gifts, the price won’t be the determined factor.

Ghemawat (2001) mentioned that the well-developed Chinese business culture is based on personal connections, often summarised in the term guanxi. To build up and sustain these relationships, gift-giving behaviour is obviously general. In contrast to western societies, there are some norms that constrain the Chinese while giving gifts. For example, gifts presented should be expensive enough to match the income of the givers so that they are giving face to those who receive their gifts, and so that they gain face at the same time because they are thought of as being sincere. Concerning products as gifts, the package should be prestigious and beautiful to be matched with the price level. And it is better that products are produced by well-known firms, as the Chinese believe in established brands and companies. During the festivals such as Chinese lunar new year, Mid-autumn festival and Dragon boat festival, the package can be more luxury than the inner products and the colour can be red or golden to represent happiness, luck and wealthy.

Finally, comes the home-based opinion. China is well known for it collective nature. This nature is reflected in the Chinese family and kinship system (Hsu, 1968). Hsu (1968) argued that the primary concern of the majority of Chinese was how to protect and enhance their private kinship interests. He indicated that the Chinese regard the kinship system as a basis for relating to others and this system means continuous and long-lasting human ties. “Respect the elderly and love the young” (traditional saying) is one of the traditions to keep this relationship. Hence, under the influence of historical and cultural factors, those “home or family is the centre” roots are deep in Chinese mind. Especially nowadays, with “single-child” policy, children become the centre of the family and the best for children is the
highest priorities demanded by parents. But it doesn’t indicate that parents blindly cater for foreign brands especially in the choice of food. The pivotal point is in the high quality to benefit health and the children’s growth.

- Regarding consumption habit aspect, due to the history and custom factors, people in different areas have their own consumption habits in spite of the same products. This has direct or indirect effects on the purchasing behaviour.

Let’s start with Lactose intolerance. USDA report (2003) mentions that some Chinese particularly have the inability to digest lactose, the natural sugar found in milk. Usually those persons will have diarrhoea and other symptoms. In order to successfully launch their dairy products in China, many companies have tailored their products to easier-to-digest ones, such as yoghurt-based drinks, or appealed to the tastes of young and increasingly lactose-tolerant urban consumers.

Secondly, we come to preference dairy products. Approximately 35 percent of the raw milk produced in China is consumed as fluid milk, with the remainder processed into various dairy products—primarily powdered milk. Chinese consumers enjoy fresh dairy products, but don’t really consume butter and cheese. The demand for ice cream and yoghurt is increasing rapidly in urban areas, but remain “luxury items” for many. Domestic fluid milk is generally pasteurised or UHT (ultra heat temperature) processed and is generally well accepted by consumers. (Michel, Gary, Mark, Yuyuan and Zhiguo, 2002)

Otherwise, an investigation from Frank, John and Scott (2004) shows that milk powder consumption is associated with older household members, in poorer households following medical advice, and living away from city centres. With access to refrigeration and greater consumption of fresh dairy products, most urban households surveyed are moving away from milk powder to liquid milk, as indicated by the low frequency of milk powder purchases. In liquid milk consumption, China’s urban consumers appear to prefer individual portions, with 250 ml being the most frequent package size for milk. Yoghurt consumption
comes second in terms of quantity purchased per capita, followed by ice cream and milk powder. Yoghurt consumption is associated with younger and better-educated consumers. Households with younger parents and children purchase ice cream more often than do other households but in smaller quantities (ex. 50 grams) per purchase. (Frank, John and Scott, 2004)

Thirdly, *different ages need pertinent dairy products.* On the basis of the understanding of healthy diet, Chinese consumers choose dairy products depending from the different ages of infant, child, adult or the elderly.

- For infants, milk powder is the first choice as processed dairy product. Due to the less confidence to domestic processed products, they choose more expensive foreign brands in order to protect and ensure the growth of the babies.
- For children and adults, in the urban areas, drinking milk and yoghurt has become a trend that is associated with good nutrition, health and prosperity. Diversified options for dairy products do not only develop the consumers’ tastes but also combine the fun with nutrition. Adopting westernised diets, diary product consumption is gradually popular among younger consumers. During warm seasons, fermented milk, yoghurt and ice creams are consumed in large quantities.
- For the elderly, supplementing calcium in the body is the main function of drinking milk. Because of the diet habits, the Asian elderly have more chance to get osteoporosis, in which the bones become extremely porous, are subject to fracture, and heal slowly.

Finally, *purchasing place* widely distributes. Dairy products, as a sort of fast food, demand efficient distribution channels to reach end-users. Actually, we found that supermarkets are the principal channels for Chinese to consume dairy products. Except supermarkets’ outlets, fluid milk has a variety of outlets such as home delivery, delivery points to designated locations, and smaller grocery stores (Frank, John and Scott, 2004). With the influence of western culture, the consumption of cheese and ice cream usually occurs in fast-food outlets and the exposure to
international food through foreign travel accelerates its effect (Frank, John and Scott, 2004).

**Other organizational influence** Generally, amplified exposure to advertising through a wide variety of media might be expected to increase milk consumption. The average education level of the household head and spouse, advertising intensity, physician recommendations, presences of school milk programs, and travels abroad all have a positive influence on the probability of purchasing milk (Frank, John and Scott, 2004). Otherwise, through a network reaching every street and community of a city, the organisations expand the impact of dairy products on Chinese consumers.

4.4.1.4 Main actors on the Market

In Chinese dairy market, the fierce competition comes from both domestic and foreign companies. The top two domestic firms are Shanghai Bright Dairy & Food Co. and Inner Mongolia Yili Group. And the top foreign firms are International Nutrition Corporation, Fonterra and Nestlé.

- **Shanghai Bright Dairy & Food Co.**

Shanghai-based Bright Dairy Co., Ltd., a joint-venture set up by six enterprises including Shanghai Dairy (Group) Co., Ltd., Shanghai Industry Food Co., Ltd., and Danone Co., Ltd. (Asia), is now the country's largest dairy-product manufacturing and distribution enterprise, posting RMB 5 billion (US$ 604.6 million) in revenues for its principal business, and RMB 1.715 billion (US$ 207.4 million) in profits for its principal business activities. After its successful listing, Bright Dairy has invested nearly RMB 1 billion (US$ 121 million) rising on the stock market in its principal business operations. ([http://www.tdctrade.com/report/indprof/indprof_030903.htm](http://www.tdctrade.com/report/indprof/indprof_030903.htm), 2004/11/30) With a 500,000-ton yearly capacity, the company churns out a host of dairy products like disinfected milk, fresh milk, yoghurt, UHT milk, and milk powder. With a history of more than 40 years behind
it, Bright is a famous brand name in Shanghai and the whole country. (http://www.brightdairy.com/english/about/company.htm, 2004/11/30)

□ Inner Mongolia Yili Group

Inner Mongolia-headquartered Yili Group, country’s second largest enterprise, posts RMB 4.010 billion (US$ 485 million) in revenues and RMB 1.319 billion (US$ 159.5 million) in profits for its principal business activity. With the country's largest quality dairy source base, Yili's products range in high-temperature sterilised milk and cold drinks -- which lead the country in sales – and in milk powder and milk tea powder, rank third in sales in the country. (http://www.tdctrade.com/report/indprof/indprof_030903.htm, 2004/11/30) More than 30 plants in Yili group fall into the 4 businesses units, liquid milk, ice cream, milk powder and raw milk. Among them, Yili UHT milk has the biggest market share in China, Yili milk powder is No. 3 and Yili ice cream has been in the No.1 sale in China consecutively for 8 years. (http://www.yiligroup.com.cn/en/about/about.jsp, 2004/11/30)

□ International Nutrition Corporation

International Nutrition Company Ltd (INC), a wholly owned subsidiary of the East Asiatic Company Ltd. (EAC) - a Danish multinational company founded in 1897, owns DUMEX brand whose products are mainly infant and children nutrition. It is in 1953 that DUMEX firstly launched the baby products in Asia and then, in 1992, it set up subsidiary company in China. The products are targeted at age-specific formulas used as a supplement to the children’s required nutrition and expectant/nursing mothers. According to the annual report, the net sale in China in 2003 has increased by 11%. (http://www.youngnutrition.net/corporate/profile.html, 2004/11/30)

□ Fonterra
Fonterra Co-operative Group Ltd is a leading multinational dairy company, owned by 13,000 New Zealand dairy farmers. Collecting over 13 billion litres of milk a year, they manufacture and market over 2 million tonnes of dairy products annually, which make them the world's leader in large-scale milk procurement, processing and management. It has some of the world's best-known dairy brands, including Anchor, Anlene, Andec, Anmum, Chesdale, Fernleaf and Mainland. (http://www.fonterra.com/default.jsp, 2004/11/30)

Fonterra posted sales of NZ$5.6 billion (US$3.86 billion) for the six months ending on November 30. That was already more than half of the total production value of China's milk industry for the whole of last year. (http://www.chinadaily.com.cn/english/doc/2004-05/13/content_330340.htm, 2004/11/30)

4.4.2 Nestlé in China

Having over 130 years of dairy experience worldwide, Nestlé, as a leading company in the industry, has developed diverse dairy products including milk powders, infant nutrition, condensed milk, evaporated milk, pasteurised milk, liquid milk with added value ingredients, yoghurts and ice cream. The history of Nestlé in China is quite long: Early in 1874, it started trading activities in Hong Kong and set up the first sales office in Shanghai in 1908. Till now, its production bases, which chiefly substitute import to provide products, widely distribute in China as the figure 12 shows. In the process of setting up those production facilities, Nestlé has considered the factors including the availability of the raw material, the dairy industry climate, consumer tastes, purchasing power and etc. (“Nestlé Greater China Region”, http://www.nestle.com/Media_Center/Multimedia_Library/Presentations/Presentations.htm?galleryGuid={BF8DB007-8E8C-4ED E-8B65-3FC7A3EFE204}, 2004/5/24)
Nestlé sales in China reached to CH 1.5 billion (US$ 1.1 billion) in 2003, which account for 1.7% of Group’s total sales. (Morgan Stanley consumer field trip to China, 2004) There, milk and nutrition sales are equal to 50% of the total sales. Nestlé has become the most active companies in the dairy industry of China.

With the abundant experience in this market, Nestlé has expanded its market share through implementing its own marketing strategies. In order to exploit their marketing strategies in China, we will begin our journey from the marketing mix strategies, as we mentioned in the theoretical part, including product, price, place, promotion, and brand. Firstly, product, a basic element to establish and consolidate the position of Nestlé in the market--China, will be investigated to understand how Nestlé tailors its products to local needs.

### 4.4.2.1 Product

All along, Nestlé has put much emphasis on product innovation and new product development. Not only does it seek opportunities to extend the existing products to
new markets, but also it develops new products adaptive to the local consumer needs. In 2001, another Nestlé R&D centre was founded in Shanghai to explore and exploit new products to support its market extension. The following lists most of the dairy products sold in China and the product information comes from Nestlé’s website--[http://www.nestle.com.hk/tradch/products/index.asp](http://www.nestle.com.hk/tradch/products/index.asp).

<table>
<thead>
<tr>
<th>Category</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk powder</td>
<td>Milk Powder (for children over 1 years old)</td>
</tr>
<tr>
<td></td>
<td>Milk Powder (for children over 3 years old)</td>
</tr>
<tr>
<td></td>
<td>Milk Powder (for children over 6 years old)</td>
</tr>
<tr>
<td></td>
<td>Instant Milk Powder (for the whole family)</td>
</tr>
<tr>
<td></td>
<td>High-Calcium &amp; Skimmed Milk Powder</td>
</tr>
<tr>
<td></td>
<td>High-Calcium Milk Powder (for the elderly over 50)</td>
</tr>
<tr>
<td></td>
<td>Golden growing-up milk powder (for over 1 or 3 years old)</td>
</tr>
<tr>
<td></td>
<td>Adult Nutrition</td>
</tr>
<tr>
<td></td>
<td>Children Nutrition (for 1 to 10 years old)</td>
</tr>
<tr>
<td></td>
<td>Adult Nutrition</td>
</tr>
<tr>
<td>Liquid Milk</td>
<td>Strawberry Milk</td>
</tr>
<tr>
<td></td>
<td>Sweet Milk</td>
</tr>
<tr>
<td></td>
<td>High-Calcium &amp; low-fat Milk</td>
</tr>
<tr>
<td></td>
<td>High-Calcium &amp; Skimmed Milk</td>
</tr>
<tr>
<td></td>
<td>Pure Milk with DHA</td>
</tr>
<tr>
<td></td>
<td>High-Calcium, low-fat chocolate Milk</td>
</tr>
<tr>
<td>Other Milk Products</td>
<td>Condensed Milk</td>
</tr>
<tr>
<td></td>
<td>Cream</td>
</tr>
<tr>
<td></td>
<td>Evaporated Filled Milk</td>
</tr>
<tr>
<td>Yoghurt</td>
<td>Fruit yoghurt</td>
</tr>
<tr>
<td></td>
<td>Low-fat fruit yoghurt</td>
</tr>
<tr>
<td></td>
<td>Yoghurt (for children’s taste)</td>
</tr>
<tr>
<td></td>
<td>Fruit sour milk</td>
</tr>
<tr>
<td></td>
<td>Skimmed fruit yoghurt</td>
</tr>
<tr>
<td>Ice Cream</td>
<td>Drumstick or mini-drumstick</td>
</tr>
<tr>
<td></td>
<td>Crunch</td>
</tr>
<tr>
<td></td>
<td>Butter finger</td>
</tr>
<tr>
<td></td>
<td>Ice cream cups</td>
</tr>
<tr>
<td></td>
<td>Ice cream bar</td>
</tr>
<tr>
<td></td>
<td>Ice-lolly (coconut-, tapioca pearl-, gingili-milk taste)</td>
</tr>
</tbody>
</table>

Milk Powder is one of the first product series that Nestlé sold on Chinese market. Both KLIM brand and NESPRAY brand are famous for infant milk powder. To date, on the basis of the original pure milk powder, Nestlé has developed formula milk powder, so-called nutrition, to adapt to the market trend of health and nutrition. In these nutrition series—NESLAC brand and Nuhén brand, DHA (docosahexaenoic fatty acid), Taurine, Choline, etc that benefit the children’s brain growth have been appended to meet the changing consumer needs. To improve the adult nutrition condition and keep enteric healthy, Nestlé added Selenium, Molybdenum, Chromium and Prebio to the nutrition. In fact, those added nutrition products work as the selling points to stand out in multiple brands and attract buyers.

Liquid Milk In the dairy product consumption of China, the convenience, nutrition and good taste absorb the children and youth. To children, having their own favourite taste milk embodies their characteristics and own style. Hence, Nestlé launches “Quan Shi Milk” brand (translated from Chinese) that owns strawberry, chocolate, pure milk and etc. Nowadays, to keep slim is one fashion in Chinese female and milk is in their mind a fat product. Aiming at this part of market, high-calcium and skimmed liquid milk settles down both nutrition and beauty problems.

Other Milk products Due to the cuisine culture, cream and evaporated milk has little market share on Chinese market. Most of the buyers are situated in Hong Kong and Taiwan, where households have both eastern and western cuisines and consume more of these products.

Yoghurt Grasping that the Chinese consider yoghurt as the nutritious drink to keep healthy and slim, Nestlé strives for expanding its sales in yoghurt. However, Danone has dominated the market and Nestlé adjust its strategy to provide diverse tastes of sour milk with the children and youth.
Ice Cream As a market leader in Chinese ice cream market, Nestlé has dug out various types of ice cream and formed a kind of consumption fashion among the youth, children and even adults. To stimulate female consumers who want to keep fit and avoid purchasing ice cream even in the warm weather, Nestlé brings the mini-ice cream balls in individual package that satisfy the female psychological needs and encourage consumption.

In essence, those diary products have been improved to be adapted to the local tastes and diet habits. Furthermore, new series have been developed to seduce consumers, such as Soya Milk series. This sort of products is consistent with the Chinese diet, provides high calcium and low calorie nutrition, and is easily digested.

4.4.2.2 Marketing

Besides product, marketing, as an essential component to affect the consumer decision process, is described as brand, advertising, promotion, packaging, price, public relations and etc. Especially in this communication society, it is a kind of art and critical to stimulate the consumers to choose the particular brand’s products while facing the multiple goods.

4.4.2.2.1 Brand

Maintaining total ownership and running all its brand names, Nestlé treats those brands as corporate property. While entering the China market, Nestlé’s English brand names have to be adapted to the local language circumstances. Usually, Nestlé use the logo as the company symbol worldwide but in China, it is registered as . The left side Chinese writing means the same thing than Nestlé in German. That means “bird’s nest”. The deep
sense of that name can represent security, warmth, mother love, health and nutrition. It is easily understood and remembered by Chinese consumers and, synchronously, it sets up a good harmonious family image.

Nestlé has long been a major player in the dairy industry, originally with well known shelf stable brands such as Nido, Nespray, La Lechera and Carnation, then building a strong international presence in Chilled dairy and Ice cream under the Nestlé brand (http://www.nestle.com/Our_Brands/Dairy_Products/Overview/Overview.htm, 2004/12/02).

In China, Nespray, Carnation, Klim and Eagle brand are the main subdivision brands, in which Klim, Carnation and Eagle Brand have their own Chinese brand names. In Nespray division, Nestlé only differentiates the products’ names by the respective functions. Except these original brands, “Milk Company” (translated from Chinese) on the upper right hand corner is a localized brand and chiefly provides fresh milk products with different tastes. One of the reasons why Nestlé divided it into dissimilar brands is to target different levels of consumption groups from middle-end to high-end.

Those brands elaborately arranged and continually retained by Nestlé, consolidate Nestlé’s market position in China’s dairy industry and to some extent build brand loyalty of local customers and educate people to the products.

4.4.2.2.2 Advertising

Advertising, as an efficient way to set up good communication between the organisation and the consumers, has been widely adopted in Nestlé. Each year the
advertisement expense in China is prodigious. To promptly conquer the market, Nestlé invests gigantic expense on advertisement such as TV, magazine, website, and billboard, to create the strong brand sense and consumer preference. We illustrate its advertising from its slogan, advertising concept and etc., all of which generate interactive influence between the firm and its consumers.

As far as Nestlé’s advertisement is concerned, it is concentrated on the same slogan “Good Food, Good life”. Similarly, it has been translated into Chinese slogan to propagandise. This is in accord with the worldwide goal of Nestlé that is to provide and commit the consumer with high-quality, tasted, safe and affordable food products. A healthy, good quality and care-for-consumer image has been built up through it.

In addition, “Good food, Good life” has been subtly connected with the family culture aspect. Ever since “one-child” policy was implemented, children are the focus of the whole family. Naturally, the emphasis on the product and advertisement inclines to children and youth markets. For instance, the latest TV advertisement of Nestlé’s growing-up milk powder presented the simple good life situation, in which the dream of the baby and the expectation of the parents have been integrated with the choice of Nestlé growing-up milk powder. This embodies the vision and conveys the information that Nestlé concerns about consumers, their family and their growth. The resonance between the consumers and Nestlé stimulates the purchase intention and establishes the superior brand impression in customer’s mind.

Otherwise, the regional advertising and regional focus have been reinforced. For example, the TV advertisement in China usually uses Mandarin to dub. However, in Canton including Hong Kong, it uses Cantonese instead in order to set up
perceptive impression easily. It is crucial for Nestlé to link continuity in high-quality advertising over a long period of time to the cumulative influence with the consumers. Although the cost is high, advertising is a trick for Nestlé’s success.

4.4.2.2.3 Promotion

Advertising should work together with sales promotion, which is an accessorial way to improve the communication with consumers. Generally, the promotion of Nestlé’s milk products is technical promotion—“B-G-F”, that is “Buying- Gift-Free bonus pack”. However, facing the fierce competition of the domestic firms, Nestlé has to adopt depreciation as one of the promotion means. Road shows, another common promotion, are held in the public and busy commercial streets to maintain a favourable image and advertise the brand. Due to the strong competition with Wall’s, Nestlé’s ice cream makes use of road shows to promote their sales. In the road show activity, field display, POP arrangement, gift distribution and sellers are managed. Both the considerate brand image and kind-purchasing situation have been created. Apart from these, Nestlé has established membership club for those who buy Nestlé’s milk products. In the club, the member can get discount for Nestlé’s products, health knowledge for breeding babies and periodic activities. This kind of clubs helps the consumer to form the brand loyalty and to extend the good respect through the informal communication between the members and their groups.

4.4.2.2.4 Packaging

Nestlé’s product packaging can be divided into two sorts: one is standardised packaging; the other is localised packaging. Here in the standardised packaging, local cultural element has been added into the packaging design on the basis of the global design style. Take a look at the packaging on the right side. The design idea is the same than other Nespray brand milk powder except that the child has
changed to a Chinese boy and the relevant product introduction is in Chinese.

Regarding the local diet habit, Nestlé has developed the new brand “Milk Company” and Soya product line, whose packaging are totally cater for the Chinese custom. The background picture, the art font and the design style stems from the Chinese country image. In addition, taking care of the Chinese consumption habit in liquid milk series, Nestlé designs its products with package of 250 ml, which are popular among the children and youth. And for the family, one litre is the usual package except for some promotion packages with bigger volume. In ice cream series, as we mentioned before, mini-ice cream is one of the localised packages and the package design is composed of Chinese carton and attractive colours.

4.4.2.2.5 Price & Distribution

Nestlé’s dairy products mainly aim at middle-end and high-end markets. According to different consumers’ needs, the diverse Nestlé brands provide the satisfaction to dissimilar income levels: regular Milk Powder aims at middle-end market, and formula Milk powder, so-called nutrition, aims at high-end market; in Liquid Milk, except those with other nutrition or special function at the middle-end market, other liquid milk series target at low-end market; Yoghurt is on the middle-end market; in Ice Cream, those ice creams, whose raw material includes milk, are put on the middle-end market although Nestlé still launches diverse taste ice cream without milk ingredient to keep its market share in low-end sales. For the sake of competing with domestic firms in the dairy drink, Nestlé’s products trend for relatively lower price than other international brands. Yet, in the high-end market, its nutrition and milk powder have competitive advantage in China under the long-history brand impact.

With the comprehension that the relationship is one of the imperative factors to realise business success, Nestlé sets up good relationship with wholesalers and
retailers. Through sales network to promote products, Nestlé has widely spread its promotion activities in China. The wholesalers or retailer are partly in charge of the arrangement of promotion. Nestlé and local selling network system are working efficiently together to consolidate the sale channels.

4.4.2.3 Short Conclusion

Over the past 20 years, China, as a burgeoning market in dairy industry, has blossomed from near non-existence in the early 1980s. Due to the traditional diet, tastes and cuisine, which regarded dairy products as supplementary nutrition, China’s dairy market still stays in the immature condition. This situation relates to, or partly leads to, inferior production methods, complex democracy, and immature distribution network. Therefore, in our study, the analysis of demographics, cultural factors, and purchasing behaviours that have impact on the consumption of the dairy products in China have been put on the first place for the sake of exploiting the potential huge market.

However, the company’s stellar performances on the mature dairy market may not be transferred directly and readily to the immature one. Nestlé gives out a good example of customisation. Although the complex consumption of dairy products and other difficulties in China still exist, Nestlé attaches great importance to China and has gained the two digits increasing rate of the sales on China market. The reason of its success in China cannot be separated from its deep study to Chinese consumer behaviour and its marketing strategies tailored to the local market.
4.5 Summary

Through the investigation of matured French dairy market, burgeoning Chinese dairy market and Nestlé’s concrete marketing strategies, it is clear that Nestlé has tailored their marketing strategies to the local market. On the matured French market, due to the market needs are relatively saturated, Nestlé focuses more on the new product development to attract younger consumers. Yet in China, Nestlé localises its products and marketing manners. We summarised it as following.

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>Nestlé in France</th>
<th>Nestlé in China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baby foods</td>
<td>Infant formulas</td>
<td>Milk Powder</td>
</tr>
<tr>
<td>Chilled dairy</td>
<td>Chilled dairy</td>
<td>Nutrition (formulas)</td>
</tr>
<tr>
<td>products</td>
<td>products</td>
<td></td>
</tr>
<tr>
<td>Chilled dairy</td>
<td>Yoghurts</td>
<td>Liquid Milk</td>
</tr>
<tr>
<td>products</td>
<td>Desserts</td>
<td>Yoghurt</td>
</tr>
<tr>
<td>Ice Cream</td>
<td>Ice Cream</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MARKETING</th>
<th>Nestlé in France</th>
<th>Nestlé in China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brands</td>
<td>Guigoz, Nidal. Nestlé, Sveltesse, Yoco, La Laitière and Nestlé, Sveltesse, Extrême and Nestlé Glaces</td>
<td>Nespray, Carnation, Klim, Eagle brand, Milk Company, Quan Shi Milk, NESLAC, Nuhèn, Drumstick, Crunch</td>
</tr>
<tr>
<td>Advertising</td>
<td>“Together; Eat better, liver better”; focus on customer, quality, security, health</td>
<td>“Good food, Good life”; focus on family, quality, health, care-for-consumer, taste and safe</td>
</tr>
<tr>
<td>Promotion</td>
<td>Promotion major in hypermarkets; paper advertisement; free gift/small package; product/new product sample</td>
<td>Buying- Gift- Free bonus pack”; Road show; Membership Club</td>
</tr>
<tr>
<td>Packaging</td>
<td>Standard packaging; Traditional home-made packaging; package with guarantee stamp</td>
<td>Standardised packaging; localised packaging</td>
</tr>
<tr>
<td>Price &amp;</td>
<td>Middle- and high-end market; super- and hypermarket</td>
<td>Middle- and high-end market; wholesale and retail</td>
</tr>
<tr>
<td>distribution</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 14 (made by our own)

Till now, Nestlé has kept its market leader position in French and fast growth in
China. In our study, we found that highly customising the marketing strategies is the most efficient manner taken by Nestlé. In the next part, based on the different consumer behaviours on both markets, we will analyse the tangible marketing strategies for the companies to penetrate both French and Chinese dairy markets and develop our new model for customised strategies based on different market situation.
5. ANALYSIS

5.1 Analysis of Nestlé’s strategy

In nowadays research field, homogeneity and heterogeneity are the controversial core. It is undeniable that in some industries such as communication instrument industry and computer industry the global market trends to homogeneity. However, in dairy industry, that is not the case. This attributes to the variety of wants and needs of dairy consumers and their continuously changing favours. Based on the determinants of Sheth’s model to analyse the dairy industry, we describe it as highly competitive intensity, low market dynamic, high market orientation and medium market growth. Consequently, from market orientation perspective, the global dairy market should be segmented. Within this knowledge in mind, the company’s primary task is to identify homogeneous consumer segments, to accurately target and effectively reach them, with the appropriate marketing strategic mix (product, price, promotion and distribution). Combined with the dairy industry condition, we illustrate the marketing mix patterns as the below chart (Figure 15).
During our study of French and Chinese dairy markets, it is obvious that differences exit among the market circumstances and customer situations regarding their benefit, product purchase, usage patterns, needs, brand loyalty and so on. French dairy market has a long development history and reaches the maturity phase. The market dynamic is comparably stable with the fact that the main competitors and the competitive structure is sustained; the category of the products has been developed perfectly and the diversification of each category has been further expanded; new product concept has been inoculated with existing products; dairy products are the necessary food in French daily life. Conversely, Chinese dairy market is in development and is situated in the beginning phase. The
competitive structure is dynamic with the fierce competition from both domestic and foreign firms. The category of the products is kept on the basic ones, in which the limited products have been introduced. Due to the culture factors, the diary products are considered as supplement to body health but have been gradually accepted.

Basically, the detail industry condition including the dairy product consumption and the consumption habits has been explored and Nestlé’s successful marketing experience has been recognised in our empirical study. In order to dig out the marketing strategies from customer orientation perspective, we will analyse the consumer behaviours in French and Chinese dairy markets, from which we could deduce the relative marketing strategic mix for companies penetrating these two markets. Marketing Strategic Mix, a conceptual framework, helps the dairy companies to structure their thinking about marketing problems and to develop products or services, which include unique selling proposition or bundle of benefits, to meet the prospective customers’ needs.

5.1.1 Marketing strategy analysis for French diary market

When researching data about Nestlé and its strategy to gain market shares and to penetrate a market, we realised that this company focuses a lot on customer orientation. After the reading of the empirical information of the thesis, we consider that the data collected to define and characterise French and Chinese customer behaviours fit with the products and marketing developed by Nestlé. To make it obvious and to remember the information for the reader, we designed the following Figure 16:

<table>
<thead>
<tr>
<th>French consumption habits and tastes regarding dairy products</th>
<th>Nestlé’s customer orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) the need of being reassured, the taste for traditional products and for “home-made” feeling,</td>
<td>-“Nestlé” and all its sub-brands sound like national brands.</td>
</tr>
<tr>
<td></td>
<td>-La Laitière offers a range of traditional products and a “home-made” feeling is emphasised in the packaging and</td>
</tr>
</tbody>
</table>
| the proves of quality and security. | the advertising.  
- The main slogan: “Together, eat better, live better” remembers the quality and security aspects.  
- On each package distributed by Nestlé, a guarantee stamp appears as well as different ways to contact the company, which reinforced the quality and confidence feelings. |
| | |
| 2) the sharing habits, collectivism. | Every product is sold packaged by 4, 6, 12 or 24. Ice-creams can even be bought in a litre. |
| 3) the taste for healthy products, transparency for adults and especially for children. | - The guarantee stamp and the certification present on each product, as well as the contacts reinforce the transparency.  
- The sub-brand Sveltesse is a diet product marketed by emphasising its balanced and healthy aspects but also its good favour.  
- Products targeting children are marketed by emphasising the pleasure of children as well as the vitamins and balanced ingredients that are contained. |
| 4) the taste for chilled dairy products as desserts. | Nestlé develops constantly its dairy desserts with its two main brand La laitière and Nestlé Dessert. It innovates by using consumers’ greediness. As far as the yoghurts are concerned, Nestlé also diversifies the favours and integrates pieces of fruits in the composition. |
| 5) the consumption of ice-creams gathered during the summer. | To develop the ice-cream consumption during the whole year, Nestlé mainly plays on the pleasure and greediness aspects. Extrême is the best example of products that can be consumed as chocolates or candies. |

French consumption structure of dairy products makes up of milk, cheese, cream and chilled dairy products. Due to the relatively stable condition that the main competitors control most of the sales in those categories, new entrants should consider more on the exploitation of the subdivision products of each category to seek the niche. Innovating and differentiating products are the primary task. According to different characteristics of the products, corresponding brands should be set up to position them on the markets. While creating products and their matching brands, products under each brand should embody the idiographic character such as the “home-made” feeling tastes and the function of improving health for specific consumer groups. Nestlé is a good example of company that has
chosen to consider those aspects. Although Nestlé has multiple products, it has its own product emphasis on French dairy market. Furthermore, considering the habits that eating cheese and dessert after the meal in France, Nestlé has expanded its product innovation in chilled milky dessert and successfully launched series of the chilled dairy products for children, new taste yoghurt and ice cream in various brands.

Enjoying the good quality and health brought by the dairy products is necessary for French consumers. Except the guarantee of good quality in products themselves, firms can propagandise it through advertising, packaging and public relation. In Nestlé’s advertisement, “Good food, Good life” concept has rooted and even the package has printed the guarantee stamp. These promote the relation between customers and the company and increase customers’ satisfaction.

France is a strong collective society, which forms the need of sharing in French family life. This requires the package of dairy products to be a set, within which individual package products are included. Otherwise, to promptly penetrate the market, efficient distribution outlets and promotion activities are pivotal. The choice of retail outlets stems from the price position of the product on the markets from the ordinary supermarkets to hypermarkets. About Nestlé, it put its dairy products on the middle- and high-end markets so that its retail outlets are the hypermarkets. In those hypermarkets, Nestlé adopts indirect promotion way such as the display to attract the consumers.

5.1.2 Marketing strategy analysis for Chinese diary market

<table>
<thead>
<tr>
<th>Chinese consumption habits and tastes regarding dairy products</th>
<th>Nestlé’s customer orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) the importance of reputation of products, spreading of reputation by informal channel.</td>
<td>- Nestlé has created fashion products, especially with ice creams that are well known among the youth, children and even adults.</td>
</tr>
<tr>
<td></td>
<td>- Nestlé invests a gigantic amount of money on advertisement (on TV, magazines, website)</td>
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<td></td>
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<td>---</td>
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</tr>
</tbody>
</table>
| 2) the health and quality perspective. |   - Nestlé’s logo and slogan “Good food, good life” emphasise the healthy and quality aspects.  
- Soya products well known for their high calcium and low calorie aspects as well as for being easily digested have been developed by Nestlé.  |
| 3) the price level. |   - Nestlé’s prices aim at middle-end and high-end market.  
- Its prices are relatively lower than other international brands although its products are recognised as quality ones.  |
| 4) the limited and underdeveloped consumption of dairy products, focus on powdered milk and beginning of development of fluid milk. |   - As we mentioned before, Nestlé tried to adapt its products to the national consumption habits by developing, for instance, fluid Soya milk.  
- Nestlé succeeded by making its products recognised as necessary for balanced food and for health.  
- Nestlé’s packages are also adapted to local habits, which reassures consumers and encourage them to buy.  |
| 5) the taste for Soya |   - Nestlé innovated for the Chinese market and succeeded in developing products appreciated by Chinese consumers such as Soya milk.  |

**Dairy industry has a short history in China and the main consumption converges in the urban areas. To open the big door of Chinese dairy market, the company should focus more on the urban areas especially coastal cities where the residents accept dairy products more easily. The consumption structure of dairy products is quite simple. It includes milk (milk powder and liquid milk), yoghurt, ice cream, little butter and cheese. The competitive situation is turbulent and hard to anticipate, which provides both opportunities and risks. While launching the different categories of dairy products, the firm should take lactose intolerance and “warm food” concept into consideration to improve milk products. With the healthy and slim concept in mind, the products fit for the children and female can become the**
focus and extend their effect. Otherwise, depending on different ages, each kind of dairy products can be developed into subdivision for different aging groups to consume especially in baby and children phase. For example, Nestlé’s milk powder series adapt to the infant, baby, children, adult, and the elderly. The product diversification combines the changing customer needs to have further impact on customer’s choice. In order for the wide extent of product categories, different price products aiming at dissimilar income consumers can speed up the penetration of the market.

Considering the home-based opinion and public praise to affect the choice of Chinese consumers, the advertisement and public relation are important to create opportunity for the corporation to enter the markets. In the advertisement, harmonious family and children’s growth transfer the information that the company cares for the family and for consumers themselves. Regarding the dairy products as the nutrition or healthy beverage, companies set up the health and good quality public image in consumers’ mind by public relation activities. Furthermore, in China, there is school milk program and some companies have associated with local government to enlarge the effect of their milk products.

In China, the distribution outlets could be multiple from the kiosk, grocery store to supermarket. Essentially, good relationship with wholesalers and retailers are the important step to successfully increase sales. Nestlé is a good example for us. About the package, the convenience and individual style is the key to stimulate purchasing. Yet, for instance, milk powder or infant formulas in foreign brands mostly positions in middle- and high-end markets. The consumers will choose them as a gift to send to friends, which requires the package to be more luxury not just simple package for own use.

5.1.3 Two different strategies for two different markets

To conclude with the analysis of Nestlé’s consumer orientation strategy, it is necessary to explain that this company has developed two types of orientations.
Indeed, as France is a mature market and China is a developing market regarding dairy products, their customers’ tastes, habits or preferences are different. Moreover, even if Nestlé’s goal for both markets is to expand and gain market shares, its situation is not the same in France and in China: it wants to maintain and stay market leader in France, whereas it is penetrating the Chinese market. From that point of view, we identified two kinds of customer orientation in the same industry that is to say the food industry.

5.2 Discussing Sheth’s model (1985) and Developing our own model

5.2.1 Reviewing Sheth’s theory (1985)

In the theoretical part of our study, we largely explained the model developed by Sheth. We wrote that according to Sheth (1985), different types of competitive structures are emerging in business markets and high or low product and customer differentiations are the determinants for competitive intensity, technical dynamism, market dynamism, market growth and market orientation. The following figure aims at remembering the reader of Sheth’s model of determinants of industrial competitive structure with expected levels of environment characteristics and market orientation.
## 5.2.2 Limits of Sheth’s model and dissimilarities with our empirical observations

When analysing the empirical data, and especially the case of Nestlé, some contradictions appeared between our observations and Sheth’s model (1985).

First of all, we noticed that product and customer differentiations are determined by the competitive structure with its expected environmental characteristics and by market orientation. This contradicts Sheth’s idea that they were on the contrary the determinants for that market structure and strategy.

![Figure 18: Sheth's model of determinants of industrial competitive structure with expected levels of environment characteristics and market orientation. Source: Sheth, 1985](image-url)
Then, in Sheth’s model, we miss an international dimension. Indeed, Sheth distinguishes its market types (fragmented markets, commodity markets, etc.) with an example of industry. On the contrary, we assume, thanks to our empirical observations, that in the same industry a multitude of markets is possible depending on the country, its culture or its consumption habits for instance. The dairy markets in France and in China, despite the fact that they belong to the same industry, are absolutely different.

The terms used by Sheth are also quite ambiguous. Competitive intensity for example is really hard to define because of the subjectivity of the concept. From the study of French and Chinese markets, we affirm that the competitors’ types are not the same: on the French dairy market, among the four main actors, two are the world leaders and are implemented on that market since the beginning of the century. Each of the two companies left has a specialised activity, that is to say yoghurts and crème fraîche for Yoplait and milk for Candia. Thus, they can’t compete the same way than Danone and Nestlé that offer the same ranges and types of products. On the French market, the competitors are not many but the competition between the main actors is really strong. On the Chinese market, the main actors appeared on the dairy market of the country less than fifty years ago. Within the short time, the competitive situation is continuously changing. New comers including domestic firms and international firms enter the market for the sake of conquering the market and consolidating their market position. Some of them are successful but some stealthily retreated from the competitive stage. For example, increasingly losing the market share, Danone had to choose to cooperate with the national firm Wahaha and attempt to turn the scale. The competitive intensity cannot be simply concluded but need lucid analysis. That is the reason why we thought that Sheth should have been more precise and nuanced when defining competitive intensity.

Finally, we disagree with the expected levels of environment characteristics differentiated by industrial competitive structure. Sheth limits the possible combinations of competitive intensity, dynamism and complexity to four types of
markets. However, whilst we studied Chinese and French dairy markets, we state that if we want to follow Sheth’s typology, Chinese dairy market could be characterised by a medium competitive intensity, a low to medium complexity and a high dynamism, which makes it a developing market in dairy industry. The same way, French dairy market could be characterised by a high competitive intensity, a high complexity and a medium to low dynamism, which make it a mature market in dairy industry.

5.2.3 New dimensions, revision of Sheth’s model

Our first and main disagreement with Sheth’s model is the model dimensions. Indeed, as we previously explained, when collecting the empirical data and the information about Nestlé in China and in France, we didn’t observe that customer and product diversifications influenced the industry structure and the market orientation. On the contrary, we state that the market type and its expected characteristics, as well as customer focus, both influence the strategy aspects of the firm. Thus, we affirm that customer orientation characterised by a high customer focus can take different forms depending on the market type that is to say if the market is mature or developing.

We observed those dimensions when we were observing Nestlé’s customer orientation. As we developed before, Nestlé’s strategy can be characterised by being high customer focused. This company has several research centres in every country it has a market share and it constantly tries to find new ways to satisfy and answer the customer needs. However, the satisfaction of customers is reached in two different ways in France and in China. The main differences are regarding the product diversification, the competitors, the advertising strategy, the brand loyalty and the product research type. As far as the product diversification and research type are concerned, we noticed that France, as a mature dairy market, is really familiar with dairy products, especially with chilled dairy products. This is the reason why Nestlé innovates a lot and offers every year fifty to seventy new
products. For the French market, Nestlé emphasises the innovative research. On the contrary, on the Chinese dairy market that can be characterised as a developing dairy market, Nestlé emphasises on adapting existing products to local tastes and tries to exploit the substitute products that are fitter for local customers’ needs. Thus, Nestlé’s products appear on the market little by little and always with a testing phase. The research type is here more focused on the adaptation of the existing products for example by creating a new favour to an existing concept.

Regarding the competitors, when criticising Sheth’s model, we mentioned the competition differences: France has a few competitors but that are also really strong on the market, whereas China has a bit more competitors but among which several aren’t originated from China or even Asia, and that are mostly really new on the national market.

The advertising strategy is also different from a mature or developing market. In France, Nestlé and dairy products are well known as a part of the French food culture. This is the reason why the company does not have to allocate a lot of money to enter in customer minds. Nestlé rather allocates money to make its new products known and this occurs mostly on TV commercials. In China, on the contrary, Nestlé and dairy products are not a part of the food history or tradition. Thus, the firm needs to allocate a lot of money to spread its brands’ names and to encourage the customers to try its products. We can say that Nestlé is at an early stage of its development in China: it has to educate local consumers.

Finally, the brand loyalty is another difference that we observed from a mature market to a developing market. On the French dairy market, Nestlé is one of the two leaders (with Danone) and has been selling its products since the beginning of the 1900s. Then, consumers have had time to develop their loyalty. On the Chinese market, because of the recent history of dairy products and the recent development of dairy firms, consumers have not developed a brand loyalty yet. They are still discovering the products and testing the different existing brands.
To respond the needs of new dimensions and the missing elements of Sheth’s model, we design a new matrix of customer orientation strategies.

<table>
<thead>
<tr>
<th>Market Type</th>
<th>Customer focus</th>
</tr>
</thead>
</table>
| **Mature**   | **High**       | - High adaptation to local habits and tastes in product design and marketing  
  - Local suppliers  
  - Local production  
  - Local retailers  
  - High diversification of products  
  - A few competitors (often traditional and well-established companies)  
  - Rely less on the advertisement activities  
  - High brand loyalty  
  - Continuous research to create new products or new services |
| **Developing** | - High adaptation to local habits and tastes in product design and marketing  
  - Local suppliers  
  - Local production  
  - Local retailers  
  - Low diversification of products  
  - Several competitors (rather new apparition of those companies on the local market).  
  - Mainly rely on the advertisement activities  
  - Low brand loyalty  
  - Continuous research to adapt the company’s products or services to local tastes |

**Figure 19 (our own model)**

After designing this matrix and looking at the market type dimension, we realised that the model could contain another dimension: the customer focus dimension. Indeed, even if we collected data about a company that has a high customer focus, we are aware that some other companies prefer focusing on other strategies due to the other corresponding market situations and thus, have a low customer focus. This is the reason why we decided to expand and complement our first version of
the model to a broader one.

<table>
<thead>
<tr>
<th>Market Type</th>
<th>Customer focus</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mature</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>- High adaptation to local habits and tastes in product design and marketing</td>
<td>- Low adaptation to local habits and tastes regarding product design but medium adaptation to local habits and tastes regarding marketing</td>
</tr>
<tr>
<td></td>
<td>- Local suppliers</td>
<td>- A few or no local suppliers.</td>
</tr>
<tr>
<td></td>
<td>- Local production</td>
<td>- A few or no local production</td>
</tr>
<tr>
<td></td>
<td>- Local retailers</td>
<td>- Local retailers or retailers owned by the company</td>
</tr>
<tr>
<td></td>
<td>- High diversification of products</td>
<td>- Low diversification of products</td>
</tr>
<tr>
<td></td>
<td>- A few competitors (often traditional and well-established companies)</td>
<td>- A few competitors</td>
</tr>
<tr>
<td></td>
<td>- Rely less on the advertisement and promotion activities</td>
<td>- Rely less on the advertisement and proper promotion activities</td>
</tr>
<tr>
<td></td>
<td>- High brand loyalty</td>
<td>- Medium brand loyalty</td>
</tr>
<tr>
<td></td>
<td>- Continuous research to create new products or new services</td>
<td>- No or few efforts to create or adapt the company’s products or services</td>
</tr>
<tr>
<td>Developing</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>- High adaptation to local habits and tastes in product design and marketing</td>
<td>- Low adaptation to local habits and tastes regarding product design but medium to high adaptation to local habits and tastes regarding marketing</td>
</tr>
<tr>
<td></td>
<td>- Local suppliers</td>
<td>- A few or no local suppliers</td>
</tr>
<tr>
<td></td>
<td>- Local production</td>
<td>- A few or no local production</td>
</tr>
<tr>
<td></td>
<td>- Local retailers</td>
<td>- Mainly local retailers or retailers owned by the company</td>
</tr>
<tr>
<td></td>
<td>- Low diversification of products</td>
<td>- Low diversification of products</td>
</tr>
<tr>
<td></td>
<td>- Several competitors (rather new apparition of those companies on the local market)</td>
<td>- A few competitors</td>
</tr>
<tr>
<td></td>
<td>- Mainly rely on the advertisement and a mass of promotion activities</td>
<td>- Rely on the discontinuous advertisement and seasonal promotion activities</td>
</tr>
<tr>
<td></td>
<td>- Low brand loyalty</td>
<td>- Low brand loyalty</td>
</tr>
<tr>
<td></td>
<td>- Continuous research to adapt the company’s products or services to local tastes</td>
<td>- No or few efforts to create or adapt the company’s products or services</td>
</tr>
</tbody>
</table>

Figure 20 (our own model)
We opposed high customer focus that characterises customer orientation to low customer orientation that characterises standardisation. We consider that as we studied in details one part of the customer focus dimension, we are able to find out its opposition. However, we are aware that we do not have any illustration or prove of our statements for the opposition one. In other words, we chose to expand the model by using the high customer focus to find elements of the low customer focus and this represents the main limit to our model.

We assume that a high adaptation to local habits and tastes in product design and marketing, as well as working with local suppliers and retailers, and having a local production, are the main characteristics of companies having a customer orientation strategy. For that reason, the opposed part of the dimension, the low customer orientation or standardisation strategy has been characterised with a low adaptation to local habits and tastes regarding product design but with a medium adaptation to local habits and tastes regarding marketing. Then, companies having a low customer focus work with a few or no local suppliers. They use trading to penetrate the market and finally, they can create their own retail companies or, as the companies in the high customer focus dimension, collaborate with the local retailers.

The rest of the elements appearing in that part of this model dimension is characterised by the type of market (mature or developing) and has been explained when developing this dimension of the matrix.
6. SUMMARY

The choice and study of strategy is not easy and always really complex. In this study, we focused on business strategies based on customer focus, and especially customisation strategy. In the theoretical part, we explained in details why companies choose customisation strategy. We explained that organisational culture, management influence and market and customer types were the variables influencing strategy choice. We also explained in details Sheth’s model of determinants of product and customer differentiations. After that, we presented customisation as a strategy focusing on customers and supposed to encourage purchasing desires. In that part, we talked for instance about all the influences that can occur when customers are buying, such as culture, ethics and values, as well as marketing influences such as price, promotion or brand.

In the empirical part, we looked at Chinese and French dairy consumption regarding consumer habits and tastes. Then we described the main actors in those markets, before focusing on Nestlé, the Swiss dairy company present in France since the beginning of the twentieth century and in China since the early 1980s. We developed Nestlé strategy considering its products and its marketing, including brand, advertising, promotion, packaging, price and distribution, on both markets.

In this thesis, we answered a series of business questions, already mentioned in the introduction: Why can companies choose customisation as a strategy? How can customisation be characterised with a concrete example? How do companies customise in a foreign market? Is there only one type of customisation? By answering those questions all along our study, we draw the following conclusions.

First of all, we can conclude from the analysis that the international company Nestlé has implemented a customer orientation in France and in penetrating the
Chinese market. In the empirical part, we collected empirical data about the Chinese and French customers, in order to find out their tastes, and thus, from a business perspective, their expectations. In a second subpart of the empirical part, we also developed and researched information about our case study, the dairy company Nestlé on the French and Chinese national levels. In the analysis, we decided to confront the two sets of data: the consumers’ expectations and the company’s strategy. At that moment, we concluded that Nestlé’s strategy perfectly fits with the consumers’ expectations and habits.

We needed this conclusion to start the second part of the analysis. Indeed, by proving that Nestlé has a customer orientation strategy, we have been able to use its example to criticise and compare it with Sheth’s model of 1985. During this assessment, we realise that some important dimensions were missing to Sheth’s model and we concluded by assuming that some dimensions and aspects that we observed in the example of Nestlé needed to appear in another model.

For this reason, we developed our own matrix model, composed with two new dimensions: the customer focus dimension and the market type dimension. With the example of Nestlé we had illustrations for the market type dimensions (mature and developing) but only for the first part of the customer focus dimension, that is to say only for the high customer focus. However, to satisfy the readers and to finish the matrix, we decided to complete the second part of the customer focus dimension by using the high customer focus part and by opposing it to the low customer focus dimension. Thanks to that model, we characterised the customer orientation strategy and the standardisation strategy, which are the two principal choices the companies need to do regarding the product design. Moreover, to add a new element in those well-known strategies, we introduced a nuance into the two strategies. Thanks to our researches we stated that those two strategies are different and need to be different depending if the aiming market is mature or developing.
7. CONCLUSION

After studying deeply the customisation subject, we really think that this strategy is a trend for companies in many industries. Despite globalisation and the internalisation of many companies, standardisation is not the only way to succeed. On the contrary, we think that customisation is one of the future strategies. Nowadays, with globalisation and broader agreements, it is a common trend to internationalise for companies. Firms sell their goods on markets that are really different than their national markets and this create a competition more and more dynamic. Thus, the offer is becoming higher than the demand, which also means that consumers have the power to decide and to choose what product satisfies them the most. At that moment, differentiation is needed and can occur through marketing, innovation, price, etc. And after studying deeply the customisation strategy, we think that companies need to differentiate by getting closer to consumers. The goal is even to answer to the needs of the national population and even, to know so well the market and the tastes of its consumers that the company is able to create a need. Of course, this takes a lot of money and time to study consumer behaviours and again more time to be accepted and integrated as a “traditional” company in the sense that the firm is recognised as a national-adapted supplier. This takes again more time and money if the market is in its early stage of development. In that case, the time and money needed for the acceptance of the products are added to the company acceptance. However, customisation is still one of the best ways to reach new markets, new customers on developing markets, and one of the best ways as well to increase market shares and to become market leader on mature markets.
8. SUGGESTIONS FOR FURTHER STUDIES

Today, in fiercely competitive global marketplace, understanding the elements that determine the success or failure of the company’s marketing strategies has been the focal point for both managers and researchers. Market orientation, the standpoint of our project, cannot be neglected in order to realise superior company performance to satisfy customer’s needs. However, there are some limitations in our study we need to mention.

One is that in our empirical study only dairy industry has been investigated. Although the dairy industry sample can generalise our findings, more other industries should be taken into consideration in order for our further study to testify the wide application of our model. Replication of our study within another industries and markets might give more detailed views of the inner relationships identified in our work. The other is that the context of our study constrains on French and Chinese markets. These two markets definitely help us understand the role of market orientation and the corresponding strategies successfully adopted by the firms to adapt to the markets. Future study that repeats this study in other national context will be an efficient way to increase and consolidate our knowledge in market orientation and customer orientation.

As far as our model is concerned, we mentioned in the analysis part that the customer focus dimension, and especially the low customer focus dimension, needs to be illustrated, proved and even corrected if needed in further study. Actually, the whole model needs to be used in other contexts and in other studies. We suggest for instance to keep the same structure than this thesis but by taking the example of a company using a standardisation strategy, as we did when we took the example of Nestlé to illustrate the customisation strategy. This would offer a
good illustration and fill in the existing lack.

Even if Sheth has created his model in 1985, this one hasn’t been much criticised. However, we found some limits. Thus, we think it could be interesting for us and for other researchers to study and to use that model in order to confirm or to disagree with our critics in order to offer several points of views to the readers.

Some other intriguing directions of future study emerge from our work. Regarding market orientation as the foothold, the management should settle down the contradiction between the risk and cost brought by market orientation and the incremental market share in global markets. This could become one of the future studies. Another one could be to examine the condition under which the market orientation is developed. As our work shows, the market orientation is a profit point for company to pursue. Yet, in the pursuit of customisation some companies fail but some succeed. The reasons existing in both inner and outer environment of the company itself are desirable for our further research.
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