****

9B17M094

Paper Stone: Building a Bakery Industry Luxury Brand

Professors Jianping Liang, Hubert Pun, and Jing Chen wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

*This publication may not be transmitted, photocopied, digitized, or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e)* [*cases@ivey.ca*](mailto:cases@ivey.ca)*;* [*www.iveycases.com*](http://www.iveycases.com)*.*

Copyright © 2017, Richard Ivey School of Business Foundation Version: 2017-06-28

On October 23, 2016, Edison Qiu sat at his desk contemplating how he should prepare for his upcoming meeting with a senior executive from Maxim’s Group (Maxim), a Hong Kong–based food and beverage company that operated a variety of restaurants and bakeries. Qiu had recently been hired as the store manager to run Maxim’s new high-end French bakery, Paper Stone, in mainland China. His store would be the first Paper Stone outlet in mainland China, although Maxim planned to expand the bakery to many more cities throughout China. Qiu knew that his vision for this store would add tremendous impact to the Maxim’s presence in China’s high-end bakery industry.

**hong kong Maxim’s GROUP**

Hong Kong Maxim’s Group (Maxim) originated in Hong Kong and was a leading food and beverage company. Maxim’s Western-Style Pastry, the largest bakery brand under Maxim’s management, had evolved from a corner cake store in the 1960s to become Hong Kong’s largest bakery chain, with approximately 180 stores along the stations of Hong Kong’s metro system, the MTR, including its Airport Express line. In 2008, Maxim acquired Arome Bakery (HK) Company Limited and launched more than 70 Arome Bakery shops in Hong Kong. Maxim not only operated in the bakery industry but also operated restaurants that focused on Cantonese cuisine, Chiuchow cuisine, and Chinese provincial cuisine. In May 2000, Maxim introduced Starbucks to Hong Kong, and now it operated 160 Starbucks stores throughout Hong Kong and Macau. Maxim was also the licensee of renowned brands including Genki Sushi, Ippudo ramen, and The Cheesecake Factory. In mainland China, Maxim focused on Guangzhou, the largest city in South China, where, in 2005, Maxim opened its bakery facilities and its flagship Maxim’s Cake stores.

**THE Bakery Industry**

A recent report from Global Industry Analysts, Inc. showed that the global market for bakery products was projected to exceed US$485 billion[[1]](#footnote-1) by 2020, driven by the rising consumption of bread and the surging popularity of healthy, organic, and all-natural baked goods. Europe represented the largest market worldwide, supported by a strong demand for in-store fresh baked products. Asia-Pacific ranked as the fastest-growing bakery market with a compound annual growth rate of 6.7 per cent, led by a growing population and changing food consumption trends in the age of affluence.

According to a Daxue Consulting report,[[2]](#footnote-2) the Chinese market for bakery products could reach $47 billion within four years. China was set to become one of the most attractive cereals and bakery markets worldwide. The current per capita consumption for baked goods in China was far lower than the European average, but research indicated that there was much room for growth. In 2014, revenue for the bread and bakery product industry in China was expected to reach $12.6 billion, with an annual growth of 21.4 per cent over the past five years.

The Chinese bakery market could be divided into different segments, according to the different regions that featured specific styles and flavours: Cantonese bakeries (Guangdong province), Sichuan bakeries (Sichuan province), Suzhou bakeries (Jiangsu province), Qin bakeries (Shaanxi province), Beijing bakeries, and Jin bakeries (Shanxi province).

The bakery industry in China was booming, and China’s traditional festivals and holidays had a huge influence on the market demand for bakery goods. Many new brands were emerging, including Saint Honore, BreadTalk, and other privately owned boutique bakery stores, such as the Japanese-style bakery Fujio and Prince Zheng French Bread. More and more bakery stores had opened due to potential opportunities. Although not everyone in China drank coffee, the bakery products had already become a daily choice of food for many locals.

Similar to the coffee industry, boutique bakery stores tended to open stores within communities, while the big brands were more likely to open stores in shopping malls. The key reason for choosing malls as their main locations was that many Chinese consumers preferred to shop in the malls, especially one-stop shopping malls. Five years earlier, most bakeries in China were low-cost bakeries that did not have an in-store kitchen, and all of the products were shipped in from manufacturing facilities. Now, more and more bakeries had their own kitchens outfitted with a glass wall to allow curious customers to watch the baking process, which differed from the making of Chinese traditional dishes.

Paper Stone’s major competitor was Bread Society, a sub-brand of BreadTalk from Singapore. Both were French bakeries and were considered to be premium brands. However, Bread Society had fewer stock-keeping units, and its products were tender—similar to Asian bread—but offered fewer varieties and were also less expensive than Paper Stone’s French bread. Paper Stone also faced challenges from its neighbours that offered lower-priced products. For example, some professionals would prefer to get a ¥6[[3]](#footnote-3) pineapple bun from Fujio or Tsui Wah as their high tea option, simply because they could not afford the ¥16 baguette from Paper Stone every day. However, a pineapple bun could not easily be shared with others, whereas the French bread was bigger and more chewable, and thus was more likely to be shared with others after it had been sliced in the store.

Paper Stone was a new brand. It did not originally provide any dine-in options in its store, but had recently started to provide some benches for hungry customers. The customers might sit next to, or in front of, a stranger and finish their bread quickly, which was more like eating in a fast-food restaurant. Unlike coffee shops, which provided customers with an experience to sit down and enjoy their coffee, Paper Stone provided this sitting area just for the hungry customers who wanted to eat their bread right away but preferred not to walk and eat at the same time.

Most Paper Stone customers preferred to “take out” rather than “dine in.” Due to different lifestyles and culture, foreign customers usually purchased more bread than the locals, and they tended to consume the bread at home, while the locals might purchase only one or two loaves of bread and eat it typically either when they were in the store or walking on the street.

**Paper Stone**

Paper Stone was Maxim’s newest brand. The first Paper Stone store was opened in Sheung Wan, Hong Kong, in July 2015. By October 2016, Paper Stone had four stores: three in Hong Kong and one in Guangzhou, mainland China, which opened on April 11, 2016; an additional Guangzhou store was scheduled to open soon. Paper Stone offered various product categories, including Asian bakery products, French bakery products, cakes, and beverages. Asian bakery products maintained 50–60 per cent of revenue since the taste of those products was close to the locals’ preference, while the French bakery products accounted for approximately 30 per cent of the revenue. Beverages represented approximately 10 per cent of revenue, and cakes, less than 10 per cent. From an operations perspective, the stores were well managed. The overall sales of a Paper Stone store were close to the average sales of a regular restaurant. The staffing varied according to the size of the stores: each shift typically required six bakers and three to six salespersons. On occasion, a regional manager or staff from the public relationship department might work in the store temporarily to promote the brand and perform on-site marketing.

**History of Paper Stone**

Maxim’s new chief executive officer (CEO) of the bakery had been appointed several years earlier. His brand management experience and foreign education background shaped his innovative mindset. As the leader of Maxim’s bakery and the Hong Kong region, he was ambitious and dedicated himself to plenty of research and studies. He wanted to build a new, premium cultural brand to increase Maxim’s profile.

During his research, he found that Europe’s baguette had a long history but had not been widely accepted by Asian or Chinese customers because it was perceived as being hard and tasteless. However, Europe, in general, represented fairness, luxury, and developed tastes, and European products were perceived among customers as being premium merchandise.

The new CEO wanted to create a premium-brand image by promoting the culture of the European baguette. To do so, he wrote a story and filmed it with models: A group of adorable European kids were originally poor and had to share their baguette with their neighbours. These kids eventually grew up well because “the baguette contains great nutrition.” The film itself and the pictures showed that the materials were fresh, healthy, and imported from foreign suppliers; the products were made in the delightful in-store kitchen with glass walls; and the service was the best: young staff workers greeted customers, helped customers select their bread, and handed out free samples with genuine smiles. None of these features could be seen in the previous Maxim stores.

**Motto: “Bread Is Life”**

The film depicted the epitome of the culture of the baguette. In the film, regardless of whether the children were walking or chasing each other, they still had their bread in their mouths, indicating that the baguette was a key component of life and that it was not only a type of healthy food but could also help people to understand the European culture. The new CEO’s other intention was to extend the idea “Bread is life” to Chinese customers and to build new dining norms and life attitudes. This story tells the origin of “Bread is life” and explains that we cannot live without this essential partner. The idea is very close to the slogan from Starbucks: “one person, one cup and one neighbourhood.”

**Store Location and Design**

Paper Stone preferred to locate in shopping malls or properties owned and operated by Hong Kong firms such as Sun Hung Kai. One key reason for choosing these close partners was that Paper Stone could negotiate the locations and terms directly with the owner. The chosen locations were not the most expensive properties available, but they were usually easy to find or were located along popular traffic paths. For example, the new store in Guangzhou was situated next to a Starbucks location.

Paper Stone had a unique store design. The stores were painted in warm tonal shades as their fundamental colours—yellow or so-called khaki, deep khaki, and black. The light reflected a warm colour, and the concrete walls brought customers a European style. Why did concrete walls represent a European style? Europe was reminiscent of the castles that were built of bricks and were mainly grey. After the dawn of the industrial era, building materials evolved from bricks to cement, which had a colour similar to the colour of castles. Since industrialization originated in Europe, Paper Stone decorated its stores with the colours of cement and khaki. Paper Stone also used advanced materials for fine decorations. All of these intuitively depicted a high-end décor.

The size of a store could increase as the business grew. The first store launched in a city was designed to test the popularity of the store in the local market. When the customers accepted this new business, the number of stores would increase to meet the demand of the market. According to Qiu, when only one store was available, some customers drove from Panyu (a 40-minute driving distance), or from places even farther away, to the Parc Central store—just to purchase a loaf of Paper Stone.

Paper Stone chose to open stores in areas frequented by more foreign residents, especially people from developed countries. Those locations usually had more high-end stores, and foreign customers would lead the locals to shop at these stores. For instance, a Japanese homemaker might purchase ¥300–¥400 of products at a time (or even up to ¥1,000) since she would keep the bread in the fridge, where it would maintain its freshness for several days. She would not ask anything from the staff unless she did not understand the products. In contrast, typical Chinese customers would not purchase a large amount because of a belief that the bread may not be fresh, and they tended to raise more questions about the products, such as “What type of pounder do you use?” “Is there any water or additives added to the bread?” and “Will I gain weight by having these?” Sometimes, Paper Stone’s competitors would send out informants to ask these questions in an attempt to gather more information about Paper Stone.

**Products**

As Maxim’s most luxurious brand, Paper Stone produced new and expensive bread and cakes that were made from the best imported materials. Cakes were available in five to six options with limited scale: for example, a pound cake sold for approximately ¥200, which was a bit pricy. Fine cakes, some mini cakes, and other desserts were produced in a factory and transported to the retail stores, where the in-store bakers decorated the cakes with a Paper Stone tag and a carved pattern. Besides the cakes, the greatest difference between Paper Stone and the Maxim’s Cake stores was that, at Paper Stone, the in-store bakers and machines made many varieties of bread. Paper Stone had invested substantially in the best machines, including bakery cabinets, fermentation cabinets, and refrigerators. Loaves were baked on site and then sliced. The on-site bakers looked after dough stirring and fermentation and finished the handmade process of some baguettes.

Paper Stone’s beverage product line was composed of coffee, smoothies, and bottled beverages. Bottled beverages were bestsellers because of their convenience. Unlike at Starbucks, the on-site coffee was mainly handmade, which would have taken more time. Many people chose a bottled beverage rather than coffee to go with their bread since they believed that bakery stores were not able to make a good cup of coffee. The blueberry smoothies were made with real blueberries, the mint smoothies were made with real mint, and the strawberry smoothies were made with real strawberries. For its juices, Paper Stone chose rare imported brands. According to its high-end positioning strategy, Paper Stone checked the ingredients and chose only frozen juices (which they defrosted before selling) that were made without any preservatives added. However, these juices would expire in one month.

**Promotion**

China’s most widely used online platform was the WeChat public account. Every week, Paper Stone followers on WeChat would receive a quick response (QR) code as the coupon for Paper Stone’s weekly promotion. Paper Stone also promoted itself by hosting events—for example, by inviting the staff of the French Embassy to its stores.

Paper Stone was continually introducing new products. For instance, in late 2016, it launched a new beetroot French bread that was red, to highlight the Christmas season. Beetroot was a high-fibre root vegetable and was considered to be a healthy food, so this new beetroot French bread attracted a following and soon became a regular product.

Paper Stone projected an elegant image in terms of the shapes and designs of its bakery products. For example, it offered baked goods shaped as snowmen, horseshoes, and even caterpillars, which promoted the bakery as cute, unique, pretty, and attractive.

**EDIson Qiu**

Maxim wanted to translate the Starbucks experience to a bakery setting and therefore focused on a former Starbucks manager when hiring the Paper Stone manager. The new store manager, Edison Qiu, had 10 years of work experience (eight years at Pizza Hut and two years at Starbucks). He also owned three beer stores, but he had always wanted to try something new; so he had applied to work at Paper Stone and started at Paper Stone in October 2016. Qiu was wondering how to transplant Starbucks successful business model to Paper Stone.

**Building Paper Stone as a Starbucks in the Bakery Industry?**

In China, Starbucks was perceived to be a premium, or luxury, brand. One reason for this perception was that most customers believe that the Starbucks baristas were young, cool, passionate, and communicative. Maxim management wanted to capture this culture at Paper Stone. The most direct approach would be for Paper Stone to poach employees from its competitors (e.g., Starbucks) and change the existing culture by employing newcomers. According to the senior executive of Paper Stone, “People who drink and enjoy coffee are quite different from those who like street food. I believe that the coffee people prefer a better life quality.” This senior executive also hoped that the new employees, especially the managers, could bring a new life attitude to the team and create a well-connected business culture, starting with drinking coffee or experiencing a premium restaurant.

Starbucks emphasized the importance of its employees in its company culture. Starbucks even prioritized its employees over its customers. The belief was that employees would communicate their authentic smiles only when they were truly happy and satisfied. When reviewing Paper Stone’s relatively strict management model, Qiu wondered whether he needed to suggest to management that it translate Starbucks’s philosophy and model to Paper Stone.

From the baristas to the manager, almost everyone in a Starbucks store knew the drill of making a coffee and other beverages. They understood the products and could confidently serve any customer. In contrast, at a Paper Stone store, there were two groups of employees: those who made the bread and those who sold the bread. No matter how good their memories were, the sales team would not understand the products as well as the bakers would. When being asked very specific questions, such as “Why does this bread look burnt?” or “Why does this bread taste different from that bread?” they relied on the bakers to help them.

In China, the Starbucks Corporation dedicated itself to serving only one brand—Starbucks—by providing sound and on-time support to the stores, whereas Maxim’s corporate structure was divided into different departments, and each department supported multiple brands. For example, the public relations department that supported Maxim Bakery also supported Paper Stone. Comments such as “That’s how we do it in Maxim,” were frequently heard because the district or regional managers were actually from Maxim Bakery. As another example, the cashiers at Paper Stone worked according to Maxim’s system and rules.

The store managers at Starbucks were empowered to make hiring decisions, which included interviews, recruitment, ensuring employees’ training and qualifications, and even making salary adjustments. At Maxim and Paper Stone, the store managers did not have such power; instead, those functions were centralized to the regional managers.

Paper Stone was not copying Starbucks’s model but was learning from it. From day one, its ambition was to become a sound brand but not a knock-off. The learning process would create value that belonged to Paper Stone, such as its products, the décor of the stores, and its operation process. Qiu was proud of Paper Stone’s training program, whereby a dedicated and responsible trainer would be assigned to a store for an entire month to ensure all staff were fully trained.

**THE decision**

Qiu soon needed to report to the regional manager and to Maxim’s senior management team. However, he still faced several challenges: What kind of employees should he hire, and how should he go about managing the employees? How should he recommend a management structure to Maxim headquarters? How could he increase the sales of French bread? How should he market the Paper Stone brand?

Jianping Liang is a professor at Sun Yat-sen Business School, Sun Yat-sen University. Jing Chen is a professor at Dalhousie University.

This case was funded by the National Natural Science Foundation of China (grant no. 71102099, 71672201, 71331004 and 71671081), and the Chan Sui-Kau Asian-Pacific Case Development and Research Center at Sun Yat-sen Business School, Sun Yat-sen University.

1. All currency amounts are shown in U.S. dollars unless otherwise specified. [↑](#footnote-ref-1)
2. Daxue Consulting, “Bakery Product Manufacturing in China Industry,” January 13, 2016, accessed May 13, 2017, http://daxueconsulting.com/bakery-market-china/. [↑](#footnote-ref-2)
3. ¥ = RMB = Chinese yuan renminbi; US$1.00 = ¥6.7672 on October 23, 2016. [↑](#footnote-ref-3)