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## A Study on Strategies of Multinational Bakery Retailers in China : Focused on Paris Baguette and Competitors

Byoung Goo KIM<sup>1</sup>, Hee-Joong HWANG<sup>2</sup>

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### Abstract

**Purpose:** For bakery retailers that want to enter the Chinese market, this study seeks to draw implications through the analysis of Paris Baguette, Paul Bakery and local competitors. In particular, the study analyzes entry strategies, as well as the advantages and disadvantages of the companies. **Research design, data and methodology:** This study analyzed the Chinese bakery industry and overviewed the policy of bakery industry. The research method utilized Chinese Statistical Yearbook of Food Industry and literature related to Chinese bakery industry. Additionally, this study used case analysis methods for foreign and local bakery enterprises in the bakery industry. **Results:** During the rapid growth of bakery industry, Paris Baguette made a successful settlement by utilizing localization strategy; while on the contrary, Paul Bakery took a standardization strategy and failed in the Chinese market. **Conclusions:** Paris Baguette succeeded in launching localized products after thoroughly analyzing products that suit local tastes in China. However, Paul Bakery has been knocked out of the Chinese market for failing to capture the taste of the Chinese people by launching standardized products that reproduce French culture and taste. As such, the Chinese market is huge and differences exist in different provinces, so standardization and localization strategies should be appropriately utilized.

**Keywords :** Multinational Retailer, Bakery Industry, Chinese Market, Localization, Standardization.

**JEL Classification Code:** F23, L10, M10.

### 1. Introduction

In Korea, the bakery market has been hampered by government regulations. In 2012, the Fair Trade Commission (FTC) announced its franchise 'Exemplary Trade Standards' and in 2013, the Korea Commission for Corporate Partnership selected the bakery as the 'Suitable Industry for Small and Medium Enterprises'. Therefore,

regulations such as a ban on stores within 500 meters between franchises, a ban on interior renewal of franchises within five years, and a 20~40 percent share of renewal costs are imposed by the head office. Such restrictions limited the growth of the domestic bakery market, and bakery companies had to turn to overseas markets. Paris Baguette knocked on the door of overseas markets and is now considered a successful entry into China.

The Chinese people's per capita income has risen steeply and with the influx of Western culture (He, 2018; Kim, 2018b; Adnan, Wizarat, & Lau, 2016), the Chinese people's eating habits have also begun to gradually change. Starting with China's introduction of a communist market economy in 1992 and opening the door to reform and opening up, Chinese consumers began to consume bakery products as an option, considering it important to eat deliciously as income levels rose. In addition, Chinese people have increased their preference for bakery products

1 First Author. Professor, Department of International Trade, Korea National Open University, Korea.  
Email: bgkim@knou.ac.kr

2 Corresponding Author. Professor, Department of International Trade, Korea National Open University, Korea.  
Email: ygodson@knou.ac.kr

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in accordance with their increasingly westernized eating habits. As a result, the low-key bakery industry in China began to develop gradually in the mid-1990s, and numerous foreign bakery companies also began to explore the potential of the Chinese bakery market and enter the Chinese bakery market. For example, a number of companies from around the world, including Paul and Fauchon of France, Taiwan's 85°C, Singapore's BreadTalk, and South Korea's Paris Baguette and Tous Les Jours, have entered the Chinese bakery market. However, the success of entering the Chinese bakery market has been mixed. In particular, Paul and Fortune of France, home of bread, started bakery businesses in Shanghai and Beijing, respectively. However, while the two companies have withdrawn at an early date, Taiwan's 85°C and South Korea's Paris Baguette are gradually expanding their reserves, capturing the taste of the Chinese people.

Paris Baguette has been relatively stable in the Chinese market until recently. The reason why Paris Baguette was able to make such a successful entry into China seems to have differentiated itself into a premium brand for high-end consumers with high purchasing power and product development considering the unique taste of Chinese people through careful analysis. However, many foreign companies are failing. In this situation, there is a lack of comparative research on the success and failure of overseas companies in the Chinese baking industry in the field of international management. Therefore, this study will analyze Paris Baguette, Paul Bakery and local businesses as examples. In particular, after a detailed analysis of the companies' core competencies and marketing strategies, as well as their strengths and weaknesses, we will supplement the limitations of existing research. In this paper, the strategy of Paris Baguette is to be analyzed in depth through the analysis of the industrial structure, one of the external environment analyses. This study also wants to compare and analyze success and failure cases through the failure of Paul Bakery, a French company that entered the bakery market at the same time, and the success of a local company with cost-effectiveness and local characteristics. By doing so, this study will be fully utilized as a reference to strategic decision making for companies considering or in the process of entering the Chinese bakery market in the future.

This study is developed in the followings. In chapter 2, this paper conducts research on the status of China Bakery Market Industry and literature review of the Chinese bakery market with a theoretical background. In Chapter 3, the industrial structure analysis of the Chinese bakery market is analyzed by utilizing 5 forces model. Chapter 4 analyzes Paris Baguette and rival companies, and discusses conclusions and implications in Chapter 5.

## **2. Theoretical Background**

### **2.1. Literature Review**

nt development trends of Chinese bakery industry can be summarized in several ways. First of all, the per capita consumption is low, so there is Research on China's bakery industry is still lacking. The main prior studies are as follows. Park, Kim and Nam (2017) is taking an in-depth look at the process of Tous Les Jours entering the Chinese bakery market. The analysis was conducted by comparing the methods of entry and the strategies pursued with those of local and domestic enterprises. According to the analysis, Tous Les Jours entered the Chinese bakery market in the early days and expanded its store by using direct management. However, due to problems from high rents, excessive opening of stores, and lack of service mind of employees, Tous Les Jours has led to the operation of its direct management store and a Master Franchise-type investment method.

Cho and Kim (2012) analyzed the successful case of knowledge management system operation of Paris Baguette, a leading franchise in Korea, and proposed specific implications for strengthening knowledge management of franchise companies and establishing and improving knowledge management systems (KMS). As a result, it was found that the five main factors that should be considered for the successful operation of the knowledge management system of franchise companies including the interest and support of the CEO, the learning organization culture for active sharing and utilization of knowledge, the transformation of knowledge through network activation, information technology, the promotion system and compensation for internalized knowledge management.

Hahm and Kim (2011) analyzed the marketing communication strategy, a key strategy for Paris Baguette's growth, and made strategic suggestions to other restaurant companies to help their management activities. To this end, the online and offline marketing communication strategies conducted by Paris Baguette were analyzed chronologically in four stages and the results were investigated based on surveys of consumers, suggesting implications based on success factors.

Cho (2011) analyzed the case of Paris Baguette, which has strengthened its high-end brand image in the bakery franchise industry and established the best position in the industry. This study drew implications, especially on the marketing and research and development functions, which are the main leading factors that have a prior effect on the financial aspects of Franchisee. In the end, the results of the study have been derived that the restaurant franchise business can be successful only when the customer, Franchisee and Franchiser work together to thoroughly

prepare and implement the management strategy for the construction of comprehensive infrastructure and system.

Park (2011) analyzed that the spread of urbanization and westernized eating habits in China has led to the shift in food consumption from the past in the focus of processed foods to the center of processed foods. The findings showed that Chinese people are generally satisfied with Korean food and perceive it as quality, taste and design strength, especially compared to those of their competitors. Buyers were less sensitive to price conditions than individual buyers, and young people were more satisfied with the taste of Korean food than the elderly.

Zheng, Lim and Lee (2011) analyzed the case of Korea's Paris Baguette, which entered the Chinese bakery market, and Taiwan's 85°C. The core promotion strategies of the two companies were divided into three categories: Chinese entry method, governance structure and marketing strategy. In terms of entry mode, the two companies showed common ground as direct overseas investment in a single-handed manner, but secured high-end images through Paris Baguette's careful market entry strategy, and 85°C showed differences in utilizing quantitative expansion strategies using corporate governance. In the governance structure, both companies strategically utilized corporate governance based on the logistics flows linking factories, regional headquarters and stores. In marketing strategy, Paris Baguette was different in that it approached as a premium image and 85°C as a practical image. However, both companies were clearly communicating their images to the market and implementing appropriate marketing strategies to match those images.

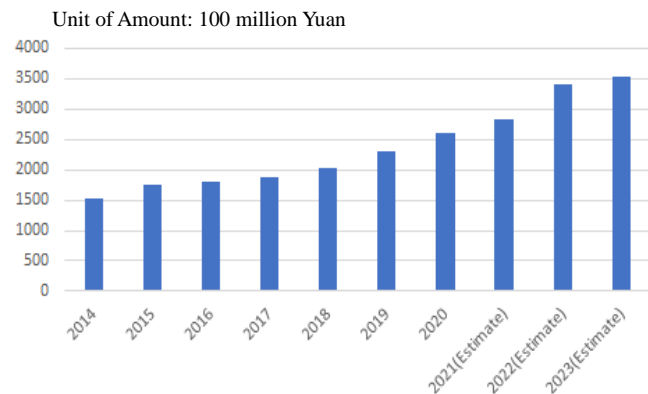
Park (2009) analyzed the relationship between Beijing consumers' intention to purchase through analysis of the Visual Identity element, Chinese brand name, symbol mark, logo type, slogan, and color among corporate identity of Korean bakery brands. It also expressed the importance of establishing an accurate marketing communication strategy for each by dividing consumers into various segments while effectively managing existing customers through bakery images.

## 2.2. The Status of Chinese Bakery Market Industry

Introduced in the 1980s in Hong Kong and Taiwan, the modern bakery industry has seen a rapid growth in nutritional health, fast and diverse functions since the 2000s in line with an increase in per capita consumption levels, and changes in food consumption structure and living rhythm. In terms of supply, the scale of production in the Chinese bakery food industry continues to expand. China's bakery food industry is growing in size as it faces a new stage of growth thanks to a surge in residents' consumption.

Between 2014 and 2018, the market size (sales gauge) of Chinese bakery food increased from about 140.8 billion yuan to 224 billion yuan, and the annual composite growth rate is 12.3%. Over the next five years, the Chinese bakery food industry is expected to grow by 2023 with a 9.6 percent annual growth rate. The market size (sales) of Chinese bakery food will reach about 354.5 billion yuan in Figure 1.

At present, the most prominent features in the Chinese bakery industry are as follows. First, per capita consumption is low, and market scalability is great. There is still a wide gap in Chinese bakery food consumption per capita compared to countries such as the West and Europe. In the future, the demand potential of the Chinese bakery food market will continue to expand as the food structure of Chinese residents develops multilayered (Kim, 2018a; Yi, 2015; Lee, & Xuan, 2019), and as the frequency of eating bakery food increases, the market size of the Chinese bakery food industry will grow even bigger. Second, the expansion of the capital-aid bakery food industry is accelerating. Thanks to the popularity of some bakery food companies, especially online bakery food corporate capital, many bakery food companies have been able to get billions of won in loans. Under the assistance of capital, the bakery food enterprise focuses on the research and development of products and the improvement of services, which gives the baking food an advantage in improving quality, thus promoting the development of the baking food industry.



Source: China Chamber of Commerce and Industry

**Figure 1:** Market Size of the Chinese Bakery Industry (based on sales)

## 2.3. Development Trends and Stages in Chinese Bakery Industry

The recent lot of room to expand. Although China's bakery food industry has grown in recent years, its fast yet per capita consumption level differs greatly from developed countries or regions, giving room for further progress. In

the future, there is room for per capita consumption to increase due to changes in eating habits. In addition, rising unit prices could lead to a rise in the size of the bakery industry as consumers' appetite for product quality and consumption experience increases.

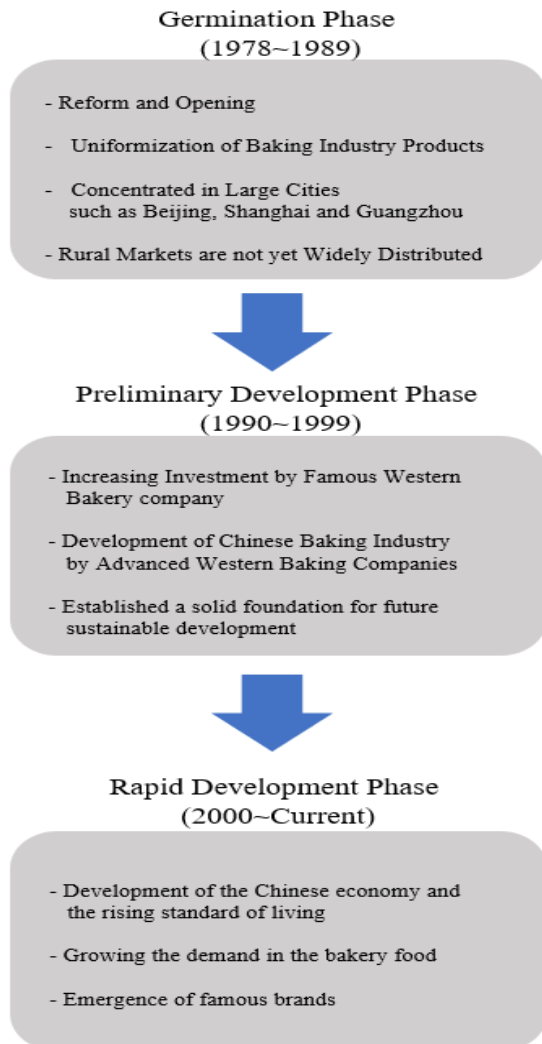
Second, as the eating habits of the younger generation become westernized, the bakery industry classifies consumers' eating styles as staple food consumption, leisure consumption and holiday consumption. Among them, consumption of staple food is the most important form of consumption, and the proportion of leisure and holiday consumption is rapidly increasing as residents' living standards improve.

Third, safety, nutrition, health, and ready-to-eat products have become the trends in the baking industry, as well as in the context of consumers' greater emphasis on safety, nutrition, and health. Bakery products can be divided into two categories: prepackaged and ready-to-eat products. Prepackaged products have a longer shelf-life and require certain preservatives, while the shelf-life of the products is very short and fresh to give a better taste and aroma. Due to the safety, nutrition, and deliciousness of the present-day baked goods, bakery products have been continuously developed from pre-packaged to ready-to-eat products.

The variety and channels of sale of bakery products are constantly diversified, and the demand for bakery products is increasing with the increasing acceptance of the Chinese consumers. Bakery products have been enriched and innovated so that they can provide a wide range of flavorful sauces, bread products have evolved from toast to croissants and doughnuts, while the popularity of new cakes such as Moose cakes and cheese cakes has broken through the eating scene of birthday cakes and the variety of baked goods has become increasingly diverse.

In addition to the large chain baking brands of domestic and foreign investors, there are a large number of small and medium-sized baking enterprises in the baking market, which have relatively few products, uneven quality and low productivity. In recent years, the concentration of baking industry has been on the rise, driven by strict food safety management and consumer upgrading. With consumers paying more attention to food safety and product quality, the state has continuously standardized and supervised industry standards and industries. The medium-term future will continue to increase, with leading companies likely to continue to increase their market share.

The development stage of Chinese Bakery Industry can be seen as three major stages. China's baking food industry has developed rapidly since 2000 around the time of reform and opening to the outside world. It has only been more than 40 years since then. China's baking industry has undergone three stages: germination, initial development and rapid development.



**Figure 2:** China Bakery Industrial Development Phases

The first stage is the germination stage (1978-1989). In the early stage of reform and opening up, the product structure of China's bakery industry was uniform. Of these, the main products are Chinese pastry, with a single variety and little variety. The representative products include eight pieces of crispy skin, moon cakes, etc. Western-style cakes are mainly made of birthday cakes and other kinds are relatively small. Bread products are made mainly from staple bread, with fewer fancy breads. Cookies are mainly tough, crisp and soda biscuits, with fewer sandwich cookies and cookies. During this period, most Chinese baking food enterprises were concentrated in large and medium-sized cities such as Beijing, Shanghai and Guangzhou. The rural market was not yet widespread.

The second stage is preliminary stage of development (1990-1999). In 1990, driven by the deepening of China's reform and the further improvement of its opening to the



outside world, famous baking food manufacturers in Europe and the United States have increased their investment in the Chinese market, and in the form of sole proprietorships and joint ventures have established many pastry and biscuit enterprises. In 1995, for example, the Asia-Pacific Group invested in China to build the Manhattan Food Corporation, a wholly foreign-owned enterprise. The entry of multinational enterprises has brought advanced technology and processing equipment (Kim, & Kim, 2020; Kim, Huh, & Lee, 2019; Lee, Wu, & Fan, 2017), new kinds of raw and auxiliary materials, food additives and packaging materials, as well as modern enterprise management mode and ideas, which have greatly promoted the optimization and development of China's baking food industry. Due to the strong consciousness of advertising marketing, marketing, brand strategy and quality control of multinational enterprises, the product quickly occupies the market and the market share of international brands in China keeps increasing. At this stage, China's baking food industry has initially formed a pattern of coexistence of various systems, laying a solid foundation for future sustainable development.

The third stage is rapid development Phase (2000-current). Since 2000, with the development of China's economy, the living standard of the residents has continuously increased, the demand of the bakery food market has continuously increased, and the industry has entered a period of rapid growth. According to the National Bureau of Statistics on enterprises above the scale of the National Statistical Office, the Baked Food and Sugar Products industry produced an annual output of 35.89 million tons in 2017. The main business income in 2017 was 15 times the 1997 figure, with an annual compound growth rate of 14.7 percent. During this stage, the bakery industry in China has grown rapidly, and famous brands such as Taoli Bakery (桃李面包), Dali (达利) and Jasley (嘉士利) have appeared.

#### 2.4. An Analysis of Competition Patterns in the Chinese Bakery Industry in China

China's bakery industry is still dominated by local small and medium-sized baking food enterprises, with a decentralized competition pattern. China's baking food industry has a low entry threshold, small bakeries are dividing the market due to low entry barriers for the Chinese bakery industry. and the industry is fiercely competitive. At this stage, there are three types of participants in the bakery industry. First, there are local small and medium-sized baking food enterprises. This type of enterprises is small but in large numbers, accounting for more than 70% of the market share in the bakery industry.



Figure 3: Foreign and Local Bakery Companies in China

Second, there are domestic chain baked goods enterprises. This type of enterprises has the following three characteristics including i) more regional links, fewer nationwide chain enterprises, ii) more products have the advantage in price due to scale production, iii) they are good at traditional channels, most of them are distributed in second, third line cities and rural markets. The representative enterprises include Ganso Co (元祖股份), Holiland Bakery (好利来), Guifaxiang (桂发祥), Toly Bread (桃李面包), Guangzhou Restaurant (广州酒家), Bliss Cake (幸福西饼), Daoxiangcun Bakery (稻香村) and MAKY (米旗).

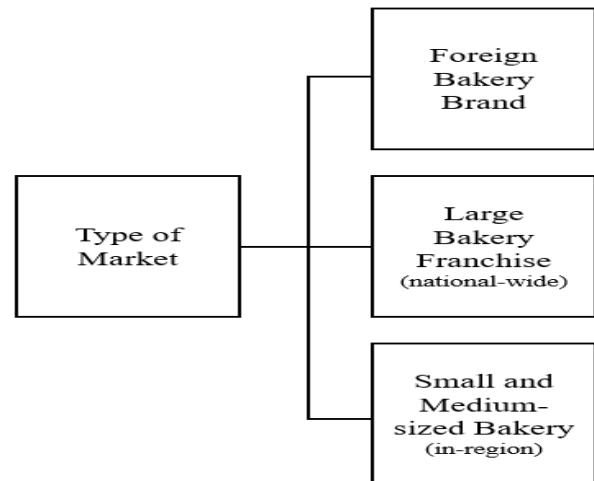


Figure 4: Type of Bakery Market in China

Third, there are foreign-invested brand enterprises: such enterprises have good brand image, high consumer approval and loyalty, high product premium capability, with medium-high and high-end markets as the main ones. Representing businesses are Garden Bakery (嘉顿), Bimbo (宾堡), 85°C, Mankattan (曼可顿), Christine (克莉丝汀), Bread Talk (面包新语) and Paris Baguette.

## **2.5. Analysis of Market Environment in Chinese Bakery Market**

This part used Michael Potter's 5 forces Model for analyzing the environment of bakery market in China. By utilizing this model, this study can look at the characteristics and future prospects of the Chinese bakery industry.

### **2.5.1. Rivalry among Existing Competitors**

First of all, there is industrial concentration. In China's bakery market, representative bakery brands exist in each big city, and overseas brands also vary. In addition, China's bakery market, which has grown more than 30 percent every year, has low concentration. A number of companies are competing in each big city, and the continued growth of China's income level is expected to further intensify their competition in the future as the bakery market is growing. In addition, domestic and foreign companies in China share a share and do not reach an exclusive position. And there are still many independent bakeries that are not franchised. Thus, because entry barriers are relatively low, there is a possibility that a large number of overseas companies, Chinese companies, will make inroads. The second is the homogeneity and heterogeneity of competing companies. The sale of bread, cakes and coffee is made in almost every brand at the same time, so the product is highly homogeneous. There is a possibility of collusion on prices due to low differentiation of strategic elements. The impact of competitors' price policies on companies setting prices is significant. The third is product differentiation. The growth of China's domestic market and the improvement of income levels have led to changes in the living patterns of its citizens, and raising interest in bakery quality. Therefore, advanced, high-quality strategies and price competitiveness strategies are possible simultaneously. With more foreign companies entering the market, diversity and differentiation can be directly delivered to customers, which is likely to transform past general levels of bread into products with more and more differentiation in the future.

### **2.5.2. Threat of New Entrants**

The Chinese bakery market, which does not yet have an absolute first or second-largest company, has a relatively low market entry barrier, which is likely to allow foreign and Chinese companies to enter. Due to low technology-intensive industrial factors, capital requirements are also low. If uniform baking technology is introduced, it can only focus on price and advertising marketing, which requires technological differentiation of each company against potential entrants. In addition to bakeries, cafe-oriented brand companies are likely to enter the bakery market by strengthening its function. In cases such as 85°C, they are

an entrant who merges cafes and bakeries and sells products such as drinks and chocolate that can be combined with bakeries. There is a possibility that these companies will enter in the future. This situation is due to the absence of an absolute No. 1 company and low entry barriers as an element of industrial structure.

### **2.5.3. Threat of Substitute Products**

Local awareness of bakeries is lower than fast food. In fact, fast food restaurants are widely distributed not only in the first and second-line cities but also in the third and fourth-tier cities. The growth of fast food among foreign food industries is remarkable after the reform and opening. It is distributed throughout China and has a strong awareness of price and taste. As the bakery industry grows, the fast food industry also tends to check through various product configurations. This can be seen as a threat to fast food, which can be seen as a substitute for bakeries.

### **2.5.4. Bargaining Power of Buyers and Suppliers**

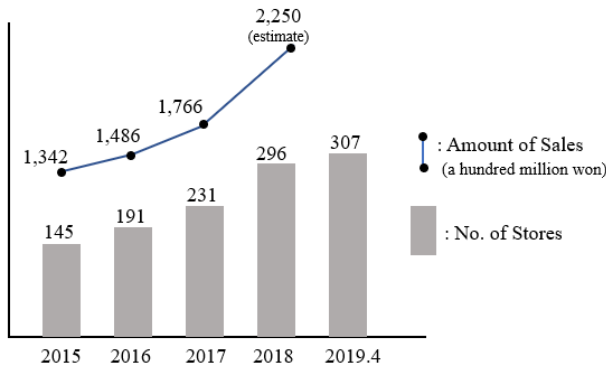
As more and more buyers choose from the taste of products and safe ingredients, the sensitivity to prices is decreasing. The buyer's interest in bakery increases and is sensitive to the taste and quality of the product. Competition in the bakery industry is also fierce, and consumer choice is expanding. Therefore, the buyer's bargaining power is greater than that of the supplier. If Paris Baguette's Chinese franchise is regarded as a buyer, the supplier can be regarded as an exporter of food materials. Recently, Samlip GFS, a subsidiary of Paris Baguette, directly supplied food materials, and SPC Group's Paris Baguette achieved vertical integration in the supply of raw materials. Local

## **3. Case Study I: Paris Baguette in China**

### **3.1. Overview of Paris Baguette**

Paris Baguette is the largest franchise brand among domestic franchise bakeries. Paris Baguette, a leading brand of Paris Croissant Co., which started as Shany's bakery unit, was established in 1986 and started its franchise business in 1988 and ranked fifth in the bakery industry until 1992. However, the number of franchises increased over the years due to meticulous marketing strategies and bold investments, and in 1997, it opened its 600th franchise store for the first time in the domestic franchise industry, becoming the No. 1 brand in the bakery industry. The market share was over 60 percent, with repeated corporate expansion and aggressive marketing strategies. Along with the ever-increasing number of franchises, it has become a Korean bakery brand in name and reality. Paris Baguette is

always aiming to become a more familiar company, giving customers the image of being the best company and the best partner for franchises, customers and members. In addition, with creativity and passion, the company aims and vision to increase sales to merchants, to provide customers with the best value, taste and service, and to provide employees with the best compensation and self-development opportunities.



Source: SPC Group

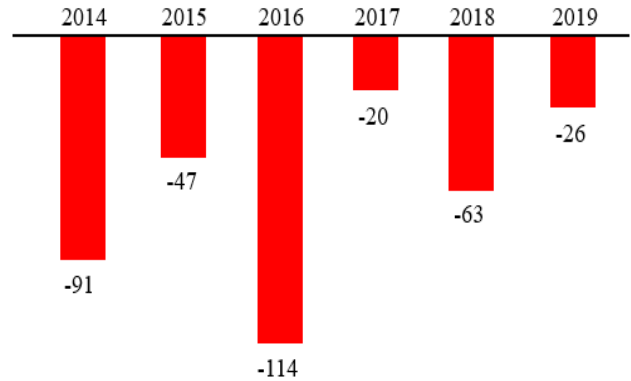
**Figure 5:** Number of stores and sales of Paris Baguette in China

One of the reasons Paris Baguette has turned to foreign countries is due to store restrictions in Korea. In 2013, the bakery business was designated as a suitable business for small and medium-sized enterprises with the aim of reviving the "town bakery." In the case of franchise bakeries, new stores are limited to 2 percent of all existing stores, and 500 meters away from nearby small and medium-sized bakeries. Due to this reason, Korean franchise bakeries such as Paris Baguette and Tous Les Jours have no choice but to look abroad.

Starting with its first Paris Baguette store in L.A. since 2005, Paris Baguette has been operating about 30 stores in western regions such as L.A. and San Francisco and eastern areas such as New York, New Jersey and Philadelphia until the first half of 2013. With its entry into the U.S. market, SPC Group is firmly establishing itself as a high-end bakery company in China. Since opening its first Paris Baguette store in Shanghai in 2004, it has actively expanded its business and has successfully operated more than 307 stores in major Chinese cities such as Beijing, Nanjing and Dalian so far in April 2019.

Paris Baguette was able to succeed with the love of Chinese customers because of its thorough localization strategy. Since the mid-1990s, employees have been dispatched to the region to thoroughly study and analyze the food culture and tastes of Chinese people and prepare them for entry. Based on this, the company was able to introduce a variety of menus tailored to customers' tastes, such as "rousong bread (肉松面包)".

The company, however, is piling up deficits in China, which has the largest number of stores in overseas markets. SPC Investment Limited, SPC Group's Chinese subsidiary, is doing business in Paris Baguette China, which posted a net loss of 2.6 billion won in 2019, following 2 billion won in 2017 and 6.3 billion won in 2018. Although the deficit has decreased compared to the past, it is difficult to promise a turnaround in the surplus.



Source: Financial Supervisory Service

**Figure 6:** Performance of Paris Baguette in China

Most companies have no choice but to endure losses in the early stages of their overseas business. In particular, it is natural for food and beverage distributors to lose money in the early stages of their overseas expansion, and in the early stages of their entry, even if they have a high profile in the domestic market, they do not in other countries.

Paris Baguette is not the only one who has trouble settling down overseas business. According to the "2019 Report on Overseas Expansion of Food and Agriculture Companies" released by the Korea Agro-Fisheries & Food Trade Corporation, in earlier this year, the number of overseas stores of 160 Korean food companies fell 8.5% year-on-year to 4,319 last year. This phenomenon can be attributed to China, which has the largest number of Korean restaurant companies, implementing its own brand-building policy. In fact, the number of Paris Baguette stores in China also decreased from last year.

### 3.2. Analysis of Paris Baguette's Entry Strategy

#### 3.2.1. Value Chain Strategy

Value chain is divided into primary activities and support activities. The value chain of primary activities consists of inbound logistics, operation activities, outbound logistics, marketing and sales activities, and post-sales service activities.

Paris Baguette runs its own factories there. Paris Baguette builds factories in Minhang District, Shanghai and

supplies fresh bread every morning with a "break-off system" that bakes bread every day, just like in Korea. Paris Baguette used his parent company, Samlip Foods, to supply food materials to Chinese stores, reducing the cost of food materials. Paris Baguette has systematized customer reception. For example, a manager directly responded to a customer who was dissatisfied with the service. When a customer was looking around the store, the employee approached them and explained, or let them help if the customer was carrying a heavy luggage.

More specifically, for example, in the first step of the customer response manual, the customer response was organized in the form of greeting when the customer enters the store, explaining the product in the second step, referring to the calculation amount in the third step, putting different types of bread in different bags in the fourth step, and greeting when the customer leaves the fifth step. Paris Baguette held a "5+1" event in which five products were bought and one more was given away as gifts for household goods or shopping carts on the anniversary. And like Korea, they issued Happy Point cards. Currently, the number of Chinese customers who have been issued Happy Points is increasing significantly.

The value chain of support activities consists of firm infrastructure activities, technology development activities, human resource management activities, and procurement. In line with the localization strategy, there are currently about 1,000 employees in China, including 600 in Shanghai and 500 in Beijing, but only 17 in Korea. The Korean staff focused only on such tasks as training store staff, checking service and establishing strategies. In particular, Paris Baguette paid more attention to human resource management than anything else. This is because many bakeries operating in China do not have proper customer service. To that end, the bakery and the terminal staff were trained as full-time employees, not part-time workers. In particular, a service education instructor was hired to provide education on poorly serviced branches. And Korean bakers went to China to train local bakers and manualized service education.

### **3.2.2. Strategies by Core Competencies**

Paris Baguette's core competencies in advancing to China include menu development capabilities, baking skills, and customer service. Paris Baguette opened its first store in Shanghai in 2004. However, since the mid-1990s, about 10 years ago, employees were dispatched to China to thoroughly study and analyze the food culture and tastes of Chinese people and prepare them to enter the market, so that they could develop various menus suitable for local tastes. Paris Baguette focused on producing the right products for the Chinese because of the unique taste of the Chinese people.

It has developed and is popularly selling meat-filled bread with meat and skewered pastry is popular among Chinese people. Currently, 20 percent of products are localized products that have been developed to suit local Chinese tastes. Although it is less diverse than in Korea, it offers a variety of products compared to its competitors and has a strategy of gaining the upper hand in product selection. The provision of a variety of product choices allows customers to choose more, while also attracting customers with different needs to the store. It also established a local factory to build a make-off system using Dormant Dough to provide fresh freshly baked products. In addition, the company has a competitive edge by differentiating itself from other companies in the operation of stores and services.

### **3.2.3. Marketing Strategies**

Paris Baguette's marketing strategy is being implemented in various ways for Chinese consumers. This study focuses on the 4P strategy among these strategies. The product strategy of Paris Baguette can be viewed in both quality and psychological aspects.

In quality aspects, unlike foreign bakeries, Paris Baguette has a superior advantage in terms of freshness and quality of its products by introducing a bake-off system that is baked directly at the store. The European-style bakery is a rare product in China, and offers a wide range of products, including pastries, sandwiches, mousse cakes, tartes and well-being bread using grains. In addition, after introducing products that are somewhat unfamiliar to Chinese people, the bakery gradually changes manuals and others to develop additional product lines that suit the tastes of Chinese locals. Paris Baguette always provides the best quality as a principle of disposal of products left after the day's sale.

In psychological aspects, it is differentiating itself from other companies in China by operating stores in the form of "bakery cafes" where visitors can enjoy drinks with fresh bread produced on the same day at Paris Baguette's local factories and stores. As the Korean Wave is also booming in China, Chinese consumers' interest and preference for Korean brands are high, and the company plans to actively utilize the halo effect of the Korean Wave. Paris Baguette is using its Korean brand name, Paris Baguette. However, to enhance the familiarity of locals, Paris Baguette is also using the name Balibeitian (巴黎貝恬) under the concept of "giving Paris sweetness and happiness."

Paris Baguette has a variety of pricing strategies. First of all, Paris Baguette is implementing a prestige pricing policy. This pricing strategy is a high-price strategy to increase revenue on the premise that potential customers interpret product prices as an indicator of quality. In other words, the company is upgrading its brand by using a price



strategy that basically increases prices to generate demand. Recently, Paris Baguette has expanded its membership system by introducing Happy Point Card System, a mileage card that currently has 4 million members in Korea. Paris Baguette is carrying out its distribution strategy by utilizing its core capabilities.

First, there is a bake-off system. Like in Korea, the "Bake-off system," which bakes bread every day, was built at a local factory in Shanghai and introduced a method of providing fresh bread every morning. Second, there is a franchise operating system. Paris Baguette initially operated only seven directly managed stores, but it has recently opened its franchise business in China, enabling the franchise business. To that end, the company is introducing a franchise operating system that combines domestic success know-how into China. Third, there is the use of the local business method.

As it enters the form of a single investment, it uses its domestic brand, "Paris Baguette," and operates its own plant there. Fourth, there is the use of the Korean Wave in bakery. Since Daejanggeum (大長今), Beijing consumers have shown great interest in and response to Korean food and clothing. It is now a cultural trend that Korean pop culture is familiar and admiring. Paris Baguette has adopted a distribution method using this. Paris Baguette is using various promotion strategies. As a representative promotion strategy, the company has been receiving positive responses from customers by conducting a "receipt collection promotion" that gives customers a free coupon for a cup of coffee when they collect a receipt of 100 yuan and a "5+1 promotion" that gives them one free drink if they drink five drinks.

## 4. Case Study II: Competitors including Paul Bakery and Local Bakeries

### 4.1. Paul Bakery

#### 4.1.1. Overview of Paul Bakery

The 125-year-old Paul Bakery, which first appeared in France in 1889, is a traditional French bakery company that has been in the family business for five generations. It is a company with more than 500 stores in 36 countries around the world. About 350 of them are in France and are known in France as French national bakeries like Korea's Paris Baguette. It is a cafe & bakery & restaurant that offers authentic French country style bread and luxurious and various kinds of desserts, and runs a restaurant that offers simple French cuisine, which features the most ideal dining experience. Also, classical and antique sculptures and props create a unique French atmosphere. Breads and desserts baked directly at tree ovens located in PAUL bakery stores

use organic wheat and airlift all the ingredients from France to spread the flavor around the world.

Paul Bakery sells brunch, simple French salad as well as bread. It is called a national brand because it is the first brand certified by the French Ministry of Health and Welfare. As there is history and tradition, corporate philosophy is firm, using 100% organic wheat and food ingredients, and insisting on healthy bread that excludes fat and salt as much as possible. It gives the feeling of being in France because all employees go through local training in France, and the chefs who have been trained show the same menu of recipes as France. Although it ambitiously advanced to the heart of China (Beijing, Shanghai) in 2007, it withdrew its market within a short period of two years.

#### 4.1.2. Analysis of PAUL Bakery Strategy

Paul Bakery, who adheres to traditional French baking, has implemented various strategies in the Chinese market. The first is the high-end strategy of high-end luxury. When Paul Bakery first entered China, it first entered the market in 2007 based in Beijing and Shanghai. When it first entered, it was established in the most downtown area, like Paris Baguette, to adopt the most luxurious bakery strategy in Shanghai. By placing French ingredients and French-educated chefs, Paul's image popularized in France was wrapped up luxury images in China, and both price and atmosphere were enhanced. It also promoted its bakery function as well as the atmosphere of restaurants and cafes used in France to local Chinese people to meet the luxurious French culture in China.

Second, standardization strategies are used rather than localization. Paul Bakery airlifted the same products and materials, the interior atmosphere of the store and even the curtains in the shop to spread the pride of the traditional brand in France and the meaning of the 125-year-old French bakery around the world. Paul Bakery standardized French culture and taste without considering local characteristics when selling their products in the Chinese market. Paul Bakery made an important goal of experiencing French taste and culture in China through standardization strategy. To apply this solid standardization, Paul Bakery focused on developing better quality bread in France and developing a better brunch, better atmosphere interior. Paul Bakery worked on developing better quality products through standardization rather than localization. The reason was that consumers in each country could be satisfied through standardization.

The third is the differentiation of menu and product sales methods. Paul Bakery handles only the finest wheat grown on Paulman's farm. Although production is about 30 percent lower than normal wheat, it is a method to produce the best quality. Specialized wheat is cultivated in northern France, and harvested wheat is immediately transferred to

the mill to be selected by professional millers. These processes produce high-quality organic flour that is suitable for the recommendations of the National Institute for Health and Nutrition in France. Also, vegetables used in sandwiches are 100% eco-friendly. Vegetables are the only procurement material in China because freshness is important. In addition, in the case of apples, French Boscup apples are used, and tuna is made of nutritious products only using products that have obtained marks guaranteed by the French Quality Certification Association.

However, this high-end, differentiation, and standardization strategy were not well received by Chinese consumers at the time of entry. As a result, Paul Baker failed in the Chinese market because he carried out these standardization strategies too high and faster than the speed of China's economic development and consumers' eyes.

## 4.2. Analysis of Local Competitors

### 4.2.1. Xi'an Maky Foods Coporation (西安米旗食品有限公司)

Founded in 1994, Xi'an Maky Foods is a chain food enterprise group that integrates R&D, production and marketing. After more than 20 years of development, the Xi'an Maky Foods has established dozens of branches in Xi'an, Harbin, Changchun, Shenyang, Daqing, Beijing and Chengdu and invested in establishing a baking technology training school, Xi'an Maky vocational skills training school. At this stage, this company has over 5,000 employees, over 400 franchises, and under its banner, it has Mikki (米旗), Xiang+ (享+), Taishi (太氏), Guozixuan (国子轩), 3.9 Degree (3.9 度) and so on.

Xi'an Maky already has more than 400 specialty stores in the Chinese market. The features and advantages of Xi'an Maky are as follows. All of which are carefully designed under the company's wing, and form Xi'an Maky's own characteristics, focusing on modern European interior styles. Xi'an Maky Specialty offers the fun of making confectionery products while purchasing products through "open kitchen" work so that customers can witness the process of making products. In addition, all service personnel at Xi'an Maky specialty store have gone through systematic professional training, and have unified the dress code to provide professional and high-quality services to customers. Sophisticated and individualized store interior and specialized services are advantageous in raising Mei Qi's brand awareness and increasing the persistence of customers.

In line with the principle of "share of interests," Xi'an Maky keeps creating integrated resources, and has supplied special products to retailers such as KFC, Texas, 7-11 and Ito Yokado and Carrefour. At the same time, Xi'an Maky is working with CITIC Bank, China Merchants Bank, and Minsheng Bank to launch a series of full-rate discount

events to expand its brand influence. Many quality partners have laid a good foundation for further expansion and expansion of market share.

### 4.2.2. Daoxiangcun Group (稻香村集团)

Daoxiangcun (稻香村), formerly Suzhou (蘇州) Daoxiangcun, is one of the oldest existing enterprises in the Chinese bakery industry, founded in 1773 in Suzhou. According to the results of the 2019 Chinese brand valuation, Daoxiangcun ranks fifth with a brand value of 13.31 billion yuan. So far, Daoxiangcun had owned Suzhou, Beijing, Shandong, Jinxiang, Henan, Daoxiangcun Science and Technology Co., Ltd, Zhangjiagang Fujijia Food Co., Ltd and Beijing Daoxiangcun Private Food Co., Ltd under its wing. In terms of distribution channels, Daoxiangcun has nearly 700 specialty stores in China, with growth reaching nearly 100 each year. In 2009, Daoxiangcun launched the 'Internet+Daoxiangcun' strategy after establishing the Electronic Commerce Department. Through this, sales of confectionery and mooncakes have been at the forefront of T-mall and Jingdong e-commerce for many years. Sales of Daoxiangcun e-commerce channels have increased year by year, already approaching 30%. In addition, the "Daoxiangcun Village Goes to Sea" strategy has been implemented. In 2006, he registered trademarks of "Daoxiangcun" in more than 30 countries and regions overseas, and exported products to more than 30 countries through cross-border door shops and the District.

Daoxiangcun, there are many types of products, including cakes, leisure foods, holiday foods, nuts, bread staple foods and instant frozen foods. Among them, rice cakes made in this company have won the approval of many consumers with their unique characteristics, and are praised as the Gaodiantaidou (糕点泰斗) for signature product. Daoxiangcun is increasing its core competitiveness by sticking to the development strategy of high R&D investment and long-term technology accumulation. In 2015, the company has maintained an average speed growth of 20 percent as it makes annual R&D investments after investing some 20 million yuan in R&D.

In addition, Daoxiangcun, together with the Gangnam University and the State Food Research and Quality Supervision and Inspection Department, has established the Research and Development Center for Rice Cake Food Technology, the Joint Baking Research Institute in Fulingmen, and the post-doctoral incubation station in the Suzhou Industrial Park. Through this, the company is optimizing and developing core technologies and new products and new technologies that focus on the fermentation process of baking frozen dough.

Daoxiangcun values food safety and secures quality and quality through the following measures. First, all 120 modernized production lines received several certifications,

including GMP, HACCP and ISO9. Second, production plants follow the 100,000-grade air purification standard. Third, 108 filming monitors are installed in the factory and the entire production process is monitored. Fourth, the production process self-inspection mutual inspection, quality control product professional inspection, and the production hygiene inspection team's patrol inspection are conducted. Fifth, the entry of the production staff shall pass seven inspections, decontamination and eight isolation gates. Through this, the company is recognized by many consumers for its good quality.

## 5. Discussion and Conclusion

Recently, China is no longer a factory in the world, but a market in the world. Numerous companies abroad have made inroads into China to use its cheap and abundant labor force, which is now a big market for 25 percent of the global market economy (Lu & Wang, 2018; Kim & Kim, 2020; Pham, 2020). Furthermore, it is time for overseas companies to be nervous. Overseas companies now need a thorough market survey of Chinese society, culture, background and environment to succeed in China. In order for companies to make inroads into foreign markets, they need to localize, differentiate and diversify their products. Under these circumstances, this paper compared and analyzed Paris Baguette's strategy of entering the Chinese market with Paul Bakery, a French bakery company. In addition, China's local bakery companies were analyzed for their strategies and management activities.

Paris Baguette emphasized taste and localization to make inroads into China. In other words, the most important strategy is to create delicious products that suit the tastes of local visitors. In addition to these strategies, Paris Baguette promoted advanced, diversified, and high-quality strategies, which led to its advance into China. With such efforts, Paris Baguette has been relatively successful in its management activities in China, the United States, Vietnam, Singapore and France as of 2019. Paris Baguette is striving to present a new trend in the Chinese bakery market by continuously strengthening Paris Baguette's differentiated bakery concept. Paris Baguette divided the upper class with high purchasing power or overseas foreigners residing in China into major customers, differentiating itself from other overseas bakery companies by the European-style sophistication strategy of bakery and the use of various localized products and high-quality raw materials tailored to customers' tastes locally. On the other hand, unlike Paris Baguette, Paul Bakery has standardized its 125-year-old tradition by reflecting it as it is and differentiated from other foreign companies with standardized and advanced products. However, due to

standardization strategies that did not consider these local customers, Paul Bakery failed to advance into the Chinese market.

Unlike Paris Baguette, Paul Bakery thought that products that standardize its history and traditions would be welcomed in China, which has strong regional characteristics, but failed rather than welcomed. In addition, due to such standardization, there was a lack of thorough analysis of the local Chinese market in advance. In order for many companies to enter the Chinese market, special attention is needed to analyze localization of products suitable for the local market. Based on the results of these studies, this paper aims to provide not only Paris Baguette but also companies that want to make inroads into China with a future direction. Now Paris Baguette has successfully settled in many areas in the Chinese market. However, Paris Baguette has the task of expanding not only large cities but also small and medium-sized cities because it is concentrated in large cities in the coastal region. Competition with foreign bakeries is intensifying in large cities now, as many rival companies in the field of overseas bakeries are making inroads into China. Therefore, Paris Baguette will have to have a competitive advantage over its brand image and products as its position in the big city is likely to become unstable in the future. If companies want to enter China and succeed, they need to establish a value chain system through product R&D that is consistent with localization in order to have a competitive advantage over their products. As Paris Baguette has put forward its strategy of upgrading its products in the Chinese market, it must maintain its high-end image and products that suit Chinese tastes in order to continue its current success.

Despite these implications and contributions, this study has the following limitations. First, this study was done through a literature study. In the future, corporate analysis will have to be done more closely through corporate visits and interviews with managers. Second, the growth of Chinese bakery companies in recent years is frightening. That is why future research should closely monitor the strategies of these Chinese bakery companies and study strategies to cope with future competition. In this context, further analysis of China's indigenous enterprises will need to be made for future research.

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