



## Hitting the Sweet Spot of China: The Häagen-Dazs Story

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Häagen-Dazs, the American premium ice cream with a fake European name, managed to wrap another global corner into its success story in the mid-1990s: China. In a country with little dairy in its traditional diet and a highly price-sensitive population, Häagen-Dazs would enter the market with full-fat ice cream at prices five times higher than in the US. To anyone unfamiliar with Chinese culture, this looked like a recipe for disaster. Instead, Häagen-Dazs' well-researched market entry strategy had found the sweet spot of China.

### Company/Brand History

Häagen-Dazs brand ice cream was established in 1961 by Reuben and Rose Mattus in Brooklyn, NY. The name Häagen-Dazs is composed of two made-up words that the Mattuses invented because they thought the name looked Scandinavian, and at that time Denmark had a strong reputation for dairy products. The company began with just three flavors (chocolate, vanilla and coffee), but grew exponentially via a franchise model throughout the 1970s to include multiple flavors and retail stores. The Häagen-Dazs company has changed ownership several times, first acquired by Pillsbury in 1983, and then by General Mills when it acquired Pillsbury in 2001. However, in the US and Canada the brand has been licensed to Dreyer's (a subsidiary of Nestlé), which produces and distributes the product.

Häagen-Dazs created the "premium ice cream" category by offering a rich ice cream made with lots of cream and high-quality, globally sourced ingredients such as Belgian chocolate and vanilla beans from Madagascar. The company was the first ice cream maker that explicitly catered to adults rather than children. The brand stands for indulgence, sensuality, and sleek polish which it regularly reinforces with innovative, prize-winning advertising campaigns and new extravagant flavors. It also is the official ice cream sold at the French Open and the Royal Albert Hall in London. As a result, Häagen-Dazs enjoys strong brand recognition around the world.

Today, Häagen-Dazs is sold in over eighty countries around the world across a wide range of retail channels (e.g., supermarkets, branded shops, restaurants, hotels, air planes, vending machines). The brand's currency sales grew by 7% in 2011, contributing US\$750 million to total General Mills sales.<sup>1</sup> The company does not disclose any other figures but it is likely that Häagen-Dazs offers some of the highest profit margins in its parent company's portfolio. In the global ice cream market, Häagen-Dazs captures only 2% market share, whereas Unilever and Nestlé achieve 18% and 14%, respectively.<sup>2</sup> However, the brand dominates the premium ice cream category over its competitors Ben & Jerry's (Unilever) and Mövenpick (Nestlé). According to General Mills (which may be somewhat biased), Häagen-Dazs is "the world's best-selling ice cream."<sup>3</sup>

*Appendix 1A* shows global ice cream categories and company market shares. *Appendix 1B* provides examples of Häagen-Dazs flavors.

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<sup>1</sup> General Mills annual report (2011)

<sup>2</sup> Datamonitor. "Global Ice Cream." Industry profile. July 2011

<sup>3</sup> General Mills annual report (2011)

## The Chinese Ice Cream Market

The ice cream landscape in China is extremely fragmented today, with the top five brands collectively owning 57% of the country's market share.<sup>4</sup> Foreign players such as Nestlé, Walls (Unilever), and Meadow Gold compete with Häagen-Dazs for higher-priced ice cream products (ranging from 2 – 19 yuan) that target affluent customer segments. But foreign companies also compete with local players such as Yili and Mengniu which offer a lower-priced product for 2 yuan or less (see *Appendix 2* for company shares in China's market). There is no data available for market shares at the time of Häagen-Dazs's entry but we know that other foreign ice cream makers had also just started selling their products in China in the mid-1990s (e.g., Walls entered in 1994).

It was clear at the time that there were two distinctive differences between the way the Chinese consume their ice cream compared to Western consumers: dairy was generally less common in the Chinese diet and fruit (rather than ice cream or cake) constituted a typical dessert.

### Market Entry of Häagen-Dazs

For Häagen-Dazs and its then parent company Pillsbury, the temptation to expand operations into China was inevitably great. Despite the historic lack of dairy products in the Chinese diet, demand was emerging from the massively growing population newly exposed to Western dairy-based foods. Häagen-Dazs itself had launched in nearby Hong Kong in 1983, yet venturing into the mainland introduced a completely different host of challenges. As stated by Tom Doctoroff, North Asia chief executive of the advertising agency JWT, "Anybody who comes into this market and thinks they can just plant their brand and let it grow will be sadly mistaken...Any [foreign] business model needs to be brought into alignment with Chinese cultural and consumer imperatives."<sup>5</sup>

One of the most appealing aspects of this challenging market for Häagen-Dazs was the alignment of their super-premium brand with the apparent local hunger for luxury goods as a means to demonstrate increasing economic status. Luxury brands such as Louis Vuitton and Cartier lined the high-end shopping streets in Shanghai and Beijing and proved intensely popular in Chinese society where owning expensive items indicated one's implied worth. With increased buying power and a lessened stigma against displaying wealth, the upper class Chinese population appeared perfectly situated to appreciate the brand's themes of indulgence and self-gratification.

In carving out a brand identity and image specific to China, Häagen-Dazs decided not to compete with the incumbent ice cream players in the market, but rather with the Western icons of luxury found on the high streets. As Pedro Man, vice president of the company's Asia-Pacific operations, later told reporters in 1998, "What Rolls-Royce is to cars, and Cartier is to jewelry, Häagen Dazs is to ice cream."<sup>6</sup> Yet Häagen-Dazs could be seen as a more affordable luxury, one that its target market of 20 to 35 year old educated and discriminating professionals could enjoy regularly.

To tone down the overtly sensual themes presented to Western audiences in order to comply with a more reserved Chinese sensibility, the company's slogan "dedicated to pleasure" was translated into Chinese as "emotion, enjoyment, happiness and beauty, all to the greatest extent." (*Appendix 3* provides an example of the brand's "toned-down" advertising campaign in China). Yet the overall message of luxury and indulgence remained, and provided the foundation for the delivery of the product to this new market.

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<sup>4</sup> "News Digest: Brand War Heats Up Ice Cream Market, *The China*, December 28<sup>th</sup>, 2010

<sup>5</sup> Doctoroff, Tom, "Getting your brand right in China is tough," April 6, 2011, <http://www.chinaherald.net/2011/04/getting-your-brand-right-in-china-is.html>

<sup>6</sup> Reuters, "Haagen Dazs to battle Baskin in Beijing" August 6, 1998

## *Place/Distribution*

Before entering the market, Häagen-Dazs underwent extensive market research to work out how to distribute within China. Due to the lack of stabilizers in its products and therefore the intense temperature of -26 C required to maintain the integrity of the product, Häagen-Dazs decided to handle distribution itself. More importantly, management chose to import from their US and European factories rather than manufacture locally due to the poor quality of Chinese dairy. As shipments came in from facilities abroad, they would be transported to warehouses in Shanghai and Beijing before boarding specially designed refrigeration trucks bound for retail outlets across the country. While this would protect high quality standards, crucial to the target brand image, Häagen-Dazs would in turn face huge transportation costs and import duties as high as 93%.<sup>7</sup>

The market research also resulted in several key conclusions regarding distribution. First, Häagen-Dazs observed basic yet critical issues – not only do grocery stores in China often stop carrying ice cream/frozen desserts during the winter, as demand decreases, they also lack adequate refrigeration by Häagen-Dazs standards. Second, in terms of consumer behavior, the brand realized a significant difference in cultures: while Europeans enjoy ice cream for dessert at home, the Chinese want to have the whole dining experience of purchasing ice cream within a retail environment. As explained by Chris O’Leary, head of international operations at General Mills, “It’s not an ice cream cone they’re buying. It’s an occasion.”<sup>8</sup>

As it had done with all previous market launches, and confirmed by the refrigeration issues, Häagen-Dazs decided to introduce China to its ice cream via stand-alone shops instead of entering through supermarket channels. Unlike the casual ice cream parlors of the West, these cafes were designed as a luxurious space to sit down and indulge in a high quality experience. According to the brand statement, the cafes evoke “the physical embodiment of the brand,” and they “provide an ideal environment in which to experience a unique Häagen Dazs moment.”<sup>9</sup>

The first cafe was opened in Shanghai in 1996, with plans to invest a further US\$40 million to open a network of cafes all over the country over a 10-year period.<sup>10</sup> This network would start in the major eastern cities and venture inland as middle class privilege spread into that area. The strategy was simple: select high-end real estate in areas populated by Western luxury brands and then deliver service reminiscent of a five star hotel.

Patrons were served extravagant dishes on imported Wedgwood tableware by highly trained staff, either in the custom-designed interior or in the outdoor seating area evoking the ambiance of a European patisserie. The extensive all-dessert menu had the simple word “Indulgence” on the cover, giving an idea of the event ahead. These were intended as adult environments, where couples and successful professionals rather than children would line the tables (see *Appendix 4* for selected store images). Importantly, Häagen-Dazs chose local shop managers who grew up in China and understood the local culture so that the delivery of this experience would always be in lock step with Chinese expectations.<sup>11</sup>

## *Price*

While Chinese consumers are traditionally known as highly price-conscious and willing to go to great lengths to seek out the lowest product price, the perception of quality turns this notion on its head. To the Chinese consumer, a higher price reflects a higher quality, and furthermore a well-respected brand name puts a quality stamp on a product. For this reason, companies with high-quality products often

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<sup>7</sup> South China Morning Post, “Haagen Dazs sets up in Shanghai,” April 3, 1996

<sup>8</sup> Hughlett, Mike, “The Recipe for Global Food Business”, January 21 2012, <http://www.startribune.com/printarticle/?id=137761458>

<sup>9</sup> Kaplan, David, “General Mills’ Global Sweet Spot, May 16 2011, <http://management.fortune.cnn.com/2011/05/16/general-mills-global-sweet-spot/>

<sup>10</sup> Associated Foreign Press, “Haagen Dazs opens first ice cream café in China,” April 2, 1996

<sup>11</sup> Hughlett, Mike. “The recipe for a global food business.” Star Tribune, 21 Jan 2012, <http://www.startribune.com/business/137761458.html?page=all&prepage=2&c=y#continue>

undergo reverse price wars in China, whereby competing brands increase prices so they can attract people who will only buy the most expensive brands.<sup>12</sup>

With the experience delivered by Häagen-Dazs and its constantly reinforced message of high quality, along with the Western brand name, the company could command premiums far above those afforded by local competition. Prices on the café menus soar to the equivalent of US\$35 - even a standard banana split cost US\$12. To fully understand the extent of this premium, the average Chinese factory worker earns a monthly income of US\$150.<sup>13</sup>

Alongside the quality perception is the concept of luxury products as status symbols. In a country now permitted to display its wealth, albeit in doses, visitors to a Häagen-Dazs café could receive instant and visible bragging rights as they sat with their friends and partners enjoying an exorbitantly priced ice cream sundae. Lastly, the brand took advantage of the Chinese mindset of "saving face", whereby giving only the most premium brands as gifts allows the gift giver to appear generous and the recipient to feel important. A voucher to visit a Häagen-Dazs café or collect one of its products would be seen as an extremely generous gift.

### *Product*

Food is a culturally sensitive industry as customs and taste preferences can differ widely between countries. Häagen-Dazs was able to manage the formidable challenge of adjusting its products to local tastes and customs while maintaining consistency with its global brand identity. In addition to offering its popular US ice cream flavors, Häagen-Dazs also introduced new products tailored to local demand. Green tea ice cream, which would not sell well in Western markets, has become the brand's second most popular flavor in China. In addition, the brand's cafes offer exquisite "dessert creations" such as ice cream fondues which reflect the special occasion that customers associate with a café visit.

In addition to catering to local taste buds, Häagen-Dazs also discovered new opportunities in the Chinese tradition of gift-giving. In 1997, it introduced moon cakes to its product range which are traditionally given to family, friends, and clients during China's Mid-Autumn festival. Based on its strong reputation of quality, Häagen-Dazs moon cakes have become an extremely popular gift that properly speaks to the value of the relationship between the giver and the recipient. In fact, sales of moon cakes have grown by around 25% annually since its introduction and make up 28% of Häagen-Dazs's revenue in China.<sup>14</sup> See *Appendix 5* for pictures of the brand's Chinese desserts and moon cakes.

In addition, Häagen-Dazs decided to keep its Western name and not translate it to Chinese which would read 哈根达斯. The association of the brand name with northern Europe (mainly due to the letter "ä") and the West more generally gave credibility to the high quality claim of Häagen-Dazs and the price premium it commands. For two reasons, the company also decided against producing locally. First, Chinese dairy products are of very low quality and thus could not deliver the brand's proposition of using only the finest ingredients for its products. Second, having packages that say "Made in France" adds a strong status to the product, especially for Chinese customers who often find it hard to trust their local quality standards.

### *Promotion*

Häagen-Dazs invested heavily into creating brand awareness and a premium brand image. Management successfully associated the brand with love, fashion, and luxury by once again paying close attention to Chinese culture. One strategy that helped Häagen-Dazs increase its credibility and connect with its target customers was celebrity endorsement. The company collaborated with Chinese fashion

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<sup>12</sup> Magni, Max. "China's Reverse Price Wars," McKinsey & Company, 17 March 2010, [http://blogs.hbr.org/cs/2010/03/chinas\\_reverse\\_price\\_wars.html](http://blogs.hbr.org/cs/2010/03/chinas_reverse_price_wars.html)

<sup>13</sup> Chow, John "Shanghai Haagen Dazs – Fanciest ice cream shop ever" March 12, 2009 <http://www.johnchow.com/shanghai-haagen-dazs-fanciest-ice-cream-shop-ever/>

<sup>14</sup> Kaplan, David, "General Mills' Global Sweet Spot, May 16 2011, <http://management.fortune.cnn.com/2011/05/16/general-mills-global-sweet-spot/>

icons, athletes, and actors for TV and print advertisements as well as live shop launches. This branding strategy is particularly successful in China for several reasons. Chinese culture is based on collectivism with pressure to conform rather than stand out and a natural tendency to avoid risk. China also remains an environment where product and service quality are not reliable. If celebrities thus "risk" their reputation to associate with a new brand, it acts as a form of reassurance in support of the brand. Moreover, due to increasing consumerism, purchasing an endorsed product is considered a status symbol.

The brand's 2011 summer advertising campaign exemplifies Häagen-Dazs's ability to connect its brand value and identity with the desires of its Chinese audience. The brand showed two TV adverts with a celebrity in romance stories, communicating the message "Summer's hot. Love while it's hot." These commercials exploited the fact that the Chinese Valentine's Day happens during the summer which tends to be very hot and can last for four months. Many young couples will go on dates in Häagen-Dazs cafes – "it is a place to show your love."<sup>15</sup>

As mentioned before, the company decided not to translate the main name of the brand. However, it actually does place the Chinese translation of Häagen-Dazs beneath its Western logo on all promotions and packages. The translation integrates a strong "poetic" twist that evokes the feeling of enjoyment and pleasure, both key to the brand message. Literally, the combination of the four characters means nothing. 哈[hā] expresses happiness, surprise, amazement or joy; 根[gēn] translates to root, origin, source, cause; 达[dá] translates as reach, arrive; and 斯[sī] is tear, divide. However, on a deeper level, the combination of 哈根 evokes the feeling of joy and cheerfulness and the idea that Häagen-Dazs is the source of every joyful moment. Furthermore, it is interesting that the umlaut above "Häagen" is also included above the 哈. The umlaut is not used in Chinese but it makes the character look like a laughing face, while creating a link to the original corporate logo.<sup>16</sup>

In combination, management's efforts on product, pricing, promotion, and distribution reinforced each other to propel Häagen-Dazs into a credible, highly desirable product for its affluent Chinese audience. Adjusting its products to local tastes and traditions helped Häagen-Dazs create demand and space in the massive Chinese food market. Imports ensured impeccable quality, which was further strengthened by celebrity endorsement. High quality enabled Häagen-Dazs to charge a premium price, which in turn made the product even more desirable under China's culture of "saving face." Retailing the majority of its ice cream in its own shops guaranteed delivery of the expected brand value. At the same time, placing these shops in prime city locations ensured that customers were "dressed to impress" (rather than buying ice cream in their jogging suit in a supermarket), thereby further enhancing the premium brand image.

## Development and prospects for Häagen-Dazs

Häagen-Dazs has proved to be one of the most successful global food and beverage brands in China. It is often mentioned alongside Starbucks in case studies of successful market entry into a country that is extremely challenging, given its historically low consumption patterns and significantly differing taste buds. Just like people thought Starbucks would fail in a tea-consuming country, people expected Häagen-Dazs to fail in a society where dairy products are foreign and the notion of dessert is fruit. Clearly, what has allowed the General Mills brand to be so successful in China is its adaptability, whether it be in terms of distribution channels, flavor selection, or new product development.

Since its launch in 1996, Häagen-Dazs has opened more than 160 ice cream shops in China, including stores in second tier cities. Eager to introduce the sale of pints for home use to the market, Häagen-Dazs has also installed 5,000 of its own freezers, at US\$15,000 per piece, throughout China.<sup>17</sup> The

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<sup>15</sup> Ibid

<sup>16</sup> Brandsource, "Cultural Naming," 31 Dec 2010, <http://www.labbrand.com/brand-source/cultural-naming-how-brands-can-take-advantage-multicultural-aspect-chinese-market>

<sup>17</sup> Kaplan, David, "General Mills' Global Sweet Spot, May 16 2011, <http://management.fortune.cnn.com/2011/05/16/general-mills-global-sweet-spot/>

company does not disclose exact figures, but *Fortune* magazine estimates that Häagen-Dazs brought in revenues of over US\$100 million in China in 2010 and grew at an annualized rate of 21% over the three previous years.<sup>18</sup> Currently, about 80% of that revenue comes from ice cream parlor shops as opposed to supermarket sales.

Instead of resting on its (brand equity) laurels, Häagen-Dazs never stopped innovating its products and retail formats. For example, it recently launched ice cream cakes shaped like premium perfumes for retail around Valentine's Day (see *Appendix 6* for the product's advertisement). The extent of its adaptation to the local market is also highlighted by its opening of an online portal, which is unique to China. By 2009, over 50% of Chinese had heard of Häagen-Dazs (see *Appendix 7* for details on brand awareness).

The journey to this success has not been entirely unblemished, however. In 2005 the company learned a hard truth about Chinese media and its reputation for disproportionately scrutinizing foreign multinationals when a hygiene issue broke the news waves. A makeshift kitchen in Shenzhen producing ice cream cakes without a food hygiene license caused a severe public outcry. The company publically apologized, the kitchen was shut down, and refund vouchers distributed, but the media continued to criticize the company, "What Häagen-Dazs has done is to make a mockery of China's Law on Food Hygiene."<sup>19</sup> Meanwhile it was not uncommon for far more egregious hygiene offenses made by Chinese companies to go overlooked. Although testing of Häagen-Dazs products was conducted nationwide with no contamination results, the harsh reaction by the media fueled distrust of the brand in Shenzhen and elsewhere. Yet unlike many foreign brands that had experienced that same backlash, Häagen-Dazs was able to rebound due to the strength of the brand.

Today, Häagen-Dazs faces several difficulties, namely growing competition – both foreign and local – and saturated primary cities. Dairy Queen, for example, is in the midst of heavy China expansion, having grown by more than 60% in 2011. China is now the company's fastest-growing and second-largest market, behind the US. To further increase its footprint, Dairy Queen plans to introduce 15 new flavors in 2012, some of which will remain exclusive to China.<sup>20</sup> Häagen-Dazs's biggest local competitors are Inner Mongolian Yili Industrial Group and Inner Mongolia Mengniu Dairy Industry Group which lead the Chinese ice cream market with 17% and 15% value share, respectively.<sup>21</sup> Recently, these two companies have increased their marketing spend and even hired local stars for advertisements, which has greatly contributed to their brands' popularity.

Other foreign luxury food and beverage brands, such as Godiva, also provide a form of competition, as they are all creating a café concept eating away at those middle-income Chinese consumers looking for experience destinations. Beginning in 2012, Häagen-Dazs began talks with Chinese milk producers such as Wondermilk to potentially start manufacturing products within the country, a move that would allow them to harness the increasing quality reputation of Chinese milk and redistribute costs to stay competitive.<sup>22</sup>

As mentioned previously, another challenge for Häagen-Dazs is the expansion of its retail operation into China's secondary cities, while still opening shops in the primary cities. For 2012, the brand plans to open stores in eight new cities, while having increased the number of Shanghai stores from six to 40 in just six years. In addition, the brand is planning to open mini cafes, shopping mall kiosks, and gift shops, and further extend its sales in supermarkets. As luxury brands look to benefit from the vast Chinese market, many struggle to find the fine line between keeping their aura of luxury and exclusivity, while still being in arms reach of as many customers as possible. In that sense, Häagen-Dazs will have to manage its expansion carefully so that discerning Chinese customers do not feel it has lost its high-end connotation.

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<sup>18</sup> Ibid

<sup>19</sup> "Customers' trust in brand name melts away." *China Daily*. 28 Jun 2005. Retrieved in Factiva.

<sup>20</sup> "Diary Queen set to expand in China." *Toronto Star*. 30 Sep 2010. Retrieved on Factiva.

<sup>21</sup> Datamonitor. "Ice cream in China." *Industry Profile*. April 2011.

<sup>22</sup> "Chinese dairies discovering well-treated cows make better milk." *Reuters*. 22 Feb 2010. Retrieved on Factiva.

## Appendix

### Appendix 1A: Competitor Market Share Analysis

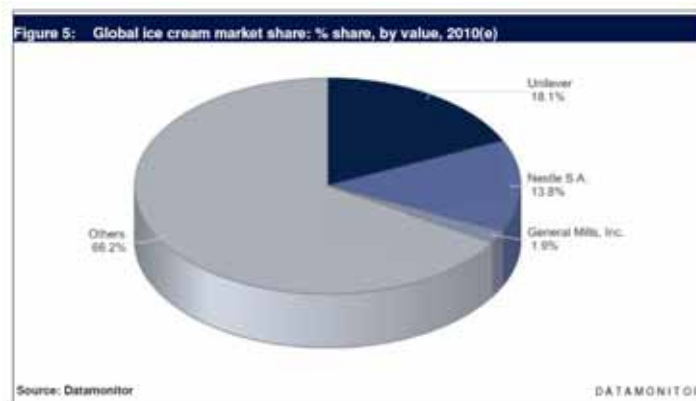


Figure 1: Tiers of premiumization in ice cream

Super premium	Super or Ultra Premium. Not present in all categories. Low volumes. Highest price point and highly specific product claims (exclusive ice cream parlors).
Premium	Consists of smaller brands but may be made by a large manufacturer. Denoted by a high price point and the product image and quality contribute to the premium status (Häagen Dazs, Ben & Jerry's).
Masstige	Consists of premium private labels, premium variants of mainstream brands and brands with "accessible premium" positioning (such as Safeway's Select product range).
Mainstream	'Standard' quality private label and brands. Examples include historical brand/product leaders.
Budget	'Basics' private label and budget brands (such as Tesco's Value range).

Source: Business Insights

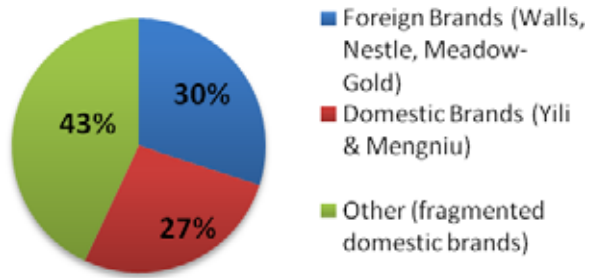
BUSINESS INSIGHTS

### Appendix 1B: Selected Häagen-Dazs flavors



Source: Google image search

## Appendix 2: Competitor Market Share Analysis



Source: Ying, Wang, "Who Will Become Ice Cream King?" *China Business Weekly*, March 20<sup>th</sup>, 2005

## Appendix 3: Häagen-Dazs billboard in Shanghai, China



Source: <http://voices.lafayette.edu/2011/08/19/the-chinese-dream/>

#### Appendix 4: Häagen-Dazs store examples in China



(Stores in Shanghai)



Source: Google image search

#### Appendix 5: Desserts offered in Chinese Häagen-Dazs shops



(dessert platter)



(moon cakes)



(green tea flavor)

Source: <http://management.fortune.cnn.com/2011/05/16/general-mills-global-sweet-spot/> and google image search

## Appendix 6: Häagen-Dazs perfume ice cream cake



Source: <http://blog.generalmills.com/2012/02/perfume-cakes-for-valentine%E2%80%99s-day/>

## Appendix 7: Häagen-Dazs brand awareness in China

Figure 23: Brand awareness for major F&B products in China (%)

Brand		Major products	2009	2008	2007
Wahaha	娃哈哈	Soft drinks	92	86	90
Nescafe	雀巢咖啡	Coffee	89	85	90
Wall's	和路雪	Ice cream	70	58	62
Nabisco/Oreo	纳贝斯克	Snack (biscuits)	64	63	75
Nestle Nutritional Grain Breakfast	雀巢营养谷物	Cereal	62	55	58
Lipton	立顿	Tea	61	58	63
Bugles	妙脆角	Snack	55	47	50
<b>Häagen Dazs</b>	哈根达斯	Ice cream	<b>53</b>	<b>32</b>	<b>35</b>
Heinz	亨氏	Baby food	52	51	59
Wrigley	箭牌	Chewing gum	46	46	58
Knorr	家乐	Season	42	44	54
Frito Lay/Lays	乐事	Snack (chips)	32	34	41
Milo	美禄	Chocolate drinks	30	31	35
Maggi	美极	Season	30	32	39
McCormick	味好美	Season	29	30	38
Kitkat	奇巧	Chocolate	28	27	36
Lao Cai	老蔡	Season	26	25	30
Skippy	四季宝	Peanut Butter	21	25	26
Carnation	雀巢三花	Milk	19	17	20
Homel	荷美尔	Ham	18	18	21
Nesquik	雀巢 NESQUIK	Milk	18	17	17

Source: Credit Suisse China Consumer Survey 2009