Transforming Zotter's Chocolate Theatre into a Classroom

One memorable example of how the CEIBS Real Situation Learning Method makes cases come alive is a Global EMBA class visit to Zotter's Chocolate Theatre in Shanghai. Students discussed the case with its co-author and company executives. They also had a chance to sample Zotter's wide range of products. Read on for excerpts from the case, followed by a Q&A with co-author Professor Shameen Prashantham.

In March 2014, Zotter Chocolate's brand-new Chocolate Theatre opened on the banks of the city's Huangpu River and customers could buy about 365 different kinds of chocolates from Zotter China. Julia Zotter, the company's representative in China, credits much of their success to their excellent Chinese partner, Amy Fang (CEIBS EMBA 2010). But the company's story began long before that.

In 1987, Josef and his wife Ulrike Zotter opened the Zotter Konditorei confectioners in Graz, the second largest city in Austria. The company's rapid growth meant it was not difficult for Josef to get bank loans to fund further expansion. In 1996, he opened two more pastry shops in Graz and another one in a different city. After temporary bankruptcy, in 1999, Josef built a chocolate factory in the barn next to his parents' house in the small village of Bergl. By 2016, Zotter was producing over 400 different varieties of chocolate.

For the Zotter Family, the core company value was having fun with chocolate. Zotter Chocolate was one of Europe's few manufacturers with in-house production "from cocoa beans to chocolate bars (bean-to-bar)." "This gave us better control over the quality of our products," said Josef. In 2007, Zotter also built a Chocolate Theatre, for people to experience the chocolate production process from beginning to end, and to get a better understanding of the company's core values, such as its commitment to organic products and fair trade.

Going Global: US or China?

Josef's ambition was to keep innovating and expanding the chocolate business, but he also had other international markets in mind. Recognising the prohibitively intense competition in the European market, this left two main options: the US (also competitive, but a large market) and China, a nascent market with hardly any chocolate consumption. In the end, a decisive factor in deciding to pursue the Chinese market was the expertise of his eldest daughter, Julia.

On the technical side, Julia had a Grand Diploma in patisserie and cuisine from a renowned culinary arts institute and had studied Food Science and Biotechnology at the University of Natural Resources and Life Science in Vienna.

On the cultural side, she was a fluent speaker of multiple languages, including Chinese. She explained, "We knew we wouldn't sell a lot of chocolate at first, but we understood that Shanghai was a place for entertainment and experiencing new things."

Zotter China

In 2011, Josef began looking for potential business partners in China. He met an Austrian businessman with a company in Beijing that sold organic products online. However, since Shanghai was perceived to have a more international outlook, he instead introduced Josef to Shanghai-based Amy Fang and Rudi Messner, who had gained a good reputation among companies in the organic food business.

Fang and Messner ran their own company in Shanghai, Cedar Essentials Co. Ltd., which imported natural and organic products such as cosmetics and detergents. "After three years, we were probably the number one company for organic detergents in China," Fang said, "We wanted to devote the rest of our lives to supporting organic trade, which is good for society and the environment."

When she was approached about partnering with Zotter Chocolate, Fang was impressed by Zotter's genuine commitment to organic products. After doing more homework on the chocolate industry – including visits to chocolate shops in Japan, the UK, and the US – Fang and Messner decided to help Zotter enter the Chinese market.

"We need to have a good understanding of our Chinese customers," said Julia. "Chocolates to them are like green tea to us – that is, not very familiar." From the beginning, they decided to build a Chocolate Theatre in Shanghai, to raise awareness among Chinese customers.

In December 2012, Zotter Organic Chocolate Shanghai Ltd. was formally registered, with joint investment from Zotter and Cedar Essentials.

Exploring the Market

At the end of March 2014, Zotter's brand-new Chocolate Theatre opened on the banks of the Huangpu River in Shanghai, built in a 100-year-old former clothing factory. Zotter combined its unique style with the beauty of an old brick-stone building. The theatre was 2,400 square metres in size and celebrated the art of Austrian chocolate making. It provided visitors with an opportunity to understand the chocolate manufacturing process, try freshly roasted cocoa beans, taste more than 200 types of chocolate, and take a rest in its Viennese-style coffee bar.

Julia observed: "We came to a market like this as a non-chocolate business in a way. We came to raise awareness and show people what chocolate is, with an

"Zotter made multiple innovations for the China market."

experience-based concept. The theatre can help them to experience and understand chocolate."

Zotter made multiple innovations for the China market. One of the most important ones was the DIY (do it yourself) Chocolate Workshop. The company also introduced China-specific packaging for special occasions. Another China-specific innovation was chocolate mooncakes which included four flavours: traditional chocolate and three hand-scooped varieties.

The period from 2012 to 2014 saw double-digit growth in China's chocolate market, and experts optimistic about growth were predicting that it would become a RMB40 billion market by 2020. However, from 2015, many international chocolate producers experienced a decline in sales revenue as the Chinese economy witnessed a slowdown. By 2016, total retail sales of chocolate in the Chinese market had declined by 4%.

In addition to these changes in the market, Zotter also had other challenges to overcome. Worried about their health and weight, many Chinese customers preferred to eat organic and natural food (such as nuts), and avoid being extravagant with chocolate. There was also the question of whether Chinese customers would understand the avant-garde Zotter Chocolate's culture.

When it came to persuading Chinese customers, people were always the key. Whenever Julia talked about the top managers in Zotter China, she always said how proud she was to have Fang and Messner on board. She gave Messner the position of General Manager in November 2015, while Fang became the Deputy General Manager and Julia herself handled the technical side and product development.


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Life Lessons from the Zotter Case:
Q&A with Prof Shameen Prashantham

This case is a great example of what it's like for a European company to master the China market. What are some of the lessons here that could be helpful for other foreign firms looking to break into the China market?

Prof Shameen Prashantham (S.P.): First, I think that it's important to be clear about what the value proposition for the contemporary Chinese market is. Without a compelling reason to buy, why would customers in another market bother to select your product? Second, it must be recognised that even though one talks about entering the "China market", in reality the first step involves a small part of that market. Figuring out the right beachhead is important. For Zotter, Shanghai seemed the obvious choice. For others, it might be sensible to start off in a tier-two or tier-three city, where operations (and mistakes) may be less costly. Third, identifying a reliable partner is important. Josef Zotter's instinct to reach out to a fellow-Swiss person based in China is a natural one. But while such ties are a great start, it may be important to build on those to forge other relationships with relative strangers. In so doing it's important to find a partner who can help with deciphering market needs, interfacing effectively with regulatory bodies and executing on the China strategy.

What are the lessons for Chinese looking to partner with foreign firms entering the China market? Do you behave differently before the foreign firm has entered and after it has already established a presence in China?

S.P.: Pre- and post-entry are sub-processes in a broader process of internationalisation. The difference is that before you enter you're making hypothetical decisions, and once you've entered you're making decisions based on reality. So in making plans it is important to undertake competent external and internal analyses, to assess the power and interest of stakeholders, and to come up with an appropriate market entry strategy. After entering the market, it may be important to improvise and deal calmly with unexpected setbacks.

When crafting their expansion plans, Zotter narrowed down their options to either the US or China. What factors are most important when making such a choice? Are there any lessons here for Chinese firms trying to decide on locations for their overseas expansion?

S.P.: Actually the Zotters may not be the best textbook example of making strategic plans, since many of their decisions are intuitive! But in any case, comparing entrepreneurial opportunities essentially comes down to three factors: economic viability, feasibility to execute, and personal goals. In this case, my own view is that both the US and China offered attractive opportunities in terms of viability and feasibility; personal passion might have tipped the balance in favour of China. It's important to recognise the importance of personal interests, especially in smaller family businesses – but also to have the maturity to assess if these personal interests can be aligned with the success of the business.

The Zotter case demonstrates the value of having an excellent Chinese partner. What are some of the traits European firms should look for when selecting Chinese partners?

S.P.: Entering any international market requires access to new knowledge and networks. For a smaller foreign company, developing the requisite capabilities is often an expensive and difficult process, and so a competent and trustworthy partner can be valuable; that's what Fang was to the Zotters. Her deep understanding of

local conditions and access to vital networks made it feasible to convert the Zotters' dream of creating a chocolate theatre in Shanghai into a reality.

Fang had no experience in the chocolate business, yet she was enthused by the prospect of partnering with Zotter. How can Chinese nationals who want to contribute to the success of foreign firms operating in China prepare themselves for such a role?

S.P.: Fang was passionate about something – organic products – and saw a great opportunity to work with Zotter as part of this broader mission. Thus, chocolate wasn't the key interest per se; it was the chocolate's organic characteristic. Given that chocolate consumption in China is relatively low, it would have been harder for Zotter to find a chocolate specialist as a partner, and so working with an organic product specialist was probably a sensible option. In the partnership, Fang sensibly relied on the Zotters for the expertise on chocolate, while herself providing the China expertise.

Based on Fang's success in this case, what are a few best practices that will help Chinese business executives better understand and collaborate with Europeans?

S.P.: First, effective partners have common values and complementary strengths. If the shared values aren't there, the partnership may crumble under pressure. By the same token the strengths need to be there too, since in the first instance the foreign company will likely not have sufficient understanding of local customers, regulations, and operational challenges. Second, partners should know their limitations. For instance, their strengths may be limited to certain types of products or regional locations. It's important to play to one's strengths and not overstretch. Third, partners must recognise the importance of constant learning – from each other, about the partnering process, and by constantly reviewing current strategy, and making strategic changes with flexibility and agility. This is particularly important in the fast-changing Chinese market.