



It's official—the bakery chain makes a classic French food item better than the French.

By Jin K. Han, Sheetal Mittal, Havovi Joshi and Yong Seok Sohn

Winning the annual Coupe du Monde de Boulangerie, the most prestigious baking competition in the world, was no mean feat for South Korea's Paris Baguette, a relatively new kid on the global baking block. It certainly did not get bigger than this—the French-inspired Korean franchise bakery chain had taken on its toughest challenge by entering the French market in early 2014, and now, just two years later, its baguettes had been officially declared as the best in the world.

While the award and the ceremony—which was attended by French President Hollande himself—recognised the company's baking expertise, it also showed how its strategic internationalisation and marketing acumen had helped the Asian baker to compete successfully against a host of truly French boulangeries to win favour with the locals, often considered the world's most discerning consumers of baguettes.

The quintessential French baguette

Bread has long held a significance beyond mere nutrition. It reflects the culture and history of its country or region, especially in Europe. Poetic and even Biblical references paint a romantic and important picture of bread as the sustenance of life. In Spain, for example, the bocadillo, a smaller version of the baguette, was an iconic piece of Hispanic cuisine with guilds of bakers presiding over every detail of the traditional baked good for over 750 years. In Italy, it is the ciabatta that enjoys such a prestigious stature, while the distinctive baguette holds sway in France.

In France, bread, particularly the baguette, has been the symbol of French tradition, culture and cuisine and there are strict rules and specifications governing the baking of baguettes. They must be 65 cm long, 5 to 6 cm wide and

3 to 4 cm high with an average weight of 250 grams. An authentic baguette can only be made using ingredients such as wheat flour, water, yeast, raising agent or salt, and must not contain any egg, milk products, oil or any preservatives. Only minute deviations, such as the type of flour, are allowed and, as it is a key staple food, baguettes are subject to government price control regulations and must retail for under one Euro (US\$1.16).

There are other more intangible constraints. In 2014, Dominique Anract, president of the Chambre Professionnelle des Artisans Boulangers-Pâtisseries, an association that requires all members to strictly adhere to the traditional baking standards, famously remarked, "Anyone can make a traditional baguette, and companies are opening bakeries here, there and everywhere in the world. The question that concerns us is not whether it can be done, but whether what is produced is a good baguette."¹

Such were the challenges faced by Paris Baguette in its efforts to bring the locally made baguette to international audiences. Paris Baguette was born in 1988 as a bakery franchise business and subsidiary of the SPC Group, a leading South Korean food and confectionery conglomerate initially established in 1945 as a small bakery called Sangmidang in North Korea. From modest beginnings, the chain had grown steadily, and by 2014, it boasted more than 3,200 outlets in South Korea and another 200 plus outlets across China, Southeast Asia and the U.S. to become a truly global premium bakery brand.

From Korea, with love

The Paris Baguette brand has projected a premium high-end brand image that emphasises the baguette's 'Frenchness':

from its name and the Eiffel tower logo, to its staff dressed in Breton-style striped tops. Other points of differentiation include superior food quality, healthy and fresh ingredients, being freshly baked at the stores just like in traditional European bakeries, a modern and diversified menu, and a continuous introduction of new innovative products. This focus on operational innovation, quality control, new product development and brand differentiation was responsible for its exponential growth.

The company's success was primarily driven by its emphasis to provide an innovative fare with a modern and wide selection of fresh, clean and healthy products. To that end, it procured more than a thousand different ingredients on a regular basis to offer a menu consisting of over 600 different types of breads. It sourced the best raw materials, equipment, technology and service, produced proprietary dough, and frequently delivered (2-3 times a day) an assortment of frozen dough, par-baked and ready-made items to its bakeries nationwide to ensure freshness.

To deliver on all these parameters consistently demanded a distribution system that could manage a high degree of operational complexity while being cost efficient. A vertically integrated supply chain gave the SPC group control over key operations such as the supply of raw materials, processing of dough and semi-baked products, and delivery to the stores.

To ensure that the quality of the baguettes and other breads was consistent, the dough was made centrally and delivered frozen to all the franchise outlets. The stores then thawed the dough and baked the bread themselves, providing it fresh to consumers. This 'freshness' that was delivered in a cost-efficient manner helped Paris Baguette grow rapidly into a top bakery café franchise brand in Korea,

offering authentic French bread, fresh sandwiches, cakes and coffee (refer to Figure 1).

Introducing the borderless baguette

As local competition began to heat up, Paris Baguette proactively adopted a global strategy, positioning itself as a premium, high-end, health conscious brand targeting upper-class consumers across Asia and the United States. It was the first Korean bakery to go international, starting in 2004 when it opened its first overseas company-owned store in Shanghai, China, introducing more than 300 types of breads (compared to only 40 to 50 available at local bakeries). By 2012, it crossed the 100th store milestone in the country.

When it entered the U.S. market in 2005, Paris Baguette first targeted the Korean ethnic population in Los Angeles'

Koreatown, where Korean and other Asian consumers were familiar with the brand, before reaching out to a wider market located in prime commercial districts of San Francisco, New York, New Jersey and Philadelphia.

In 2012, Paris Baguette expanded into Southeast Asia, with its first outlet located in Ho Chi Minh City. In September 2012, it opened its first outlet in Singapore, which expanded to six by 2016, with vegetarian items planned as part of its localised menu. The high standard of living and the existing advanced bakery culture of Singapore were a natural fit with the brand's core values. By end 2015, it had opened its 200th outlet abroad.

The marketing mix that enabled global expansion

The focal point of Paris Baguette's international strategy across all markets was to upscale, differentiate and localise.

UPSCALE

To reinforce its brand image and reach out to the more affluent sections of society, Paris Baguette outlets are largely located in central commercial areas, exclusive shopping districts and upmarket residential areas. For example, its store in Shanghai is in the shopping district that offers many foreign retail apparel brands, while its store in Beijing is located in a famous shopping mall. These locations attract young consumers and tourists who are interested in luxury brands and higher quality food. Similarly, in Singapore, one of its stores is at Orchard Road, an upmarket shopping area, while another is at Changi airport.

However, the company followed quite a different entry approach in the U.S., attributable largely to the entry barriers that it faced, such as the high rental costs in the central shopping districts and a complete lack of awareness of the Asian brand 'Paris Baguette' in the country. To overcome these issues, Paris Baguette opened its first few stores in the U.S. at locations that were cheaper and had a significant ethnic Korean population, and then went on to establish stores in prime commercial districts of New York such as Times Square, Midtown Manhattan and the Upper West Side, favoured by upper-middle class Americans.

Paris Baguette pursues a premium bakery concept and its products are priced higher than the local competition in most markets, although it practises a price adjustment strategy where prices are based on the affordability of the local consumers and what they would be willing to pay for the value the company offers. In China, prices for most of the



regular items are 10-20 percent higher than the competition, but they are kept deliberately low for new products to encourage people to try them. In other markets like Singapore and Vietnam, prices are about 40 percent higher than those in Korea, while maintaining a 10-20 percent premium over local breads.

DIFFERENTIATE

Differentiation was achieved by providing high quality ingredients, a wide variety of innovative fare, and a sophisticated service experience through upscale store interiors and atmosphere. Paris Baguette also only used its own proprietary dough, which was lighter, airier and less sweet than traditional dough to create its unique offerings.

To increase brand awareness in the new markets, Paris Baguette promotes its brand through a mix of high profile and socially relevant programmes. For example, in China, it sponsors large events such as the HSBC Golf Tournament and the F-1 Racing competition; and also launches initiatives such as a baking course for disadvantaged youth and sponsoring a local orphanage.

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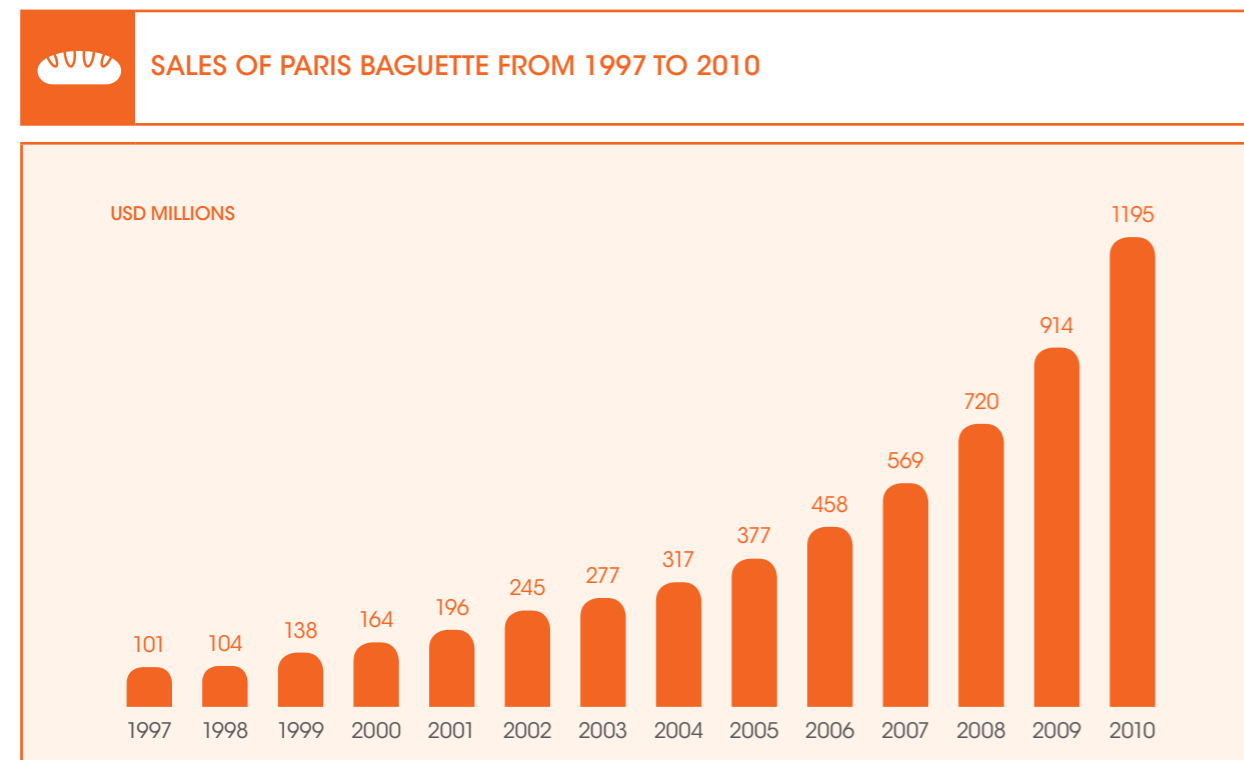


FIGURE 1

Source: Paris Baguette Website

LOCALISE

Paris Baguette's diversified and localised menu emphasised presentation of a globally informed menu, ensuring that at least 20 percent of every menu in each market is tailored to the specific tastes of the country/region. For example, in China, its menu included items such as Rousong bread (oilier with more filling), while in Vietnam, it offers the Bahn Mi Baguette Sandwich. And in the U.S., it caters to the growing health-consciousness in the country by offering low-calorie products that contain less sugar. Once Paris Baguette had won the confidence of the local customers, it then introduced Korean variants such as pastries with red bean fillings and Bingsu, a shaved ice dessert.

Over time, Paris Baguette developed robust competencies with committed and continuous investments in product development, operational innovation, technology, logistics, and brand-building. At the same time, these helped it overcome the specific challenges faced by the baking industry, such as technological constraints that limited the ability to expand operations and resulted in higher product costs. Paris Baguette developed a cost-efficient business model that enabled economies of scale and high capacity utilisation, as well as a degree of integration in which it owned the company that supplied its key ingredients.

ADVANTAGE CREATING RESOURCES

Paris Baguette employed its key resources to achieve both cost efficiencies and market differentiation, which helped to maintain its competitive advantage. The company has taken many steps that contributed to the development of a cost-efficient model:

- Economies of scale and high capacity utilisation: Centralised production of the dough and the par-baked items in its plant in Korea to serve all its outlets domestically and internationally.

- Experience and learning effect: With an 80 percent market share in the domestic market and operations spanning 30 years, Paris Baguette had scored significantly on the experience and learning curve, thus accruing lower costs not only in manufacturing but also across other functions such as logistics, distribution and marketing.
- Technical linkages: Its innovation of the cool pack did away with the need for dry ice, significantly lowering the cost of delivering the dough and par-baked items to the outlets.
- Degree of integration: Paris Baguette owned the company that supplied its key ingredients, the manufacturing plants that processed it, and the distribution network. This enabled the company to centralise the production of its proprietary dough and par-baked items, frequent deliveries, and have a standardised baking process. Consequently, the company could have high control over procedures ensuring lower costs of servicing, distribution and maintenance.

Paris Baguette's ability to reduce its costs enabled it to invest more in R&D, new product development, and marketing efforts, thereby gaining significant market advantage over its competition. The many ways in which the company differentiated itself included:

- **Product differentiation**
 - Superior food quality: Healthy and fresh ingredients, freshly baked at the stores like European bakeries.
 - Modern and diversified menu: Wide product assortment (local and international) including authentic French bread, sandwiches and cakes; and constant introduction of new innovative products.
- **Brand differentiation**
 - Unique brand elements: Replete with a French theme from its name, an Eiffel Tower logo, and the staff dressed in Breton-style striped tops.
 - Premium high-end brand image: Premium pricing, and sophisticated service experience through upscale store interiors and atmosphere.

Paris Baguette enters the home of the baguette

Paris Baguette had been preparing for its entry into the French market for over 20 years. Its parent company SPC had opened an office in Paris in 1998 to enable it to import wheat and bread-making equipment with the idea that the bread baked by the company was as close to the French taste as possible. Later, in 2006, it set up a company in France in order

to develop its menu in line with local market preferences and to prepare for the eventual launch of its store.

In April 2014, it opened its first store 'Paris Baguette Chatelet' as a boulangerie, in the heart of the French capital, close to famous structures such as the Louvre, Paris City Hall, the Pont Neuf Bridge and Notre Dame cathedral. The 200 square metre, 46-seat store was to be the company's global flagship store. It employed local chefs, and made the bread fresh, adhering rigorously to all the traditional baking standards and guidelines. To show its commitment to French values, Paris Baguette joined the Chambre Professionnelle des Artisans Boulangers-Pâtisseries.

Being 'glocal' in its approach, Paris Baguette started by offering a menu that included baguettes, other French breads, pastries and sandwiches that catered to the local palate, fast gaining approval from even the most discerning of French customers. However, competing with other traditional boulangeries with centuries of heritage was no small task, and hence it was important for Paris Baguette to differentiate itself from the very start.

With obesity on the rise, French consumers were increasingly concerned about what they ate, and demanded quality products that tasted good and were healthy. Thus, right from the outset, Paris Baguette did not compromise on the quality of the ingredients, using only the best. The company also decided to not sell any snacks such as chocolates and jelly (made by other companies) unlike other boulangeries. The company made a conscious decision not to sell processed products for which it could not control the sugar level or other ingredients that may not be healthy.

Soon Paris Baguette was supplying 60,000 breads each month to 41 local restaurants, including La Fontaine Gaillon owned by French actor Gérard Depardieu. It was also the first boulangerie to provide an outdoor café-styled space and indoor seating area that added to its appeal.

Once the company had won the confidence of the local customers, it introduced Korean variants such as pastries with red bean and chestnuts and cinnamon cake, which soon

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became sell-out items. Bingsu, the shaved ice dessert from Korea (in mango, strawberry and coffee flavours), too, captured the interest of the French, who found it exotic and refreshingly different. It even got the attention of the French Presidential Palace pastry chef, who noted Bingsu to be a "very unique dessert not found in France", and inquired about the recipe and the ice-shaving equipment.

In less than a year of its opening, the store's customer base had expanded to 850 customers visiting it each day, and sales grew by 25 percent. The success of its first store encouraged Paris Baguette to open its second store in the Opera district near Palais Garnier in Paris, in 2015. In less than two years, the two shops had served over 700,000 customers in the city. The stores in Paris were doing exceedingly well, and winning the Coupe du Monde de Boulangerie competition was clearly a boost to Paris Baguette's endeavours, paving the way for further expansion into France as well as other European markets.

Having proved itself beyond a doubt, the company began to look at options for opening its third store. It also wanted to consider cities outside of Paris and other French cultural communities in the world.

The Paris Baguette story illustrates that it is clearly possible for Asian brands to succeed in their overseas expansion, not only to other Asian markets, but also to developed Western markets. The company now needs to consider whether or not it will pursue the baguette as its flagship bread of choice, or try a move to indigenous and staple breads, specific to the countries or regions it subsequently enters, and replicating the strategy followed in France.

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This case was developed with the support of SMU's Retail Centre of Excellence.

Reference

- ¹ Kim Willsher, "Korea's Paris Baguette Chain Expands to ... Paris", The Guardian, August 12, 2014.

