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**MADE IN ITALY
IN THE TOBACCO'S SECTOR: AN ASSET FOR
THE INTERNATIONALISATION**

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Introduction

This thesis is born with the need to analyze in depth the Made in Italy and the Country of Origin, but especially the bond that exists between the Country Image and the strategies that the company develops to penetrate foreign markets effectively.

The analysis assumes the perspective of the consumer, in how they make their choices and therefore assumes the perspective of the company and strategic decisions with respect to the market. The elaborate is a contribution in terms of exploratory analyses, through the method of case study, of the survey and of the in-depth interview with an important representative of the subject of the case study (General Manager of Manifatture Sigaro Toscano).

The goal is to highlight the ways in which a firm can exploit the image of the country and its products in the world and the effects on entry strategies and international marketing strategies.

The first chapter analyzes the existing literature on the Made In and Country of Origin, drawing the main stages of the studies that have examined the issue and making an important reference to what is the present legislation on Made in, by focusing on international, community, and finally national plane, with the aim of assessing the countries most similar in terms of legislation and, therefore, to which making an approach would be more simple.

To analyze how a company can leverage the assets of Made In to increase its sales in Italy and abroad, in the second chapter the aim is to analyze the consumer's point of view from the side of the question and, in particular, using the consumer decision-making process. How does the buyer evaluate a product? What are the influences acting on that process? We will observe that the Made In is a critical factor, especially when there is need for inference in the information.

As we shall see, the consumer will identifies himself with the product and brand, so it was necessary a comparison of Human Personality and Brand Personality to understand in what way this happens (McCrae & Costa, 2007) and interconnections that are occur as a result. The subsequent analysis of the thought associations that consumers make with respect to individual countries is needed to try to change or to understand which marketing levers to

use; this was made possible thanks to the system devised by Anholt with which you can observe a ranking that consumers make in reference to the liking of a country based on seven indicators: products, people, institutional interventions, culture, quality of life and tourism. Thanks to all of these tools, we will observe the diamond of Porter on Italy.

The third chapter puts the focus on the tobacco sector, and, more specifically, on that of Italian cigars. I considered this a very interesting topic because in Italy there is a clear leader for the cigar industry: Manifatture Sigaro Toscano. This reality represents excellence in the industry around the world and made the Made in Italy its winning strategy and the cornerstone on which to base their communication. An initial analysis of the tobacco industry is then followed by a discussion on the retail scheme: how does distribution occur?

Information that not everyone knows is that Italy is the leading producer of tobacco in Europe. But what are the marketing techniques that can be used in the field? What are the limitations? The third chapter provides, among other things, an analysis of guidelines in the field. It must be said that the tobacco industry's regulations represent a real obstacle to the techniques of communication with companies in the sector, multinationals as well as not. Such legislation includes the exit from the market of small companies in the industry and great difficulties for large multinationals, that although are able to remain in the market, do so with difficulty. Other techniques are represented by the exploitation and increasing the commitment of the final consumer, with which one can reach a much more powerful result, through community brands, events, naming of the products, positioning and pricing. The chapter concludes with an important analysis technique of the territories in which enter and exports from Italy in reference to the tobacco culture sector. We will see then, in addition to other tools used, that the Country of Origin effect is still highly relevant with regards to the assessment that the consumer has of the individual product. ('Country-of-Origin' Effect and Consumer Decision-making by Abraham, Sanjay Patro)

The fourth and final chapter offers an analysis of the business case, the case of Manifatture Sigaro Toscano, very thoroughly. After analyzing the company's history, which Manifatture always uses as an integral part of its marketing tools, we analyze their quantitative data and the desk analysis. A fundamental quality contribution to the thesis was provided by the thorough qualitative interview with the General Manager of company,

who provided the motivations underlying their internal strategic decisions, giving an added value to research in the area among enterprises of Italian excellence in terms of internationalization.

CHAPTER 1 - Made in Italy and the Country of Origin Effect

1.1 Introduction to 'Made In' and the Country of Origin

The term 'Made in' indicates the source "business" of a commodity and is defined as "the material element identifying the country of manufacture of each product that accompanies it to the marketing phase." Whether increasing or decreasing its competitive worth, the 'Made in' confers a certain value to a product and helps to determine the consumer's buying choices. It is thus important for import and export managers to consider the effect that the 'Made in' has on domestic and foreign consumers' perception of a given country.

A simple example would be to explain what happens in the minds of consumers in a particular country when they are faced with a product coming from a specific location. In India, for instance, every event is coloured by the silk saris women wear. When it comes to silk, 'Banaras' or 'Kancheepuram' are the first names that come to mind. Those two types of silk provide a geographical context, as silk is produced throughout India. The aforementioned silk saris have acquired a value and status symbol: they represent quality and nobility to the consumer's mind, and over the years, have gained easy acceptance and approval, becoming women's top choice when choosing an outfit for a wedding. The history of these silk saris can be traced centuries back, where for a period, the place of manufacture of a sari was tied to the product itself, favourably influencing the customer's decision-making. This preference has been built through the continuous creation of the saris' quality and consumer satisfaction throughout generations.

However, the opposite effect may also occur: some countries are linked with images of duplicates and low-quality products. This phenomenon is quite common: marketing researchers have defined it as 'negative Country of Origin'. It may occur that a product is considered to be national, with a place of limited origin, a city, or a village; but it can also occur on an international level, where the country that the product is exported from becomes the place of origin, and thus the Country of Origin.

When we consider the above example of silk products, the reaction and satisfaction of an Indian consumer will vary greatly with compared to that of a European consumer, who might link silk to China and Chinese silk using the famous Silk Route as their reference. As opposed to a consumer of Indian origin who might have a preference for Indian silk, in this case, the European consumer in this case considers Indian silk less

favourably, or if not at all. A customer's predisposition towards a product of the same origin, as we shall see, influences the decision-making process of the individual.

The term 'Made in' most often refers to a source and origin that is of a benefit and asset to a business, and the material and non-material elements identifying a product's country of manufacture accompanying the product during the marketing stage.

Therefore the 'Made in' usually gives a degree of value to a product and increases or decreases its ability to compete, thereby affecting the purchasing behaviour of consumers. Thus it becomes fundamental to understand the effects of 'Made in' and its compliance with the rules of the 'Made in' phenomenon.

The first factors the exporter must consider in order to give strength and value to the *Made in* are the rules that must be respected in every country, as there are international standards that must be obeyed.

Before examining the legitimate application of the brand of origin "Made in Italy", it is necessary to distinguish between the **origin** and the **source** of a product. The origin of a product is the location a raw material is born or raised, grown or captured. The source, on the other hand, indicates the last establishment in which the product was manipulated. Taking the example of Irish beef, the source will be Dutch if the animal was born in Holland and the killing took place in the Netherlands.

Therefore, it is usual the term 'Made in' usually indicates the **commercial origin** of a commodity. As previously mentioned, it is therefore the element, material or not, which "identifies the country of manufacture of each product and accompanies the marketing stage." Given the added value that the *Made in* usually gives to a product, increasing the competitive ability and determining the purchasing decisions of consumers, it is important for manufacturers, distributors and exporters of domestic products to know and respect the rules of *Made in*. To properly attribute the *Made in* of the product, the first task is to observe the characteristics and origin of the goods, as well as the constantly changing regulations.

1.2 Concept and origin of CoO

The Country of Origin has long been the subject of analysis and insights; Nagashima's description in 1970 was among the first definitions of "Country Image". He explained it as "the representation, reputation, and

stereotype that businessmen and consumers associate with the products of a specific country, as well as the representative products, national characteristics, economic and political background, history and traditions of a country."¹ The economist Nagashima focused mainly on the fact that the image of a product or service reflects a nation's characteristics, as well as its economic and political background, history, traditions and typical products, as we will see later.

More specifically, it is possible to observe the variables and distinctive elements of the Country of Origin image as:

- Factors related to the image of domestic products with respect to those imported from other countries
- Factors related to the image of merchandise categories of a specific origin
- The image evoked by the brand's country of origin
- The influence of the "Made in" on the perception of the products
- The image the local producer has at a national level

The 'Made in' effect has been studied and deepened by management and marketing researchers for over 40 years. From the beginning, many theorists have carried out empirical studies on 'Made in' and its effects. The first researchers were mostly interested in the effects of CoO compared to the theoretical concept of CoO (Baumgartner & Jolibert, 1977; Nagashima, 1977; Reiersen, 1967; Schooler, 1965), likely because the effects were extremely relevant. A country's image is created in the mind of the consumer through their knowledge, experience, exposure and inclination towards that particular country: these generate the image, which emerges as descriptive and inferential information (Martin & Eroglu, 1993). In this way, the resulting image contains a frame of personal references and in some way reflects the background of the individual (Kleppe et al., 2002). At the same time, the characteristics of how the individual interacts in a society and the personal references that each has made in one's memory are channeled through common languages, symbols and experiences, leading to the creation of a common image of the company (Kleppe et al., 2002; Relph, 1976) and of the country.

¹ Nagashima, A. (1970), "A comparison of Japanese and US attitudes towards foreign products", *Journal of Marketing*, Vol 34, No 1, pp 68-74

Additionally, literature has introduced several other designations for the CoO, such as "country of affiliation" (Chao, 1989), "country image" (Martin & Eroglu, 1993), "country equity" (Shimp et al., 1993), "product country image" (Papadopoulos & Heslop, 1993), 'origin country image' (Han & Terpstra, 1988), 'made in country image' (Schooler, 1965), and "country brand" (Jun & Choi, 2007). The differences among these depend mainly on the authors' point of view and the level of analysis.

Chao (1989) defines the effect of CoO and the preference that consumers have towards products from a country as a sign of affiliation to the country itself. Samiee (1987), however, defined the CoO as any influence, positive or negative, that the country of production would have on the processes of consumer choice or on a subsequent behavior.

If the client's attitude towards the CoO is positive, then one can transfer this benevolent attitude to the product and its image. If one considers the country's image as a brand, in terms of marketing, the Country Brand represents the heritage of a country and influences its activities as well as the perception that the country has in the minds of consumers (Choi, 2007).

Due to so-called limited rationality, it may be that the consumer has very little information on the intrinsic properties of the product such as the quality or reliability. In that case, it becomes necessary to use information extrinsic of the product, for example, the Country of Origin.

In this case, the consumer will have a different preference depending on their attitude towards the product's place of origin (Gurhan-Canli & Maheswaran, 2000). At the root of the injury is the consumer perception on the intrinsic value of the products of a particular country. Nagashima also proposed five dimensions that affect the CoO: price and value, service, advertising and reputation, design and style, and the consumer profile (Balabanis et al., 2002).

Any consumer may receive information on a country through direct contact with the country, by reading books, newspapers, magazines, movies, TV, radio, through other people's opinions (Balabanis et al., 2002) and so on. Once developed, the CoO leads to stereotypes, leading to evaluating the product from a country based on the image that the country has for the individual, regardless of the actual quality of the product (Kleppe et al., 2002).

A particular feature is that consumers from developing countries are more exposed to stereotypical perceptions (Ahmed and d'Astous, 2008). The positive image of CoO creates a 'halo effect', making a considerable number of products more favorable, or less. Similarly, if the perception is negative, it will have an effect 'black cloud' (Balabanis et al., 2002).

The diversity of ethnic origins that influences and impacts an individual's attitude towards products from foreign countries can be attributed to historical and social reasons. The ethnic origin can push an individual buyer to prefer one product to the other, be it food, clothing, or electronics.

In addition, some products have a "country-ethnicity", as in the case of French lace, Chinese silk, Spanish embroidery, English cotton, and Indian saris. These products symbolize their CoO regardless of whether they are produced in one country or another (Phau & Prendergast, 2008).

This may be due to historical reasons, which could lead to antagonism between countries, hostility, war, or friendships and cooperation. Because of these obstacles, the consumer cannot objectively evaluate the product under the influence of ethnic and historical factors. This reaction may be due to effects of past or present and is defined as "ethnic animosity" (Nakos & Hajidimitriou, 2007).

In this regard one speaks also of "Home Country Bias": a favorable predisposition towards the products from one's home country, which in most cases occurs in most economically developed countries. This means that the more developed countries are more likely to be evaluated positively by foreign consumers. Therefore, the level of economic development is used by the consumer as a starting point for information about the level of quality of the product or service.

The culture of the country influences the opinion-making process of the consumer based on the nature of the population, whether individualistic like Western cultures, or collectivistic like in Eastern Europe. Collectivists in particular tend to evaluate the products of domestic origin as superior, without considering the actual quality of the product; similarly, the individualist cultures do this only if the product made in their own country is actually higher than the competition, as stated by Gurhan-Canli and Maheswaran's research.

In 2004, Balabanis stated that human values and culture influences consumers' predisposition towards a product, acting through the similarity of demographic characteristics, knowledge of the language, the direct contact between the people and the availability of information.

Moreover, not all the products from a country have the same perception: a country can convey positive feelings and beliefs for one category of products and these prejudices are subject to change over time. We can affirm, however that the greatest impact of the Country of Origin is on permanent goods, but that happens anyways to all goods that are recognized by the exposure, knowledge, deepening and word of mouth from consumers.

An image of a particular category of products can extend to similar categories made in a specific country, as well as the products on which the consumer has already formed an opinion. As mentioned previously, demographics influence the predispositions the CoO.

Balabanis and Diamantopoulos (2008) examined consumers learning process of the CoO: they use previously acquired knowledge about the products to assess the individual asset or similar goods from specific countries (Hong and Wyer, 1997). Sometimes, this type of learning is not intentional, nor are most of the experiences related to the product itself: it is implicit.

We can safely say that the effect of CoO on consumers during the purchase process varies depending on the potential risks and benefits. If the perceived risk in making the decision is high, the consumer will make more of an effort to acquire more information on the product to buy in order to make a more conscious assessment and comparison. In this case, the effect of CoO is significantly reduced. This leads us to assert that the CoO will have a considerable effect on the buying decisions about products with a lower perceived risk.²

Thus, although globalization has had insurmountable consequences, the quality of products continues to have a value in today's society and sometimes comes from the knowledge of CoO in the mind of the consumer.

Nevertheless, in today's era of globalization, the opening of territorial borders to the movement of people, goods and capital has had important and inevitable consequences. On one hand it has triggered a clear process of internationalization of the national productions that have made it increasingly difficult to

² Dana L. Alden, Wayne D. Hoyer, and Ayn E. Crowley (1993), "Country-Of-Origin, Perceived Risk and Evaluation Strategy", in NA - Advances in Consumer Research Volume 20, eds. Leigh McAlister and Michael L. Rothschild, Provo, UT : Association for Consumer Research, Pages: 678-683.

distinguish between domestically produced goods and goods manufactured abroad. On the other, there has been a strong increase in the competition between companies and countries called to evaluate new and more competitive strategic policies aimed at supporting the production systems and the promotion of economic development.

This analytical framework has inevitably deepened the interrelationship between a country's image and competitive edge, which, if properly coordinated, could provide an important competitive tool for the country and for the company. In this regard, the literature points to a strong interrelation between the concepts "Country Branding" and "Country of Origin", although they have their differences.

With the aim of enhancing its tangible and intangible assets against many stakeholders, a country's branding is the main axis for a marketing strategy based on the territory as is the planning and construction of a country's branding. Proposed planning strategies of territorial marketing purposes are very large, and can range from the support of economic activities of the area to attract investments, to promoting tourism, to urban marketing. Of particular importance, the objective of enhancing the economic activities of the territory, is the relationship between the image of the country, brand image and product image, which, as we know, concerns the assessment of the "Country of Origin Effect" (Jaffe, Nebenzahl 2008).

1.3 The Significance of the Country of Origin Concept in the Globalization Era

As anticipated, defining the concept of CoO in recent years has become particularly complex since the intensification of global dynamics has become increasingly dense (Phau and Prendergast). In the light of an progressively important fragmentation of activities in most countries, some factors that have led multinational companies to create new competitive strategies of production and supply are: the increase in international exchanges, the achievement and consolidation of increasing economies of scale and production, as well as an increased competition between countries. It is clear that the difficulty lies in consumers' identification of the origins of products (Li, Murray and Scott; Phau and Chao, 2008). This phenomenon has created hybrid products, namely goods from two or more countries, where it is not necessary to indicate the country in which the company is headquartered (Han and Terpstra; Hamzaoui and Merunka, 2006).

Until now, we have implicitly interpreted the expression "country of origin" as the manufacture and design that takes place in a single country. However, we can no longer be satisfied with this initial meaning as it assumes a multidimensional significance capable of uniting together different countries and different factors into a single product or service with the help of various production processes. Thus, in addition to the concepts 'assembled in' and 'made in', we must give more value to the terms 'engineered by', 'manufactured in', 'parts supplied by' and 'designed in' (Han and Terpstra, Chao; Ahmed and D'Astorus; and Ahmed Chowdhury, 2009). Under these circumstances, the real origin of the product, although it may have a particular importance for the product, is well in the background and tends to take on a lesser importance in the evaluation process of the buyer given the multiplicity of the underlying production and distribution processes.

In light of this, many scholars have abandoned the idea of the made in country itself as the location of manufacture, and instead, are focusing more on consumers' group-brand-country associations of products (Johansson et al.; Thakor and Kohli). In addition to redefining the concept of "origin", scholars are converging towards an expansion of the model of CoO that no longer refers only to the country, but is more generally applicable to any geographic region, provided it is able to convey the distinctive characteristics of the place and values in the minds of consumers (Lentz et al.; Andehn and Berg, 2011).

An alternative point of view suggests that studies on the CoO should shift towards adopting concepts such as PCI, Product-Country Image (Papadopoulos and Heslop; Liefeld, 2004) or more recently, the Country Image, which can also include the PCI (Roth and Diamantopoulos, 2009). This mainly refers to the reputation that consumers of the different regions of the country and consequently, of the product manufactured in the country itself.

Consumers largely evaluate a foreign country unknown to them on the basis of the media exposure of this country and the participation or presence of specific issues or events that occurred (Wang, Shoemaker, Han, & Storm, 2008), assuming that the images spread by the media describe the country in question. Although like goods imported are available in more markets and more countries today, it is interesting to observe how the consumer evaluates these goods in relation to the country where they have been bought, and this varies depending on the images and interpretations that the media would give them about the country itself.

In this regard, a product offered by the media as an image of a country, that is, the image of the product (PCI), can serve as a piece of a particular campaign brand (Barney & Zhang, 2008), or as "the building blocks of a general image of a country"³.

To better understand the role that the media plays in the formation of the National General Product Country Image, we will need to provide an important theoretical point of view. Several scholars have argued that the media's classification of a product from a specific country also refers to what is the feeling towards the country itself – love and hate, and for and against are just a few examples. In other words, the image of a given foreign nation can be extremely affected by the frame constructed by the media. Studies and empirical research⁴ report that previous frames can alter the perception of the people towards the PCI.

1.4 CoO as a Multidimensional Concept: Brand Identity Prism

To speak about a brand's Country of Origin, it is helpful to briefly define the term 'brand'. Though theories have varied over time, we can assert that a brand is a name, a symbol, a design, or a combination of these, identifying products or services of one or more vendors so as to differentiate them with other competitive offerings. The concept of a brand is composed of four different aspects: brand identity, brand image, brand equity, and brand purpose.

The **brand identity** is "the key concept of the product that is clearly and distinctly expressed" and all the elements of expression that occur in front of the consumer.⁵ One of the economists that represented the brand identity, we find Kapferer, which has been graphically represented through a prism model.

³ Al-Sulaiti, K.I. and Baker, M.J. (1998), "Country-of-origin effects: A literature review", *Marketing Intelligence & Planning*, Vol 16, 3, pp150-199

⁴ Anholt, S. (2003), *Brand New Justice: The Upside of Global Branding*, Butterworth Heinemann, Oxford

⁵ Nandan, Shiva, An exploration of the brand identity-brand image linkage: A communications perspective *The Journal of Brand Management*, Volume 12, Number 4, 1 April 2005, pp. 264-278

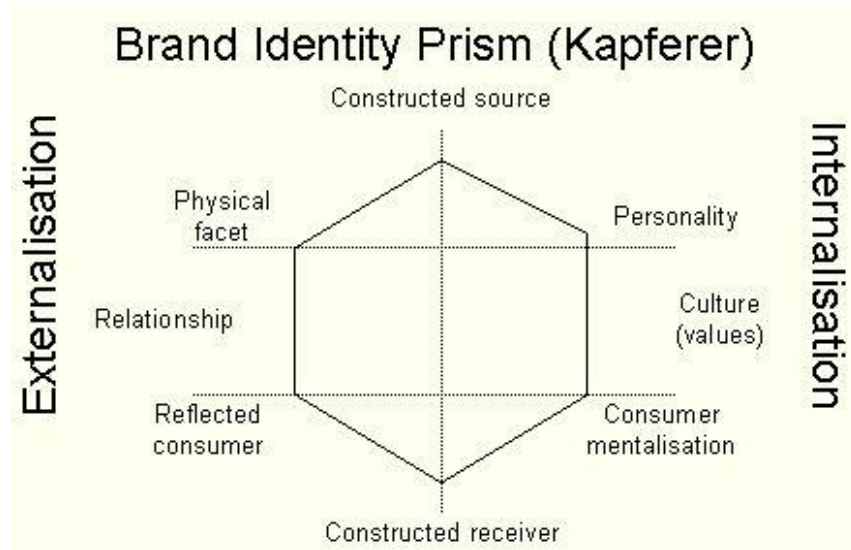


Fig.1 Brand Identity Prism – Kapferer (1986)

Seen above is a perfect prism that represents the various facets of a brand. It concerns the external elements (physical elements, report and reflection) as well as the internal elements of the brand (personality, culture and mentalisation):

- Physical elements: a set of objective characteristics and external associated with the brand
- Personality: the character of the brand, associated with typical human characteristics
- Report: the relationship between brands and consumers
- Culture: the system of values that the brand incorporates in itself derived from the objects/services that it produces. A brand can evoke the country of origin, or the know-how and technology that possesses
- Reflection: the way in which customers of a brand identify with the characteristics of the brand itself
- Mentalisation: how the consumer feels through the use of the brand⁶.

All the faces of the prism form a single structure indissoluble. This places its bases on the principle that the brand does not exist if does not communicate⁷.

The **brand image** is "the perception of the brand that exists in the mind of the consumer and may or may not be in harmony with the brand identity⁸." It includes a variety of associations, memories, expectations,

⁶ J.N. Kapferer, Rumeurs, le plus vieux média du monde, Parigi, Editions du Seuil. 1987, pp. 107-108.

⁷ M. Lombardi, Il nuovo manuale di tecniche pubblicitarie. Il senso e il valore della pubblicità, Milano, FrancoAngeli, 1998. Pp. 125-126

⁸ S. Anholt, L'identità competitiva, 2007 cit. nota 2, p.10

and other feelings related to the product. The brand image is therefore what we define as an environment in which the signals are perceived by the end user and consequently influences their buying behavior.

The **brand purpose** is similar to the corporate culture. This aspect of the brand is often likened to the spirit of an organization and common purpose that distinguishes a company.

The **brand equity**, or the value of the brand, is "the legitimacy given to the company by a loyal consumer base to continue to produce, promote, innovate, develop and sell its range of products." The brand gains value when the product or service sold or offered achieves a strong and positive perception from the market. These concepts have allowed us to arrive to theories that suggest interpreting the nation as a brand, as we shall see later (Sec. 2.5).

The Country of Origin is, in a broad sense, the connotations that the territory, area, and region associate with the creation, production, and design of a product or service. From this basic definition, we are left with many different insights.

First of all, the term "country" is not only the nation, but also the specific regional area where the product was actually made. In the latter case, the correct term would be "Place" of origin. This clarification has important implications given the presence of countless places known worldwide for their special expertise, skills and traditions that are the basis of unique products in the international scene. That statement assumes a crucial importance as it helps to better understand the concept of territory of origin, which often goes far beyond the mere location of the factory to include all those cases where the quality of the product is ideally linked to the territory in which it has been made. This can either be done by the presence of craftsmen with skills transmitted for generations for the particular traditions, for resources and raw materials available in that specific area, the presence of an industrial policy that favored a development, or of an area and linking it to one or more categories.

Considering the categories of the aforementioned products, it is possible to draw a continuum for the relationship between the product and the territory in which this is achieved. On one end we find products that have a relationship "surface" with the territory of origin, while the other end contains products whose quality depends exclusively on the territory in which they are created. Within the continuum there are the intermediate cases (the most numerous), i.e. products whose quality depends more or less from the place they come from.

Another aspect of the CoO that deserves attention is the brand's country of origin. Also known as Country of Ownership, this is the country where the brand was created and to which the latter is unconsciously

connected. The brand name is written without specific formatting that distinguishes one brand; this is the word with which consumers refer to the brand. As such, it is the most important hallmark of the company and its product.

The real issue for which the CoO is a multidimensional concept is that the dynamic model of the country image is a combination of halo effect and summary effect. As we will see in Section 2.4, this definition is incomplete because it does not examine the relationship between the brand image in detail and the country image, thus neglecting the growing phenomenon of "hybrid products" (Chao, 1993), ie. products made with the contribution of several countries. The CoO must therefore be considered a multi-dimensional indicator which, according to the setting of various studies, can be decomposed according to:

- The country in which it operates production or Made in Country Image, in the country where it is designed, the country where the parts are made and the country where the parts are assembled (Ahmed and d' Astous 2008);
- The country of origin of the brand or product or Origin Country Image (Jaffe and Nebenzahl 2006);
- The country in which places the company brand or Country of Brand (Ahmed et al. 2002);
- The country of origin of the company's proprietary system (Phaarr 2005);
- The country in which develops e-commerce infrastructure (Ulgado 2002).

In this analysis, it cannot take on importance the logo, which often refers in some way to the Country of Origin of the brand. "The logo is the text element that distinguishes a brand. The element may have a graphics component tied closely to the text. When it is devoid of the graphics component takes the name of logotype. The logo may have changed compared to the traditional text and can identify with acronyms in which the designer curates the arrangement of letters."

This importance increases as early as the brand logo can convey a sense of belonging to a specific country, from which it draws the features that could make the product associated with the positive and negative elements of the country itself.

Sometimes a deliberate choice, but in many countries with an obligation imposed by law, the label has increasingly been at play for consumers who find a source of additional information in them with respect to information that is otherwise known. This enables a faster product evaluation process, both for companies wishing to obtain, or increase, the competitive edge by relying on a positive label of origin perceived by the public.

However, there are limitations to the use of "Made in labels" from businesses, and these limits can be distinguished as: legal constraints and economic constraints, which will be discussed further in the section of Reference Standards (par. 1.7).

Economic elements that one must consider when trying to analyze the effects that the label "Made in" will have on the market (and subsequently, sales) are: the way consumers perceive the country of origin of the product, the weight that the country of origin has on the purchasing decisions of consumers and their perceptions, the degree of consistency of quality assigned to the country of origin, and the "relevant" attributes of the product.⁹

The first element to consider is the way in which consumers perceive the country of origin of the product, as it's the factor that can determine the presence of certain stereotypes that people associate with different countries. This is a set of beliefs and convictions, which often arise from the limited knowledge of a place, the difficulty for the consumer to get information on that particular country, or even to the reduced interest in the same place. Most often, people create an opinion on a subject through a conversation with a friend, an online article or an advertisement. Often and easily, these beliefs lead to images and opinions, however erroneous and divergent of reality. Right or wrong, the process by which one creates the perceptions and beliefs of people comes from external stimuli, which sometimes differs greatly from a complete image of the object or context. This can happen with products, services or, in this case, with countries.

People are too often influenced in their choices when their knowledge of a country is reduced and limited to the vision that the media intends to provide. Through specific events, positive or negative, one can enhance or destroy the appeal of products coming from that place. Therefore we understand that the consumer perceives the country of origin as an important factor in making purchasing decisions.

The second point to consider measures that we will delve further into, is the Country of Origin Effect and its weight on the process of consumers' product evaluation. It remains necessary to sustain that the Country of Origin has always assumed the highest value onto a product and as such, it is factor which is assessed by the purchaser with a high priority level – whether or not the evaluation it leads to results in a purchase of the product. From the marketing point of view, the product consists of a set of attributes or characteristics that define the value for the individual consumer. These attributes, as we know, can be intrinsic and extrinsic. Intrinsic attributes are characteristics related to the appearance of the commodity product, such

⁹ Cattin, Philippe, Jolibert, A., & Lohnes, C. (1982). A cross-cultural study of 'made-in' concepts. *Journal of International Business Studies*, 1(Winter), 131-141.

as quality, color, smell, material, fabric, and components. The extrinsic attributes, however, are related to the outward appearance of the product that usually belong to the sphere of marketing and branding, price, geographical origin, and so on. Product attributes are especially vital in the evaluation phase of alternatives that each consumer faces. The consumer, in fact, chooses to buy the product that has the best set of attributes against a certain price.

We must clearly take into account that the attributes assume a different importance to every consumer, because it is important to first fully understand the process of evaluating the product. Assuming that the consumer will buy a product within a particular category with the highest score in terms of attributes, the choice of the product is always preceded by the allocation and weighting of the scores, considering the various attributes in order to obtain a score total for two or more products that fall within the consumer's evoked set, the set of products that the consumer consider as candidates for purchase. The weights and scores, thus lead to a total weight ranging from 0 to 1, 1 being the total score.

The final score will be given not only by the score assigned to each attribute, but also by the weight that each attribute has in each individual's evaluation process. Let us consider the example of a Chinese consumer faced with the decision of purchasing a car abroad. The relevant options are a Fiat 500 and Volkswagen Golf. This consumer is a middle-aged man with two children and an average income, loves sports cars and appreciates a certain aesthetic appeal. From this brief description, it is possible to deduce the high importance—high weight—that the consumer assigns to the following attributes: spaciousness, comfort, safety, price, and brand. The other attributes are not considered as important, such as the country of origin, performance or consumption. This means that despite the consumer being aware of lower fuel consumption or the Golf being the highest performance, the choice will be focused on the Fiat 500 due to its lower price and better security, as these are attributes that have greater weight and therefore higher priority. Suppose that the country of origin becomes a member of the attributes most considered by the consumer, and that this attribute is assigned a far superior weight with respect to the other attributes (including price and safety). We can further assume that Germany is perceived as a country that high mechanical expertise while Italy is not perceived as a country of excellence in this area. In this case, despite the FIAT 500 having a lower price and being relatively safe, the consumer will choose the Volkswagen Golf, due to the importance of the car's geographical origin.

The above example, although very simplistic, sets out the main elements that should be considered by marketers when trying to assess the impact that the Country of origin has on consumer perceptions, and

thus on their attitude to the purchase of the product. Drawing from multiple basic attributes, elements that fit together to shape the decision to purchase a rational view (with all the limitations attached) are:

- Attributes considered in the process of evaluation
- Beliefs from which the specific assessments of the attributes for each product fall into the evoked set
- Importance weights that reflect the relative importance of each attribute in this product category

At this point, the degree of consistency among the primary attributes of the product and the qualities attributed to the country of origin of the product is the third and final point to consider when analyzing the effect of the label "Made in" on the market.

Starting with the fundamental premise that the collective imagination about a good or a country can sometimes be distorted and does not reflect reality, the way the product and the country interact with each other and with the outside world has become a critical factor determining success or failure. A TV produced entirely in Italy would have little chance of being preferred to the same product made in Japan if the two alternatives were sold in a store in China. In fact, the Italian product could be even more powerful than the one made in Japan, but the Japanese product is perceived as having a better quality, because Japan is associated with expertise and tradition in the production of electronic products. But what are the reasons behind such a disparity? Is it because Japan is perceived as a producer of TVs, while the same is not true for Italy? Or is this a question that opens up other potential scenarios, such as the relationship between companies and their country of origin. However, since the image of a country is the result of a number of factors (culture, history, economic and political situation, products and services), it can be said that businesses, especially those of international importance, can affect the image of the country of origin in the long run. Consider the contribution brands like Ferrari and Armani have contributed to Italy's reputation to the rest of the world. The image of the country is therefore not a closed and inalterable construct; on the contrary, it is a dynamic quality that is open and susceptible to change.

In addition, this naturally directs a focus on the territorial marketing policies launched nationwide to strengthen and improve the Country Image, supporting companies operating on an international scale, as they can greatly influence the perception of the nation itself.¹⁰

¹⁰ Bilkey, W.J., & Nes, E. (1982). Country-of-origin effects on product evaluations. *Journal of International Business Studies*, 13(1), 89–99.

In summary, the Country of Origin of the brand is be relevant since the consumer may be able to recognize the nationality of the brand. In the event that the brand is not well known, the CoO is of even greater importance as it adds value to the product for the consumer who might not be willing to search for information on a product or brand unknown to them.¹¹

Studies on CoO have found that consumers tend to assign to the various countries in the world of stereotypes, sometimes resulting in incomplete and imperfect knowledge.

1.5 Reference Standards

The theme of Country of origin and its relevance in terms of economic or, more particularly, international marketing, has been explored since the 1960s. While studies on this topic are quite recent, the "made in" labels have been used for over 100 years in the international economic scene.

Now let us look at the prospect of legislation more closely, analyzed by the lawyer Monica Rosano from *Newsmercati*, the registered publication house for the Court of Milan.

European legislation

What are the conditions that bring the products to be marketed in Italy or abroad, the words "Made in Italy"? The problem arises, in particular, when some or all of the processing stages of the product are held outside the Italian territory.

In this case it must be determined:

- Whether and how one can qualify these products as Italian
- If there is a legal obligation to mention the geographical location of the performance of work

We should therefore separately analyze these regulations on an international, European, and national level.

'Made in' on an International Level

Many countries have signed the Madrid Agreement, which asserts that there must be a mandatory "and precise indication in prominent letters of the country or place of manufacture or production, or another indication sufficient to avoid any error regarding the true origin, under penalty of the seizure of the product."

¹¹ Michael Solomon (2010), "Consumer Behaviour. A European Perspective" (libro).

This obligation, however—as it has been incorporated into our legal system— is not interpreted as an outright obligation indicating the origin of the goods, as it is interpreted as a chance to sell an imported product under one brand importer. Only in the case where there is potentially deceptive evidence (addresses, phone numbers, references to websites, etc.), besides affixing the brand, will be necessary to verify whether the conditions for the configuration of the misconduct mentioned by the Madrid Agreement.

Article. 1 of Presidential Decree no. 656/1968 (the implementing decree of the Madrid Agreement) provides that goods suspected of causing a false or deceptive indication of the source are subject to administrative detention at the time of their introduction in Italy, by the competent customs offices, which will immediately notify the authorities. In essence, the Italian rules transposing the Agreement limit the application of the kidnapping, limiting the executive procedures by Customs Authority to cases where there is reasonable suspicion that the goods bear a false or misleading indication of origin.

So it does not seem necessary to indicate the foreign origin of the goods: what is forbidden is, however, to lie about the origin.

'Made in' on a European Level

Since 2005, there lies a proposal at the EU level calling for a regulation that would have the ambitious aim of standardizing the rules on origin labeling in the 27 member countries. The Italian Government has provided a strong impetus to the adoption of the Regulations through the proposals presented by the Hon. Cristiana Muscardini.

Please note that in October 2010 during the plenary session, the European Parliament approved, by a large majority, the text of the regulation that is now under review by the Commission.

There remain disagreements within the Member States between the two sides represented: on the one side, Southern European countries (including Italy) are in favor of the adoption and, while the Northern countries are opposed to labeling restrictions.

It is not, therefore, possible to make forecasts on the approval, or at least, on the timing of the launch of the legislation in question.

At present, there is no express requirement for labeling of origin of the product under EU regulations. Additionally, the European Court of Justice has demonstrated his opposition to introduce compulsory indication of the "made in" by member countries on several occasions. According to the Community Court, the introduction of such a requirement would give consumers the opportunity to assert any prejudices against foreign goods and undermine Europe's single market. Under the Courts, the origin would be worthy of protection only if there is a "specific quality and characteristic" of the product.

In Europe it is also appropriate to recall the definition of "origin". The Community Customs Code—adopted with Regulation no. 450/2008—stipulates that in the case that the production of the goods has involved more than one country, the goods are considered native to the country where they underwent their latest transformation/substantial work under the following cumulative conditions:

- Processing/substantial transformation
- Economically justified
- Carried out by an undertaking equipped for this purpose
- Which results in the manufacture of a new product or represents an important phase of the manufacturing process

The concept of substantial transformation is not immediately understood: in some sectors such as textiles, the European Commission has intervened with some specifications (Art. 38 of EC Regulation 2454/1993) and establishes a series of processes considered insufficient to confer the origin.

Subsequently, law n.55 was enacted on April 8, 2010, known as the Reguzzoni-Versace-Calearo Law: it established a system of compulsory labeling of intermediate and finished products intended for sale, suitable not only to highlight the place of origin of each stage of processing, but also to ensure the traceability of products.

The system covers only the textile, leather goods and footwear.

For the purposes of this Act (Art. 1 paragraph 4) an indication of the origin mark "Made in Italy" can only be affixed on finished products whose phases have mainly taken place in the country and, in particular, where at least two of the manufacturing steps provided for each area have been carried out in the same territory, while for the remaining stages there is verifiable traceability.

Finally, each product that is not qualified for the Made in Italy affixation must indicate the country of origin, in compliance with Community legislation.

Therefore, we are justified to say that in accordance with Community law, a company can indicate "Made in Italy" on a product when that product:

- Has been wholly obtained in Italy
- Has undergone in Italy a processing step substantially

'Made in' on a National Level

National legislation is similar to that of the EU: at present, except for some specific types of products, applying the labeling "Made in" to goods sold in Italy is not mandatory and only occurs if the country of destination requires it by virtue of its own internal rules (for example, China, USA, and Canada).

This is due to the fact that the art. 31a of Decree 273/2005 (converted into Law 51/2006) has suspended the application of Article. 6, letter c) of the Consumer Code (Legislative Decree no. 206/2005), according to which the products or packaging of consumer products should be clearly visible and legible, among other indications including those relating to the country of origin, if located outside the European Union. The decree implemented in article. 6, letter c) of the Consumer Code, in fact, has not yet been issued with the result that the effectiveness of that provision is temporarily suspended.

The legislator intervened on the tricky issue of the protection of the "Made in" and the consumer, by repealing the controversial art. 17 of Law 99/2009, which provided an indication in each case of the product's foreign origin, introducing new provisions that leave room for possible misunderstandings and shadows.

The recent Law 166/2009, in particular, ruled that the import and export—or the commission of acts unequivocally directing the marketing—of products bearing false or misleading indications of origin or source, constitutes an offense that shall be punished in accordance with article 517 of the Criminal Code. It also considers misleading indications on the origin and foreign origin of the products or goods, such as the use of signs, pictures, or anything else that could lead consumers to believe that the product or good is of Italian origin, including the use of false or misleading corporate brands.

Where false endorsement occurs, the entrepreneur will therefore be punished in accordance with art. 517 of the Criminal Code under which "any person who offers for sale or otherwise distributes works or industrial products, with names, trademarks or signs, national or foreign, likely to mislead the purchaser about the origin, provenance or quality of the work or product, shall be punished, if the offense is not foreseen as an offense by another provision of the law, with imprisonment up to two years and a fine of up to twenty thousand euros". Additionally, the goods unlawfully bearing the words "Made in Italy" will be subject to seizure and relevant administrative fines will be imposed.

L. 166/2009 has also established that the importer can submit a customs declaration (the "certificate") at the time of the customs import, which is committed to regularize the goods upon marketing, indicating the consumer with accurate information on the origin.

In summary, the rule presently states that the manufacturer/importer is not required to indicate the source to the final consumer, provided that there are no signs that are likely to mislead the consumer on the actual origin of the product. However, if it is indicated, it must respect the rules of origin provided for by European legislation. In case of false or misleading information, by contrast, the entrepreneur (in the case of checks) will be punished according to the criminal legislation mentioned above.

Over the years, there has been a large process because of the divergence between how the interpretation of the law is carried out on one end, with the rigorous practice followed by the Customs authorities on the other.

The Court of Criminal Appeal is so established (see, most recently and among other, Cass. Criminal 15374/2010) to confirm that a good's origin does not necessarily mean the place of manufacture of the total (or partial) goods, but instead, that it comes from a particular manufacturer who undertakes various responsibilities like quality in particular. The Court argues, in fact, that the induction in deception of Article. 517 C.P. concerns the origin, provenance, or quality of the product. The origin and provenance are functional to the quality, which is really the only crucial element given that the place or establishment in which the product is packaged is indifferent to the quality of the product itself.

The new Italian legislation on labeling "Made in": Law 55/2010

The new rules on labeling, contained in the recent Law 55/2010, exclusively concerns textiles, footwear, leather goods, tanning products and sofas and provides for a system of compulsory labeling bearing evidence of the place of origin in each phase of processing.

Under the Act, the words "Made in Italy" are only put on finished products for which at least two of the processing steps have taken place mainly in the national territory and for which the remaining phases have verifiable traceability. It is, therefore, a prediction that is not immediately understandable and certainly requires further clarification on the part of our legislature.

From comparative analyses of these rules, it emerges that it is possible to designate the words "Made in Italy" on a product without running the offense under article 517 of the Criminal Code, only when the product has been wholly obtained within Italy or when it has undergone a phase of substantial transformation in Italy.

Consequently, the importer/manufacturer, on import of products from non-EU countries, may not need to specify the place of origin of the product and present the customs authorities with a certificate stating that they will regularize the goods at the time marketing with specific information for the consumer, except in to verify that the imported product is not part of a category for which it is mandatory to indicate the place of origin, for example:

- Food products, as established by the recent Law 4/2011
- Clothing, as required by Law 55/2010 whose effectiveness was, however, suspended "in fact" by the Customs Agency circular n. 119919 / RU, the toys under the Legislative Decree no. 313/1991, etc.

The entrepreneur may have an interest to affix signs or indications that qualify the product as Italian without, however, necessarily incurring the crime of false indications of art. 517 C.P. In this case, the company must use its own brand, as the Supreme Court has always emphasized, configured as a hallmark of the product and originating from a particular manufacturer to offer appropriate guarantees for the quality of the product, provided this is done in accordance to law. It must then be a registered trademark corresponding to a concrete business, and be entrepreneurially rooted in Italy, thus ensuring that the consumers are properly evaluating the goods they will buy. There is also the consideration that the legislation on the Made In has been defined, as of April 15, 2014, at a European level: on that date, the European Parliament had approved with an overwhelming majority (485 votes in favor, 130 against and 27 abstentions) the legislative package for the protection of European consumers from fake and harmful. Article 7 imposes to affix the "Made in" to both products manufactured in Europe and to those outside the EU. Before the obligation takes effect, however, it requires the approval of the Council.

Finally, the Decree Law that was approved and still plays an important role in the economic landscape and regulation of the 'Made In', in that it provides sanctions, is as follows:

Decree Law 135 of September 25, 2009 into law November 20 2009 166: This measure is a step forward towards a more effective protection of Made in Italy. With the entry into force, this decree has been increased by up to two years of imprisonment under article 517 C.P. (instead of the standard maximum of one year as previously predicted). This was added to paragraph 49a in article 4 of Law 350/2003 and, finally, it was introduced to the discipline of the collective brand "100% Made in Italy".

Paragraph 49a oversees what represents a misleading indication on the use of the brand by the proprietor or licensee, in order to lead consumers to believe that the product or good is of Italian origin in accordance with European legislation of the origin. Without being accompanied by a clear and precise origin, foreign origin, or otherwise, it is sufficient to avoid any misunderstanding by the consumer on the actual origin of the product, if it comes without a certification issued by the owner or licensee of brand, and remains the responsibility of the licensor during the marketing of the real origin of the foreign product.

For food, a real origin refers to the place of cultivation or rearing of the raw material used in the production. It also refers to the production and the location where it underwent substantial transformation.

Offenders are liable to a fine between € 10,000 to € 250,000.

Finally, a system of certification by which all products produced entirely in Italy can guarantee their collective brand as "100% Made in Italy" has been made.

This means that products or goods entirely made in Italy are classified as Made in Italy, under the current regulations, for which the design, processing and packaging has been made exclusively in Italy.

In law and fact, then, today there is what we might call the Custom Made in Italy (51% and finalized in Italy) and 100% Made in Italy (produced and made entirely in Italy).

The Institute for the Protection of Italian Manufacturers (ITPI), the certifying body of the product made entirely in Italy in Fermo has developed the Certification System "IT01 - 100% Original Italian Quality", establishing the collective brand's "100% Made in Italy Certificate". This is in order to overcome the doubts to which the legislation still leaves room.

The certification process starts with the voluntary subscription by the company concerned of the System Regulations IT01 and the request for certification. The products that the manufacturer intends to market using the trademarks and brands "Made in Italy Certificate" must meet the following requirements:

- Manufactured entirely in Italy
- Made after being semi-finished in Italy
- Built with natural materials and high grade
- Made with designs unique to the company
- Made according to traditional Italian craftsmanship

In addition, they must be:

- Made in compliance with security policies
- Made in compliance with the rules of hygiene

The institute grants and ascertains the maintenance of the certification (which has annual validity). One month after the certificate is granted, an official from the Institute will proceed to the completion of the investigation with the acquisition of the necessary documentation and the drafting of the Regulations. Moreover, the Institute has also proven to establish a traceable system for certified products "100% Made in Italy".

The certified company must utilize the distinguishing marks awarded to them with a holographic anti-counterfeiting trademark and consecutive numbering that is applied or attached to the product.

Chapter 2 – The Made In Italy Effect and CoO in Consumer Decision-Making

2.1 Consumer Decision-Making

It is essential to equip the company with interpretative instruments needed to define a multidimensional model able to globally define the influences of the Country of Origin (CoO). This can be done by analyzing the mental processes of perception and cognition that are involved in building an image of a country, and by evaluating foreign supply systems to identify consumers' particular *country image*¹².

As previously stated, various research has come to the definition of a unique conceptual matrix with respect to the constitutional aspects of the country image. Within the different contributions, the analysis of perceptions has played a crucial role as it describes the process by which the consumer filters, organizes and interprets external and internal stimuli. The basic function of perceptions is also evident from the definition of the image that the country intends to describe, as country image is "the impact that generalizations and perceptions about a country have on the evaluation of its products and/or its brands" (Jaffe, Nebenzahl 2008). We may therefore consider the CoO as "an indicator of extrinsic stimuli or verbal text that can be analyzed - in terms of selection, organization and interpretation – of the perceptions. The theory of these attitudes is perhaps best suited to explain the way in which the country systems are perceived by the mind of consumers through not only beliefs, but also through the emotions fed to the country" (Roth, Diamantopoulos 2008).

Underlying this process of formation of the attitudes are, in fact, the consumers' socio-demographic characteristics that constitute the information from which the consumer is informed about the demand and the country's system. Moreover, compared to the newly cited process of information seeking, researchers have suggested that the effect of the country image can be explained by a dynamic model that considers two alternative theoretical constructs: the halo effect and the summary construct (Erickson, Johansson and Chao 1984; Johansson 1989, Johansson, Douglas and Nonaka 1985; Shimp, Samiee and Madden 1993). The halo effect states that, if a person has no prior knowledge or experience with the products made in a given country, they will still have their own image as a source for the products and services.¹³ On the

¹² Elliott, G.R., & Cameron, R.C. (1994). Consumer perception of product quality and the country-of-origin effect. *Journal of International Marketing*, 2(2), 49–62.

¹³ Ahmed, S.A. and d'Astous, A. (1995), "Comparison of country-of-origin effects on household and organizational buyers' product perceptions", *European Journal of Marketing*, 29, 3, pp 35-51

contrary, the summary construct states that the country image is based on previous purchase and consumption experiences that the country already had for a domestic consumer. In other words, the country image acts as a halo effect when there is a lack of familiarity with the products of a foreign country. As they gain experience, consumers come into contact with the actual characteristics of the product or service of the foreign country, and exchange that image for a summary construct of these and other brands. In the search of information aimed at the formation of attitudes towards the country image, the model of the country image is a combination of the halo effect and the summary construct, which shows that "faced with the need to evaluate products on which they have limited information, consumers use the perception of the country to develop an attitude toward the brand. Experience with products manufactured in one country leads to a revision of the image of the country as a producer." (Jaffe, Nebenzahl 2008).

As described above, it brings out the important distinction between the affective and cognitive component that interact together in determining the attitude towards a country. The affective dimension refers to the emotional aspect of the psychological reactions that reflect the subjectivity of the individual in relation to people and goods. Cognitive aspects concern, however, the objective characteristics of the country and the product or service. Here, what it is important to note is the interaction between the emotional and the cognitive aspects. Many researchers have shown that the cognitive aspect precedes the affective aspect, synchronising the process in a conceptual learn-feel-do sequence. Ultimately, what emerges is that the post-modern consumer is increasingly oriented to experience the act of consumption in accordance with dynamic sequences and interdependent rational and cognitive elements, and emotional and irrational elements.

For a better understanding of the effects of the Country of Origin (CoO), one must examine the specifics of the decision-making process as well as the effects this process has on the CoO because, as noted in Chapter 1, the elements and attributes that lead to the decision by the individual takes on different weights depending upon individual differences. Globalization, its effects, and the reduction of distances through greater ease in moving and transport require a more thorough analysis of the phenomenon of Consumer Decision Making.

In recent years, the increasing competitiveness of the various countries has required an examination of the theme of CoO in order to use this asset to effectively compete against economies and growing markets to make the most of the competitive advantage that a marketing leverage has to offer. The decision itself is a

complex process: many researchers in the material, social, behavioral and psychological fields have dealt with a theoretical understanding of the process and approached it through empirical research¹⁴. In fact, since Schooler's time, it is understood that a product's country of origin could determine the consumer's final decisive relevance. Consumers facing more and more tasks in the decision-making process: in short, they must decide on the selection, purchase and use of products and services (Bettman et al., 1991). Decision-making is a task for consumers, as they are loaded with a set of information in the form of advertisements, brochures, data sheets, testimonials, sales talks, reference group opinions, price, value, and so on. With a large number of alternatives and an enormous amount of information available, the consumer is overloaded and the decision-making process which can at times become expensive. In order to investigate the issue, Payne suggested that consumers develop specific decision-making methods depending on the situation they are in, with the intent of reducing cognitive load, as stated Shugan, and to employ a "saving of knowledge". Bounded rationality, introduced by economist Simon in 1955, suggests that consumers are characterized by a limitation in their information processing abilities, resulting from the limits of the "working memory" as confirmed Miller and Simon. Moreover, consumers are willing to make decisions with less precision by reducing search time and effort during the analysis of information (Bettman et al., 1991).

In order to reduce the cost of the decision, the consumer seeks help (Haubl & Trifts, 2000) and this aid will considerably reduce the total perceived and actual cost, thus lightening the cognitive load and reducing the number of items considered down to a manageable size. This inspiration becomes a proxy for many of the properties or characteristics that are expected to be held by the product.¹⁵ The proxy can thus be derived from the brand, from previous experience, expert opinion, by the dealer, the reputation, of the place, or by the Country of Origin.

The training opportunities through which individuals will take decisions can be of intrinsic nature (performance, quality) or extrinsic (price, brand). Intrinsic signals cannot be assessed until time of purchase and use by the consumer, but can only be transmitted by word of mouth and known by common beliefs. Consequently, they seek an extrinsic evidence, which is considered as a surrogate to the inherent

¹⁴ Erickson, G.M., Johansson, J.K., & Chao, P. (1984). Image variables in multi-attribute product evaluations: Countryof-origin

¹⁵ Lillis, C.M., & Narayana, C.L. (1974). Analysis of 'made in' product images—An explanatory study. *Journal of International Business Studies*, 5(2), 119–127.

characteristics of the product. Consider, then, the CoO as an asset among those expressing elements extrinsic to some inherent qualities such as quality or reliability; for example, consider the case of cars from Japan: it is thought that they are of good quality and high reliability, while German cars are perceived as safer. This is an example of CoO, as also in the field of fashion, the fact that a product is considered better and, consequently, preferred, when connected to Italy or France.

The image of an object is the set of opinions and perceptions that the market puts attention on. The opinions, perceptions and suggestions are the result of the experience of the person with that object (country, product, brand etc.). The challenge that companies face today concerns the effective management of the image of their brand in order to increase the success of its products and to consider the image of the country of origin in the market. The company handles items that are by nature under its control (branding, product policies, communication strategies etc.)¹⁶. But taking into account external factors and effects, whether positive or negative, results from the country image - a construct that is often beyond the control of the individual company.

Marketers must understandably take into account the characteristics of the target consumer and adapt the product to individual needs accordingly. In addition, the consumer often establishes a relationship with the brand, which can be love - brand love - or brand hate¹⁷ which revises the same characteristics of his personality.

2.1.1 Human Personality and Brand Personality in the Buying Process

Psychologists define the substance of human personality as "the systematic description of the traits" (McCrae & Costa, 1987), where traits are "relatively enduring styles of thinking, feeling, and acting" (McCrae & Costa, 1997).

¹⁶ Elliott, G.R., & Cameron, R.C. (1994). Consumer perception of product quality and the country-of-origin effect. *Journal of International Marketing*, 2(2), 49–62.

¹⁷ Rajeev Batra, Aaron Ahuvia, & Richard P. Bagozzi, Brand love, 2012 *Journal of Marketing*

After Decades of research on a taxonomy of human personality, consensus now rests upon five dimensions that provide a complete description of the human personality: Extraversion. Agreeableness, Conscientiousness, Emotional Stability vs. Neuroticism, Openness to experience (Tab.2.1)

Traits (low scores)	Global domain scales	Traits (high score)
<p>Extraversion Reserved, sober, aloof, task-oriented, retiring and quiet</p>	<p>Assesses quantity and intensity of interpersonal interaction, activity level, need for stimulation and capacity for joy</p>	<p>Sociable, active, person-oriented, optimistic, fun-loving, affectionate</p>
<p>Agreeableness Cynical, rude, suspicious, uncooperative, vengeful, ruthless, irritable</p>	<p>Assesses the quality of one's interpersonal orientation along a continuum from compassion to antagonism in thoughts, feelings and actions</p>	<p>Soft-hearted, goodnatured, trusting, helpful, forgiving, gullible, and straightforward</p>
<p>Conscientiousness Aimless, unreliable, lazy, careless, lax, negligent, weak-willed and hedonistic</p>	<p>Assesses the individual's degree of organisational persistence and motivation in goal-directed behavior.</p>	<p>Organised, reliable, hardworking, self-disciplined, punctual, scrupulous</p>
<p>Emotional stability Worrying, nervous, emotional, insecure, inadequate and hypocondriacal</p>	<p>Assesses adjustment versus emotional instability. Identifies individuals prone to psychological distress, unrealistic ideas, excessive cravings or urges and maladaptive coping responses</p>	<p>Calm, relaxed, unemotional, hardy, secure and self-satisfied</p>
<p>Openness Conventional, down to earth, narrow interests, unartistic and unanalytical</p>	<p>Assesses proactive seeking and appreciation of experience for its own sake; toleration for and exploration of the unfamiliar</p>	<p>Novel, broad interests, creative, original, imaginative and untraditional</p>

Tab.1 Dimensions of Brand Personality, Jennifer L. Aaker, Journal of Marketing Research Vol. 34, No. 3 (Aug., 1997)

Brand Personality

In 1997, Aaker¹⁸ defined brand personality as "the set of human characteristics associated with a brand". Researchers have focused on how the personality of a brand enables a consumer to express his or her own self, an ideal self, or specific dimensions of the self through the use of a brand. Practitioners view brand personality as a key method of differentiating a brand in a product category, as a central driver of consumer preference and usage, and as a common denominator that can be used to market a brand across cultures.

Brand personality is "the set of human characteristics associated with a brand". It is composed of a five-factor structure or set of dimensions:

- Sincerity
- Excitement
- Competence
- Sophistication
- Ruggedness

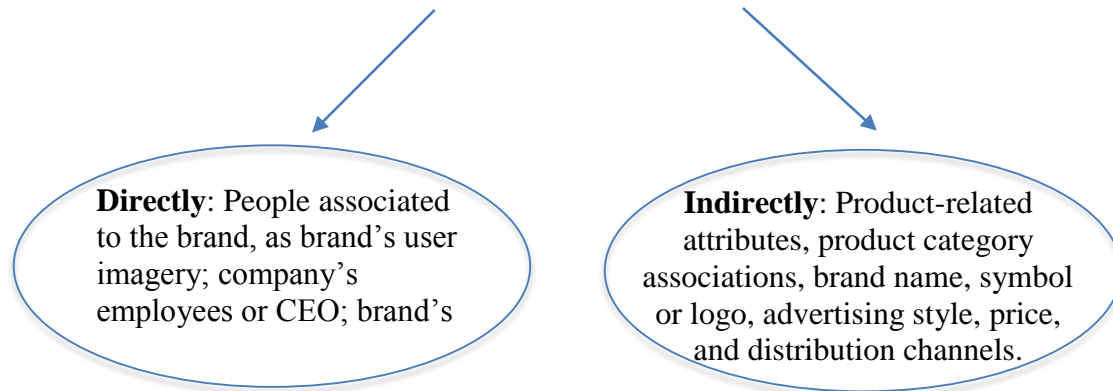
Brand Personality vs. Human Personality.

The connection between brand and human personality is realized as following:

- **sincerity** taps into traits of **agreeableness** and **conscientiousness**;
 - **excitement** includes items like **sociality**, **energy** and **activity** just as extraversion does;
 - competence captures traits found in **Conscientiousness** and **extraversion**;
 - the other two dimensions, **sophistication** and **ruggedness**, do not relate to any of the Big Five dimensions;
- this pattern suggests that brand personality dimensions might operate in different ways or influence consumer preference for different reasons. For example, whereas sincerity, excitement and competence tap an innate part of human personality, sophistication and ruggedness tap a dimension that individuals desire but do not necessarily have. Advertising for prototypical sophisticated or ruggedness brands.

¹⁸ Dimensions of Brand Personality, Jennifer L. Aaker, Journal of Marketing Research Vol. 34, No. 3 (Aug., 1997), pp. 347-356

Assuming that having a brand personality is important, how does a brand go about developing one? A brand could realize it in two directions:



In terms of consequences, researchers suggest that brand personality increases consumer preference and usage, evokes emotions in consumers and increases the level of trust and loyalty.

From brand personality to consumer brand relationships (Fournier, 1998), it's necessary to observe a framework for better understanding the relationships that consumers form with the brands they know and use. The focal points are:

- Brands can and do serve as viable relationship partners;
- Consumer-brand relationships are valid at the level of lived experience;
- Consumer-brand relationships can be specified in many ways using a rich conceptual vocabulary that is both theoretically and managerially useful.

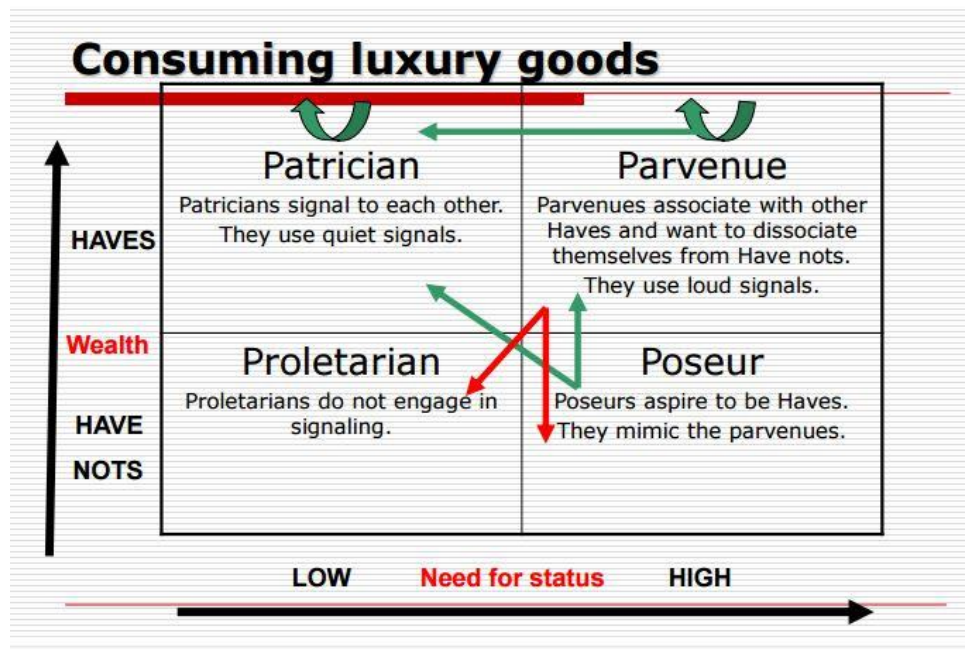
A priori themes in interpersonal relationships:

- Reciprocity: relationships involve reciprocal exchange between active and interdependent relationship partners;
- Meaning provision: relationships are purposive, involving at their core the provision of meanings to the persons who engage them;
- Multiplicity: relationships are multiple phenomena: they range across several dimensions and take many forms, providing a range of possible benefits to their participants;
- Temporality: Relationships are process phenomena: they evolve and change over a series of interactions and in response to fluctuations in the contextual environment.

2.1.2 Need for Status and Consumption Prominence

Status, or social stratification, is prevalent in many aspects of modern society. Ridgeway and Walker (1995) define status as “one’s standing in a social hierarchy as determined by respect, deference and social influence.”

Status has its roots in ancient society where every person had a “place” in the social hierarchy. During the Enlightenment, the value of a person was defined by the company, so that the judgment of a person began to be dictated by his social role. The status was based on the results achieved by the person and his wealth. The public perception has started to change when the company realized that the system could be rigged. On the contrary, it began to think that could be a reliable connection between merit and success. Money has become so important in terms of morale, because people who were well-paid showed intelligence and ability. The wealth thus became more and more an indicator of social status (de Botton, 2004).



Tab. 2 Consuming luxury goods, Consumer Behavior, Young Jee Han, Joseph C. Nunes, & Xavier Drèze¹⁹

¹⁹ Signaling Status with Luxury Goods: The Role of Brand Prominence, Young Jee Han, Joseph C. Nunes, & Xavier Drèze, 2010

Relating to the Need for status, an important topic is what we define consumption “prominence”. Brand prominence is the extent to which a product has visible markings that help ensure observers recognize the brand. Manufacturers can produce a product with “loud” or conspicuous branding or tone it down to “quiet” or discreet branding to appeal to different types of consumers.

Promotion relating to prominence

While marketers traditionally recommend firms focus their advertising on their target market, luxury goods manufacturers must consider advertising to everybody. When advertising to the masses, the message must be aspirational rather than functional.

Parvenus should believe proletarians, and poseurs know the brand and will recognize them as wealthy when they display it on their possessions. If the brand were unknown to the general public, it would not serve as a dissociative signal.

The advertising, in the case of the cigar industry, which will be analyzed later, is not only related to the product and its features, but also to the values and the status symbol which gives the cigar its binding.

2.2 Image of Product, Brand and Country

As discussed, the previous paragraph leads us to admit the existence of a country-specific image for different product categories. Moreover, Nagashima described the country image in one of the first definitions as "the picture, representation, and stereotype that businessmen and consumers attach to products of a specific country. This image is created by such variables as representative products, national characteristics, economic and political background, history and tradition "(Nagashima 1970).

This raises the need to consider the dual nature of the country image: a general type (Overall Made-in Country Image and Overall Origin-Country Image) and another, influenced by the first, which focuses on the role of country source for a particular product line (image of the country as a producer of a product line and image of the country associated with the origin of the product line) (Jaffe and Nebenzahl 2006). In reality, this means that a country does not automatically guarantee a positive as being positive when considered as a source of a specific supply system. Within this framework of analysis, the aspect of interaction dynamics of the country image phenomenon emerges again, where the different elements of the

image interface with the country brand image and product image. The brand image is inextricably linked with the image of the country, and average between this and the image of the product. It is essential, however, knowledge of the country's brand, so that we can transfer the image to the country brand image. The process finally leads to the definition of the product image. At this level, other factors come into play, and the external evaluation contributes to the definition of the product image, such as communication, the price, the image of the store. Still, moderator variables that are endogenous to operating in real consumption situations are able to change both the country image and the product image. The company will be called to assess the impact of these moderator variables in the relationship between the country image and brand image. In all these types of purchases, as ultimately it affects the image of the country of origin, what are the elements that make up the Country of Origin effect?

2.2.1 The geographical origin. Several scholars argue that a key factor in creating a brand internationally is the influence that the place of origin of the product has the knowledge and perception of the consumer on the brand and the product itself²⁰. In fact, the presence of an increasingly globalized world has meant that the concept of Country of Origin represents a marketing tool can offer a competitive advantage to companies. CoO, therefore, can be understood as the effect that the location of the value chain of the products or services in a certain place has on the subject of consumer behavior, thus referring to the product and the country to which they are associated.

In this regard, Thakor and Kohli in 1996 coined the term 'brand origin'²¹, defining it as "the place, region or country to which the brand is perceived to belong to by its target consumers"²² and noted that this perception depends on where the product was realized and how it is connected to a particular brand or company.

One of the main issues when it comes to Country of Origin regards the geographical origin, as an element in a position to influence the purchase decisions of consumers. The concept of 'origin' is not simple to define, as it is a concept that has undergone a radical evolution over the years: it has gone from considering

²⁰ S. Anholt, "Nation-brands of the twenty-first century", *Journal of Brand Management*, Vol. 5, N. 6, pp. 395-406

²¹ Ahmed, S.A. and d'Astous, A. (1995), "Comparison of country-of-origin effects on household and organizational buyers' product perceptions", *European Journal of Marketing*, 29, 3, pp 35-51

²² C.S. Kohli, M.V. Thakor, "Brand Origin: Conceptualization and Review", *Journal of Consumer Marketing*, Vol. 13, No. 3, 1996 pp. 27-42.

only the country of manufacture to analyzing the product as characterized by multiple 'origins', which is the country that produces the main components, or in which countries they are assembled, and where are the design centers and the birthplace of the brand.

In this regard, Nebenzahl identifies the origin of the product as unique, but as a 'multiple', that is composed by:

- Country origin, ie the country that consumers associate with a specific product and a particular brand, regardless of the place where the product was manufactured;
- Designed in-country, ie the country where service is conceived, designed or where the product is designed;
- Made in country (or country of manufacture), which is the country where production took place (or component assembly) product and that can be indicated on its label.

Despite the knowledge that in reality, there are many origins of a product, we usually give the original product itself to a single source, to one country: the one in which the perception of consumers makes up the brand, keeping in mind that this does not often reflect the reality as the consumer relies on what the brand calls to reduce the timing and costs of product assessment.

2.2.2 The effects on the Consumer behavior. One of the first scholars to assert and prove the actual existence of tangible effects on consumer behavior due to the place of origin of the products has been Schooler: for his research, Schooler interviewed four groups of students in Guatemala on products bearing fake labels denoting the origin of the product. The labels were four Central American countries: Mexico, Costa Rica, El Salvador and Guatemala. The results of this experiment showed that respondents evaluated the products of Costa Rica and El Salvador in the negative with respect to products from Mexico or Guatemala. The results have established that there is indeed an effect of the country of origin, but the strength of this effect depends on the decision-making process of consumers.

In fact the consumer decision-making process begins long before the decision and involves effects that can last over time. The process consists of five stages: the perception of need, information search, evaluation of alternatives, purchase decision and post-purchase behavior.

This is a process that can be stimulated by marketers to increase the awareness and engagement, and this can be done prior to recognition of a need.

Exposure. The first moment that the marketer can use to catch the attention of the consumer is when he/she exposes himself/herself to a stimulus. Exposure can be defined as first contact with information; it is a basic requirement if marketers want to change consumer perceptions, attitudes or behaviors. It can be intentional, when consumers purposefully search for information relevant to a goal or problem they have, or accidental, as it occurs when consumers unexpectedly encounter marketing information in their environments, or selective, when consumers become more adept at avoiding exposure.

Because exposure to marketing information is crucial to interpretation and to the success of marketing strategies, marketers need to develop strategies to increase the probability consumers are exposed to product information.

Attention. Attention involves focusing the cognitive system on information that is relevant to important goals and values. Four aspects of attention may be distinguished: gaining attention, holding attention and leading attention. Attention must be guided toward the message and not to peripheral elements in the communication.

Companies can also distract attention: this is usually ineffective, unless the arguments of the message are weak, in which case distraction might prevent consumers from discovering the weakness of the arguments (for example, the messages about the tobacco’s industry).

Attention can arise from the use of colors, the sound, the novelty, from humour, participation, and message customization.

Perception and interpretation. Once noticed, the stimulus should be perceived and interpreted in the intended way. Perception is the process whereby stimuli are received, the five senses feel them and then interpret them (Tab. 3.4).

Perceiving Through	Illustration
Vision	Use of colour/product/logo designs is important
Sound	Music soundtracks to TV advertisement can affect how the advertising message itself interpreted: use of fast music in-store to speed up the momentum of shopping

Touch	Well researched, but North Europeans not as tactile as South Europeans (important for sales); consumers like to touch products, and this creates problems for on-line marketing
Taste	Blind tests show importance of brand image
Smell	Good Aroma of mint, help tobacco's companies to make people smoke more

Tab. 3 An integrative review of sensory marketing: Engaging the senses to affect perception, judgment and behavior! Aradhna Krishna, 2011

The following phase is when a consumer feels a need, a demand raised by internal or stimulated by an external event, that it pushes objects that satisfy. The marketing operators must be skilled and able to implement those stimuli that trigger the consumer interest in the development of the product and, consequently, the marketing initiatives. For example, searching for information does not mean that the period immediately follows recognition of the need: the consumer may have to handle the product and then buy it directly or, alternatively, the need to store and search information about it. This information may be obtained from the consumer through different sources: personal, business, public or word of mouth.

At this stage it is critical that marketers make their information and sources clear.

Consequently, the consumer will choose between the alternatives available on the market and with which he himself has come in contact or which it is simply came to knowledge. There is, however, a single assessment process as every consumer will assign a different degree of importance of each attribute compared to their desires and needs, and it develops a series of opinions on the type of association between the brand and making individual attributes, giving the individual attribute utility and function. During the course of the evaluation, the potential buyer begins to express, explicitly or implicitly, the intention to purchase. He will buy the brand they prefer, but it can also happen that the first action of purchase, its opinion is influenced by the attitude of other individuals or unforeseen situations.

Once the purchase is completed, the consumer will be satisfied or not and satisfaction will depend on the relationship between his personal expectation and perceived performance than the product purchased. If the service received exceeds expectations, the consumer will prove very satisfied, on the contrary, if the actual performance does not reach expectations, the consumer will remain unfulfilled. The dissatisfied consumer may require replacement or a refund, you can return the product, or to proceed with legal action or even contact an association for the protection of consumer rights. Therefore, customer dissatisfaction has a

number of negative effects, including also includes the negative word of mouth, the dissatisfied customer uses to blow off steam, to create social involvement and contact with other consumers, to ask for advice. However, the marketing managers can reduce dissatisfaction post-purchase through measures that help consumers feel more driven while shopping.

For there to be an influence on the decision-making process just described, it is necessary that the consumer make a rating between information about the origin of the product concerned and his choice and that the importance which the origin is able to generate a investment of time and energy to the consumer to research and compare products more as well as their origins.

Therefore, the main factor to consider tracing the basic principles of the phenomenon of CoO is the definition of the concept of Product, Brand and Country Image. More generally, the image can be defined as "the set of opinions, ideas and impressions that a person has in relation to a subject" (Kotler 1997). In other words, the image comes from subjective interpretations of the individual who enters into a relationship with the representation.

In other words, the image comes from the subjective perceptions of the subject that enters into a relationship with this representation. "An image of the product is that particular representation that consumers are formed of a product or potential" (Kotler 1997). Similarly, brand image, the image of the country and the image of the place can be defined as mental representation, respectively, of a brand, a country and a place, such as to give consumers' attitudes and actions towards an object directly influenced by the image that has that object "(Kotler 1997). According to this line of thought, then, they are the images formed in the mind of the consumer that the real attributes of the product to have a predominant role in the processes of purchase and consumption of consumer. This is a different concept of identity and image.

The same phenomenon has been analyzed in 2008 by Nebenzahl and Jaffe, who said that to analyze in depth the phenomenon of Country of Origin Effect, we must study the variables that might affect the way in which the image of the country of origin is reflected consumer behavior. These variables are:

- the availability of information on the country of origin;
- the concept of geographical origin used (country product, manufacturing, design, assembly);
- the interaction between the different countries of origin;
- the economic, social and cultural rights of the country of origin;

- characteristics of the products;
- the characteristics of the sector;
- the importance of the country of origin than other evaluation criteria as brand and price;
- the strength of the brand of the company;
- correspondence between perceptual country image and corporate brand;
- regulatory issues²³.

Often, what the consumer perceives does not coincide with reality for several reasons: first of all, due to a lack of interest and then for lack of sufficient information about the origin of a brand as firms tend to conceal the true origin of the product. The Country of Origin effect can however be enhanced through various instruments such as the label "made in", the inclusion of the Nation in the brand name of the product, the use of images that symbolize a given country in the collective imagination, the use of a particular language in the name of the brand to bring the reference point, as we will see for the Toscano cigar.

For an overall assessment of the Country of Origin effect, it is essential to bear in mind the culture of Origin Brand, which puts the focus on cultural and linguistic factors applied to the brand to elicit positive reactions in the consumer. Therefore the language is an essential tool to denote the origin of a product or a brand. And this is the reason why companies identify one brand name effectively to achieve a reputation, and therefore be profitable, even internationally, using language systems adopted in most cultures or changing the name of the product from country to country. It is necessary to add that, following the opening towards international markets and developing and increasing globalization, the product- association of a country of origin is not always easy to convey: as we know, companies can invent the brand and the design of a product in one place, buy raw materials from other countries, produce in another, and assemble yet in another before distributing widely for sale worldwide.

Surely the country of origin and its image are the indicators of the quality of the product and the individual attributes such as design, reliability, performance, durability, but it is certainly true that in some cases the effect of Country of Origin is obtained spontaneously thanks to the associations made by consumers who

²³ A. Pastore, M. Vernuccio, *Impresa e comunicazione. Principi e strumenti per il management*, Milano, Apogeo, 2008, p. 240.

associate a country with particular products and that, in the absence of detailed information on the quality of the product, replace them with what he knows about the country of production.

Clearly, the Country of Origin is not the only source used by consumers to assess a product, but the importance that under circumstances may include, but may depend on the willingness of buyers to the products belonging to their country, that they can facilitate imports, the preference for certain countries to which they combine the attributes of products or whether they are likely to overshadow factors such as price or brand.

For a better understanding of the principle of this effect, we need to split two distinct layers in the image of the country. As claimed by Jaffe and Nebenzahl (2010), the first image layer, the so-called *Overall Country Image*, is more general and associated with the overall image of a country at economic development, social, political and technological levels. The second level, instead, derives from a series of mental connections between the category of product to which the asset belongs, and their country. However, it is not so easy to establish the boundary between the two levels. In relation to the image of a country, Jaffe and Nebenzahl specify that in the mind of the consumer there is a hierarchy among the countries through which you assign judgments based on the level of economic development of the country. Also, it must say that the Country of Origin is also dependent types of products and the phase of the life cycle in which the products are located.

The phase in which marketers try to give greater importance to the country of origin of the brand is the phase of the launch of the product since, according to a set strategy on the brand, it is easier to focus on the country of origin and get a good result from the point of view of sales, rather than to focus on features that can sometimes be difficult to prove and, in any case, that are already on the market. Once the product has become known in the market where you plan to increase it, the marketing strategy will focus on other levels, mainly based on the brand itself.

2.3 The Competitive Advantage of a Nation: The Porter's Diamond

The construction of competitive advantage is first analyzed by Porter at the sector level with the traditional model structure-conduct-performance (1980), then at the firm level with the value chain (1985), as a

system-wide country emphasizing the Competitive Advantage of Nations (1990) and finally as the "rediscovery" of the difference between countries in determining the strategies of business internationalization. Consistent with the RBW the country's system provides critical resources and expertise to companies to compete globally.

The conditions of the factors - national position in the framework of the factors of production needed to compete in the sector (over land capital-labor also qualified education and infrastructure). It should then make a hierarchy among the factors distinguishing between: a) basic factors and advanced factors; b) factors generalized and specialized factors; c) inherited factors and created factors.

Diamond Porter is an economic model theorized by Michael Porter in his book *The Competitive Advantage of Nations* (1990). This model can be used to identify key factors that lead to the success of a particular nation in an industry, and has subsequently been widely adopted in the academic world²⁴.

“The competitive advantage of a country or region is the set of activities in which enterprises based in the country tend toward international competitive advantage” (M. Porter, 1990).

By closely screening the industry over a certain period and understanding the process by which it achieves and maintains international success, we can explain the functioning patterns of the “Diamond”. But no nation can be competitive in everything, because human and other resources are limited. The ideal is that these resources should be deployed in the most productive uses possible (M. Porter 1990).

To create the model, Porter first identified groups of companies of excellence in the same sector in 10 countries. The US economist then proceeded to a historical analysis to identify the reasons that led to the success of the selected companies. He has proceeded with six major factors:

- **factor conditions**, a set of resources and infrastructure a significant presence in the state chosen
- **demand conditions**, strong domestic demand for products and services that leads to innovation and rapid introduction of new products regularly to maintain the competitive edge:

²⁴ Fonte: Wikipedia

- **related industries and support**, which are particularly advanced and participate actively innovation, stimulating growth
- **strategy, structure and rivalry of companies**, which is very advanced, causing a strong internal competition that stimulates the sector
- **government**, which can affect all four of the above factors favoring the production and demand so as to achieve an economic benefit inside and also a greater export
- **case**, a set of external factors uncontrollable by the individual companies that make or cause the decay of industry²⁵

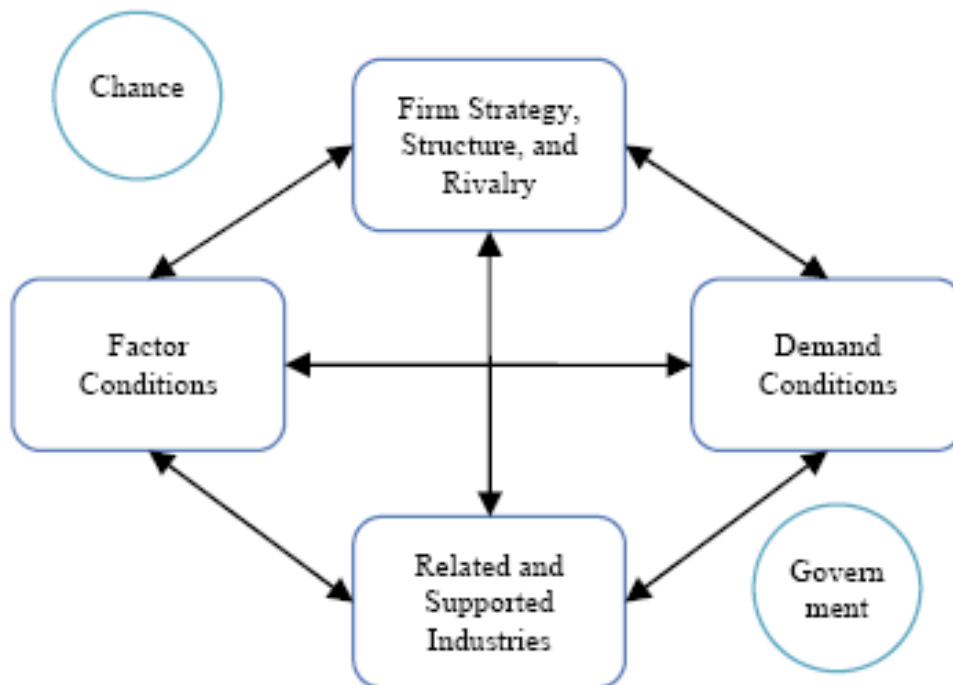


Fig. 2 Porter's Diamond model

The country of origin can be used as a substitute for information, such as an indicator of product characteristics (Swiss chocolate, French perfumes, Italian fashion, German cars).

²⁵ S. Pearson; C. Gotsch

CoO is an important competitive factor for the marketing of goods and services in foreign markets; It is taken by the topical theme comes from the increased competition and exerted by a growing number of markets and economies, both solid and emerging.

During the purchasing process consumers are confronted with a wide range of information that affect the formation of their preferences and buying decisions. This information is conveyed mainly by the brand, the packaging, price, communication and point of sale.

In an increasingly competitive global market, it is becoming increasingly difficult to establish a sustainable competitive advantage, the so-called SCA (Sustainable Competitive Advantage). As we now know, an attribute that offers the potential for SCA in domestic and foreign markets is the Country of Origin of the products, or rather the product country image, which is generally described as the Country of Origin effect.

Numerous studies have been undertaken to determine the nature of this phenomenon and its effects on the perception of customers and buying behavior.

Country	Country's Associations
Italy	Pizza, Pasta, Fashion, Ferrari, Wine, Sun, Mafia, Art, History
Holland	Flowers, Diamonds, Drugs, Philips, Cheese
France	Parfume, Fashion, Wine, Arrogance
United Kingdom	Rain, The, Traditions, Sandwiches, Royal Family
Germany	Beer, Precision, Volkswagen, Quality
U.S.A.	Coca Cola, Hamburger, Power, Hollywood, Democracy, Silicon Valley
Japan	Sushi, Consumer Electronics, Loyalty, Team Working, Crowded Places

Tab. 4 Principal mental associations in every countries. *Source: Roth e Romeo (1992)*

The positioning of the offer in the foreign market identifies complex decisions that can influence the experience and the personality of the product itself in the search for a suitable characterization to assure a space identifier cannot be confused. The composition of consumer perceptions, engaged in judging and approving paraphrase multiple system product not only related to the functional and performance

characteristics, as they are to information held in relation to the country in which it is designed and built (Marino, 2005), is one of the variables investigated articulated to the understanding and evaluation of the potential spaces in the target markets. The country of origin effect evokes the condition for which the consumer gives a differential value - positive or negative - to a product or service by the mere fact of being made of a particular country or is associated in any case to its traditions.

2.4 The Effects of CoO in the Decision-Making Process of the Consumer: The Halo and Summary Constructs

The theme of the Country of Origin of the product and which variable it is able to influence in the decision-making process has long been discussed in international economic literature. The first studies that have observed the phenomenon date back to the seventies, and were characterized by a single-cue approach, which studied the effects of the product's country of origin with regards to consumer choices, without considering the presence of other variables that could influence their behavior. This approach has obviously led to an overestimation of the phenomenon. But with time, thanks to increasingly refined analyses of techniques, it has come to a multi-cue, able to assess the impact of the country of origin in relative rather than absolute. The variable Country of Origin has been so placed in relation to a multiplicity of factors that affect the decisions of the consumer during the purchase of the product or service.

Another view of the same phenomenon is the fact that the Country of Origin of a product can result in two different reactions, better defined as fact by the scholar Han. This effect is broken down more specifically in halo, or halo construct, and as the summary construct. More specifically, the halo effect works when the consumer has no direct experience with the goods that come from a particular country. The importance of this phenomenon is denoted by the fact that the first definition of the same was given in 1920 by Thorndike which, in psychological and social studies, identified this phenomenon as "the tendency of individuals to assess an object or a person on the basis of one or more distinctive features". In summary, the perception you have about a person or an object derives from the existence of it as positive or negative, or by a specific feature that distinguishes it.

From the point of view of consumer behaviour, the same approach will be related to the brand or product. From the perspective of the halo effect, all products or services are not available from perceiving before

use, so it is impossible to make an assessment until they are used. The rise and expansion of the features, ranges and product variants also make finding information increasingly difficult. Because of the difficulty for the consumer to detect the real quality of the products, we prefer to use the image of the nation for evaluation²⁶. Consumers realize the expectations and opinions on the basis of the information held about the country (eg. Political, cultural, economic and social development, traditions). Based on this logic, to evaluate the product or brand, the role of the country of origin is similar to that played by the price, because in many cases consumers tend to use price as a parameter of quality of goods. The Country Image brings forth a positive or negative halo of influence to consumer behavior towards a given good or brand. The halo effect is not only the result of a positive or negative element and characteristics peculiar to the product, but can also depend on the familiarity towards the brand, the user experience of the purchaser, the perceived value, and popularity of the brand.

The halo involves the choices and assessments based on two perspectives, positive or negative. In the first, consumers are influenced by the experience from their past, so when there are more products to choose from, they compare the alternatives with those encountered in the past. It is obvious that the process according to which the buying experience assigns positive or negative meanings to the products is retrieved every time there is the need to make a choice, and an assessment of products in new contexts of purchase. The second view instead refers to feelings and emotions that consumers process compared to experiences with the brand or product.

In such an event, each experience is united emotion that will result in the ability to retrieve the information stored by the restoration of the emotion that was felt at that time of the choosing and buying process. A positive or negative feeling is associated with the importance of the brand or product and, therefore, the decisions of purchase and consumption²⁷. The analysis of the halo construct determines the following structure of relations:

²⁶ C. Min Han, "Country Image: Halo or Summary Construct?", *Journal of Marketing Research*, Vol. 26, pp. 222-229, 2007.

²⁷ I. Baghi, E. Rubaltelli, M. Tedeschi, "Le decisioni dei consumatori tra ragione ed emozione: l'effetto alone", *Mercati e Competitività*, N.2, 2008.

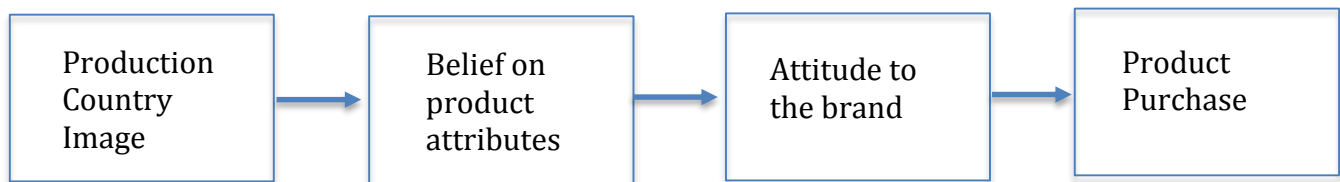


Fig. 2 Structure of the Halo Construct

Source: Country Image: Halo or Summary Construct? Han, C Min. Journal of Marketing Research 26.2 (May 1, 1989)

The report, therefore, will be made up as follows: Country – Product.

The effect synthesis, however, arises when the consumer has already had experience with the products of a particular country and enjoys information retrieving them from long-term memory. However, experience does not necessarily have to be direct, they can indeed arise from other sources, for example from word of mouth or the media. So this is an abstract process, through which the image of a country is built thanks to the previous experience of the consumer and thanks to the way he identifies the attributes that characterize the products from a particular country. The summary construct two consequences:

1. the image of the country has a direct impact on consumer brand to the country, without assessing the attributes of the product;
2. consumers take back information about the product in the country image²⁸.

The relational structure of the summary will therefore construct the following:



Fig. 3 Structure of the Summary Construct. Source: Country Image: Halo or Summary Construct? Han, C Min. Journal of Marketing Research 26.2 (May 1, 1989)

²⁸ C. Min Han, “Country Image: Halo or Summary Construct?”, Journal of Marketing Research, cit. nota 17, 2006

The report will be of type: product - country. The halo effect and the effect synthesis, however, can be connected to each other and form a dynamic model. The model highlights the link between the two effects and the cyclic action that it causes. There are three phases of this cycle:

1. phase of the halo construct: the image of a country acts as a halo that influence the expectations and beliefs towards product characteristics, determining the attitude towards the same products and brands;
2. phase of the summary construct: the shopping experience enhances the familiar against the attributes and change the image of the country of origin;
3. the consumer develops new expectations towards the products following the creation of a new image of the country.

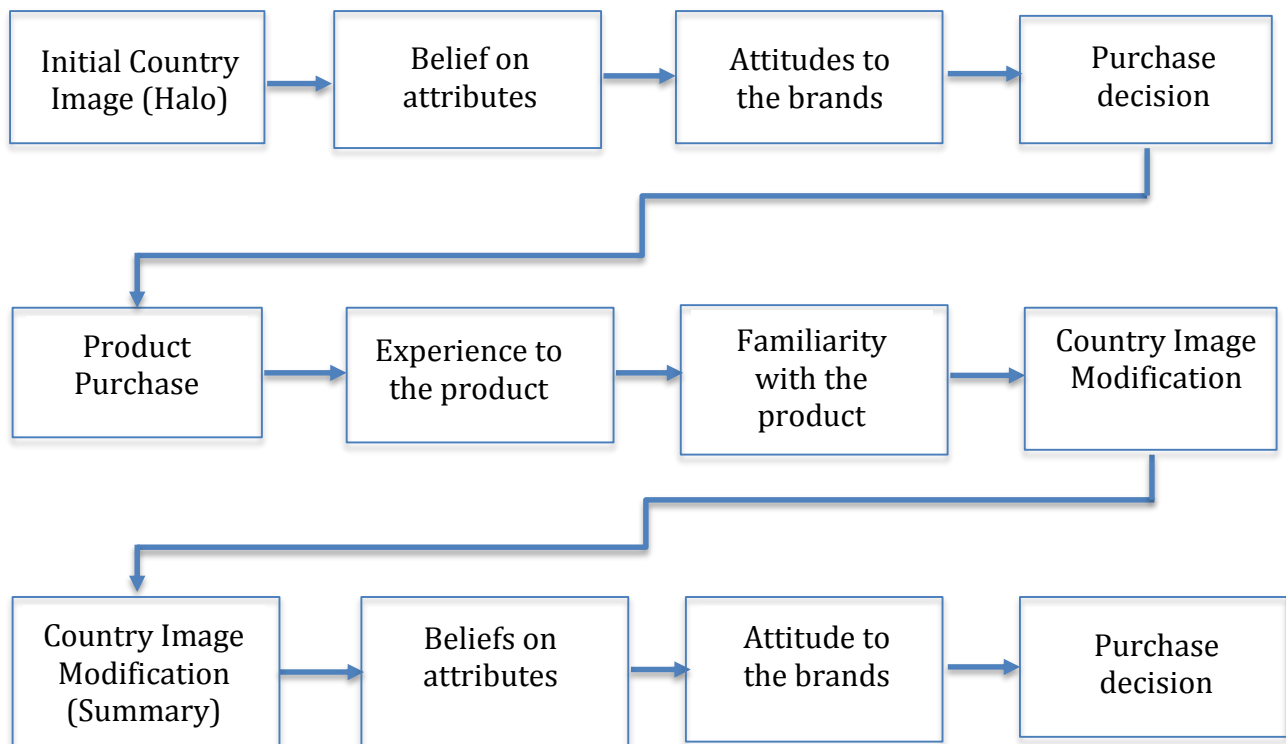


Fig. 4 Halo and Summary Effect: a dynamic model, Jaffe & Nebenzahl, 2005

After defining what are the country image and country of origin and after describing the effects these have on consumers, it is necessary to return the identity competitive and assess whether the evidence examined acted effectively on the competitiveness of the nation²⁹.

2.5 Global Competitive Index and Nation Competitive Index

Global Competitive Index

One of the most effective and complete indicators when it comes to national competitiveness is the Global Competitive Index, compiled by the World Economic Forum, whose goal is to provide insight and stimulate discussion about the best strategies and policies to help countries improve their competitiveness.

But from the beginning: the first World Economic Forum defines competitiveness as "the set of institutions, policies and factors that determine the level of productivity of a country." This level respectively measures the degree of prosperity that an economy can occur and the return that each investment can bring. It is these investments that will define the growth rate of the economy of that country, and it is this competitiveness that allows economies to grow faster. Since 1979, the World Economic Forum explores these competitive economies through the Global Competitive Index Report, which includes issues such as changes in exchange rates, fluctuations in commodity prices, geopolitical tensions and political instability in different regions of the globe. The Global Competitiveness Index (GCI), more specifically, is based on 12 pillars that can provide a complete picture of the competitive landscape in different countries at different stages of economic development, with the aim of bringing out the competitive strengths and weaknesses.

The 12 pillars are: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, market efficiency, labor market efficiency, financial market development, technological readiness, market size, business climate and innovation.

Let us analyze them in detail:

²⁹ G. Bertoli, B. Busacca, L. Molteni, "Consumatore, marca ed 'effetto made in': evidenze dall'Italia e dagli Stati Uniti", *Finanza marketing e produzione*, Vol. 24, N. 2, 2006, pp. 5-32.

1. Institutions: the legal and administrative framework within which individuals, companies and governments interact to generate wealth. The quality of institutions affects investments and decisions and plays a key role in the way companies distribute the benefits and bear the costs of development strategies;
2. Infrastructure: if appropriate, ensure the effective functioning of the economy because they determine the location of economic activity and the type of activities that can develop within a country. Infrastructure networks integrate the market by reducing the distance between the countries and are a prerequisite of less developed communities for access to the economy. Also have a safe and timely manner to obtain goods or services, circulate the workers and allow a rapid flow of information;
3. Macroeconomic environment: the economy grows in a sustainable manner only if the macro environment is stable, that is, when the government is unable to provide services efficiently when there are budget deficits that limit the ability to react to economic cycles when interest rates are not excessive;
4. Health and primary education: poor health involve significant costs for businesses, sick workers are often absent or operate at lower levels of efficiency. We must therefore invest in the provision of health services;
5. Education and secondary education: quality higher education is crucial for economies that want to overcome the simple production processes and move up the value chain;
6. Market efficiency products: to ensure an efficient market and thus business productivity, it is essential that there is fair competition. In this way it gives companies more profitable production of goods required by the market;
7. Efficiency of the labor market: the labor market must be flexible, should ensure incentives for employees, must promote meritocracy in the workplace and to be fair in the context of men and women. These factors are critical because they have a positive effect on the performance of the workers;
8. Development of the financial market: the economic and financial crisis has highlighted the central role of the financial sector, which should be able to use the resources for more productive purposes and for business projects or investment with high rates of return. Investment, a reliable banking sector and a thorough assessment and accurate risk are the keys of the financial market;
9. Technology: that is the pillar measures the agility with which an economy adopts existing technologies to improve the productivity of its industries. It places special emphasis on the ability to make the most of information and communications technology in daily activities ³⁷ and in production processes to increase efficiency, innovation and enable competitiveness;

10. Market size: the size of the market affects productivity because large markets allow firms to exploit economies of scale. In the era of globalization, international markets have replaced the national markets and this type of trade openness has a positive effect on economic growth;

11. Refinement of business: sophisticated business practices are conducive to greater efficiency in the production of goods and services. There are two factors to be taken into account: the quality of corporate networks of a country and the quality of operations and strategies of the individual companies. It is ultimately the activities and strategies of branding, marketing, distribution, advanced manufacturing processes and production of unique and sophisticated;

12. Innovation: technological advances are the basis of many of the productivity gains of the economies. Recently, the digital revolution has transformed not only the way things are done, but also the possibilities in terms of products and services. Both the public and the private sector must support the innovative activity in order to maintain competitive advantage.

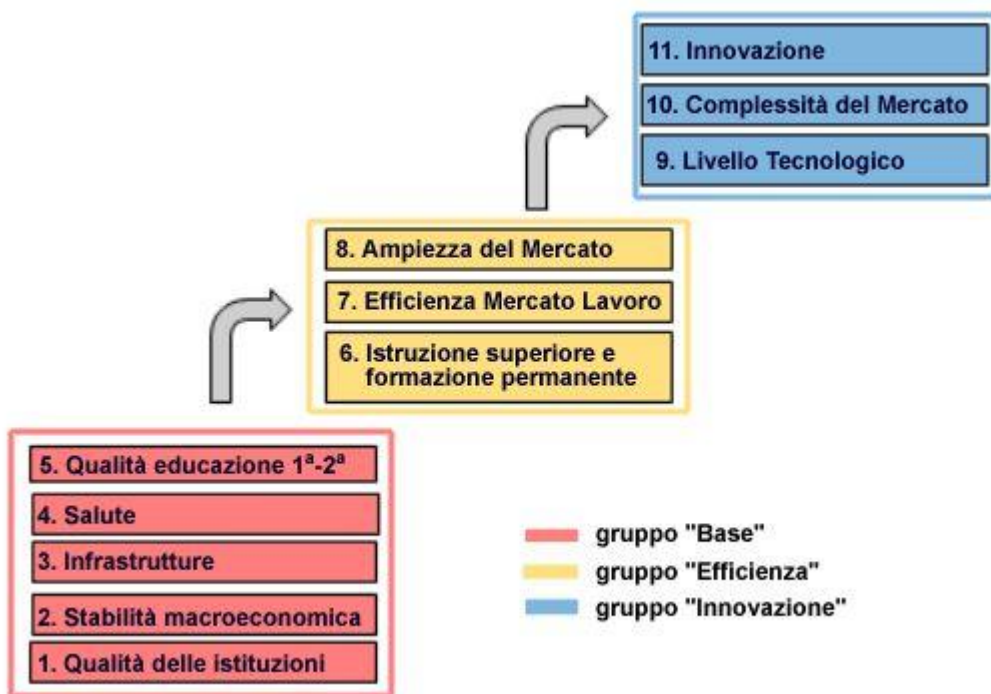


Fig. 5 - The individual sectors on which the Global Competitive Index

After having listed and described the 12 pillars of the Global Competitive Index it is important to emphasize that these are not independent, but rather reinforce each other and often a weakness in a sector has a negative impact on others. In addition, the Global Competitive Index gives a different weight to the pillars according

to the stage of economic development of the country, although all 12 pillars are essential for all countries. To implement this concept, the pillars are organized into three sub-indices (basic requirements, efficiency, and factors of innovation and refinement), each of which is analyzed in each stage of development assuming according to this a specific weight. The composition of the Global Competitive Index 2013-2014 has increased from 144 to 148 economies. They added new countries such as Burma and Bhutan, and have been restored Tunisia and Angola, two countries that have not been included in the previous 39. The economies selected are part of the following areas: North America, Europe and Eurasia, Asia and the Pacific, Latin America and Caribbean, Middle East, North Africa and sub-Saharan Africa. As in previous years, mostly European countries such as Switzerland, Finland, Germany, Sweden, Netherlands and the United Kingdom, which confirms their place among the most competitive economies, dominate the top 10 of the index from 2013 to 2014. In the top 10 there are also Asian countries such as Singapore, the Special Administrative Region of Hong Kong and Japan. It is worth emphasizing that the competitiveness of most of the economies that are in the top 10 depends on factors such as innovation and the institutional framework.

Nation Competitive Index

After analyzing the Global Competitive Index, you should refer to the item inside the indicator itself has a reference to the country: the so-called Nation Branding. When talking of Nation Brand, the brand we treat it is the country, the nation. Nevertheless, the practice leads to emphasize the distinction between these two terms, meaning 'nation' a large group of people who share the same culture and the same language, while 'Country' to the geographical area occupied by the nation.

Considering the etymological point of view, there are several ways in which you can talk about brand-country: the most used are Nation Branding and its synonym Country Branding, then there Place Branding, that identifies a broader concept that it includes nations, regions, cities and small towns. In addition, it should be specified that the concept of Country Image exists independently of any reference to the products.

One of the first works on Nation Branding was in 1993 by Philip Kotler, Donald H. Haider and Irving Rein and is titled 'Marketing places: Attracting investment, industry and tourism to cities, states and nations'. In this book the authors show how the places can no longer rely exclusively on national industrial policies but, like any business-oriented market, must become real 'products' attractive by improving their industrial base and communicating their own amazing in more effectively. From studies of cities and nations around the

world Kotler, Haider and Rein offer a systematic analysis on the countries and make recommendations on what can be done to revitalize their economy. The key to economic development is the strategic marketing, which requires a deep understanding of how consumers (tourists, residents, factories, corporate offices, investors) choose the place³⁰. Nebenzahl and Jaffe (2006) give their definition of country image and define it as "the impact that perceptions about a certain country have on the evaluation of the products or brands of the country³¹."

However, who coined the term nation branding is Simon Anholt in 1996, launching the Nation Brands Index, the first analytical study on the perceptions of ordinary people towards brand of nations. To build the index, the idea of Anholt was to extract every quarter a sample of five million consumers surveyed in global online panel of the Global Market Institute in Seattle and follow their perceptions about the culture, politics, trade, human resources, investment potential and the degree of tourist appeal of 36 advanced and developing countries. The Nation Brands Index is conducted annually and measures the image of 50 countries. For the study of 2013, it was conducted a total of 20,445 online interviews in 20 countries, developed and developing. The 50 countries considered are:

Continent³²	Countries
North America	Canada, U.S.A.
Occidental Europe	Belgium, Denmark, Finland, France, Germany, Greece, Holland, Ireland, Scotland, Spain, Sweden, Switzerland, United Kingdom
Oriental and central Europe	Croatia, Czech Republic, Hungary, Poland, Russia, Turkey
Asia	Australia, China, India, Indonesia, Japan, Malaysia, New Zealand, Singapore, South Korea, Thailand, Taiwan
Latin America	Argentina, Brasil, Chile, Columbia, Ecuador, Mexico, Peru
Africa	Botswana, Egypt, Iran, Kenya, Nigeria, Qatar, Saudi

³⁰ 8 D.H. Heider, P.Kotler, I. Rein, Marketing places: Attracting investment, industry and tourism to cities, states and nations, New York, The Free Press, 1993

¹⁴ E.D. Jaffe, I.D. Nebenzahl, National Image & Competitive Advantage: The Theory and Practice of Country-of-Origin Effect, Copenhagen, Business School Press, 2006.

³² www.nationbrandsindex.com

Tab. 5 50 countries considered from Anholt for the analysis.

On Anholt's website³³, one can see the value of Nation Branding, thanks to some indicators; in particular, it is possible to investigate how the citizens of a country classify another country in relation to: people, products, governance, tourism, culture, immigration and investment, making a comparison with the previous year.

The competitive identity is the aim of many governments who intend to exceed the standard promotion marketing. It is useful to implement a strategy in order to emphasize the importance of national identity and political and economic competitiveness of a country. Here is a brief description of the variables that allow each nation to build and measure their competitive identity:

1. Products, namely the image of the goods and services produced by each country and the extent to which consumers seek or avoid products of that country;
2. Institutional interventions, ie the public about the level of competence and honesty of national governments and the commitment received in relation to issues of global reach;
3. Human capital, that is the reputation of the people for skills, study, openness, friendliness and quality, but also to any hostility or discrimination;
4. Culture, which reveals the perceptions regarding the cultural heritage of each country, such as film, music, art, sport and literature;
5. Quality of life dimension that determines the ability to attract people to live, work and study in a country and the way it is perceived its economic and social situation;
6. Tourism, namely the level of interest in visiting that country to the presence of natural or man-made attractions.

The website is presented in this way and gives the opportunity to each user to interact with the indicator (Fig.6).

³³ <http://www.simonanholt.com/Research/research-introduction.aspx>

01: People

2009

How highly do people in...	Rank the people in...	
China	Italy	Go
They rate them 17th out of 50.		

2008

How highly do people in...	Rank the people in...	
Select...	Select...	Go
Result >		

02: Products

2009

How highly do people in...	Rank products from...	
Select...	Select...	Go
Result >		

2008

How highly do people in...	Rank products from...	
Select...	Select...	Go
Result >		

03: Governance

2009

How highly do people in...	Rank the government of...	
Select...	Select...	Go
Result >		

Fig. 6 Anholt website

Anholt then investigated the issue of Nation Branding, stating, "the way a country is perceived by international public opinion makes a critical difference to the success of its business, trade and tourism efforts, as well as its diplomatic and cultural relations with other countries".

The table below suggests a top 10 list of the 50 countries considered, making a comparison between the positions of the countries in 2013 and their positions acquired during the previous year.

Rank 2014	Countries	Rank 2013
1	United States	1
2	Germany	2
3	United Kingdom	3
4	France	4
5	Canada	5
6	Japan	6
7	Italy	7
8	Switzerland	8
9	Australia	9
10	Sweden	10
-	-	-
20	Brasil	20
22	Russia	22
23	China	23
31	India	27

Tab. 5 Anholt-GfK Nation Brand Index: overall brand index 2014 (top 10 of 50 nations)

Anholt further explains that verifying the Nation Brands Index helps to understand when and how the national brand changes. Usually, the image of a nation changes because the country itself has changed, or because they intentionally committed to managing its brand. In the first case it is a gradual process given by the actions and behaviors of a country and not from direct attempts targeted to promote the country abroad. So in this circumstance it is missing a genuine brand management. In the second case, however, the national reputation changes according to specific branding strategies that aim to create a direct impact on people. From this it follows that every positive experience will create a positive attitude towards the aspects of that country and that on the contrary every negative experience can damage the nation brand in a person's mind.

According to this view, the nation's brand management should be treated not as a campaign separate from planning, from the government or economic development, but as if it were just a national policy.

In summary, to develop a competitive identity, we must ensure that the image of the country does not fall behind the rapidly changing reality. It is also important that the main objective for the adversary is to carefully analyze the current image of the country to work on their reputation. If the location is unknown to the market must report valuing the profitable sectors. If the country is known but is not suited to the needs of a particular market, it will have to try to direct their notoriety to a more appropriate target. In some circumstances it may happen that the place is known for the wrong reasons so it is essential to proceed to the correction of the image through different techniques such as its expansion, improvement, revitalization, suppression or contextualization of negative perceptions. The situation is further complicated when one considers the heterogeneity of the world's public opinion. Although a country is not a product, one can still apply the process of creating and managing a brand to it. We can understand the reputation of a country, then the nation brand, as the brand image of a company (corporate brand image), features two common conditions: the multidimensional nature of the enterprise, the nation and the plurality of the stakeholders involved. Now we are interested in understanding what weight the country of origin has on the choice processes for consumers, and the significance of the geographical origin of products compared to other evaluation criteria.

2.6 How the Brand Image and the Made-In Affects Entry Strategies in Different Countries

2.6.1 Reference Principles and Characteristics of the "Italian Diamond"

The opening of markets, the fall of many customs barriers and the ability to transfer capital abroad have created new strategic opportunities, which is an increasing expansion of the market economy on a global scale and large transformation processes (Cateora, Graham, 2007). In this context, national boundaries tend to play a more limited role as an element of demarcation space between economic enterprises (Usai, 1988), because the interrelationships and interdependencies become increasingly intense between politics, economy, technology, and cultures of various countries (Valdani, Bertoli, 2003). National borders also are no longer sufficient in protecting those companies that are not careful with their efficiency and effectiveness, or those companies located in industrial districts. We are therefore faced with true global competition. Indeed, while until a few years ago companies could ignore the work of companies operating

in different sectors and countries, this is no longer possible. In such a scenario the company, whether large, medium or small, is inserted in increasingly large and open, where it is essential to increase their competitive capabilities, mitigate economic fluctuations, defend their markets and look for the best sources of supply of raw materials, labor and services. This is taking into account the influences relating to the structures and competition in the sector in which it operates. The transition of an enterprise mainly towards the national global perspective is a complex step, as it involves a major impact on consolidated balances and ingrained habits, imposing deep processes of innovation, especially in business culture as well as management of structural modernization and functional (Veil, 1995), which are often difficult to design and manage. The main complexity is undoubtedly attributable to the guidelines necessary for the survival and growth of the company: the innovation process (Davenport, 1993), product innovation (Dougherty, 1992), and innovative approach to the market are deeply influenced by the cultural distances between countries (Usunier, 2005). Strategic innovation must increasingly consider the virtuosity of collaborations between companies (Tikkanen, 1998).

Second of all, the opening to international markets involves businesses in relationships with new customers, suppliers, and especially with new partners (i.e. governmental organizations) whose behavior is governed by operational schemes and negotiating processes that are different than businesses. Nevertheless, the Italian SMEs are in a way forced to look abroad, as domestic markets have become too narrow over time to support the survival and development of a company, especially in an economy where the real market growth occurs in other regions (ie. China, India, Korea, Russia).

The strategic guidelines and operational, however, should change from the past, as the membership of the single company to an industrial district, or the status of the Italian manufacturer (country of origin effect - Bilkey and Nes, 1982), or even at the national legislation, which are no longer sufficient to support business stability, even at the local level.

The limits and difficulties described were not yet sufficient to depress the results obtained by Italian SMEs that have decided to invest on internationalism (Pepe and Zucchella, 2009). Many of them in fact have recorded excellent results in terms of sales, increase of company size, agreements and acquisitions, the number of customers across the border, as well as the number of countries in which and for which the firms operate. There are also many companies that have adopted a strategy of niche marketing, as the hidden

champions Germans described by Simon. In other areas however, it is tailor-made to be responsible for increasing sales, or the quality and design of the product in those linked to the Italian manufacturing tradition.

There is a strong belief that achievements cannot be maintained and improved in the long term, provided that the company does not emboss sensitive changes to their way of doing business.

To do this one will need:

- New business behaviours that can improve the available resources, both tangible and, above all, intangible (Rullani, 2006),
- Openness to collaboration between actors in the supply chain of the company (Lorenzoni, 2010), whether formal (as in the case of consortia and alliances) or not formalized (as with networks and business networks national and transnational), which allow the acquisition of resources and expertise in different formats from the owners’;
- The adoption of an intercultural approach, as the cultural context affects significantly the way we think, to act, to communicate and conduct business activities (Guercini, 2010).

Many authors believe that the network approach constitutes the only viable way for SMEs to compete internationally while minimizing the limitations related to the size and encouraging the process of internal learning (Håkansson, Snehota, 1995 - Madhok 1997 - Rutashobya, Jaensson 2003). But for the logic networks to be multiplicative, require sharing between the nodes of the network of knowledge, or of sensitive elements of production or research or market factors which are often protected by the companies as related to their core business (Rullani, 2009).

The opening in fiduciary relationships and collaborations between actors in the supply chain therefore allow enterprises to small and medium-sized to acquire resources, knowledge and skills in different formats from those owners and allows them to compete successfully in international markets.

The characteristics of the "Italian diamond"³⁴

1) The conditions of the Italian factors:

- a. few benefits from the factors of production inherited or created socially,
- b. unique natural resources (marble) and crops,
- c. high labor costs, but differentiated market (big companies vs. familiar SMEs),
- d. weakness of the capital market (stock exchange, banks, finance publ.),
- is. weak infrastructure services (transport, telecommunications, logistics),
- f. creation mechanisms of both formal and informal factors: very important learning processes outside the school system (professional skills of family / district), weak formal research,
- g. selective disadvantages in factors are stimulus to innovation and pragmatism.

2) The conditions of the Italian demand, real strength:

- a. Italian buyers are among the most advanced and sophisticated in taste, style; demand is very selective and tends to follow the fashion;
- b. retailing specialized in providing many products and services to high quality facilitates this process of co-evolution;
- c. also demand sophisticated machinery, intermediate goods and related services.

3) Related industries and support, strong presence of related areas in many clusters of specialization:

- a. Pronounced vertical relationships between successful industries (fashion and design)
- b. Low levels of vertical integration in Italian companies (the companies are few activities of the value chain: eg. Benetton)
- c. some specialized services related (fairs, fashion press, stylists).

4) Strategy, structure and rivalry between the companies:

- a. the real strength are the SMEs, enterprise as "extended family"
- b. large private companies tend to dominate the domestic market,

³⁴ CEDROLA E., "Un modello di successo per la piccola impresa", Harvard Business Review Italia, n. 12, 2008.

c. there is high emotional and personal rivalry, turned individualism, strong push entrepreneurship that weakens protected sectors

d. competitive advantage in areas segmented, specialized or fragmented; weak in areas standardized or mass.

5) The role of government policy is not an element of the national competitive advantage, rather it is a source of problems (poor services, non-selective purchases, low spending on R&D, weak antitrust that favours domestic monopolies).

2.6.2 The Internationalization Process: Variables and Phases

Internationalization is generally considered a gradual process, or more precisely "a process in which the company will gradually increase its presence abroad. This process involves the interaction between the development of knowledge of foreign markets and operations on the one hand, and the increase in the use of resources in foreign markets on the other."

Two different schools have explored these issues, developing two different approaches with some points in common:

- The model of Uppsala (U-Model), which said that the process of internationalization is incremental and firms learn through experiences in foreign markets. According to the school of Uppsala, the international involvement of the enterprise increases gradually, starting with a low level of involvement and then gradually increasing.

This model introduces two basic concepts:

- the learning process: the process of internationalization is seen as the integration and use of knowledge acquired during the activities carried out abroad, which allows for faster decision-making process for companies;
- the psychic distance refers to all the cultural and linguistic differences between the domestic market and the foreign one; influences the flow of information and decision making for businesses, because the latter will be more inclined to start operating in countries that are geographically and culturally close to the

country of origin. This is therefore an element that even more impact on Made In effect, the decision-making process and knowledge of the brand Country, and then product.

About intercultural approach, it is worth emphasizing that the term culture linked to the relations of international business includes several concepts: the psychic distance (Johanson and Vahlne, 1977), cultural sensitivity (Fletcher and Fang, 2004), cultural norms (Battle, et al., 2004) and interpersonal relationships (Agndal and Axelsson, 2002; Hallén, 1992). The cultural elements to be considered for a correct approach to the markets are thus likely to be the individual factors of the interlocutors, is the cultural dimensions of the specific enterprise, and finally the national cultural factors to which the company belongs (Kostova and Zaheer, 1999; Usunier , 1996; and Usunier Ghauri, 2003).

The interaction patterns are then affected by three basic elements (Usunier, 1996): time, space and the concept of self and others, as we shall see later.

- The other model is that of internationalization linked to innovation (Innovation-related Internationalization Model - I-Model): this is the evolution of the Uppsala model that recognizes the importance of the networks and relationships that the company creates in foreign markets. Businesses must be able to understand when and where to take advantage of business opportunities; in such case, the weaker his position better the difficulties encountered by the company for doing business. Internationalization is seen as a breakthrough for businesses, just as product innovation.

The driving force of internationalization can be of two types:

- a “pull” force: the case of an internal change that causes the transition from one phase to another;
- or a “push” force: this is an external motivation that drives the company to start exporting abroad, thereby increasing its international presence.

Let us now analyze the incremental process in expanding the market, by dividing the stages of internationalization:

Step 1. Focus on the domestic market. The incremental process mentioned so far begins with a focus on the domestic market: in this phase, companies are not affected the exportation, mainly because they are unaware

of the market opportunities that exist in foreign markets or because they are not conducive to this type of activity; the ratio of exports/sales is zero.

Step 2: Pre-export. Businesses, thanks to internal and external stimuli, begin to consider the possibility of exporting abroad. The ratio of exports/sales is still zero, because the activities have not yet begun.

Step 3: the experimental phase of the exports. Companies begin to export in a few countries with the lower psychic distance. The ratio of exports/sales is very low, usually in the range 0-9 %.

Step 4: Step of the "active involvement". The companies are now entering into foreign markets and then expand their export business in different countries; the ratio exports/sales is now between 10% and 39% .

Phase 5: Phase of "committed involvement": the company is now a real international player , whose business is heavily dependent on foreign assets. New activities are undertaken, such as licensing, strategic alliances, creating new offices abroad or even new production plants in the foreign country.

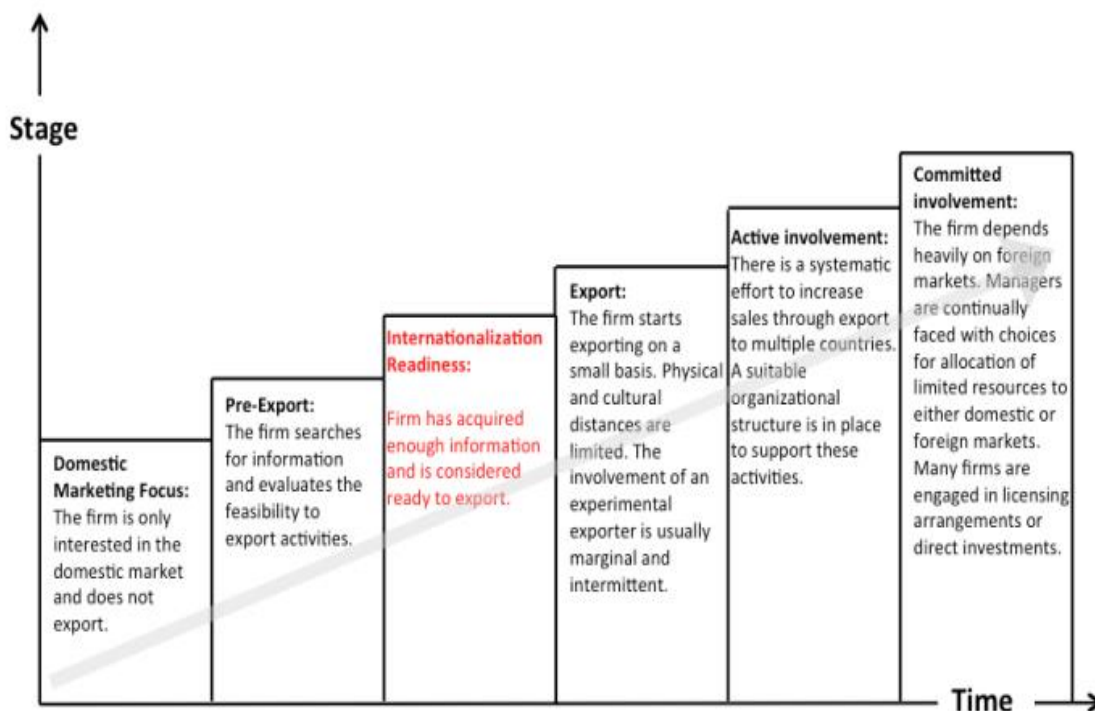


Fig. 2.7 - The five phases of the internationalization process, M. De Angelis

The I-model, however, has the limitation of not being applicable to companies that are already created internationalized.

Once the acceptable countries were identified, the analysis should take into account the demand for this product category offered by the company and the countries with the greatest development potential.

These countries are then subject to further analysis in order to verify if indeed there is room in the market for the product offered by the company.

In the following table, we can see the indicators, as well as reasons that underlie the process of overseas expansion:

Indicators	Measures
Turnover abroad	Foreign sales/total sales
Value added or gross operating abroad obtained value added or gross operating abroad.	Total value or operating margin
Number of employees working abroad	Number of employees working abroad/Total employees
Productive investments made abroad	Productive investments abroad/total investment

Tab. 2.2 - Indicators of foreign expansion. Source: personal elaboration.

More leverage effects of the internationalization process:

- **Development of resources:** operating in different geographical contexts, the company has a base from which to mature knowledge, develop reputation and promote broader relations of competitors;
- **Exploitation of the made-in effect:** the geographical location of the production (reputation and tradition) decisively influences the characteristics of the product, for the reasons previously observed;
- **The growth of economic or extra economic power-** may result from the presence of the company and affect the international competition on domestic markets.

2.6.3 The assets for the internationalization of SMEs: the Brand and the Made in Asset

The following table represents the indicators that underpin the process of internationalization (Tab.6).

Indicators	Variables Affecting Internationalization
Geographic / physical	<ul style="list-style-type: none"> • Environment • Climate • Topographical features National resources and infrastructure
Demographic	<ul style="list-style-type: none"> • Number of people Density of the population or geographic dispersion <ul style="list-style-type: none"> • Demographic development • Mobility of the population Distribution of the population by age
Economic	<ul style="list-style-type: none"> • Income per capita • Income distribution <ul style="list-style-type: none"> • Propensity for consumption and savings Cost of capital/labour costs
Technological	<ul style="list-style-type: none"> • Technology used for the production Technology potentially used for consumption
Socio-cultural	<ul style="list-style-type: none"> • Social organization • Religion • Ethnicity • Education level • Language Political system

Tab. 6 - The variables that impact on the internationalization. Source: personal elaboration.

The above considerations lead us to support the validity of an evolutionary model for reading the behavior of firms abroad that, while it allows to photograph the situation, of the other allows you to define sustainable development paths. It is based on those guidelines that have been identified as necessary for the survival and growth of the company: innovation process, product, market approach and the strategic orientation of the company. They were found and corroborated by analyzing the behavior of the international best practices analyzed in the qualitative research. The interpretative model shown in Figure 2.8 is split, on the

horizontal axis, the approach of businesses to markets: marketing management. On the ordinate it is instead represented the managerial behavior of the company, its vision, while the axis "z" is the expression of innovation generated by the company itself.

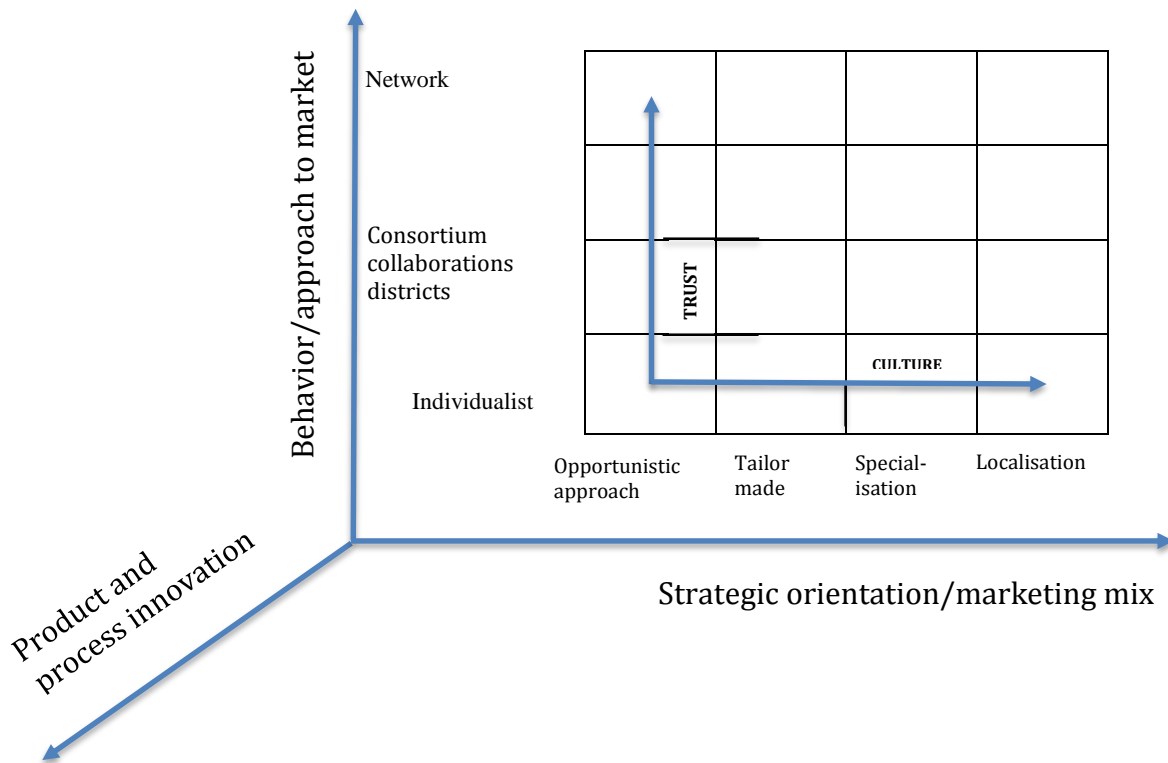


Fig. 7 Strategic/behavioral model for the sustainable internationalization, Battaglia and Cedrola (2010)

If we look at this in a descriptive point of view, on the "x", from the origin, there are companies that have an opportunistic approach to the market. This involves the sale abroad of the excess products, the occasional satisfaction of requests from abroad, as well as the research of the productive efficiency. Then, are positioned companies that adopt a strong tailor made behavior, creating a completely new product or changed according to the customer requests. These will include companies operating on the project and on order. These two approaches correspond to the initial mode of internationalization of companies, or are the

business behavior of companies that do not face the markets strategically. In this areas we can find also Made in Italy companies that exploit sales opportunities beyond the border tout court.

The companies included in the specialization they did evolve their behavior in foreign markets in order of two optical: a niche , having as reference model the german hidden champions³⁵; the other one focuses on drivers such as design, specialization and technological leadership.

Included in this group, we find Italian companies that face markets in a strategic way, working on such a strong characterization of brand or an established technologic image, or country of origin. Another business group defines and adapts its offer depending on the target market, as well as holding expertise consolidated their area of specialization.

The active behavior of the Italian SMEs on markets abroad, highlighted from this empirical analysis, emphasizes a change about the attitudes of businesses in foreign markets, particularly to countries geographically and culturally distant. Some Italian companies have started both behaviors of listening and understanding of the local market, and adaptive management, implementing a targeted localization of the mix of supply and operating more aware.

How these Italian companies can express their Italian characteristics to the different consumers? The labels assume a fundamental importance and role.

2.6.4 Limits: The Intervention of Market Institutions

The intervention of institutions often results in a restriction of imports of goods and services within a country and in a simultaneous adoption of policies that promote domestic production and exports. The main reason, usually, is the desire to protect domestic producers.

Recently, however, social reasons have intervened in the process: the United States, for example, is growing a movement that promotes the ban of imports of goods by countries that adopt different rules regarding environmental, health and work safety.

Governments use various instruments to intervene in the markets: tariffs, subsidies, import quotas, voluntary narrowing of export, local content requirements, administrative policies and anti-dumping duty

³⁵ Simon , 1996

rates – these are the most ancient and simple ways to seal the intervention of the institutions on international trade (a tool that GATT and the WTO have often successfully limited).

The decrease in rates during the last decades was accompanied by an increase in non-tariff barriers such as subsidies, anti-dumping policies, import quotas and voluntary narrowing of export.

Governments use various methods to intervene in markets including:

a) **Rates:** taxes levied on imports that significantly increase the cost of imported products compared to domestic products; they may be:

- **Specific costs:** charged as a fixed cost for each unit of the imported good,
- **Ad valorem costs:** levied in proportion of the value of the imported good.

b) **Voluntary export restrictions:** quotas on trade imposed by the exporting country, usually at the request of the government of the importing country (ie. the Japanese government has restricted exports of cars in the United States at less than 2 million vehicles per year). Import quotas and voluntary export restraints have two main functions: benefit domestic producers and higher prices of imported goods.

c) **Local content requirement:** require that a specific fraction of a good is produced in the country of origin; they have the same functions of the voluntary export restrictions.

There are two main arguments for which the institutions involved in the markets:

1) **Politicians:** institutions are intended to protect the interests of certain groups within a country (normally producers), often at the expense of other groups (usually consumers):

- **Protection of work:** political reason most widespread in favor of trade restrictions, resulting from political pressures by unions or industries that are "threatened" by foreign manufacturers more efficient, and have more political weight than consumers;

- **Protection of industries deemed important to national security** (for example, aerospace, semiconductor, food processing);

- **Consumer protection from "hazardous" products from certain countries;**

- **Promotion of the objectives of foreign policy:** preferential trade terms may be granted to countries with which the government wants to build close relations or may impose trade barriers to countries "enemies";
- **Protection of human rights of individuals in the exporting countries:** trade policy can be used as a tool to improve the protection of human rights in partner countries;
- **Environmental protection:** increased international trade is associated with a decrease in the quality of the environment;

2) **Economic:** the institutions would aim to increase the overall wealth of a nation bringing benefits to both producers and consumers:

- **The child labour argument:** a sector must be protected until it can grow and be competitive internationally (accepted as a justification for temporary trade restrictions under the WTO)
- **Strategic trade policy:** first-mover advantages in sectors with high scale economies

The Labels

The label plays a vital role when it comes to product positioning. An error in the decisions regarding the packaging can alter the perception of the product. This is the reason why, in this venue, this aspect deserves attention in terms of regulatory and competitive aspect. In particular, regarding to the Country of origin, i.e. the "Made in" labels applied on products and goods not originating in Italy is a criminal offense punishable by the Penal Code as a sale of industrial products with mendacious.

In this case, the provisions of law on labeling of products and that are included in the discipline of unfair competition. The appropriation of qualities is the act by which a company embezzles quality or characteristics perceived as positive by consumers which are actually typical of the products of competitors. As regards, instead, the economic limits, these refer to cases in which a communication of the place of origin of the product does not sort positive and incentive effects on the market, but, conversely, influences negative consumer perceptions with respect to the product. This is done in all cases in which a country is not perceived in a positive meaning, or when the qualities attributed to the country are not important in reference to the product.

This happens in all cases in which a country is not perceived in a positive way or when the qualities attributed to the country are not relevant with respect to the given product. In all cases of negative Country of origin, subject to the labeling requirements under the law, companies will adopt the policy of communication (such as packaging and advertising) to minimize the "detrimental effect" that the "Made in" label exerts on sales.

CHAPTER 3 - The Tobacco Sector in Italy, Marketing Tools and the Use of the *Made In Asset*

3.1 Context of Reference and Distinctive Elements

Since the early 80s, there has been an almost constant reduction of tobacco consumption in Italy in terms of quantity. This is due to multiple factors such as policies on the protection of health, the effects of the general economic situation and the illegal market.

Variations in sales volume were in 2014 were compared to those in 2013, and, despite the heavy fall witnessed in the market in recent years, do not appear to be affected.

The serious crisis that affected the world economy since 2008 has even hit the Italian tobacco market hard, as can be seen from the analysis of volumes of tobacco products distributed.

In fact, the volume of tobacco sales dropped from more than 94 million kilograms in 2008 to just over 80 million kilograms in 2014, indicating a 15% reduction. We can also note that the decline in the 2008-2011 periods appears constant, while a stronger annual decrease in 2012 was recorded.

In fact, between 2008 and 2011 there is an average decline of about 1.5 million kilos annually, corresponding to an average reduction rate of 1.6% per year. Between 2011 and 2013, the decline is considerably heightened, reaching an annual average of 5.1 million kilograms, which is an average annual rate of -5.9%. 2014 essentially confirmed the sales results of the previous year.

With reference to the sale of tobacco expressed in value and price changes occurring between 2008 and 2014, it is observed that the value of the sales trend was in contrast to the described contraction in sales volumes until 2011.

As of this year, in fact, the value generated by the sale of tobacco has undergone a gradual fall, which in three years amounted to 5.8%, corresponding to a loss of 1.1 billion euro and that is confirmed as will be seen later as the average performance premium of tobacconists.

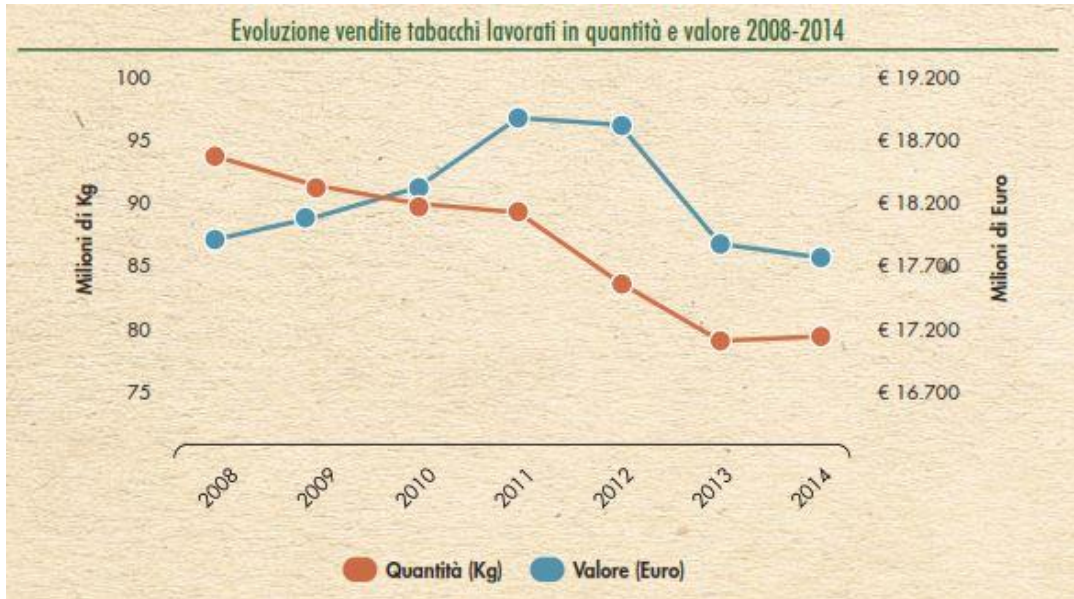


Figure 8 Evolution of sales of tobacco products in volume and value 2008-2014, Report Distribution Logistician

The market for tobacco products is made up of different categories of product.

The cigarettes have a dominant position covering a share of about 93% of the market, while other types of tobacco products (such as cigars, cigarillos and cut tobacco) and smokeless products account for the remaining 7% of the total volume sold.

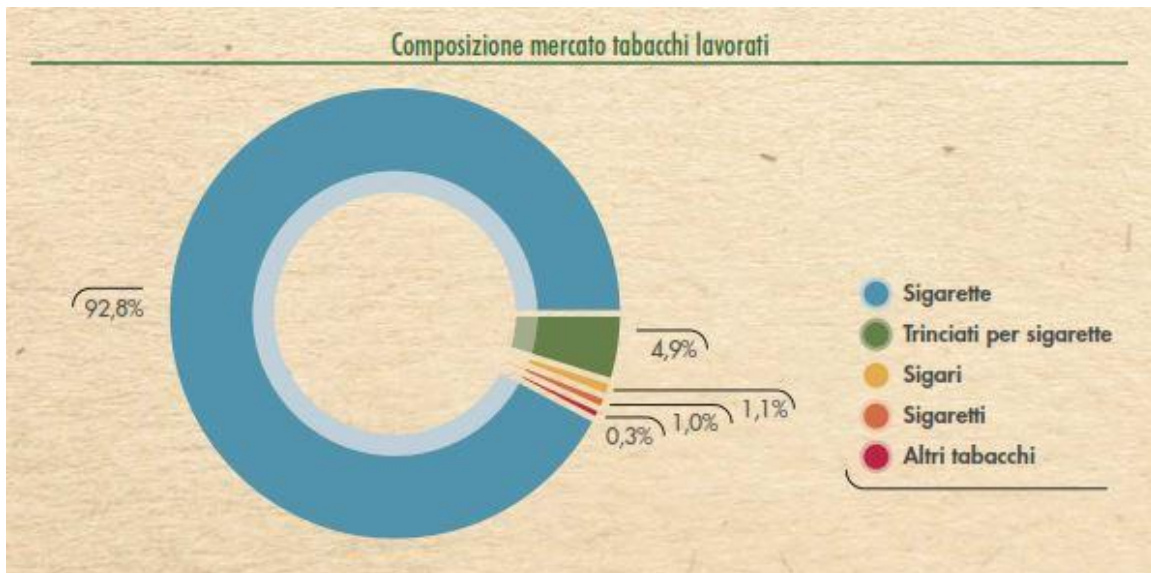


Figure 9 Composition of tobacco market, Report Distribution Logistician

As reported in the table which follows these changes they are mainly determined by cigarettes.

Valori e volumi distribuiti per categoria di prodotto 2013-2014								
Categoria	2013		2014		VARIAZIONE 2014-2013			
	Quantità (Kg)	Valore (Mln €)	Quantità (Kg)	Valore (Mln €)	Quantità (Kg)	(%)	Valore (Mln €)	(%)
Sigarette	74.035.764	16.967,94	74.440.816	16.836,99	-405.052	0,5%	-130,95	-0,8%
Trinciati per Sigarette	3.829.829	690,80	3.910.025	712,69	80.196	2,1%	21,89	3,2%
Sigari	833.600	172,29	851.829	176,95	18.229	2,2%	4,65	2,7%
Sigaretti	798.132	77,47	785.749	77,65	-12.383	-1,6%	0,17	0,2%
Altri tabacchi	245.645	33,60	254.367	35,37	8.722	3,6%	1,76	5,3%
Totale	79.742.970	17.942,10	80.242.786	17.839,64	499.816	0,6%	-102,47	-0,6%

Figure 10 Values and Volumes for product category, Report Distribution Logistician 2014

The different categories of product differ not only for the weight taken in terms of market share, but also in consideration of the characteristics of the product and customer segments to which they refer.

Beyond, therefore, a comparison between the different types of products, the trend assumed by the volume referable to them appears particularly significant in some cases.

The negative trend observed since 2008, in fact, is led by cigarettes that six years have seen a sharp fall in volumes distributed by almost 20%.

The market for cigars takes for us a significant importance in the drafting of the present study. We observe from this table as the consumption and sale of cigars has increased, namely by 2.7%.

Another growing business and bucking the general trend is that of shredded cigarette, namely loose tobacco, which, thanks to its lower price, has been preferred in recent years to increasingly taxed classic cigarettes.

We observe it from that chart as the cigarette market is down sharply from 2007 to 2014.

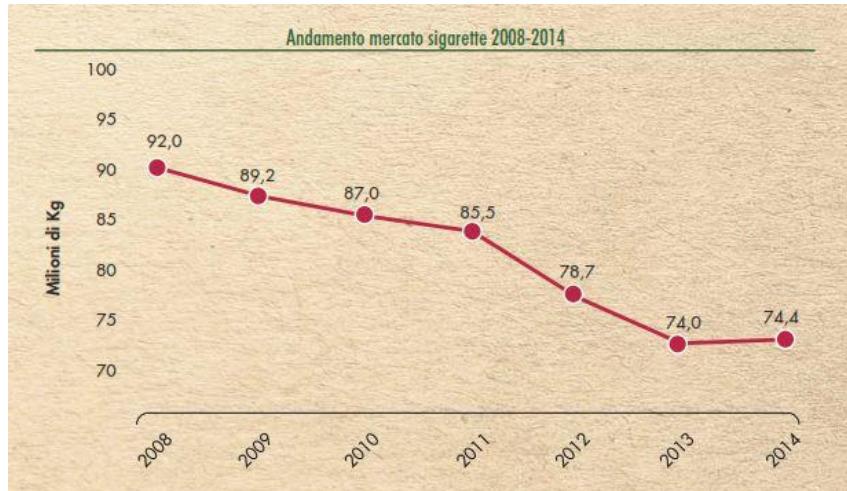


Figure 11 Cigarette's market trend, Report Distribution Logistician 2014

Equally interesting is the trend of cigars, which in the period 2010-2012 showed an increase of approximately 13%. The setback of this positive trend recorded in 2013, with a decline of about 2%, however, was recovered in 2014, when cigars were once again positioning recorded in 2012.

This is in contrast with the dynamics of prices and the market in the same period, especially given the fact that the cigar is a notoriously high-end product aimed at consumers of mature age.

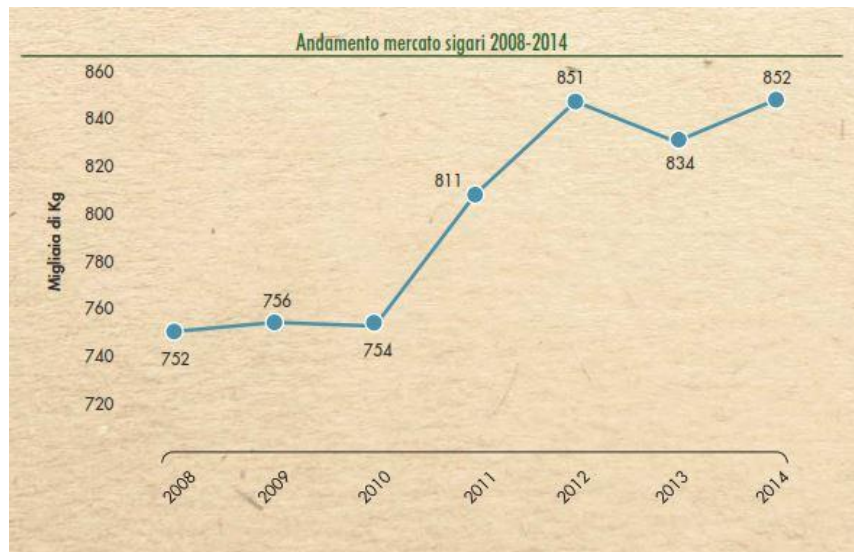


Figure 12 Cigar's market trend, Report Distribution Logistician 2014

3.2 Retail in the Tobacco Sector: The Distribution Network

The distribution. Evolutionary Background.

In analyzing the evolution of the tobacco monopoly, the marketing of salt and tobacco is a particularly attractive idea. To understand this complex system, the first legislation referred is the Royal Decree of August 1, 1901, n. 399, approving the "Regulations for the implementation of laws on marketing and salt monopolies".

The provisions of art. 63, entitled "Offices and responsible exercise of disposal", clearly describes the system of distribution of tobacco products then in force: "Disposal of the tobacco and salt is made by means of:

1st deposit warehouses;

2nd of sale warehouses;

3rd wholesale outlets;

4th resale.



One can summarize the procurement system with the following steps:

- 1) Deposit warehouses receiving tobacco from state factories shall fully meet the demands of selling warehouses and wholesale stores.
- 2) Sales warehouses and wholesale outlets supplying retailers, the respective district, caters to the regular release of sales bill upon delivery of merchandise.

3) Retailers are in charge of the public sale of edible salt, the national tobacco monopoly and secondary products included in the tariff.

Many obligations of the retailers, like what takes place on the day: personal management obligation, to maintain sales funding, sales in only authorized locales, of the royal coat of arms being glued and visible, and to sell tobacco products in the state in which they are supplied by the Administration and in the manner established by it, and so on.

Not underestimating that on every pack of cigarettes sold, the tobacconist receives 10 percent of the amount paid, approximately 14.5 percent goes to the producer and the rest to the state.

For the distribution and commercial structure of the AAMS, it is essential to refer to the Administration in the White book "Libro Bianco" of 1981:

"This structure in the first distribution can be largely overcome by the progress of means of transport and new possibilities of mechanization and automation of deposits. This type of organization also does not appear in any way intended action of trade promotion in competitive terms. There are very serious problems resulting from an outdated conception of logistics locations and operation of deposits, and by the very high number and dispersion of warehouses, connected to a logic of the physical distribution system, linked to the previous standards and practices under legal monopoly. It appears to be urgent that the problem of a rational restructuring of deposits, and especially of substantial economic and functional verification of logistics and numerical strength of the warehouses and distribution area for marketing purposes. "

Therefore, the same Administration, since 1981, had the objective of rationalization of its distribution and commercial structure, inspired by essentially private enterprise organizational criteria.

In fact, the supply process for tobacco products as set out by the mentioned regulations of 1957 and 1958, and by subsequent further regulated directions Administration regulations (circulars, interpretative notes), showed clear signs of age compared to modern technologies as the telematics applications for flow management in the supply chain that were introduced in Europe and in Italy in the '90s.

In summary, the system in use until a decade ago was unchanged since World War II. The tobacconist had to fill out a form (the "receipt book of tobacco demand"), indicating the products and the quantities requested and the warehouse aggregation in the days established for the collection of the goods, and advanced payment by post.

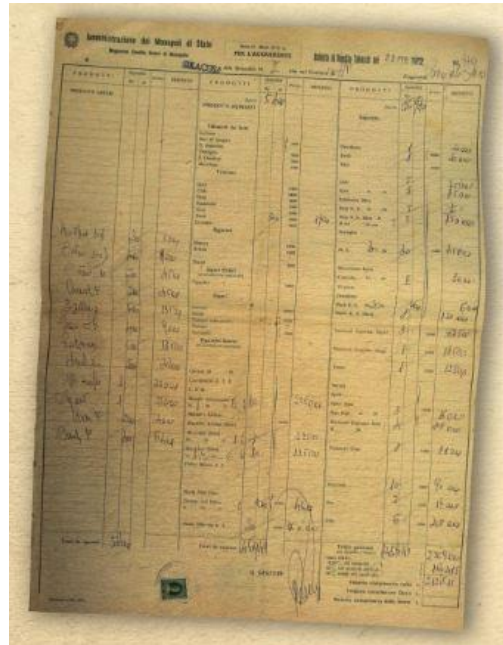


Fig. 13 An old tobacco order form from the 70s (Historical Archive FIT)

With the acquisition of the distribution sector by the company Logista Italy, parallel to the Federation of Italian Tobacconists, a process of gradual modernization and simplification was initiated, redefining the network and the introduction of innovations and services such as the Web portal and management. Thus there were methods for order and payment, which led to the configuration of the current distribution system of tobacco in Italy.

The distribution system of tobacco products, providing the link between production and consumption through the transfer of the product from the manufacturing to the final consumer, is the intermediate stage of the tobacco chain.

In the current configuration, such activities are carried out through a distribution chain which is divided into two phases, the primary composed of bonded warehouses, in turn built on two levels consist of territorial and local deposits, and a secondary level posed representing the tobacconists.

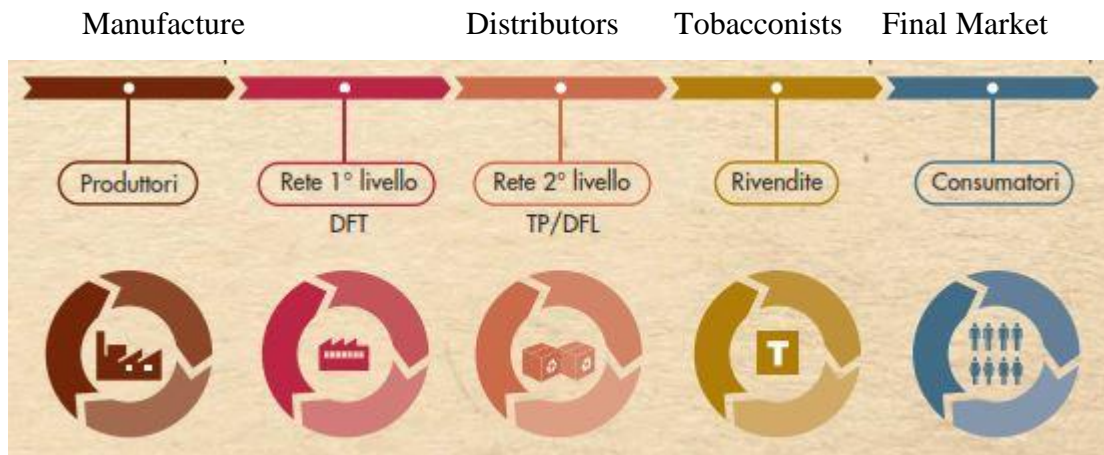


Fig. 14 Cigarette's market distribution, Logista, 2014

Primary Distribution

One of the main and delicate activities that competes at the primary distribution consists of the collection and management of orders of tobacconists. In the first place, there is to be noted that the sending cycle of order by the tobacco and consequently the delivery of the required product, has a fixed periodic basis.

Compliance with these deadlines on the one hand allows you to calculate in advance the precise volumes necessary for the restoration of stocks at the point of sale, so as to ensure the tobacconist optimal management of inventories and the consumer a complete assortment of products, and other to better plan the working process of the preparation of orders and deliveries.

The centrality of the tobacconist customer led to the development of methods to deliver the order multiple and constantly changing, with the aim of simplifying and speeding up the operation.

A first step towards simplification of the order transmission is the introduction of the possibility of transmission via the fax form, filled at the tobacconist and sent directly to the Acquisition Center Orders (CAO).

In 2014, the CAO had 20,800 registered users, accounting for 38% of total resale.

The increasing development of the Internet and new technologies also was a major step forward in the modernization of the system of sending and acquisition of orders with the online order through the introduction of Web Portal.

To confirm this, there has been a steady growth trend over the years, registering in 2013 an increase in the number of users by 48% and by another 21% the following year.

In 2014 over 20,500 tobacconists used the Web portal, corresponding to 37% of the total.

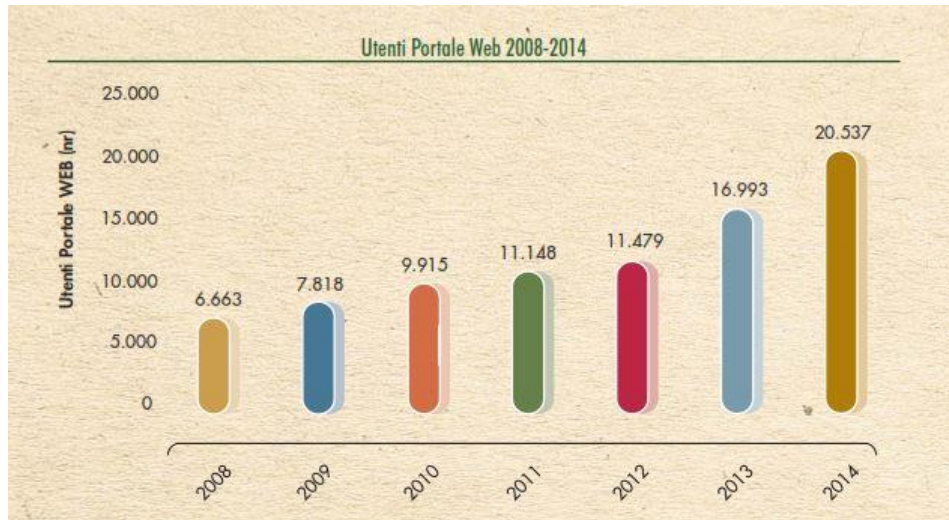


Fig. 15 Web portal for distribution, Logista, 2014

This trend is also confirmed by the percentage of the volumes ordered with the different ways of placing an order. It is observed, in fact, starting from the end of 2013, a percentage of centralization of over 70%, with a consequent progressive reduction in the use of the paper method.

The relevance of the collection and management orders, therefore, is evident not only to the high number of orders received and processed, but also for the articulated management of channels available for sending the orders, the processing of data particularly delicate and impacts necessarily this phase on the efficiency of the subsequent ones.

Secondary distribution

The Resale Network

The tobacco network represents a unique distribution network in the world of small businesses in our country. In fact, in Italy there are more than 56,000 tobacconists, located in the municipalities, which guarantee the full satisfaction of the consumption needs of the tobacco market and deliver a number of

other value-added services. Those that are active received an income of more than 55,000 euros from tobacco in the last financial year.

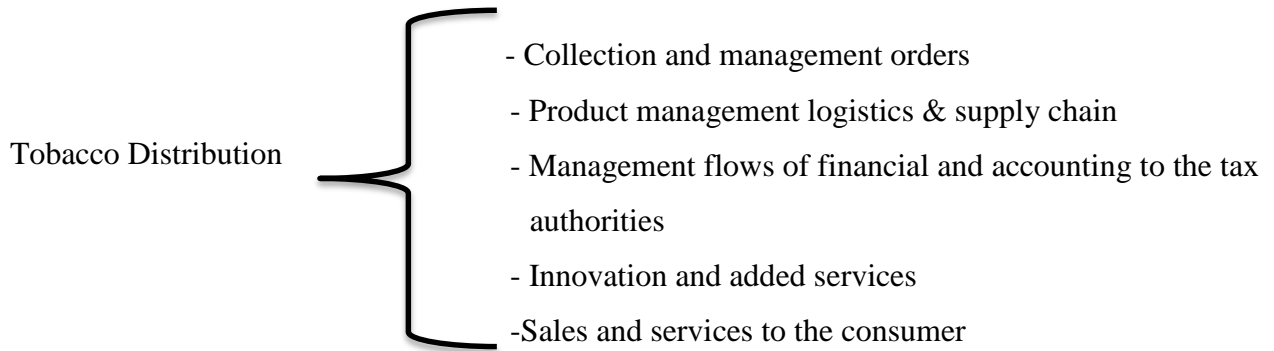
In addition to the dealer network, more than 11,000 little patents integrate the sales network of the monopoly. The table shows the number of existing and active tobacconists present throughout the national territory, broken down by region, and its ratio to the number of inhabitants.

Distribuzione delle tabaccherie nelle regioni italiane - anno 2014

Regione	Tabaccherie esistenti	Tabaccherie attive	Popolazione residente (Istat 2013)	Rapporto popolazione/tabaccherie esistenti	Rapporto popolazione/tabaccherie attive
Lombardia	7.655	7.446	10.555.056	1.379	1.418
Puglia	3.221	3.157	4.030.803	1.258	1.283
Campania	4.690	4.631	5.769.750	1.230	1.246
Piemonte	3.753	3.723	4.374.052	1.165	1.175
Lazio	5.054	4.980	5.557.276	1.100	1.116
Sicilia	4.188	4.101	4.551.200	1.087	1.110
Sardegna	1.539	1.505	1.640.379	1.066	1.090
Veneto	4.696	4.646	4.881.756	1.040	1.051
Liguria	1.636	1.630	1.565.127	957	960
Toscana	4.384	4.247	4.181.874	954	985
Emilia Romagna	4.446	4.365	4.100.446	922	939
Trentino Alto Adige	1.139	1.119	1.039.934	913	929
Friuli Venezia Giulia	1.397	1.373	1.221.860	875	890
Valle D'Aosta	149	149	127.844	858	858
Marche	1.848	1.811	1.545.155	836	853
Calabria	2.428	2.353	1.958.238	807	832
Basilicata	735	721	576.194	784	799
Abruzzo	1.732	1.709	1.312.507	758	768
Umbria	1.253	1.209	886.239	707	733
Molise	453	448	313.341	692	699
Totale Italia	56.396	55.323	60.209.031	1.068	1.088

Tab. 7 The Italian tobacconists - Search Format Ltd. on behalf of the Italian Tobacconists Federation. Survey in January 2014.

Analyzing the data on a regional basis, it is evident that in some cases there has been an over-dimensioning of the network, compared to the needs of consumption and the demographic and productive context reference.



The substantial relevance of these principles is related to the fact that the distribution activities in the tobacco sector has distinctive features that differentiate it from the normative and functional point of view on what is happening in other sectors.

The considerations relating to aspects of economic and commercial type are, however, some of the elements that contribute to describing the characteristics of the distribution in the tobacco sector. Some are complemented by the other, or equally important, due to the regulatory environment and tax reference. The industry, in fact, is characterized primarily by strict regulation which belongs to both national and European institutions, and that, especially in recent years, has been subject to continuous development. The laws, administrative measures and tax measures, therefore, play an essential role and influence the sector, also operationally, decisively.

The territorial analysis of the total volume of 2014 shows that 41% of the volumes distributed is recorded in the North, especially in Lombardy, which alone accounts for almost 15% of the national total.

Territorial Analysis

The territorial analysis of the 2014 total volumes shows that 41% of the volumes distributed is recorded in the North, especially in Lombardy, which alone accounts for almost 15% of the national total.

We observe in the table below for the distribution regions in the sale of cigars. Lazio is shown as the main regional market for cigars. With reference to this category, however, it is noted as a general variation in the increase in 2014 with percentages close to 7% in Molise and Campania.

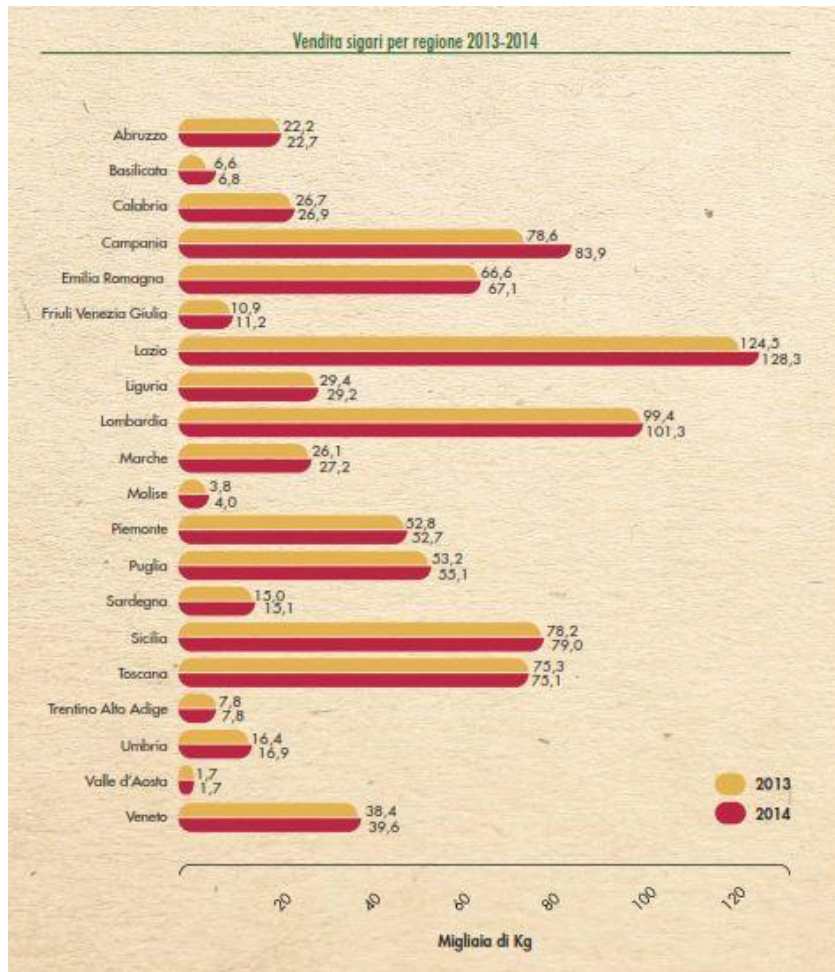


Fig. 16 Cigar's sales for region

In summary, according to ISTAT data published in 2014 by the Italian statistical almanac, in our country, 19.5% of the population are smokers, compared to 20.9% in 2013 and 21.9% in 2012. The trend is a gradual decrease as a result of smoke-free policies, the industry regulation and the negative economic contingencies.

If one considers, in fact, that in 1980 more than a third of the population (34.9%) were smokers, the proportion smoking over the last 35 years has decreased by more than 15 percent.

Modes of transport are another element to consider:

Mode	Advantages	Disadvantages	Possible Products
Train	Secure, trustworthy, inexpensive	Limited to the railways, slow	Cars, grains
Airplane	Secure, trustworthy, fast	Expensive, limited access	Jewelry, medicine
On Wheels	Versatile, inexpensive	Small size	Consumer goods
Ships	Inexpensive, adapted for larger products	Slow, indirect	Cars, furniture
Electronic Mediums	Fast	Not possible for many products	Information

3.3 The Italian Structure of the Sector

The tobacco plant, which originally grew in humid environments (tropical or subtropical regions), has rapidly adapted to the climate in every continent over time. The process of transforming raw tobacco into finished tobacco products (cigarettes, cigars, cigarillos, etc.) involves several steps. Every step comprises activities based on a coordinated system involving the physical flow of goods or services (raw materials, semi-processed products, etc.), technology, information and human resources. Taken as a whole, and organised into a precise pattern, it is known as a sector³⁶.

In 2014, 15,106 hectares of tobacco was grown in Italy. There were over 3,100 producers accounting for over 51,000 tonnes and with a value amounting to € 116.6 million at market prices. There were 21 first processing plants producing approximately 44,600 tonnes (table 7).

³⁶ Malassis – Padilla, 1996

Level in the sector	Variables	Unit of measurement	Value/quantity
Raw tobacco	Crop production	<i>tonnes</i>	51,310
	Farms	<i>number</i>	3,139
	Area (UAA)	<i>hectares</i>	15,106
	Crop value	<i>million €</i>	116.6
First processing	Output*	<i>tonnes</i>	44,640
	Firms	<i>number</i>	21

* Referred to industrially processed tobacco leaves before the delivery at manufacturing plants.

Tab. 7 – Italy: tobacco sector (2014). Source: Nomisma elaborations on Apti data.

Manufacturing plants are responsible of the production of tobacco products, such as cigarettes, cigars, cigarillos and cut rag tobacco (used to roll cigarettes).

The manufacture of tobacco products also produces significant economic benefits for many other sectors (cigarette and tipping paper, ingredients and flavours, etc.), even if in Italy this industry has now almost completely disappeared.

There were 3 active manufacturing companies³⁷ located in Italy in 2014 employing approximately 500-600 workers³⁸.

After manufacturing, tobacco products are marketed through wholesalers which send the products to a network of specialised shops (tobacconist). In 2014, the Italian wholesale distribution system could count on a wide network of 224 warehouses which received and stored both Italian and imported tobacco products, distributing them to specialised sales points (55,677 shops, to which we can add over 14, 437 licence owners). The sale of tobacco products in Italy amounted to around € 18.9 billion of which 94.4% were cigarettes (table 2).

Level in the sector ³⁹	Variables	Unit of measurement	Value/quantity
Manufacture	Firms*	<i>number</i>	3
	Employed**	<i>number</i>	500-600***
Distributive trade (whole and retail)	Fiscal warehouse	<i>number</i>	224
	Specialised shops	<i>number</i>	55,677
Tobacco consumption	Other licensed vendors	<i>Number</i>	44,640

³⁷ Manifattura Italiana Tabacchi (MIT), Manifattura Sigaro Toscano (MST) and Yesmoke S.p.A.

³⁸ Nomisma estimate for 2014.

³⁹ Logista and Aams data.

	Turnover	Million €	21
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* Legal unit benefiting from autonomy in decision-making. A firm carries out one/several activities at one/several locations (local unit).

** Nomisma

*** The figure refers to the total employment of the firms with processing facilities in Italy. Instead the number of people employed boosts up to some thousand units taking into account also the tobacco companies that have trade units (i.e. without any processing plant) in Italy.

Tab. 8 Sales of tobacco's sector, Logista 2014

The sector structure shows that not only farms and factories are involved in the production process and that due to the different types of activities performed by many of these (raw materials, mechanical components, agronomic service, etc.), the economic and social impact (jobs, know-how, technical skills, etc.) on the economy is highly significant.

This document focuses on the upstream benefits (conservation and first processing) of the tobacco sector to local economic systems, notably municipalities located at the centre of some of Italy's main tobacco growing areas.

Areas of cultivation

Italy's climate and soil are suitable for cultivating tobacco. Over time tobacco production has become concentrated in specific geographical areas, located all along the Italian peninsula. In 2012, 85.7% of the tobacco utilised agricultural area (UAA) was in three regions (Umbria, Campania and Veneto, in decreasing order of surface area)⁴⁰.

Within each region, tobacco cultivation has become concentrated in some specific administrative districts (provinces): Perugia (Umbria), Caserta (Campania), and Verona (Veneto) (Tab. 3).

Region, Province	Area* (ha)	% on Area	Quantity (t)	% on Quantity	Yield (t/ha)
Umbria	5,175	100,0 %	15,483	100,0 %	3.0
of which:					
Perugia	5,019	97.0 %	15,093	97,5%	3.0
Campania	4,315	100,0 %	19,163	100.0 %	4.4
of which:					
Caserta	2,215	51.3 %	11,780	61,5%	5.3

⁴⁰ Regions are administrative institutions with a territorial area and population. Regions have their own budget and can issue laws which are enforceable within the territory. Regions coincide with the European NUTS 2 classification (Naming System of Territorial Units for Statistics). Districts, which coincide with provinces, with NUTS 3.

Veneto	3,447	100,0 %	12,180	100,0%	3.5
of which:					
Verona	2,916	84.4 %	10,321	84.7 %	3.5
Italy	15,106	100.0 %	51,310	100,0 %	3,4

* Utilised Agricultural Area (UAA)

Tab. 9 Italy: areas and production of raw tobacco in the most important districts (2014). Source: Nomisma elaborations on Apti and Agea data.

The district identified enclosed areas which are particularly well suited for the production of tobacco. More specifically, favourable climatic conditions can be found which ensure a high quality product; furthermore, there is a well-established tradition as well as companies producing goods and services specifically for agriculture.

The districts identified are thus territories where one or more tobacco varieties are produced. In particular, the tobacco types cultivated are mainly from the *Flue-Cured* variety group in Verona and Perugia (*Bright* variety) and of the *Light Air-Cured* type in Caserta (*Burley* variety).

Different varieties of raw tobacco are produced which, based on analogies in curing methods (which is the process whereby the leaves are dried), have been arranged in eight different variety groups (Vg), of which four can be found in Italy. Table 4 provides a summary overview of the manner in which areas (and the related production) are divided amongst the various Vg in Italy.

In 2012 the most common variety, with over 9,300 hectares (primarily in Umbria and Veneto) was *Flue-Cured* tobacco (Vg I, including *Bright* variety), accounting for over 29,200 tonnes (57% of the entire Italian production of tobacco).

In second place in Italy, in terms of surface area and production, there is *Light Air-Cured* (Vg II), which the varieties *Burley* and *Maryland* belong to, but with the former being more widespread in Italy. The surface area amounts to approximately 3,700 hectares (concentrated exclusively in Campania), with production standing at just over 17,000 tonnes.

Variety groups	Area (ha)	Quantity (t)	Yeld (t/ha)	Price €/kg	Crop value €
<i>Flue-Cured</i> (Vg I)	9,310	26,269	3.1	2.34	68,604,749
<i>Light Air-Cured</i> (Vg II)	3,668	17,241	4.7	1.97	34,037,864
<i>Dark Air-Cured</i> (Vg III)	754	2,052	2.7	1.16	2,384,856
<i>Fire cured</i> (Vg IV)	1,374	2,747	2.0	4.25	11,668,678

Total	15,106	51,309	3,4	2,27	116,696,147
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Tab.10 Italy: productive and economic importance of raw tobacco (2014). Source: Nomisma.

The third variety group in terms of area planted (1,374 hectares) and production (2,747 tonnes) is *Fire-Cured* (Vg IV) tobacco. In particular, the *Kentucky* variety underpins an important sector for the production of **cigars**, and is cultivated almost entirely in Tuscany (Arezzo), but can also be found in Campania (Benevento) and Lazio (Frosinone).

The strengths of this system of local production lie in the high degree of specialisation, in the tradition of outstanding professionalism and in the close local ties between the manufacturing system and the agricultural system. The **Manifatture Sigaro Toscano** sector operates on this basis and in fact is an example of excellence in Italy.

The last important group is *Dark Air-Cured* Tobacco (variety group III), with annual production in Italy of approximately 2,100 tonnes.

The different nature of the variety groups can be seen in the market quotations covering a wide range of values running from 1.16€/kg for *Dark Air-Cured* to €4.25/kg for *Fire-Cured*. Overall, the price system took the value of production to €116.7 million in 2014.

The market segmentation is that which is made on the basis of identification of different groups of consumers whose purchasing behavior differ from those of the other groups substantially. This segmentation can take place on different parameters: geography, demography, socio-cultural factors or macro or micro-psychological factors.

The **macro-segmentation** is based on the characteristics of the country, in particular the geographical variables, socioeconomic and demographic variables, per capita income, population size and average household size. This type of segmentation allows the company to centralize operations and save on production, sales, logistics and support functions, however, we must consider that this type of segmentation does not take into account the differences between consumers within a single country and among the countries that are grouped in the segment.

There are two types of macro-segmentation: the cultural one, based on macro indicators in terms of culture, and the transnational, through which they identify within each country strategically equivalent segments (culturally).

The **micro-segmentation**, instead is based on the consumer and is developed on business to business (B2B) markets, bringing together buyers on the basis of common characteristics such as cultural preferences, values and attitudes, or lifestyle.

It is useful to note that, in the tobacco sector, the segmentation is by the “premiumness” of the product: Figure 1 shows the effect of a certain substitutability between Low and RYO tobacco segment, which over the years has always considered increased quantities sold in face of a declining market (especially in the segment Value for Money (VFM)). It should be noted as the low segment, according to the segmentation of the 7 markets in this study, captures a dynamic of aggressive price existed as manifest in the course of 2013 compared to the VFM. In particular, collected in the low segment, among others, products with price per pack of 20, in 2013 at 4 euros, being segment that includes the product at the lowest price.

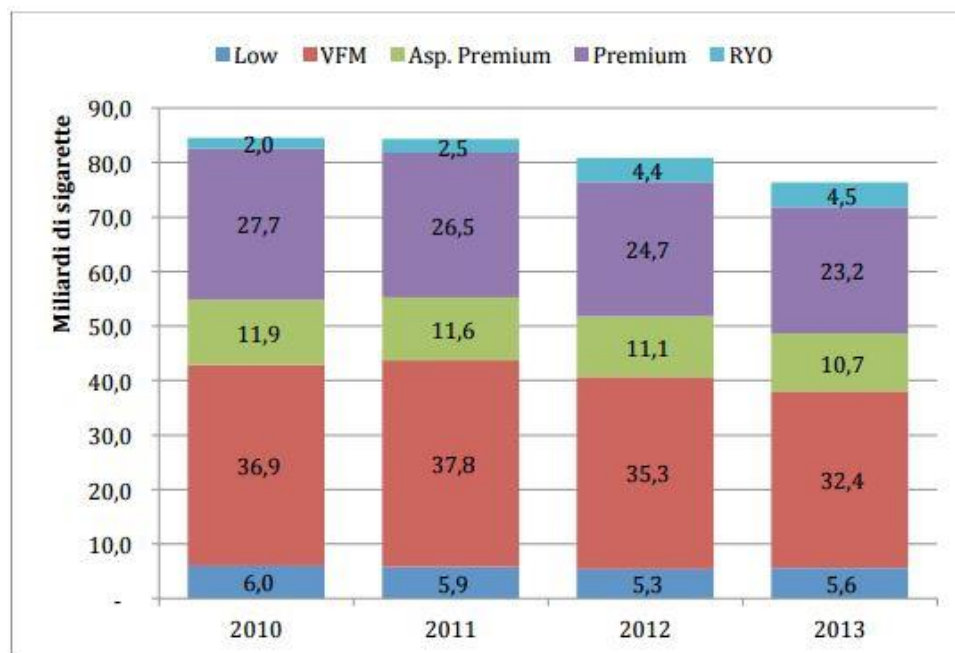


Figura 1: Quantità di sigarette per segmento. Fonte: Nostre elaborazioni su dati POS Sell-In.

In the figure below, we see that the premium segment has lost market share in favor of the Aspirational Premium, the VFM lost in favor of the Low and RYO sector, considered to some extent substitute for Low and VFM. The positive trends shown by the Aspirational Premium and Low, while reducing the

decreasing speed of the field, do not appear sufficient enough to reverse the sign of the variation in the market as a whole. Therefore, the market growth rate remains negative even in 2013.

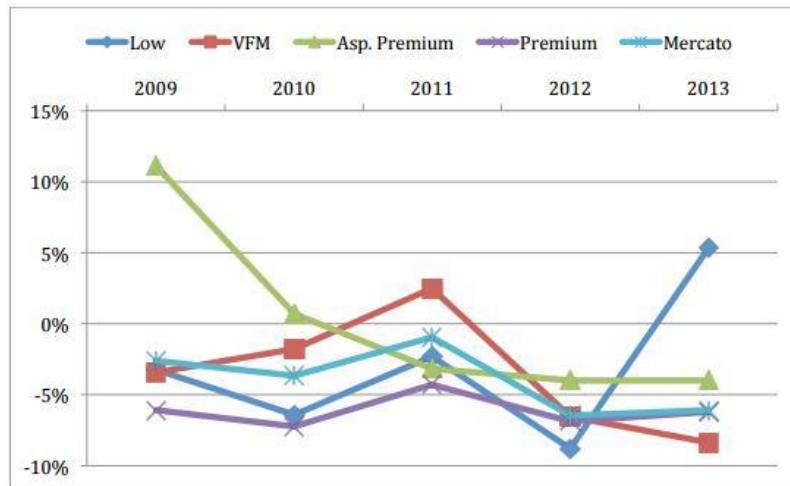


Figura 3: Sigarette vendute (variazione percentuale rispetto all'anno precedente). Fonte: Nostre elaborazioni su dati Nielsen.

- Market In 2014; the market experienced a decline of 0.74%. In 2015, the decline amounted to 1% approximately.
- Segments; in this scenario the price shock is discharged entirely on the cheaper segments of the market, the Low and VFM, so they will be the only ones affected by variations in demand in relation to price. The projected decline for the Low segment is 2.9% in 2014 and 3.2% in 2015. The projected decline for the segment VFM is 1.1% in 2014 and 1.6% in 2015.

Segmento	Anno					
	2014		2015		2016	
Low	5.467.604,75	-2,9%	5.292.199,82	-3,2%	5.292.199,82	0%
VFM	32.016.108,51	-1,1%	31.507.045,68	-1,6%	31.507.045,68	0%
Asp	10.666.868,20	0,0%	10.666.868,20	0,0%	10.666.868,20	0%
Premium	23.161.918,90	0,0%	23.161.918,90	0,0%	23.161.918,90	0%
Totale	71.312.500,36	-0,7%	70.628.032,60	-1,0%	70.628.032,60	0%

3.4 Market Analysis of exports from Italy: The Turnover of Tobacco Culture

Before even considering the Italian territory and exports that take place, we must consider the countries that would agree to export to less developed markets in the tobacco sector.

Analysis of the Market Worldwide

The tobacco plant, which originally grew in humid environments (tropical or subtropical regions, has rapidly adapted to the climate in every continent over time and has now spread to approximately 130 countries throughout the world at all latitudes and longitudes, from Canada to South Africa. More specifically, around two thirds (66%) of all the countries in the world cultivate tobacco. However, tobacco growing is more widespread in some continents and less in others: in Africa, there are 36 countries where the tobacco is planted, in Asia 37, in Europa 23, in North & Central America 16, in Oceania 5 countries, in South America 11. In 2014, Asia accounted for 67% of global production of raw tobacco. By far the main producer in Asia is China, where three quarters of the population, amounting to about 1 billion people, still relies on agriculture and where tobacco is an essential crop, with production estimated at 3.2 million tonnes. Asia is followed by the Americas with 20.1% (with 6.3% in North America and Central America, and 13.8% in South America) followed by Africa amounting 9%.

Europe only accounts for 3.8% of global raw tobacco production, in the other words the lowest figure for all the continents other than Oceania (0.1%). The European Union accounts for 84.2% (2014) of European production, while the remaining 15.8% is grown by other non-EU European Countries.

In order to correctly interpret these data, it should nevertheless be underlined that in the European Union tobacco is grown in accordance with rules that are particularly stringent from the economic and social standpoints, as it also the case in the other agricultural sectors.

Current tobacco production increasingly meets restrictive economic, social, health and development criteria, leading to steady improvement in the product’s quality level and integrity. The overall situation with regard to global tobacco production over the last three years is summarised in table 2.9.

Year	2012		2013		2014	
Continent	Production (t)	%	Production (t)	%	Production (t)	%
Asia	4,937,153	67.0	4,991,134	66.6	5,154,011	68.0
Southern America	1,015,131	13.8	998,134	13.4	1,002,565	13.2
Northern and Central America	464,281	6.3	447,458	6.0	454,915	6.0
Africa	661,505	9.0	689,900	9.3	678,919	8.9
Europe	280,854	3.8	277,980	3.75	274,586	3.6
Oceania	4,981	0.1	4,982	0.1%	4,983	0.1%
World	7,363,905	100,0%	7,409,588	100,0%	7,569,979	100,0%

When shifting the analysis from continents to individual countries, a high level of concentration of tobacco production stands out. In fact, on average, every year, over two thirds of the global production of tobacco comes from the leading five tobacco producing nations: China, India, Brazil, United States and Malawi, in decreasing order of importance. In particular, in 2014 these countries accounted for 72.8 % of total tobacco production.

It should also be borne in mind that China and, to a lesser extent the United States, consume most of what they produce, and therefore are not involved in the global tobacco trade.

Most tobacco producing areas are located in developing countries, where this plant has been widespread for centuries. Tobacco however has long been grown in Europe (it was first imported in the 16th century) and where production in factories, as an industrial activity, started in the 19th century. Europe’s only country amongst the top 20 global producers in Italy, with a production amounting to 51,539 tonnes⁴¹ (seventeenth position in the global rankings).

Market Analysis at the European Level

The tobacco plant adapts easily to different climates and, consequently is now grown in many member countries of the European Union: more specifically, tobacco is currently grown and cultivated in 10 EU member countries. In overall terms, EU tobacco is estimated to amount to approximately 3.8% of the world total production. In 2014 it was estimated that approximately 191,000 tonnes of raw tobacco was produced in the EU⁴². With 51,538 tonnes, Italy was the leading producer in Europe in 2014, followed by Spain (with 32,878 tonnes) and Poland (with 31,394 tonnes). The EU nowadays produces four major types of tobacco: *Virginia (Flue-Cured – Vg I)*, *Burley (Light Air-Cured – Vg II)*, *Dark and Fire-Cured tobacco (Havanna and Kentucky – VG III and IV)* and the *Oriental Varieties: Sun Cured, Basmas Vg VI)*, *Katerini (Vg VII)* and *Kaba Koulak (Vg VIII)* (tab. 3.4).

Country	Variety groups (Vg)	
Belgium	I and II	<i>Flue-Cured and Light Air-Cured</i>
Bulgaria	I, II, V, VI, VII and VIII	<i>Cured, Light Air-Cured, Sun Cured, Basmas, Katerini and Koulak</i>

⁴¹ Source: COPA – COGECA 2013

⁴² COPA – COGECA 2015

France	I, II, III	<i>Flue-Cured, Light Air-Cured and Dark Air-Cured</i>
Germany	I and II	<i>Flue-Cured and Light Air-Cured</i>
Greece	I, VI and VII	<i>Flue-Cured, Basmas and Katarini</i>
Hungary	I and II	<i>Flue-Cured and Light Air-Cured</i>
Italy	I, II, III and IV	<i>Flue-Cured, Light Air-Cured, Dark Air-Cured and Fire Cure</i>
Poland	I, II, III and IV	<i>Flue-Cured, Light Air-Cured, Dark Air-Cured and Fire Cure</i>
Romania	n/a	n/a
Spain	I, II and III	<i>Flue-Cured, Light Air-Cured and Dark Air-Cured</i>

Source: UNITAB.

Each variety group has its own structure of production costs, because the conservation and curing techniques are different, relating to very different botanical characteristics and, the level of mechanisation varies, as well as the quantity of labour needed; furthermore, labour costs differ greatly across the member countries of the EU.

As we know, the Kentucky (IV – Fired Cured variety group) is the tobacco utilised for the cigars; in the following table, we can observe the production, the areas and the production vs the total in the years 2012-2013-2014 of this good:

Variety groups/Years	2012			2013			2014		
	Production (t)	Area (ha)	Prod. Vs Total (%)	Production (t)	Area (ha)	Prod. Vs Total (%)	Production (t)	Area (ha)	Prod. Vs Total (%)
Italy	2,735	1,373	1.4%	2,623	1,371	1.3%	2,592	1,269	1.3%
Poland	1,724	714	0.9%	897	825	1.0%	1,134	911	0.8%
Other EU	242	86	0.1%	252	89	0.1%	264	94	0.1%
Total	4,701	2,173	2.5%	3,772	2,285	2.4%	3,990	2,274	2.2%

Source: UNITAB.

An overview of the Italian context

Let us now look at the situation in Italy.

As discussed in section 3.2, Italy is the first producer and exporter of tobacco in European stock and the eighth largest exporter by volume: the Italian production, extended over an area of about 28,000 hectares, has held steady at more than 89 000 tons, representing approximately 21% of Community production.

A fundamental fact is the fact that, compared to the value of 2007, year of the beginning of the global financial crisis, the Italian GDP in 2013 has decreased by 8.5 percentage points. The most recent phase of economic contraction persists in the fourth quarter of 2011 (the quarter following the first of the two VAT increases the rate that led to 22%). In 2014 GDP fell by 1.8% while for 2015 and 2016 was expected a turnaround, with GDP growth of 0.6% and 1.15% (Source: IMF).

Disposable income in real terms fell by 12% between 2007 and 2013, with an almost constant negative trend and the income per capita has followed a similar trend during the period 2007-2013, with an overall decrease of 10.8%. Only since 2014 has seen the placement of per capita income on a positive trend, with a modest 0.16% increase in 2014 and a series of slightly more marked increases in subsequent years (Source: IMF).

Therefore, it is appropriate to observe the main characteristics relating to tobacco in Italy: there is a high concentration in the final consumer goods, as the industry upstream section and the support are weak; the final product tends to be very extensive in depth (final goods, intermediate goods, specialized machines, some services); businesses are Small Medium Enterprises (SME) and compete abroad especially with exports, with a reduced number of Foreign Direct Investments (FDI); businesses are specialized territorially in districts; there is weakness in the high-capital-intensive sectors, in intensive business R&D, services, and certainly lack a global player.

There is a time gap between data production and the export of raw tobacco. Tobacco production it is in fact available in the fourth quarter of the calendar year, which is why part of the exports can slip next year, resulting in distortions in the comparison between the two indicators.

Italy, as the main raw tobacco community producer, holds a prominent role in the scenario of world trade, which is sixth on the list for export volumes⁴³. As shown in previous chapters, over time, Italian tobacco production has gradually shrunk, but the trade balance yearly registers a balance (exports less positive structural import), both in quantity and in value. In 2014, exports totaled 80,201 tons, an amount that is a decrease of -20.3% compared to 2013.

Within the aggregate tobacco, all varietal groups are backlogged today.

⁴³ FAO

In detail, the most important, the flue-cured tobacco (35,325 tons and 44% of exports) have lost 14.6%, the light air-cured (15,688 tons and 19.6% of exports) fell too ' they of -14.4% and dark air-cured (7,752 tons and 9.7% of exports) are much as -35.6% arrears. In the wake of the most important strains, other smaller groups have known, in relative terms, a reduction even more substantial: the fire-cured (1,927 tons and 2.4% of exports) have arrears of -61.9% and the sun cured (422 tons and 0.5% of exports) of -67.8%. Finally, exports of tobacco waste (19,087 tons and 23.8% of exports) contracted by -15.5% compared to 2013 (Table 3.5).

The decrease in quantities exported was not reflected by the dynamics of flows in value. In 2014, the value of exports of raw tobacco did not just go behind, but rose slightly compared to 2013 (+ 0.9%), reaching 204.5 million euro. The increase was not generalized, but it involved, to varying degrees, the three main groups of varieties. The opposing trends of exports in volume and value of raw tobacco is also explained by the dynamics of average prices (€ / kg) of the individual groups of varieties, total grew by 26.6% compared to 2013. The highest prices (4 4 € / Kg) were those of fire-cured tobacco, the price of which rose by 30% over the previous year. Behind them they are placed the light air-cured and flue-cured. The remaining varietal groups had lower prices, but the percentage increases in prices were for them more consistent. In detail, the sun-cured they have popped a rate of 2.6 € / kg (+ 69.2% on 2008) and dark air-cured a price of 2 € / kg, ie. 59.9% higher compared to 2013.

Like exports, imports of raw tobacco also showed an opposing trend in quantities and values.

The decline in imports by volume, however, has registered an increase in the value of foreign arrivals. In total, the value of raw tobacco imports rising by 7.8% compared to 2008, reaching 41.3 million Euros. The growth has been particularly two of the three main groups of varieties. In detail, the light air-cured (12.9 million euro and 31.2% of imports) recorded an increase of 16.4% and flue-cured (12.5 million euro and 30.3% of 'import) of 10.4%. Also up the sun-cured (8.6 million euro and 20.8% of imports), but with a much smaller increase of 2.6%. The growth of dark air-cured (+ 93.6%) was to contextualize taking into account the small size of this varietal group (less than 1%). In contrast, they were instead the fire-cured (4.6 million euro and 11.1% of imports), which fell by -21.9%, in line with the trend in imports in volume. The overall average price of the imported raw tobacco rose by 21.3% compared to 2008, with very high increases for the major varietal groups. The increases in prices were 46.8% for light air-cured, 30.6% for

sun-cured (varietal group that is no longer produced in Italy), 21.9% for flue-cured and 13 % for dark air-cured. More modest growth was reported in the fire-cured, whose prices have grown only 2.7%. Considering a span of ten years time (2000-2009), the comparison between the average prices recorded a fall in the prices of the imported product (-12.4%) and a much more marked increase in the price of exports (+34.5 %). On the other hand, the comparative analysis of the raw tobacco imported and exported from Italy highlights a positive trend in the prices of both the incoming product than at the start, especially since 2007.

The tobacco industry in Italy in 2007-2009, the prices of the imported product have grown from year to year, always with double-digit increases, reaching a maximum in 2009 with a 21.3% growth in 2008.

3.5 Marketing tools

1) The packaging

In Italy, the Directive 2001/37 / EC was implemented by Legislative Decree 184 of 24 June 2003, which has adopted the following content:

- the magnitude of health warnings
- the maximum levels of tar, nicotine and carbon monoxide content in cigarettes (which must be indicated in the Italian language covering at least 20% of the package side surface)
- The two general warnings ("Smoking kills" and "Smoking seriously harms you and others around you"), and the rotation of 8 (out of 14) additional warnings
- communication to the Ministry of Health and the Ministry of Economy, by manufacturers and importers, the list of all ingredients and their quantities used in the manufacture, based on the brand and type
- the prohibition of indications on the packaging of manufactured tobacco (such as light, ultra-light, mild), marks, images and other figurative elements or symbols likely to suggest that a particular tobacco product is less harmful than others
- the possibility of carrying out further analyses to determine the content of other harmful substances (other than tar, nicotine and carbon monoxide) contained in cigarettes

- the possibility to introduce in the future colour photographs on the packages, illustrative of the effects of smoking on health.

Finally, administrative fines from 10,000 to 50,000 Euros are anticipated (unless the fact constitutes a crime), for any manufacturer, placing on the market, importing or exporting products not complying with the requirements.

In recent months the project of the state is implementing a new attack on Italian smoking. The process must be completed specifically by March, 2016; but what is to be expected, in particular, on the articles of the EU Directive 2014/40?

New packaging warning, but only from 20-packs. In addition to setting the rules on authorizations, ingredients, full of nicotine and tar, which are identical to those already in force, the main change will touch format and packaging of cigarettes. First, 10-pack size will be eliminated, because it was considered a stimulus to consumption for young people. The packages will then have "at least 20 cigarettes", indicating that does not rule out the landing in Italy in different formats already present in other states, such as 25/30 cigarettes. It will be prohibited for the producers to put in processed flavours and aromas that cause a smoking desire. Even drums will have a small revolution, with packages that will contain "no less" than 30 grams of cut tobacco.

The real change, however, will cover the **packaging**: about 65 percent of each package will be occupied by specific health messages.

In addition to the instructions for use, already present, the packets will be "enriched" by so-called pictograms, or the shocking images of cancer patients, which will appear on both sides of the package. So not only written, but also images designed to educate and inform tobacco users.

In addition, the new packs also provide indication of the presence of the Observatory toll on smoking Institute of Health, so that those who consider that they need help to quit can immediately find concrete support.

All this would be meaningless if it were not awarded a penalty for violation: producers of can be fined up to 150,000 euros, and tobacconists up to 5000 euros and a withdrawal of the license.



A cigar is a tightly-rolled bundle of dried and fermented tobacco leaf, rolled in a series of types and sizes, That is ignited So THAT its smoke may be drawn into the mouth.

Cigar tobacco is grown in significant quantities in Brazil, Cameroon, Cuba, the Dominican Republic, Honduras, Indonesia, Mexico, Ecuador, Nicaragua, Panama, the Philippines, Puerto Rico, Canary Islands (Spain), Italy and the Eastern United States. The origins of cigar smoking are still unknown. In Guatemala, a ceramic pot dating back to the tenth century features Mayan smoking tobacco leaves tied together with a string. Sikar, the term used for smoking by the Mayans, may have inspired the name cigar.

Explorer Christopher Columbus is Generally credited with the introduction of tobacco to Europe. In the 19th century, cigar smoking was common, while cigarettes were still comparatively rare. In the early 20th century, Rudyard Kipling wrote His famous smoking poem, "The Betrothed." The cigar business was an important industry, and factories employed many people before mechanized manufacturing of cigars became practical.

Pure tobacco, hand rolled cigars are marketed via advertisements, product placement in movies and other media, sporting events, cigar-friendly magazines such as Cigar Aficionado, and cigar dinners. Since handmade cigars are a premium product with a hefty price, advertisements often include depictions of affluence, sensual imagery, and explicit or implied celebrity endorsement.

Cigar Aficionado, launched in 1992, presents cigars as symbols of a successful lifestyle, and is a major conduit of advertisements that do not conform to the tobacco industry's voluntary advertisement restrictions since 1965, such as a restriction not to associate smoking with glamour. The magazine also

presents pro-smoking arguments at length, and argues that cigars are safer than cigarettes, since they do not have the thousands of chemical additives that cigarette manufacturers add to the cutting floor scraps of tobacco used as cigarette filler.

The publication also presents arguments that risks are a part of daily life and that (contrary to the evidence discussed in Health effects) cigar smoking has health benefits, that moderation eliminates most or all health risk, and that cigar smokers live to old age, that health research is flawed, and that several health-research results support claims of safety. Like its competitor *Smoke*, *Cigar Aficionado* differs from marketing vehicles used for other tobacco products in that it makes cigars the focus of the entire magazine, creating a symbiosis between product and lifestyle.

In the U.S., such as in Italy, cigars are exempt from many of the marketing regulations that govern cigarettes. For example, the Public Health Cigarette Smoking Act of 1970 exempted cigars from its advertising ban, and cigar ads, unlike cigarette ads, need not mention health risks. As of 2007, cigars were taxed far less than cigarettes, so much so that in many U.S. states, a pack of little cigars cost less than half as much as a pack of cigarettes.[18] It is illegal for minors to purchase cigars and other tobacco products in the U.S., but laws are unevenly enforced: a 2000 study found that three-quarters of Internet cigar marketing sites allowed minors to purchase cigars.

2) Brand Community: the Clubs

The brand community is a community based on a structured set of social relationships among admirers and/or consumers of the same brand. It is specialized (as is formed around a product or service brand) and not geographically delimited. The members of this community are well aware of being related to a mass product and find the fact in itself reasonable. Three important elements characterizing a brand community:

The sense of "we-ness" among members: the members of a community experience an important link with the brand, but in an even stronger feel connected to each other (link > object):

a) Legitimacy is a process by which members of the community define the substantial differences between those who believe the true members of a community and those who are not, or are part only in a marginal way: "Real knowledge" of the brand vs. use of the brand for the "wrong reasons" (true believers vs. opportunists);

- b) Brand loyalty in opposition: opposition against competing brands many of the brand community members derive an important aspect of their community experience, as well as important meaning of the brand components;
- c) Rituals and traditions are important social processes through which the meaning of the community is reproduced and transmitted in and out of the community itself:
 - 1) the history of the brand celebration;
 - 2) Sharing of stories related to the brand: stories based on common experiences with the brand that serve to invest the brand with meaning and to link community members.

Within the brand community, does the relationship between consumer and brand, and you move from a relationship between consumer and brand, a relationship between consumers and brands.

The Brand Community involves interaction to the development and communication of the product and the consequences are: greater power to consumers, important exchange of information and social/emotional benefits for members.

The marketers can leverage the assets Brand Community using the social nature of the brand and consumer engagement in this building; positive influence on brand equity/customer loyalty. The relationship with the brand can also be an exit barrier, and must take the threat of the power of the community as far as possible: the community of consumers may refuse to accept the marketing operations, product changes and using the powerful communication channels to spread their dissent.

In cigar's companies, brand communities are called clubs. Clubs are generally non-profit, non-political and non-partisan, and are socio-cultural. Their objective is to share a passion and slow cigar smoke as a moment of encounter and cultural commitment.

There are hundreds of clubs, officially created by cigar manufacturers, or created by amateur enthusiasts who are consumers.

One of these is Cigar Club Association, which is a cultural association founded in 1999, which brings together numerous Cigar Club and thousands of enthusiasts throughout Italy and abroad.

Since 2003 publishes the magazine "Cigars" and organizes Catadores courses at the Club members to teach the history and culture of the cigar and the tasting technique.

Sometimes they also organize conferences and national and international events, directly or through associated Clubs, for which events can also be arranged by the consumers themselves.

Clubs can also create forums where cigar enthusiasts come together and share a passion, values and their know-how on the sector.

These clubs can be the instrument with which to create an important synergy, leading to the consolidation of customers and creating curiosity for new consumers, but may also be "harmful" for manufacturing companies, as the turnaround of a consumer passionate, can cause extensive damage to brand reputation, thanks to the solidarity so that consumers feel toward the brand, but also with each other (see fig. 3.3).

3) Events of Product Presentation by Inviting

One of the most popular tools is to exploit the prestige of the cigar and the leisure time it entails. It is definitely in the organization of events where the company can convey and explain to the participants the values, the taste and the product, whether they are existing customers or potential ones.

These events take place with the participation, often, the guests of honor that can represent, and approve, somewhat cigar smoke.



Fig. 3.4 Paolo Fresu participating at the Manufacture of the Tuscan cigar event celebrating the company's 200th anniversary.

Cigar tasting events are often accompanied by rum, whiskey and other spirit tastings to be consumed in conjunction with the cigar. This leads to the idea that the cigar presents a moment of relaxation and meditation.

Consumer Self Identification in the Brand, Values and in the Country of Origin

The cigar is a product that is consumed by a niche market, so it is easy for smokers to feel part of a community and identify with the brand and product values. Also, if the product is imported from another country, we tend to define that cigar as a product "Cuban" or "Italian", but without specifying the name of the brand or the individual product. It goes without saying, in this case, that the consumer feels the Country of Origin even more with the cigar.

4) Naming

The naming of cigars usually draws values such as masculinity, social status, the gives value, but also references to the size of the product, or to taste.

This is a tool with which the consumer of cigars is identified in the product and, in fact, seeks to elevate their Italian character and social status, as we shall see for Manufactures Tuscan cigar products.

5) Propaganda in the Tobacco Sector

In Italy, under current legislation (Law 165/1962) states that "advertising propaganda of any tobacco product, domestic or foreign, is forbidden."

Communication in the tobacco sector is one of the most interesting aspects, as it is subject to somewhat prohibitive restrictions. In fact, since 1962, the law "prohibits the advertising propaganda of any tobacco product, or foreign national and is the main reference standard in the field of advertising. Who transgresses the prohibition is subject to an administrative fine of 2,582 to 25,822 Euros". (Fig.3.5)

Sul divieto della propaganda e delle attività promozionali dei prodotti da fumo

La Legge 10 aprile 1962, n. 165, vieta la propaganda pubblicitaria di qualsiasi prodotto da fumo, nazionale od estero ed è la principale norma di riferimento in materia di pubblicità. Chi trasgredisce al divieto è soggetto ad una sanzione amministrativa da 2.582 a 25.822 euro.

La giurisprudenza si è espressa numerose volte sull'applicazione di questa norma ed è ormai concorde nell'affermare il principio secondo il quale il divieto si riferisce al comportamento rivolto al pubblico in genere ed idoneo a sollecitarlo all'acquisto ed al consumo di prodotti da fumo, in forma direttamente evocativa ovvero indiretta ed occulta.

Nel nostro Paese, pertanto, sussiste un divieto totale della pubblicità dei prodotti da fumo ed i tabaccaii vendono prodotti che rientrano appieno in questo divieto.

Inoltre, per quanto riguarda la normativa di settore e quindi di diretto riferimento dei rivenditori di generi di monopolio, vige il principio per cui all'interno delle rivendite l'offerta dei prodotti da fumo deve essere effettuata in maniera neutrale.

A disporre in tal senso è sia il DPR n. 1074/58 che il capitolato d'oneri, sottoscritto dal rivenditore con il contratto di appalto per la concessione della tabaccheria.

Di fatto poi, per il tabaccaio, l'obbligo di mantenere un atteggiamento di neutralità nell'offerta, si traduce nel divieto di ricevere incentivi per la vendita di determinati prodotti da fumo a scapito di altri e, quindi, nell'obbligo di operare in condizioni di completa autonomia, senza alcun tipo di legame di natura commerciale con soggetti terzi o con determinati marchi.

Ma, per citare un altro esempio, la neutralità dell'offerta si ritrova anche nell'obbligo di vendere i tabacchi al prezzo stabilito dalla tariffa di vendita, con l'espreso divieto di applicare sovrapprezzi o sconti.

È da evidenziare che la sussistenza di un sistema neutrale, sia nell'approvvigionamento che nella vendita dei prodotti da fumo, evita qualsiasi alterazione della concorrenza e costituisce una garanzia per il mercato dei tabacchi, che risulta essere privo delle influenze derivanti dalle scelte di qualunque operatore.

However, tobacco companies have always led engaging and pervasive media campaigns, also creating true icons, such as, the "Marlboro Man" for example.

Marlboro Classics



During the initial phase of the expansion of tobacco advertising, the strong influence of multinationals was felt in Hollywood movies, as well as in sporting events, from F1 (today, we find "performance" brands like Red Bull, but at one time, it was about the Ferrari-Marlboro, Camel and Lotus-Honda-Rothmans), to

get to sailing (which today is reflected in the elegance of Prada or Oracle in the high technology, but was once served as a case right resonance for cigarettes, with the Merit Cup).

While the public became more aware of the damages caused by smoking in the early 2000s, national laws and European directives became increasingly restrictive, drastically reducing the space for the visibility of cigarettes. One of the reactions of multinational tobacco companies was to maintain high brand visibility using other products. The main example is the clothing line "Marlboro Classics," which was born with the interesting premise of using experience and synergies between the cotton fields and those of tobacco.

One of the few countries in which the communication techniques in the field of tobacco are still granted is Switzerland. Being an addiction, smoking is easy to stimulate. Then the tobacco industry in Switzerland applies the "P" of marketing with great emphasis on immediate consumption in various ways, for example:

- With highly diversified products, not only according to the level of nicotine. There is, for example, the technological innovation of Winston filter to soften the smell of smoke, or the green character of cigarettes without additives (Marlboro, Parisienne);
- Based on their market positioning, some brands emphasize the convenience of the price (Lucky Strike), or even end up in deal supermarket flyers (Parisienne);
- Even today, due to the legal limits, in Switzerland the promotion relies entirely on events, billboards and print media. Advertising inserts are usually placed in the most read newspaper in Switzerland: 20 Minuten and Blick. The language is typical of global communication, with short messages that stimulate immediate consumption with phrases like this: "Get Real, It's Time For A Change" (Lucky Strike), or "Do Not Be A Maybe, Maybe Goes Nowhere, Sit Or Stand" (Marlboro). The use of a global and neutral language such as English facilitates the national campaign in a country that has officially three languages (German, French and Italian);
- Very interesting the placement of the promotion, which perfectly addresses the logical sequence of advertising- the place of purchase - the place of consumption: the billboards are located in high-traffic areas such as pedestrian areas, bus and tram stops, railway stations and airports. These are places of free distribution of newspapers 20 Minuten and Blick, home to the stores where to buy cigarettes (the Kiosk) and are typical spots where one can have the product, the cigarette (the wait is an easy incentive for smokers);

- The packaging is often fun, playing with alphabet combinations (Parisienne), or joining particular periods of the year when the smoke encourage more 'easily. For example, for 2014 Marlboro has played its packages with a campaign ("Happy new year") in which packages were printed with numbers that make 2014.

This can surprise when you consider the stereotype of Switzerland made up of mountains and clean air, much less when you consider that the country is home to the central offices of Philip Morris and British American Tobacco, two of the major tobacco groups in the world.

In Italy, however, the market trend has reversed in recent years. Even without price increases, the cigarette market showed decreasing trends. In the scenarios it was decided to analyze only the effect of any price increases, so with taxation and prices unchanged, the results were considered to be constant.

3.5.1 International Marketing

International marketing is characterized by two elements:

1. The conduct of activities with an impact on more countries,
2. A specific approach to management problems that considers the international scenario as a competitive context.

The importance of international marketing is growing due to both the evolution of the external environment, both for specific and strategic decisions of the company; in such cases the globalization of markets, the pervasiveness of the Internet, the open innovation logic, the dominant presence of multinational companies, the continued growth of world trade and foreign direct investments, structural stagnation in demand in Western countries.

Marketing allows for a better understanding and insight of the markets we enter, and the assumption of three fundamental choices of a strategy for foreign market entry:

- Which markets to enter and how many

- When to enter (timing of entry)
- Necessary steps for entry

Which countries to enter? The marketing intelligence system contributes to the identification of market opportunities with the collection and analysis of information on countries of interest about the cultural and institutional context, the growth rate of demand and local competition.

Regarding the **timing of entry**, marketing management plays a major role for many reasons: for the identification of countries where benefit from the first mover advantage, or to develop a new market, "educating" the need.

As for the **mode of entry**, marketing becomes crucial in the preliminary phase, providing information about the context and possible stakeholders and during the operational phase, in carrying out activities.

Possible modes of entry are:

- **Indirect exports**, where the role of marketing is marginal;
- **Direct exports**, where the internal network of sellers become the primary vehicle for strategic and operational marketing;
- **Collaboration agreements** (franchising, licensing), the definition of the marketing strategy at central and local implementation entrusted to national partners;
- **Joint venture**, depends on the agreements with partners
- **IDE**, the central role played by the foreign subsidiary

Pricing

Internationalization makes more complex the pricing decisions and we have to distinguish the factors that determine the prices routinely, they are: product cost, demand and competition.

The factors that influence the international prices factors, however, are:

External factors

Market factors: Features audience target, Government economic policies, Stability of the exchange rate, Physical distance between markets.

Sectorial Factors: The nature and intensity of competition.

Internal factors

Marketing-mix: Product, Distribution channels, Promotion costs.

Characteristics of the enterprise: Extension of its international presence.

The amount calculated with the differential cost is the minimum below which it is likely to go at a loss. It may be useful to enter new markets, but it has the danger of triggering phenomena of price competition in the markets in which you enter or to incur in anti-dumping sanctions.

The price may predict the nature of the competition in a certain business. Competition can be based on the price, if the comparison is competitive on price. In such a case, it is preferable that the comparison is of a short period, because it causes reduction of the margins. Then there is the non-price competition, in which the tendering is done on other aspects such as innovation, brand image, because the products may be different and not be imitated, or you want to implement means of isolation from the competition and in this way we are guaranteed a premium price.

Which distribution strategy to choose? The optimal strategy depends on the relative costs and benefits associated with each alternative.

When the price is important, a shorter channel is preferable because the post-sale or customer service component can be decisive for a long-term profitability. In addition, all intermediaries in the channel add their own mark-up to the product.

When the sector is highly fragmented, a longer channel is preferable, as it saves on disposal costs and can provide access to exclusive channels.

CHAPTER 4 - Case Study: Manifatture Sigaro Toscano S.r.l. (The Maccaferri Group)

Sigaro Toscano was selected as a case study due to the scarcity of literature on this product that is described by some as "one of the best ambassadors of Italy abroad"⁴⁴.

This analysis aims to identify the main reasons for the success of Manifatture Sigaro Toscano through different tools and how the company uses/could use the assets of the Made in Italy.

The tobacco sector in general is governed by large multinationals, but it is not for the cigar industry, where there are the excellences that deserve a greater depth in the national branding scene.

I conducted a desk analysis on the company using quantitative data, drawing on financial statements and analyzing documents related to communication and marketing; other sources include the Internet, libraries and, more generally, literature. I then performed a qualitative analysis through a short survey subjected to a champion of 472 people (89 respondents) and an in-depth interview with the General Manager of the company, with whom I had the opportunity to retrace the main stages of the company's history, and explore the reasons that have prompted the company to adopt particular decisions. This allowed me to compare how people feel about the company and if the company understand customer's needs and feelings.

For the purposes of deeper analysis and greater understanding of the business environment, regulations, and social environment in which the Sigaro Toscano cigar company operates, the interview began, thanks to the wide availability of Dr. Mariotti, with a story about the history of tobacco and Sigaro Toscano and was then structured into three main areas:

- The first is dedicated to the product innovation and the same, asking what were the major products, and how they were subdivided into "star" and "cash cow" products, using the Boston Consulting Group matrix;
- The second is the macro area that has been focusing on communication and branding;
- The third is about exports and future plans in relation to this aspect.

⁴⁴ GM Manifatture Sigaro Toscano, 2016

This analysis demonstrates that Sigaro Toscano somehow maintains the tradition, the Made in Italy and the craftsmanship that has persisted over time and deserves special attention. We retrace the main aspects of the company and finally discuss the survey findings and the interview.

4.1 The Company, its History and its Values

The Company and its History.

The Group's history is linked to that of the Maccaferri family and begins in 1879, when it was registered as the "Ditta Maccaferri Raffaele Blacksmith Workshop" in Zola Predosa, in the province of Bologna. This is where the drawing mill was installed, and the first products were produced by hand. This is an actuality that has adapted to the changes in competitive scenarios in the relevant markets, with a strategy based on: industrial vocation, diversification and internationalization.

The Group is active in various business areas: environmental engineering, mechanical engineering, real estate and construction, energy, food and agriculture, biotechnology and tobacco.

The Company S.E.C.I. is the holding company of the Group, wholly owned by the Maccaferri family and is based in Bologna. The President is Gaetano Maccaferri; Vice President Alessandro Maccaferri and Piero Tamburini is the Managing Director.

The group boasts a consolidated turnover of more than €1,366 million, 4668 employees, 53 factories, of which 18 are in Italy, 9 in Europe, 4 in North America, 10 in Central and South America, one in Africa, and 11 in Asia.

Below, we show the main balance sheet data.

Data (€)	2014	2013
Economic Data		
Revenues	91.300	91.056
Production value	90.864	92.302
EBITDA	26.648	26.487
Amortization and other provisions	4.811	4.933
EBIT	21.837	21.594

Profit/loss for the year	12.930	12.585
Balance Sheet		
Net capital	104.491	109.601
Net financial indebtedness	17.029	23.069
Net Asset	87.462	86.532
Employees		
	354	357

The famous Tuscan cigar was born in 1815 in Florence, and the State Monopoly produced it until 2004, when the Ente Tabacchi Italiani acquired British American Tobacco Italia. Ente was created for privatization, and all production activities, marketing and distribution of tobacco products that were first under the management of the Monopoly. In July 2006 the company returned to Italian hands, with the acquisition by the Maccaferri Industrial Group, led by the historic Bologna family. These are the main dates, which outlined the history of this company:

- **1999-2004:** The production and the commercialization is passed by the E.T.I State Monopoly, Ente Tabacchi Italian SpA.
- **2004-2006:** Italian BAT acquires Tuscan cigar in 2004 by E.T.I. SpA - Ente Tabacchi Italian - created for the privatization of all manufacturing, marketing and distribution of tobacco products first under the management of the State Monopoly.
- **July 2006:** The Maccaferri Group acquires the property of the historical Italian cigar from British American Tobacco for 95 million euro. The new company is called Manifatture Sigaro Toscano S.p.A.
- **January 2008:** Manifatture Sigaro Toscano acquires the Swiss Group Burger Sohne, the brand of cigars Pedroni, which becomes a new line of Italian cigars to be placed in the international market, next to the historic Tuscan cigar, for wider growth and structured.
- **2012:** In just seven years, the Toscano cigar is a reality present in more than 40 countries. It is recognized as an icon of Italian style⁴⁵ with nearly 12 million cigars sold.

⁴⁵ <http://www.manifatturesigarotoscano.it/>

- **2015:** Sigaro Toscano acquires 80% of American society Parodi Holdings, producer of cigars Next, Parodi and DeNobili, to make entry into the US market, still very closed today. Through this acquisition, Toscano enters into a competitive and challenging market, the world's first in the industry. In fact, the success of the product had pushed Parodi Holding to reproduce the taste and the Tuscan model in the United States. The Avanti Cigar Co. of Scranton (Pennsylvania) included Bon Gusto, De Nobili, Parodi, Petri, Toscanelli, the aniseed-flavored Avanti, and the "Avanti Estilo Café Mocha" that is infused with coffee and chocolate flavours.

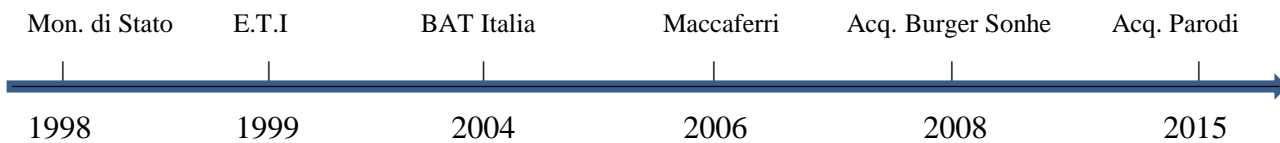


Fig. 4.1 Timeline with the main stages of Sigaro Toscano

Founded in 1818, the company history begins when Ferdinand III, Grand Duke of Tuscany, founded a tobacco factory in Florence. Their cigars were fermented products, whose tobacco, after being accidentally wet from a sudden downpour. Avoiding a huge loss, they were left to dry and were used for cheap cigars. They were soon in favour with smokers, crossing the borders of the Granducato, so much so that, in the mid nineteenth century they were producing a similar one in Naples that was called "Fermentato Forte" (Strongly Fermented) and later being referred as "Neapolitan".

The Tuscan was born thanks to what, at the time, was considered a terrible misfortune. Like all great inventions, the well-rounded cigar was born between history and legend, and Winston Churchill called it "the best ambassador of Italy in the world."

Toscano was born in a very random way in 1815, during the said heavy rain in August. A lot of Kentucky tobacco, which was already quite widespread in Italy, bathed in a kind of summer flood in the courtyard of the tobacco factory, where it had been placed. The manufacture was, perhaps, in the former convent of St. Catherine of Ruote. It was felt right away that this batch was inexorably lost because it was chewing tobacco or snuff from Kentucky, which was also used in its own country of origin: America. Instead of throwing it all into the Arno river, then director of Manufacture of Florence – surely because the Grand Duke Ferdinand III would never forgive such a gesture –decided to cut out some cigars of very low cost, for the common people, to somehow recover what was lost.

A part of the tobacco had to be necessarily used as cut tobacco for the inner part of the cigar, as visibly damaged, but the other party, the tobacco leaves remained intact, were not sufficient to produce the quantity of cigars that had been planned. It was decided to wrap the cigar not with two tobacco leaves, but with one.

The final product was perceived as more authentic, more aromatic and more intense, thanks to the moisture generated by the flood. Thus the famous Tuscan cigar was born.

Like all legends about the birth of a product, it is difficult to ascertain what is the most reliable source in cases like this. In fact, some maintain that the Tuscan was born first in the home of a Florentine craftsman.

The Product

The Toscano cigar has a bi-conical shape characterized by truncated ends that have a smaller diameter than the central part (belly). The diameter of the cigar varies slightly, depending on the type of Toscano, from a minimum of 13 mm to 16.5 mm. For some time, however, the thickness of some types of cigar have been reduced by a few millimeters, which decrease the durability. The only major exception is "The Moro" which has impressive dimensions: 20 mm diameter of the stomach and length of about 230 mm.

Lucca's main Manufacture has been housed, until June 2004 in a former convent of Dominican nuns. Since then the production has been moved to a more functional and modern property, located on the outskirts of Lucca, precisely in Mugnano.

From the organoleptic aspect, the Tuscan cigar is characterized with a decisive and strong character.

As for the colour of the various types of Toscano, ranging from a light brown of Garibaldi and Extravecchi cigars, to a reddish brown Selected and Toscano, to dark brown variants of Antico Toscano, Toscano Original and Ancient Reserve. Ideally, the Toscano should have internal humidity of 14%, but it is sufficient that it be greater than 12% relative humidity (around the cigar) of between 65% and 70%.

The product categories are differentiated based on the size of the product, to distinguish the various levels and differences between the "Toscanelli" products. The name given to the single product can be derived from the aromatic characteristics, by the uniqueness of the product, named after historical figures - the "Garibaldi" - or famous artists - with the "Modigliani", mainly aimed at women; from classicism (the "Toscano Classico") or

originality of the product (the " Original "), the origin of the tobacco itself (as is the case for some LEP cigars - Limited Edition Products), the traditional characteristics of the product, and so on.

The names of the products for Toscano Manifatture are a strength that carries the most experienced consumers towards a product, such as the Tuscan Extra-old, the first cigar with the Italian band, marketed for the first time in 1953, with an intensity of 5 of 5 characterized by a double fermentation during the production phase. The Tuscan cigar Extravecchio has a tricolor band, bearing the inscription "Toscano Extravecchio".



Fig. 4.4 - Toscano Extravecchio

One of the products that is worth mentioning is definitely the "Moro". Defined as the product "for those who are not satisfied," the Moro is a cigar that has been produced in the Lucca factory since 1999, with a limited edition which is distributed exclusively at Christmas time. It is the most expensive (about € 40.00) and measures less than 23 cm in length. Each cigar is produced entirely by hand and is individually packaged in a very sought out box made of solid wood destined to become a treasure chest. It is defined as a cigar for meditation.



Fig. 4.5 – Il Moro

The limited edition products and the most sought after are proposed with refined boxes of leather, leather and wood.

Corporate Values

The story of Manifatture Toscano was born thanks to the hands of many women without which, Dr. Piero Tamburrini, CEO of the company, says "we would not be here to tell the story of one of the most recognizable

Italian products in the world. Without those hands our moments of relaxation in the Tuscan company would no longer be the same, we could not enjoy every single breath its unique flavor, but most do not remain no trace of the cultural heritage reflected in every single leaf of Kentucky tobacco. From the beginning, in fact, the image of the Tuscan cigar is inextricably linked to the evolution of Italy's history, or culture, the style and creativity of the great Italian manufacturing industry, thus deserving the status of icon of Made in Italy world⁴⁶."

In fact, says Dr. Tamburini, "the time has passed from the distant 1815, when there was the famous sudden downpour, which in fact gave rise to the legend of the Tuscan, but nothing has changed in the cigar making process. Because even though you change the technologies that are available today, everything from planting, to drying, and darkening, is done as before, for almost two centuries. Today what has changed is the attention paid to every single production stage. "A rigorous and careful quality control that ensures every single cigar produced by Manifatture Toscano is of a level that would fully meet its many and demanding connoisseurs. Speaking of Toscano, then, it is how to talk about our country, its people, commitment, affection and spent sweat, over time, in search of perfection in not only a top quality product, but also in a friend."

Manifatture Toscano was born with the spirit of closeness to the territory, thanks to the activity carried out manually by the women of the headquarters in Lucca, you breathe again today when it comes in contact with the company. It was in fact defined as a "public utility factory", and this has undoubtedly tied citizens to the product and the tradition.

4.2 The activities in Italy and abroad

National Activities

The activities carried out in Italy by the company are first of all the production for its almost entirely and marketing of the final products. As we know, 90% of the company's turnover is made in Italy, the country of birth of the Tuscan cigar. Surely the launch of new products, makes the consumer curious and linked to the brand.

⁴⁶ Le sigaraie della Manifattura Tabacchi di Lucca, Manifatture Sigaro Toscano, 2015.

For the production of their cigars, Manifatture Toscano bought Italian Kentucky for 11 million in 2013, 95% in value of the entire crop. And in the three years 2014-2016 the project was implemented and continues today, increasing investments by 18% and increasing purchases of tobacco by at least 2 thousand tons per year. "The most appreciated products abroad - adds Maccaferri - are extravecchio Toscano, the first cigar with an Italian band, the classic Tuscan, on the market since the 30s; Toscanello the coffee aroma, with 10 years of success in the domestic market, now fashionable in Europe. All the cigars are tied to the history of our Italy. The "Toscano" is now recognized everywhere as a distinctive element of our lifestyle. "

"From 2006 to today - said Aurelio Regina, President of Sigaro Toscano - the turnover has increased from just over 60 to more than 90 million, the cigar products from just over 100 to around 180 million. These results were possible thanks to a strategy focused on the quality and preservation of Italian tabacchicola chain, technological efficiencies and productivity, with a strong focus on research and product innovation – a perfect combination of the farming community of farmers and the manufacturing art in making cigars." So in these seven years, products with new mixtures, sometimes limited edition were launched. But alongside innovation remains the tradition. Manufactures this year celebrate the 68th birthday of Toscanello. "And the same age of our Constitution - reminds Regina - they were both born in 1948; it is the mezzanine cigar most loved by Italians and the third most traditional cigar sold in Europe. The celebration will take place with a new single package and will be reserved for all those who want to step back in history; it will be distributed in more than 44 thousand Italian tobacconists where usually the consumer today is the Italian *stortignaccolo*".

In Italy, there are various activities carried out from the point of view of tastings and presentations of new products. An example was provided by a gala evening for the 200th year celebration of this historical product in 2015; the threshold of the bicentennial, the company has been well-presented: exports have tripled in the last twelve months and Opera was born: a new limited edition cigar that "celebrates the excellence of Italian art to enhance the spirit and our identity" said Gaetano Maccaferri, president of the industrial group, together with the president of Sigaro Toscano, Aurelio Regina, during an evening that combined music, culture, cuisine, artisan skill and agriculture. And so was inaugurated the concept of Opera in the evening organized in Rome.

From a commercial point of view, 2014 was primarily focused on the domestic market on the following guidelines:

- reinforcing the image of the Tuscan linking it to the values and the history of Italy:

- a) the launch of the Tuscan Pastrengo, exclusive cigar limited edition launched on the bicentennial of the birth of the Carabinieri
- b) launch of Tuscan works: Cigar designed to pay homage to Italian creativity
- support to the range of handmade and long cigars:
 - a) launch a limited edition of three Versini the Toscano Originale, to emphasize the flagship cigar company;
 - b) launch a limited edition of two Extravecchio variants (Delicate and Determined) to support the product that most of all suffered in the course of last year;
 - c) launch a limited edition of 40 pieces of the ancient Tuscan vintage
- focusing attention on the segment of flavored, entry level in the world of cigars:
 - a) launch of three variants (Mokha - Dolce - Espresso) designed to maximize the success of the Coffee Toscanello
 - b) launch of two new variants (Mojito – Cherry Brandy) of the Cocktail line Pedroni

With reference to industrial structures, in 2014 it was completed development of the new packaging machine for cigars; also it continued the development of the new cartoning line and cutting means for cigars whose implementation was implemented during 2015.

During 2014, albeit in a context of a crisis generated in all European markets, the implementation of commercial and marketing actions defined at the end of 2013 has allowed an increase in volumes sold of 16% over the previous year.

"Year after year, in country after country, the Tuscan cigar has established itself in the world as part of the Italian lifestyle - said Aurelio Regina - along with many other product ambassadors of know-how and good Italian living". Celebrities attended the evening, from the world of art and entertainment, as well as representatives from the world of enterprises and institutions. These activities surely involved greater engagement by the public and non-smokers.

Competitive behavior

The 2014 was marked by the launch in the Italian market of a product very similar to the cigar Toscano (both in size and shape for tobacco used): the Ambasciator Italico Toscano produced by Moderno Opificio of Italian Cigar. The range introduced to the market is made up of a natural mezzanine and 3 flavored cigars

(Ammazzacaffè, Licorice and Bacchus). At the time, the product has a very limited distribution and sales are estimated at around 500,000 units in 2014.

In addition, at the end of 2014 it was introduced a new variant of the cigar Che of Scandinavian Tobacco fact Tobacco Kentucky.⁴⁷

Activities Abroad

Between 2006 and 2012 marked the exponential growth in exports of Tuscan cigar: from 4.5 million units sold per year in 2006 to 13 million in 2014. A constant and progressive growth, which today has stabilized and that according to the shareholders' meeting of Sigaro Toscano is due to sales in duty free areas representing 5.4% of turnover and 7% of the cigars sold - a positive trend⁴⁸ that consolidated turnover of 90 million euro (excluding taxes) with 180 million cigars produced in factories in Lucca and Cava de 'Tirreni. The Italian duty free market is mainly consolidated in Travel Retail (domestic airports in extra Schengen area), extending and improving the visibility and exposure of products with new materials and through a continuous development of the duty free international presence with the cigar in new airports (Uruguay, Egypt and Kazakhstan)⁴⁹.

"The international markets are rewarding a formula of quality Italian made whole, tradition combined with innovation and a strong bond with the Italian territories in which the line of Kentucky was born", said Gaetano Maccaferri. He continued, by saying "we have reached more than 40 countries, we are all over Europe, but also in Japan, Canada, Australia, Israel, Lebanon, Turkey and in 2013 we began distributing in Saudi Arabia and Russia. The goals in 2014 are Brazil and Argentina."

Exports strengthens the growth trend of recent years through a connection of the main European markets and distribution expansion up to 42 foreign countries, including the introduction of Toscano in Brazil, Poland and Kazakhstan.

The main activities carried out abroad was that the acquisition took place on September 10, 2015 by Manifatture Sigaro Toscano, at 80% of the US company Parodi Holdings, producer of cigars Next, Parodi and De Nobili. It is a company created in 1901 by two Calabrian brothers landed in New York, Anthony and Frank Suraci, who started producing hand-made cigars for Italians immigrants. Over the years the company became a reference in the US market, for products of cigars cut with fermented Kentucky tobacco, similar in shape

⁴⁷ Financial Statements – Manifatture Sigaro Toscano, 2014

⁴⁸ Ernesto Diffidenti - Il Sole 24 Ore, 2014

⁴⁹ Financial Statements – Manifatture Sigaro Toscano, 2014

and taste to the Toscano. The Parodi Holdings, informed by a note from Manifatture Sigaro Toscano, reached over \$5 million in sales in 2014, with a production of about 11 million cigars, distributed in the major US states⁵⁰.

"By acquiring the Parodi Holdings, the Tuscan cigar comes in a tough market, competitive and challenging, the first in the world," says Aurelio Regina. "Thanks to the distribution platform of Next cigars, MST may be more effective in developing the marketing of the brand within the US market." Vice President of Manifatture Sigaro Toscano and president of the Maccaferri Industrial Group, Gaetano Maccaferri, said that the acquisition is "a key step in the international expansion policy of the Tuscan cigar, in line with the Group's vocation, which is part of the MST".

Spain is confirmed to be the country with most development dimension, passing in 2014 the 2.9 million cigars, consolidating the first foreign country's position ahead of France, where in 2014 were sold 2.7 million cigars. Highlights include the efforts made in Germany: after the change of distributor took place in 2011, initiatives have brought good results with a growth of 20% compared to 2013 and with a volume of cigars over 1.2 million, making it the 4th country (after Greece) to exceed the annual threshold million units sold.

It is interesting, for the results and future potential, the performance of the Balkan countries, especially Serbia, Romania and Croatia, with growth rates ranging between 35% and 40% in volume compared to 2013. Greece, despite the economic situation of the Country, realizes a growth of over 14% in volume compared to 2013, bringing the store of Toscano 1.6 million cigars sold in 2014.

"The Toscano cigar is the testimony of an Italian who wins, knows how to establish itself abroad and export its excellence, with the aim of promoting more and more the expertise of Made in Italy". With this acquisition, Manifatture Sigaro Toscano approaches - the very year of the bicentenary of the birth of the famous stortignaccolo - to nearly 200 million cigars produced, with a presence in foreign markets reaching 14% of total production.

⁵⁰http://www.agi.it/economia/2015/09/10/news/tabacchi_manifatture_sigaro_toscano_compra_parodi_holdings-169942/

4.3 Marketing Tools Used

As previously stated, the field of cigars has been, among the tobacco products, the least affected from the point of view of regulatory restrictions, at least for the time being. Indeed, we can observe that cigarettes have limitations in packaging, promotion, and the extension line⁵¹, but as for the cigar, such limitations are milder. This is explained by the fact that the cigarette today in most cases is considered a fast consumable product that causes most problems for the health, which, according to the collective imaginary, is less true for the cigar: first of all, it is not inhaled, thus the incidence is lower, and in addition, the product images are linked to pleasure, relaxing, and of a different social status.

First of all, the cigar is not a product affordable by everyone, or at least certainly not for everyday use. There is also to be considered that the cigar is a product for adults and, for his strong and intense flavor, it is not easy to smoke. This is definitely a driver that is used by the leading cigar industry in Italy.

Let's look more closely at the marketing tools that are used in this market.

4.3.1 Values: Italianness, Status Symbol and Tradition

The way a country is perceived by international public opinion makes a critical difference to the success of its business, trade and tourism efforts, as well as its diplomatic and cultural relations with other countries.

An important study has been done by Anholt, as we observed in Chapter 2, which analyzed by 6 indicators, what people around the world think of each others: you can On Anholt's website , one can see the value of Nation Branding, thanks to some indicators; in particular, it is possible to investigate how the citizens of a country classify another country in relation to: people, products, governance, tourism, culture, immigration and investment, making a comparison with the previous year.

The competitive identity is the aim of many governments who intend to exceed the standard promotion marketing. It is useful to implement a strategy in order to emphasize the importance of national identity and political and economic competitiveness of a country. Here is a brief description of the variables that allow each nation to build and measure their competitive identity:

1. Products, namely the image of the goods and services produced by each country and the extent to which consumers seek or avoid products of that country;

⁵¹ Agarwal, S and Sikri, S. (1996), "Country image: consumer evaluation of product category extensions", *International Marketing Review*, 13, 4, pp 23-39

2. Institutional interventions, i.e. the public about the level of competence and honesty of national governments and the commitment received in relation to issues of global reach;
3. Human capital, that is the reputation of the people for skills, study, openness, friendliness and quality, but also to any hostility or discrimination;
4. Culture, which reveals the perceptions regarding the cultural heritage of each country, such as film, music, art, sport and literature;
5. Quality of life dimension that determines the ability to attract people to live, work and study in a country and the way it is perceived its economic and social situation;
6. Tourism, namely the level of interest in visiting that country to the presence of natural or man-made attractions.

Below, the table shows the world ranking attributed to Italian products based on the instrument devised by Simon Anholt⁵²:

N.	Countries	Ranking #/50
1	Argentina	30
2	Australia	13
3	Austria	15
4	Belgium	16
5	Brasil	23
6	Canada	9
7	China	25
8	Columbia	48
9	Cuba	39
10	Denmark	14
11	Ecuador	46
12	Egypt	35
13	France	6
14	Germany	4

⁵² The rankings reported on products also include the consumers' perception of the countries that have other variables, since the product assessment includes, as already seen in the previous chapters, the evaluation of the country in all its aspects.

15	Ireland	18
16	Italy	2
17	Netherlands	11
18	Peru	42
19	Poland	28
20	Russia	20
21	Saudi Arabia	34
22	Scotland	17
23	Singapore	22
24	South Africa	31
25	South Korea	29
26	Spain	10
27	Sweden	8
28	Switzerland	7
29	Taiwan	24
30	Thailand	38
31	Turkey	40
32	United Arab Emirates	32
33	United Kingdom	5
34	United States od America	1

Surprisingly, in the U.S.A., Italian products are perceived as the best in the world, and this also explains the strategic move of Sigaro Toscano to buy Parodi Holdings, as previously noted.

But what are the strengths that Sigaro Toscano uses to put out their own values? Assets used are distributed into two main area: Made in Italy and the clubs.

A) The main asset is the product **Made in Italy**: this is the asset that takes on greater importance overseas, where the business of the Tuscan cigar started to be more accident on the balance sheet in 2012. The post-ness, which is very effective abroad, it is one of the cornerstones of the strategy and strengths of Toscano. This is perceived by management as a value to be transferred in the best way.

As we know, the tradition of the cigar is one of the main assets and the fact that it is always produced mainly in Italy, means that the estimator, and even occasional smokers feel even closer to the product and to the same values. In Italy, the cigar is born in Lucca, and thanks to Sigaro Toscano which was then produced in other regions.

Typically, the Tuscan cigar has uneven surfaces, sometimes lumpy, and recognizes clearly the ribs of the leaf's bands. These irregularities are apparent in handmade cigars and, far from being a flaw, instead, constitute one of the characteristic features of the Tuscan cigar. This is essentially due to two factors: the absence of a sub-band and the processing that is not en masse, as is the case for some types of Havana cigars. The Tuscan cigar is made up of an outer wrapper and the beaten inside also said filling. The tobacco varieties used for filling are almost always the national production Kentucky, from crops from various regions of Italy (in order of quantity produced: Tuscany, Campania, Lazio, Umbria, Veneto). Only in the case of the end leaf, leaves of Kentucky are often used for North American production because of further extension and width. For specific organoleptic characteristics, leaves of southern Italy Kentucky have cigars from sweeter taste (like the Garibaldi, Garibaldi and mezzanine Soldiers tobacco products with only the Benevento).

For almost one hundred and thirty, starting from 1818, the manufacture of the cigar was conducted mainly in Florence. But in the years following the post-war period, the 'stortignacolo' has definitively left the Tuscan capital to transfer its production to the Manufacture of Lucca and that of Cava dei Tirreni.

Made in includes:

1) Tradition, which is transmitted to the outside from the following features;

- a) **Craftsmanship**, which in a sense involves a perfect imperfection. This is a feature that attracts the consumer more elitist.

In many industries, such as fashion, food, furniture, and so is that of the cigar, craftsmanship is considered one of the main assets in the years of the crisis, because, the individual product differed from the world's growing globalization, appealing feature for the consumer patrician, and therefore also for the parvenu.

The artisan cigar, as we know, is one of the most expensive and sought-after products company manufacturing tobacco, and this is an aspect that Sigaro Toscano has always understood. Craftsmanship is related features such as higher quality, a rare and sought-after product, and back to the roots and to the land. This historical moment is very positive for this feature, since the consumer, tired of the constant pressure of the news, unbridled innovation, advertising and mass-produced, can get back to the land, to the origins, to nature. This is a factor that Tuscan cigar factories use and could use even more its favour.

Moreover, as already noted, handmade cigars are a premium product with a hefty price, advertisements often include depictions of affluence, sensual imagery, and explicit or implied celebrity endorsement.

Today, technology is able to reproduce the result was the secret of the success of the Toscano, however, about four million cigars are still made by hand in the headquarters of Sigaro Toscano, and these are the most sought after products among the variety of cigar.

- b) The image of the cigar makers. As discussed earlier, the company was founded around the image of women who, thanks to the hands of small size and their delicacy, they could work the cigar handmade in the Tobacco Factory in Lucca, where it all began. This is among the items that the company wants to maintain over time, as a symbol of craftsmanship, tradition, binding to land and territory, also from a social perspective - at 800 the company was already a great legacy for the territory of Lucca and its surroundings;



Fig. 4.1 - Cigar Rollers at Work Benches, 1926 (Photo By Ettore Cortopassi, 2008)

- c) The process of production and historical supply chain today replicate exactly what was the accident that struck the Tobacco Factory of Lucca during the flood of 1815, reproducing the environment and the degree of humidity of the product during aging and browning, thus restoring to the present day the centuries-old tradition. This is an asset that management of Sigaro Toscano used in a strategic and effective manner. The manufacturing process is definitely something that makes the valuable product and consumers more engaged towards the final cigar-product.

After harvesting the leaves following a period of seasoning and care called "direct fire" (fire cured) that lasts a total of 15 to 20 days and which gives its name to the commercial varieties that owns the Kentucky tobacco. The temperature of smoking the tobacco is set by the increase or decrease of the fire made by non-resinous wood (usually oak) in the curing area, which has no chimney.

This complex process makes it possible to fully harden Kentucky tobacco, which passes undergoes the whole process, thanks to skillful and continuous changes in temperature and humidity of the care, through four phases: the phase of yellowing (for degradation leaf chlorophyll), dell'browning (by oxidation of the leaf vegetable components), drying of the leaf blade, and drying of the rib. Then the leaves are harvested in Mannocchi and generally set up in bales. In the next stage of the first processing or pre-manufacturing are selected end leaves and the leaves for the beat that will be the cigar filling.



Fig. 4.2 – Kentucky tobacco leaves⁵³

Finally, wetting occurs, critical step for the tradition of the flood, and finally packaging.



Fig. 4.3 – The depositing of the leaf⁵⁴

2) The **Status Symbol** implies that the cigar, which clearly includes the Italian character of the product abroad, is seen as one of the drivers that push many consumers to smoke occasionally or frequently. The General Manager of Manufacturing Cigar Toscano, described the typical consumer of this product as "the man who has achieved a certain economic level and the importance of employment status point of view". And this is the consumer they have for their products which creates higher margins.

The status symbol, therefore, is created thanks to the prominence brand: if a consumer Tuscan cigar smoking a cigar LEP (Limited Edition Product), like a luxury product, the connoisseur probably classify him as a career man and you can afford a product of that type.

Therefore, as explained in chapter 2.1.2 in relation to the need for status, the cigar consumer is primarily a refined man, who, thanks to accessibility in the price of the product, since in any case it is a consumer product, will be emulated as the proletarian, who will buy an LEP cigaro show his status.

In this regard, the great lover and admirer of cigars, Luigi Ferri, in his book entitled "History of the Cigar", submitted several questions to a panel of four respondents, including the following: "According to you, the cigar is a status symbol, a fashion item or a lifestyle?" The answers were all oriented in relation to lifestyle,

⁵³ <http://www.manifatturesigarotoscano.it/galleria-2/>

⁵⁴ <http://www.manifatturesigarotoscano.it/galleria-2/>

except one, that of Dr. Parisi, who began: "For me the cigar is a complementary element to the elegant living, like a beautiful woman, a beautiful sofa, a nice car."

Status symbol and fashion are very similar answer: something becomes fashionable in the time when the company is incorporated as a status symbol - as long as one can afford it.

The third option - the cigar is a lifestyle - we can understand more if we take two steps of the book, the words of M.ro Plenizio:

"In smoking a cigar there is a cultural background"

"The cigar creates a selection ... when it reaches havana, for example, already has his inclination, a certain way of being, thinking."

Giving a retrospective look on tobacco, we observe that in the early seventeenth century the habit of smoking a pipe is first stated among the nobility to extend to the people in the course of that century. At the beginning of the seventeenth century, from France, the nobility and the clergy began to use snuff, taking again distance from the people, who used to smoke tobacco. Towards the end of the century, snuff had almost completely replaced smoking tobacco. In this period there were more than 200 different types of snuff and the first advertising campaign was born, with the frequent use of erotic female figures and symbols. But the decline of the aristocracy also dragged with them the snuff, the richly decorated containers for snuff, and the habit of sniffing tobacco passed into the background, as did the nobility. With the beginning of the new century, it appeared that the cigar, which became a symbol of the bourgeoisie by the revolutionary aspirations and that, like this, raged until the end of the century. At this point, however, the cigar lost the revolutionary connotation becoming, by contrast, a status symbol and sign of new wealth and power of the bourgeoisie. Acquired in this way a more conservative character, the cigar is inserted perfectly in men's clubs or smoking of the late nineteenth century. The twentieth century saw the advent of the cigarette that was imposed following a similar pattern ("cigarette" is the "cigar" French diminutive).

From the point of view of the consumer, the cigar is matched to different moments of pleasure: good music, mostly classical or jazz, a good cognac, good company, and food. Aficionados say that the cigar helps reflect, to have more openness, more balance.

3) The "**conviviality**": the general manager of the company, Dr. Mariotti, former GM of British American Tobacco, the Tuscan cigar defines as a product to be divided in two, both physically and metaphorically, calling the conviviality of when you consume the product: it, in fact, needs to be divided into two parts, since it is possible to smoke it from both sides. Although some cigars are cut on both ends, or twirled at both ends, the vast Majority as with one straight cut end and one end in a "cap". Most quality handmade cigars, regardless of shape, will have a cap which is one or more small pieces of a wrapper pasted onto one end of the cigar with either a natural tobacco or in mixture with paste of flour and water. The cap end of a cigar must be cut off for the cigar to be smoked properly. It is the rounded end without the tobacco exposed, and this is the end that one should one always cut. If the cap is cut jaggedly or without care, the end of the cigar will not burn evenly and smokeable tobacco will be lost. Some cigar manufacturers purposely place different types of tobacco from one end to the other to give the cigar smokers a variety of tastes, body and strength from start to finish.

Given the limitations of the laws on tobacco, the most effective communication that can be implemented by the tobacco companies, multinationals and not, on communicating in tobacco, and even before tobacconists. In fact, they will be the vehicle for the distribution of the product and can recommend one product over another.

Inside the store, you can also introduce the exhibitors that they can make evident the presence of the product and entice the consumer to buy, adopting a kind of emotional strategy.

Given the opportunity to make inquiries and promotions in tobacco by hostess or promoter for various purposes, for example to ask the consumer about the product they smoke, why, and if you would try the new product recently launched by the company X.

The magazines represent a large space in which the manufacturer can tell and illustrate their products, pushing on marketing so push or pull.

Surely the launch of new products and Limited Edition Products remains one of the most powerful tools in this area, as the consumer feels the product as unique and rare, and that somehow can increase his social status. Finally, naming, for Toscano a critical communication tool; as already noted, the names are based on famous historical figures, such as Modigliani, Soldiers and Garibaldi, or the organoleptic characteristics of the product.

B) Brand Community: the clubs

In the cigar sector, brand community is named Club. As already observed in the third chapter, clubs are generally non-profit, non-political, non-partisan, and are socio-cultural. Their objective is to share a passion and slow cigar smoke as a moment of encounter and cultural commitment.

There are hundreds of clubs, officially created by cigar manufacturers, or created by amateur enthusiasts who are consumers.

Since 2003 publishes the magazine "Sigari!" and organizes Catadores courses at the Club members to teach the history and culture of the cigar and the tasting technique.

Sometimes they also organize conferences and national and international events, directly or through associated Clubs, for which events can also be arranged by the consumers themselves.

Clubs can also create forums where cigar enthusiasts come together and share a passion, values and their know-how on the sector.

Within the site you can participate in surveys proposed by the editors, take in-depth information and more or less unique to you, ask questions or answer questions on the forum of the other members of the community of Tuscan cigar enthusiasts, reading and writing aphorisms on cigar or share their thoughts and advice with respect to the best combinations to taste the Tuscan cigar, or, finally, stay up to date on the major events, and not Tuscan cigar.

As noted in Chapter 3.4, events for fans, and not only, are one of the main levers that can be used for communication of the company.

They are indeed frequent events open to a targeted audience tasting, mostly by invitation, they can introduce new products and create more involvement from the public and non-smoker. The cigar is usually bundled in fact with an alcoholic good quality that underscores what we have defined the status symbol.

Among the events, you can count the beasts, mainly the beverage sector, and more specifically Wine & Spirits, where Manifatture Sigaro Toscano participates. An innovation that has made the company is to provide for participation in these exhibitions of so-called "cigarette girls", to invoke the concept of women since 1815 actively participate in the supply process of the cigars. Such participation recalls the values of traditionalism, craftsmanship, and attention to the socialness territory.

One of the key elements that keep the Manuffatire Sigaro Toscano is high ranking by the choice of the sponsors.

One above all, in 2015, at the launch of the five Toscanello Chosen: cigars celebrating the five territories in which was born the Tuscan Archipelago, the actor Toni Servillo has written four readings to celebrate this event:

1. The water and the case wanted;
2. Traces of a territory;
3. Tribute to the singer;
4. Stories, people and places of the Tuscan cigar.

Specifically, Toni Servillo is an important icon, in particular in recent years, as the Paolo Sorrentino's film of which was the protagonist, the Great Beauty, was the winner of the Academy Award for Best Foreign Film, and with this he won the fourth David di Donatello and the second European Film Award.

The choice of sponsor success is strategic as consumers recognize that character in the product success, unconsciously believing they approach the model of success using the product.

4.3.4 Brand Stretching

The tobacco industry is the best example when it comes to brand stretching. This term we use to describe a method where companies take advantage of a brand name in a new market; it is "the act of using an established brand name in order to introduce unrelated products, such as a tobacco company that introduces non-tobacco related products in order to circumvent advertising restrictions"⁵⁵.

Generally speaking, the process starts when businesses come up with new products that seem complementary to other successful products that they already produce. They will then name and market the new items in a way that lets consumers know they are directly associated with the old products. Generally this is meant to create confidence in consumers and attract certain people who used the original product. Brand stretching is Generally Considered an effective marketing tactic for launching something new, but it can potentially damage Also name brands if the new products are not successful.

⁵⁵ www.businessdictionary.com

One of the main strategies of the company lies in the implementation of a business model that carries products that go beyond the cigar in the strict sense, but they are complementary and functional to it.

This is a technique that allows advertising and promotions on the product, since not subject to regulations and restrictions limiting, and to make it even more visible and to ensure that it is the vehicle that will push consumers to a positive attitude towards the product and then the purchase of the same.

Below, a list of products that can be purchased in conjunction with the cigar:

- Toscano and fumatoscani Mouthpieces
- Leather Cases for Tuscan and mezzanines.
- Cutter and scissors for Toscani
- Lighters of different price ranges, from € 2.50 up to € 110.
- Books on Toscano
- Boxes wipes travel
- Boxes wipes Made in Italy
- Snaffero extinguish cigar
- Ashtray travel and cars.

4.4 Analysis of the findings from the survey and interview with Stefano Mariotti: GM of MST

4.4.1 The survey

The assessment tool for the survey

For the purposes of deeper analysis and a greater understanding of the business environment, regulatory. and social environment in which the company Manifatture Sigaro Toscano operates, I thought it necessary to administer a questionnaire to a sample of about 648 people. Respondents, specifically, were 86 in number and the population that I have taken as a reference is represented by those who are part of the Tuscan cigar clubs,

who they are living abroad, and particularly in the US⁵⁶. Thus we could understand how the Tuscan cigar is perceived in the US context. The choice of the country comes from Manifatture Sigaro Toscano's recent acquisition of 80% of Parodi Holdings, which is why I thought it necessary to understand how the Tuscan cigar enthusiasts will seize this transaction and whether this will bring positive results for the company.

The interview was administered by mail to those who, during the registration process, have given consent for participation in surveys or questionnaires. The preparation of a questionnaire is one of the most delicate moments of the research, there are not, in fact, simple and easy rules that guarantee in a tool the possession of some fundamental qualities. A good questionnaire should meet the objectives of the research, collect information as accurately as possible and do so within the limits of available resources. In light of these few but significant considerations, we tried to build the questionnaire by following certain steps, namely: choice of content areas, defining the contents of the individual areas and formulation of related items, arrangement of items in proper order, use of pre-test for any changes or requests replacements⁵⁷. Also, I preferred to turn to the recipients with a confidential "you", to put subjects at ease.

First, comparing them with the referent of a club, I had the pleasure to know that the most active members feel connected to any activity can benefit or approach to the cigar, so the answers given, are usually reliable and have a margin of error next to 2-3%, for samples of this size.

The questions and answers.

The questions concerned the following areas: the perception of the product and its innovations, packaging, brands and events.

Respondents belong to an age group between 35 and 55 years (58%), 23% are under 35 and, finally, 19% belong to an age group over 55 years old. 88 % of respondents work and 12% responded to be unemployed. The largest number of respondents are consumers who smoke for more than five years, then we can say that they are smokers loyal to the brand and the product, followed by consumers who smoke less than one year, that are probably the ones who smoke Toscanello.

⁵⁶ Lantz, G. and Loeb, S. (1996), "Country-of-origin and ethnocentrism: An analysis of Canadian and American preferences using social identity theory", *Advances in Consumer Research*, Vol 23, pp 374-378

⁵⁷ Lim, K. and O'Cass, A. (2001), "Consumer brand classifications: An assessment of culture-of-origin versus country-of-origin", *Journal of Product & Brand Management*, Vol 10, No 2, pp 120-136

Findings. What emerges from the questionnaire is interesting from the analytical point of view. First of all those who smoked Toscano for less than a year and younger consumers who smoke and for less time. In addition, the smoker of Toscano belongs mainly to a consumption class by less than a year and more than 5 years. This because surely the new smoker is encouraged to join the club, and also the savvy consumer wants to share their experiences. Another interesting aspect that emerges is that those who smoke the cigar, it does so mainly on a few occasions, contrary to what is the case for cigarettes, whose consumption is daily and sometimes compulsive.

The majority of respondents said smoking mainly during the weekend, probably because the cigar is a product to be consumed in relaxation. The next question wants to investigate why people smoke Toscano and the answer has been that those who smoke Tuscan, they do it because they feel closer to a status symbol and Italian to their roots.

Another point of analysis, focused on the consumer sentiment about the Italian character of the product. In particular, 53% of respondents said they feel more connected with the product and the brand, aided by the fact that the loyal customers claim to have known by the time the company's history.

A fundamental fact emerged from the analysis concerns the emotions that are aroused by smoking Tuscan cigar: the 27% of respondents replied the Italian spirit, 49% responded craftsmanship, the 19% responded tradition and finally the remaining 5% responded transgression.

By this analysis also it shows that smokers of Toscano are divided in almost sharply between those who are loyal to one product and those who trust the brand and, therefore, are willing to try new tastes and flavors. Both these categories are faithful in their own way. A fundamental fact is that smokers older age and who smoke longest judged the Toscanelli flavour negatively, which could in fact be because the product is made to attract new consumers. For those who are members of a smoking club, the bond is both a cigar and with the brand and the excitement that arouses them the Brand MST are mainly related to craftsmanship.

As for the packaging and the logo on the band of the cigars, these elements evoked emotions, but they are not accidents for the choice to smoke or not (keep in mind that the clubs are consumers already smoking)⁵⁸.

⁵⁸ Nagashima, A. (1977), "A comparative 'made in' product image survey among Japanese businessmen", *Journal of Marketing*, Vol 41, No 3, pp 95-100

Thanks to the club, consumers feel the brand, feel they make a contribution to the brand and feel touched to participate in company decisions. However, a majority of respondents did not know the acquisition took place in October 2015 by MST towards Parodi.

The majority of respondents said that they would take part in events organized by MST, even in the U.S.A. and talk to friends and relatives about it.

Another fundamental point regards the question “Do you smoke Cuban cigars?”. The majority of respondents claimed to have tried them, but they preferred Toscano (52%) . Such behavior is due to the existing sentiment in Brand Community of "loyalty to the opposition", observed in Chapter 3 of this thesis.

The main factors that emerge are loyalty to the brand and to the Italian character of the Toscano’s cigar.

4.4.2 Interview with Stefano Mariotti: General Manager of MST

Simultaneously to finding answers to the questionnaire, for the purposes of deeper analysis and greater understanding of the business environment, regulatory and social environment in which the company operates Sigaro Toscano, I got to interview the general manager of the company: Dr. Stefano Mariotti. Born and raised mainly in Rome, the path to the GM had a strong imprint in tobacco, thanks to the role from 2001 to 2013 as British American Tobacco General Manager, before going on Sigaro Toscano in 2014, with the same role.

The interview began, due to its availability, with a story about the history of tobacco before, and that of Sigaro Toscano then specifically. The interview was then structured into three main areas:

- The first dedicated to the product innovation and the same, asking what were the major products, and how they categorize them into products "star" and "cash cow", returning to the Boston Consulting Group matrix;
- The second macro-ness has been focusing on communication and branding;
- The third on exports and future plans in relation to this aspect.

Product. In reference to the product, an important innovation that has generated huge profits it involved the introduction of Toscanello, which is aimed at a younger audience and less experienced. This product was mainly realized in the headquarters of Cava de 'Tirreni and flavors are coffee, dark chocolate, brandy, vanilla, anise. The legislation, however, has recently limited communication regarding the flavors as it could encourage non-smokers to buy the product for a first initial testing.

How to overcome this limit? In view of the elimination of Aroma reference on packaging, has already assigned a color to each taste. If before the writing on the package was "Aroma cafe", now it's acting to automatically associate the taste of color as you can see in the pictures.



Fig. 1 – The packaging before regulations



Fig. 2 – The packaging while adapting to the rules



Fig. 3 – The packaging after the after the implementation of the legislation

This stage is essential as the consumer associates the color to taste in such a way that, in the moment in which the requirement to remove the reference to the flavour will be fully in force, the smoker already recognize the color, although there will be no reference to 'aroma'.

The introduction of flavored Toscanelli was implemented with the idea of bringing the cigar a greater number of consumers, and this has definitely resulted in a substantial increase in sales and brand awareness of the company.

And this, in fact, is now their "cash cow" product, taking up the Boston Consulting Group matrix. Cash Cow is a product that Generates a steady return of profits to exceed the outlay of cash required to acquire or start it. Many businesses attempt to create or acquire such ventures, since they can be used to boost a company's overall income and to support less profitable endeavors. The BCG growth share matrix developed by the

Boston Consulting Group coined the term to describe business units experiencing high market share and operating in a mature industry with slow growth rates.

Their "Star" products, ie those with a high growth rate and high market share, are the "Moro", from the side of the cigars, and complementary accessories, on the side of the no-cigar. And 'the latter also the product that are not subject to restrictions by the state, will be the subject of advertising and promotional campaigns, assuming a fundamental importance for the company.

One of the strategies that have brought major results is the capillary distribution in airports and duty free shops, which led to a greater ability to know, even for the tourist who does not know the product, and also thanks to the naming.

Communication and branding. The Cigar Communication is mainly focused on Italian style, craftsmanship and status symbol. These are the values that are appreciated abroad and who ensure that the cigar is increasingly appreciated in Italy, as in other countries. This positioning is maintained thanks to several factors: by the end depicting the Italian flag on the product, through the presence of cigar makers at trade shows and events, with the participation of personalities of political or artistic value, widely recognized on the national scene. From the point of view of corporate values, Dr. Mariotti says the company does not change communication strategy in Italy or abroad.

Export and positioning. Dr. Mariotti tells how the export is growing from year to year and how this happens in certain countries, in particular Spain, France, Germany. Definitely, says Dr. Mariotti, their plan is to grow to abroad, landing in emerging and strong markets. The first step for expansion overseas was represented by the acquisition of 80% of Parodi Holdings; while the countries of the Far East are definitely a goal, the rules are still too restrictive.

Spain is confirmed to be the country with most development dimension, passing in 2014 the 2.9 million cigars, consolidating the first foreign country's position ahead of France, where in 2014 were sold 2.7 million cigars. Highlights include the efforts made in Germany: after the change of distributor took place in 2011, initiatives have brought good results with a growth of 20% compared to 2013 and with a volume of cigars over 1.2 million, making it the 4th country (after Greece) to exceed the annual threshold million units sold.

It is interesting, for the results and future potential, the performance of the Balkan countries, especially Serbia, Romania and Croatia, with growth rates ranging between 35% and 40% in volume compared to 2013. Greece,

despite the economic situation of the Country, realizes a growth of over 14% in volume compared to 2013, bringing the store of Toscano 1.6 million cigars sold in 2014.

Surely, it's to be noted that Spain is the country with the most similar values to the Italian ones, and at the same time, one of the countries that appreciate more Italy and Made in Italy.



Fig. 4.5 Roma, Villa Aurelia. 16.9.2015. Evento Manifatture Sigaro Toscano Originale 1815.

Implications

The present study has set itself the goal of analyzing the Made in Italy and how the Country of Origin, from the point of view of Italian excellence, can be a key asset. Expanding on the cigar industry is derived from the deficit of literature in the field of the Italian cigar.

In particular, the question that we had posed was the following: with Italian excellence being a reality, can the assets of Made in Italy be used to position one Italian brand in foreign markets? What are the winning techniques to exploit this element?

The analysis of the cigar industry is surely due to the success and shares represented by the Manifatture Sigaro Toscano market, which holds almost all of the market in Italy and begins to position itself with great results abroad. But how can it grow in faster way? How can this asset stimulate the consumer's decision making in one country?

The tools we have analyzed in theoretical are different.

If consumers of a specific country feed esteem and positive feelings toward a country, for one reason or another, almost certainly this feeling will also affect their liking of products manufactured in that specific country.

The Kapferer Prism, who has provided us with an outline of the elements that consumers take into account when evaluating a product. It concerns the external elements (physical elements, reports and reflection) as well as the internal elements of the brand (personality, cultures and mentalization) – the physical elements, brand personality, the relationship between brands and consumers, cultures – representing the system of values that incorporates the brand in itself derives from the objects and services it produces, and the reflection and mentalization (how the consumer feels through the use of the brand).

The Manifatture Sigaro Toscano company has very clear features of their product and their company: implementing product innovations, building and strengthening the brand personality and the relationship

between brands and consumers, thanks to the club's management. Finally, for the mentalization, where the consumer wants to approach an aspired lifestyle through the consumption of the cigar product.

Through the interview with Dr. Mariotti it has emerged that Manifatture Sigaro Toscano does not effectively really use the club channel to communicate and build relationships with their existing consumers. This is a flaw when a product like the Tuscan cigar has absolutely faithful and loyal consumers. However, the club members feel close to the brand and feel part of it, but if the company doesn't act and monitor this situation, they may risk losing valuable club members.

An action to strengthen the clubs, and the export, is definitely the channel activation of official MST clubs worldwide, which could be of course mainly located in Italy, but also abroad, and make them ambassadors of the countries of origin online and offline. To organize events ad hoc into the countries they plan to penetrate could be the next option.

In this period of increasing and stringent regulations for the sector and raising awareness of tobacco, it is crucial to increase the trade marketing network in the territories. Tuscan cigar factories have already implemented, as we have seen, a useful tool for achieving this goal, which resides in a call center for tobacconists who need assistance or help in the understanding of the products, or any other need.

The observation of the Diamond Porter and variables that comprise it have led us to assert that Italy is associated with many products and, although the Italian cigar is one of them, the famous ones are products such as pizza, fashion, Ferrari, wine. Creating a mental link by the company of an Italian way of life and the "Dolce Vita" abroad is certainly desirable.

Thanks to the ranking score that is assigned by other countries of the world to Italian products, we observed that the U.S.A. define Italian products as the best in the world and this is why Manifatture Sigaro Toscano has agreed to acquire 80% of Parodi Holdings, a US company that has given way for Manifatture Sigaro Toscano to enter into such a challenging but interesting market. The next step would be to penetrate markets that already have a positive commitment towards Italy and its products on this basis.

Moreover, the strategy to penetrate the Duty Free at airports has been successful: in fact, a constant and progressive growth, which today has stabilized and that according to the shareholders meeting of Sigaro

Toscana is due to sales in duty free areas representing 5.4% of turnover and 7% of the cigars sold - a positive trend that consolidated turnover.

Surely the choice of increasing the number of these outlets, or to put real flagship store inside airports, where the main products sold would be non-cigars, such as accessories or other products made in Italy, extending the product line, could be a new challenge. Airports are places that lend to the purchase of the cigar as the Italian cigar is also a souvenir of Italy, and, need time to be "chosen"; other locations that could be considered are card rooms, luxury hotel, spirits shops.

Thanks to the interview with the GM of Manifatture Sigaro Toscano, it emerged that the foreign penetration is still not widespread, because of the strict regulations, so surely it would be interesting to go to analyze the ways in which it can expand its presence abroad. Combine the purchase of cigars to a USB key MST that contains the history of the Tuscan cigar, activities that could be accentuated in airports, could certainly generate greater brand awareness and storytelling. Thanks to the Anholt GfK Nation Brand Index, we have seen what are the countries with the most appealing brand for consumers from all over the world. Surely the fact that Italy is in seventh place is a favourable element for manufacturing enterprises with Italian Country of Origin, because we know that the decision making process of the customer also takes place on this item. According to this view, the nation brand management should not be treated as a separate campaign from planning, from the government or economic development, but as if it were just a national policy.

According to the Innovation-related Internationalization Model, or even said I-Model, the Manifatture Sigaro Toscano company is in an internationalization stages of phase 3. As noted in Chapter 2, this is that the phase of experimental exports, in which companies begin to export in a few countries with the least psychic distance. In understanding the direction of export in different markets, psychic distance has been identified to be a major indicator of foreign market orientation including the choice of the market choice and entry mode of firms (Stottinger & Schlegelmilch, 1998). Firms are seen to be serving markets that are close to their country of origin psychically. The next step for the company would surely be, as stated by Dr. Mariotti, stage 4, namely that the "active involvement" - where the ratio exports/sales is between 10% and 39%. However, this type of business does not lend itself to a wide internationalization, because it would mean losing the values and what are its traditional, craftsmanship and Made in Italy (where 95% of Kentucky, the raw material for the cigar, is already all bought by Toscano).

The limitations of the regulations are an important factor to consider, but to date Manifatture Sigaro Toscano was able to overcome the limitations that are invading the communications industry. Additional activities, as noted in chapter three, could be implemented, such as business co-branding with company abroad Wine or Spirits, forecasting figures in the organization of brand ambassadors. Several times, was matched to that of the cigar consumption of wine or hard liquor, especially for so-called products "meditation", so, to provide a resource of Brand Ambassador, as well as with the wine industry, it would be a lever innovative marketing also check the distribution and sales methods in other countries.

As noted, Naming is highly recognized and effective abroad, but the marketing does not change adopted in different countries. This may be a limitation for some areas and cultures, especially in light of the strong closeness of the product to the social fabric. In reference to the BCG Matrix, the company has two different products Star and two cash-cow products, and this a very positive element for Manifatture Sigaro Toscano.

A further limitation of Manifatture Sigaro Toscano is that it has not to date established what is for Philip Morris the Marlboro Man, with whom it was possible to advertise the brand through the production of clothing and other products with the same naming, creating the 'icon wasp and the aforementioned "Marlboro Man".

Finally, the regulatory limit on the packaging remains a barrier to expansion both in Italy and abroad of the brand and the product. One of the main strategies to be pursued, according to Dr. Mariotti, concerns advertising and communication about the additional products and increasing, as far as possible promotional activities in tobacco, but it would definitely need a deepening of the future literature on this subject.

Finally, given the scarcity of tobacco and the niche market, what strategy to choose to keep the sales?

This marketing scenario is the reality for tobacco companies, which face an ever more restrictive economic and strategic environment to ply their trade. Regardless of what you may think about the ethics of selling tobacco in the 21st century, nobody can deny the marketing prowess of these firms. Many of the key concepts of brand management – from fighter brands to brand tracking – can be traced back to the marketing departments of 'Big Tobacco'. Despite apparently impossible trading conditions, the cigarette business is booming. Over the past five years, all of the big firms have outperformed most other business sectors in terms of profit growth and share price performance.

One of the keys to success has been a clear strategic focus on brand reduction. As the number of smokers decline and the possibilities of brand building reduce, the branding imperative for all of the big tobacco firms is to put more emphasis on fewer brands. At British American Tobacco, for example, the company owns more than 200 distinct cigarette brands but focuses most of its marketing muscle on its five “global drive brands” – Pall Mall, Kent, Dunhill, Lucky Strike and Rothmans. It is a similar story at Japan Tobacco, the fourth biggest global player, where revenues from its eight global flagship brands such as Camel and Benson & Hedges account for two thirds of international sales.

The magic trick that all these firms have had to perform is to maintain market share while reducing brand portfolio or, as famed marketing professor Nirmalya Kumar put it in his seminal Harvard Business Review article, “kill a brand, but keep a customer”. That’s a tricky challenge with smokers who are, quite literally, addicted to a particular brand. Rather than abruptly kill that brand and risk losing the customer to a competitor the secret is to gradually merge non-core local brands with those within the focus portfolio.

It’s a classic branding strategy often called ‘phasing’ or ‘brand migration’ but rarely has it been attempted so frequently or with such aplomb as the current execution from Big Tobacco. For example, Imperial Tobacco’s CEO Alison Cooper regularly cites her company’s “brand migration strategy” as one of the central methods for enhancing Imperial’s corporate earnings. She’s on a mission to ensure her growth brands such as Davidoff and West account for a greater share of revenues. That means Imperial is merging smaller portfolio brands with big global brands inside its growth portfolio.

The process itself could be taken straight from the pages of a brand management textbook. Usually marketers use the brand relationship spectrum to classify a company’s brand architecture but in brand migration it is used as a phasing tool. A local portfolio brand such as Brooklyn starts out as a standalone brand within Imperial Tobacco’s house of brands portfolio. The brand is then moved down the spectrum one notch to an endorsed position in which Brooklyn is now supplemented with the label “by West”. Next, West and Brooklyn are flipped so that West is the product brand and Brooklyn is the endorser. Finally, after the requisite amount of time and usually with brand tracking and sales figures confirming the move is possible, the Brooklyn brand is permanently retired. Imperial has maintained the same customer base, while killing a brand, decreasing costs, improving focus and driving up profitability. The lesson from the tobacco firms today is clear. As you consider slimming your brand portfolio, don’t just assume that brand killing means more profit from less sales. With a proper migration strategy it may be possible to kill brands, keep

sales and increase profits. The trick is working out which brands to focus on and how to impress the Italianness and then how to smoke the rest.

The winning tool for Toscano has been the Made in, that's for sure. This element has allowed them to achieve market leadership unmatched. A tool that could be implemented to grow the most is definitely that of a growth and an approach to countries that are culturally and socially close to Italy, obviously using the Made In tools, as suggested by the ranking of Anholt.

APPENDICE

Composizione del questionario

Il questionario è stato sottoposto ad un campione di 156 persone, le domande sono state impostate come multiple choices e sono state le seguenti.

1. Qual è la tua età?

Questa domanda è importante per comprendere le generalità anagrafiche del campione analizzato.

- A. < 35
- B. Tra i 35 e i 55
- C. > 55

2. Sei lavoratore?

- A. Sì
- B. No

3. Da quanto tempo fumi Sigaro Toscano?

- A. Da meno di un anno
- B. Da 1 a 3 anni
- C. Da 3 a 5 anni
- D. Oltre 5 anni

4. Fumi Toscano abitualmente o soltanto in certe occasioni?

- A. Fumo con frequenza giornaliera
- B. Fumo durante il weekend
- C. Fumo da 1 a 5 volte l'anno

5. Hai iniziato a fumare dopo il tuo trasferimento in USA?

- A. Sì
- B. No

6. Se la risposta precedente è A, pensi di aver iniziato dopo il trasferimento perchè fumare Toscano potesse in qualche modo farti sentire più vicino a casa e ad uno Status Symbol italiano?

- A. Sì
- B. No
- C. La risposta precedente era B

7. Come valuti i Toscanelli aromatizzati?

- A. Sono i miei preferiti
- B. Non li ho nemmeno provati

- C. Mi piacciono, ma non li fumerei abitualmente
- D. Non mi sento il consumatore target al quale si rivolge MST con questo prodotto
- E. Avverto un rifiuto quando ne sento parlare

8. Ti piace il fatto che MST sia un sigaro italiano?

- A. Sì, mi sento ancora più legato
- B. Sì, mi fa sentire a casa
- C. No, non mi interessa l'italianità, fumo il prodotto per il suo gusto

9. Conosci la storia del brand?

- A. Sì
- B. No

10. Il packaging del Sigaro Toscano ti suscita emozioni?

- A. Sì, quando lo vedo ho voglia di fumare il sigaro
- B. Sì, ma so che non dovrei fumare
- C. Sì, mi suscita emozioni, ma non è ciò che mi stimola a fumare
- D. Vorrei che fosse diverso

11. Il logo della bandiera dell'Italia ti suscita emozioni?

- A. Sì, mi fa sentire a casa
- B. Sì, mi rende orgoglioso del mio paese d'origine
- C. No, lo noto a stento
- D. Non mi suscita emozioni

12. Quale emozione ti suscita fumare il sigaro Toscano?

- A. Italianità
- B. Artigianalità
- C. Tradizione
- D. Trasgressione

13. Ti senti parte di Manifatture Sigaro Toscano?

- A. Sì
- B. No
- C. A volte

14. Se la risposta alla domanda 14 è B, vorresti sentirti più partecipe alle decisioni dell'azienda riguardo iniziative e prodotti? (Se la risposta era stata positiva, rispondere C)

- A. Sì
- B. No, non mi interessa
- C. N.C.

15. Sei a conoscenza dell'acquisizione dell'80% della Parodi Holdings, azienda produttrice di sigari composti dal tabacco kentucky (tabacco utilizzato da Manifatture Sigaro Toscano per i propri prodotti)?

- A. Sì, sono sempre aggiornato sulle novità di Manifatture Sigaro Toscano
- B. Mi interessa e sono aggiornato ma non ero a conoscenza di questa acquisizione
- C. No, non mi interessano gli aggiornamenti

16. Ti senti più o meno legato all'azienda dopo questa acquisizione?

- A. Sono più legato in quanto sento che il prodotto è più vicino alle esigenze dei suoi consumatori
- B. Sono legato quanto prima
- C. Non sono d'accordo, non reputo necessaria questa acquisizione, ma mi lascia indifferente
- D. Questa acquisizione mi ha allontanato dal brand

17. Fumi i sigari cubani?

- A. No, fumo solo Sigaro Toscano
- B. Li ho provati, ma preferisco il Toscano
- C. Sì, fumo abitualmente i sigari cubani

18. Quando possibile, partecipi agli eventi organizzati dagli altri membri del club?

- A. Sì, quando sono in Italia partecipo a tutti gli eventi ai quali vengo invitato dagli altri membri del club
- B. Sono selettivo riguardo agli eventi ai quali partecipo
- C. Non partecipo

19. Parleresti ad amici o parenti di Manifatture Sigaro Toscano?

- A. Sì
- B. No

Below, the answers that have been attributed to each question.

N.	Questions	A.	B.	C.	D.	E.
1.	When were you born?	23%	58%	19%		
2.	Do you work?	88%	12%			
3.	How long have you been smoking Sigaro Toscano?	26%	22%	16%	36%	
4.	Do you usually smoke Toscano or only in certain occasion?	38%	57%	5%		
5.	Did you start smoking after your transfer in USA?	59%	41%			
6.	If the previous answer is A, do you think it was because it made you feel closer to	42%	19%	39%		

	your Country and to an Italian Status symbol?					
7.	How do you access Aromatic Toscanelli?	28%	6%	15%	37%	14%
8.	Do you like the fact that MST is Italian?	57%	24%	19%		
9.	Do you know the story of the brand?	72%	28%			
10	Does the packaging of the Tuscan cigar keeps some emotions for you?	29%	6%	60%	5%	
11	Does the Italian flag logo keeps some emotions?	24%	37%	14%	25%	
12	Which emotion do you feel when you smoke Sigaro Toscano?	27%	49%	19%	5%	
13	Do you feel part of MST?	66%	12%	22%		
14	If the answer to question 14 was B, would you feel more involved in decisions regarding initiatives of the company and products?	22%	57%	21%		
15	Did you heard about the acquisition of Parodi Holdings by MST?	59%	32%	9%		
16	Do you feel more or less tied to the company after this acquisition?	42%	36%	20%	2%	
17	Do you smoke Cuban cigars?	17%	52%	31%		
18	When possible, do you participate to the events organized by the other club members?	29%	34%	37%		
19	Would you talk to friends or relatives Manufactures Tuscan cigar?	92%	8%			

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Resume

The present thesis “Made In & Country of Origin: an asset to the internationalization? The Manifatture Toscano Tobacco’s case”, has the objective to understand if, and how, the Made in Italy asset could help firms to increase their internationalization. This thesis is born with the need to analyze in depth the Made in Italy and the Country of Origin, but especially the bond that exists between the Country Image and the strategies that the company develops to penetrate foreign markets effectively.

The analysis assumes the perspective of the consumer, in how they make their choices and therefore assumes the perspective of the company and strategic decisions with respect to the market. The elaborate is a contribution in terms of exploratory analyses, through the method of case study, of the survey and of the in-depth interview with an important representative of the subject of the case study (General Manager of Manifatture Sigaro Toscano).

The goal is to highlight the ways in which a firm can exploit the image of the country and its products in the world and the effects on entry strategies and international marketing strategies. It is composed by 4 chapters:

The first chapter analyzes the existing literature on the Made In and Country of Origin, drawing the main stages of the studies that have examined the issue and making an important reference to what is the present legislation on Made in, by focusing on international, community, and finally national plane, with the aim of assessing the countries most similar in terms of legislation and, therefore, to which making an approach would be more simple.

The term 'Made in' indicates the source "business" of a commodity and is defined as "the material element identifying the country of manufacture of each product that accompanies it to the marketing phase."

The term 'Made in' most often refers to a source and origin that is of a benefit and asset to a business, and the material and non-material elements identifying a product’s country of manufacture accompanying the product during the marketing stage. Therefore, the ‘Made in’ usually gives a degree of value to a product and increases or decreases its ability to compete, thereby affecting the purchasing behaviour of consumers. Thus it becomes fundamental to understand the effects of ‘Made in’ and its compliance with the rules of the ‘Made in’ phenomenon.

Furthermore, it is possible to observe the variables and distinctive elements of the Country of Origin image as:

- Factors related to the image of domestic products with respect to those imported from other countries
- Factors related to the image of merchandise categories of a specific origin
- The image evoked by the brand's country of origin
- The influence of the "Made in" on the perception of the products
- The image the local producer has at a national level

The first factors the exporter must consider in order to give strength and value to the Made in are the **rules** that must be respected in every country, as there are international standards that must be obeyed. The 'Made in' effect has been studied and deepened by management and marketing researchers for over 40 years. From the beginning, many theorists have carried out empirical studies on 'Made in' and its effects. The first researchers were mostly interested in the effects of CoO compared to the theoretical concept of CoO (Baumgartner & Jolibert, 1977; Nagashima, 1977; Reiersen, 1967; Schooler, 1965), likely because the effects were extremely relevant. A country's image is created in the mind of the consumer through their knowledge, experience, exposure and inclination towards that particular country: these generate the image, which emerges as descriptive and inferential information (Martin & Eroglu, 1993). In this way, the resulting image contains a frame of personal references and in some way reflects the background of the individual (Kleppe et al., 2002). At the same time, the characteristics of how the individual interacts in a society and the personal references that each has made in one's memory are channeled through common languages, symbols and experiences, leading to the creation of a common image of the company (Kleppe and Relph, 2002) and of the country. Chao (1989) defines the effect of CoO and the preference that consumers have towards products from a country as a sign of affiliation to the country itself. Samiee (1987), however, defined the CoO as any influence, positive or negative, that the country of production would have on the processes of consumer choice or on a subsequent behavior.

If the client's attitude towards the CoO is positive, then one can transfer this benevolent attitude to the product and its image. If one considers the country's image as a brand, in terms of marketing, the Country Brand represents the heritage of a country and influences its activities as well as the perception that the country has in the minds of consumers (Choi, 2007).

Due to so-called limited rationality (cfr. Simon's Bounded Rationality), it may be that the consumer has very little information on the intrinsic properties of the product such as the quality or reliability.

In that case, it becomes necessary to use information extrinsic of the product, for example, the Country of Origin. In this case, the consumer will have a different preference depending on their attitude towards the product's place of origin (Gurhan-Canli & Maheswaran, 2000). At the root of the injury is the consumer perception on the intrinsic value of the products of a particular country. Nagashima also proposed five dimensions that affect the CoO: price and value, service, advertising and reputation, design and style, and the consumer profile (Balabanis et al., 2002).

Any consumer may receive information on a country through direct contact with the country, by reading books, newspapers, magazines, movies, TV, radio, through other people's opinions (Balabanis et al., 2002) and so on. Once developed, the CoO leads to stereotypes, leading to evaluating the product from a country based on the image that the country has for the individual, regardless of the actual quality of the product (Kleppe et al., 2002). This may be due to historical reasons, which could lead to antagonism between countries, hostility, war, or friendships and cooperation. Because of these obstacles, the consumer cannot objectively evaluate the product under the influence of ethnic and historical factors. This reaction may be due to effects of past or present and is defined as "ethnic animosity" (Nakos & Hajidimitriou, 2007).

In this regard one speaks also of "Home Country Bias": a favorable predisposition towards the products from one's home country, which in most cases occurs in most economically developed countries. This means that the more developed countries are more likely to be evaluated positively by foreign consumers. Therefore, the level of economic development is used by the consumer as a starting point for information about the level of quality of the product or service.

In 2004, Balabanis stated that human values and culture influences consumers' predisposition towards a product, acting through the similarity of demographic characteristics, knowledge of the language, the direct contact between the people and the availability of information.

Balabanis and Diamantopoulos (2008) examined consumers' learning process of the CoO: they use previously acquired knowledge about the products to assess the individual asset or similar goods from specific countries (Hong and Wyer). Sometimes, this type of learning is not intentional, nor are most of the experiences related to the product itself: it is implicit.

Thus, although globalization has had insurmountable consequences, the quality of products continues to have a value in today's society and sometimes comes from the knowledge of CoO in the mind of the consumer. Nevertheless, in today's era of globalization, the opening of territorial borders to the movement of people, goods and capital has had important and inevitable consequences. On one hand

it has triggered a clear process of internationalization of the national productions that have made it increasingly difficult to distinguish between domestically produced goods and goods manufactured abroad. On the other, there has been a strong increase in the competition between companies and countries called to evaluate new and more competitive strategic policies aimed at supporting the production systems and the promotion of economic development.

This analytical framework has inevitably deepened the interrelationship between a country's image and competitive edge, which, if properly coordinated, could provide an important competitive tool for the country and for the company. In this regard, the literature points to a strong interrelation between the concepts "Country Branding" and "Country of Origin", although they have their differences.

With the aim of enhancing its tangible and intangible assets against many stakeholders, a country's branding is the main axis for a marketing strategy based on the territory as is the planning and construction of a country's branding.

To speak about a brand's Country of Origin, it is helpful to briefly define the term 'brand'. Though theories have varied over time, we can assert that a brand is a name, a symbol, a design, or a combination of these, identifying products or services of one or more vendors so as to differentiate them with other competitive offerings (Wikipedia). The concept of a brand is composed of four different aspects: brand identity, brand image, brand equity, and brand purpose.

The brand identity is "the key concept of the product that is clearly and distinctly expressed," and all the elements of expression that occur in front of the consumer. The brand identity has been graphically represented through a prism model by economist Kapferer.

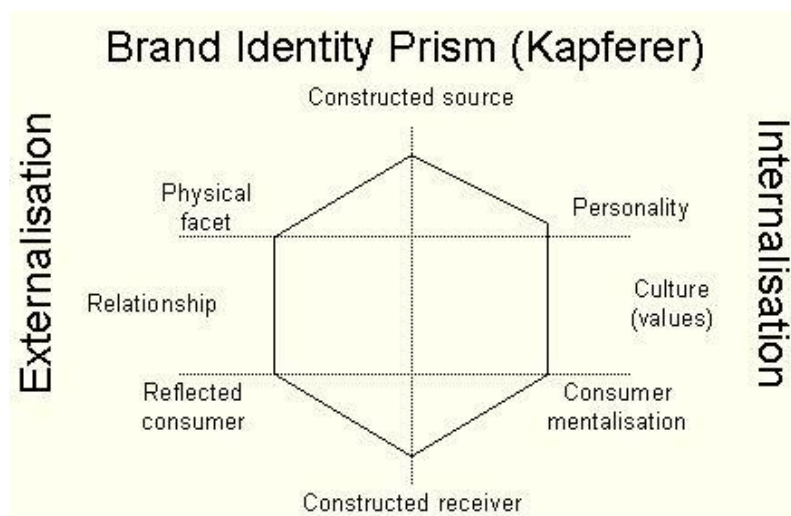


Fig.1 Brand Identity Prism – Kapferer

Seen above is a perfect prism that represents the various facets of a brand. It concerns the external elements (physical elements, report and reflection) as well as the internal elements of the brand (personality, culture and mentalisation):

- Physical elements: a set of objective characteristics and external associated with the brand
- Personality: the character of the brand, associated with typical human characteristics
- Report: the relationship between brands and consumers
- Culture: the system of values that the brand incorporates in itself derived from the objects/services that it produces. A brand can evoke the country of origin, or the know-how and technology that possesses
- Reflection: the way in which customers of a brand identify with the characteristics of the brand itself
- Mentalisation: how the consumer feels through the use of the brand .

The **brand image** is "the perception of the brand that exists in the mind of the consumer and may or may not be in harmony with the brand identity⁵⁹."

These concepts have allowed us to arrive to theories that suggest interpreting the nation as a brand. The real issue for which the CoO is a multidimensional concept is that the dynamic model of the country image is a combination of halo effect and summary effect. As we will see in Section 2.4, this definition is incomplete because it does not examine the relationship between the brand image in detail and the country image, thus neglecting the growing phenomenon of "hybrid products" (Chao, 1993), ie. products made with the contribution of several countries. The CoO must therefore be considered a multi-dimensional indicator which, according to the setting of various studies, can be decomposed according to:

- The country in which it operates production or Made in Country Image, in the country where it is designed, the country where the parts are made and the country where the parts are assembled (Ahmed and d' Astous 2008);
- The country of origin of the brand or product or Origin Country Image (Jaffe and Nebenzahl 2006);
- The country in which places the company brand or Country of Brand (Ahmed et al. 2002);
- The country of origin of the company's proprietary system (Phaarr 2005);
- The country in which develops e-commerce infrastructure (Ulgado 2002).

⁵⁹ S. Anholt, L'identità competitiva, cit. nota 2, p.10

Drawing from multi-attribute decision making process, elements that fit together to shape the decision to purchase a rational view (with all the limitations attached) are:

- Attributes considered in the process of evaluation
- Beliefs from which the specific assessments of the attributes for each product fall into the evoked set
- Importance weights that reflect the relative importance of each attribute in this product category

Then, to pursue our objective – to understand how the firms can use the Made in Italy asset to internationalizing - assume relevance the theme of Country of origin in terms of legal or economic or, more particularly, international marketing, that has been explored since the 1960s. While studies on this topic are quite recent, the "made in" labels have been used for over 100 years in the international economic scene.

'Made in' on an International Level

Many countries have signed the Madrid Agreement, which asserts that there must be a mandatory "and precise indication in prominent letters of the country or place of manufacture or production, or another indication sufficient to avoid any error regarding the true origin, under penalty of the seizure of the product."

'Made in' on a European Level

Since 2005, there lies a proposal at the EU level calling for a regulation that would have the ambitious aim of standardizing the rules on origin labeling in the 27 member countries. At present, there is no express requirement for labeling of origin of the product under EU regulations.

'Made in' on a National Level

National legislation is similar to that of the EU: at present, except for some specific types of products, applying the labeling "Made in" to goods sold in Italy is not mandatory and only occurs if the country of destination requires it by virtue of its own internal rules (for example, China, USA, and Canada).

To analyze how a company can leverage the assets of Made In to increase its sales in Italy and abroad, in the second chapter the aim is to analyze the consumer's point of view from the side of the question and, in particular, using the consumer decision-making process. How does the buyer evaluate a product? What are the influences acting on that process? We will observe that the Made In is a critical factor, especially when there is need for inference in the information.

As we shall see, the consumer will identify himself with the product and brand, so it was necessary a comparison of Human Personality and Brand Personality to understand in what way this happens (McCrae & Costa, 2007) and interconnections that occur as a result. The subsequent analysis of the thought associations that consumers make with respect to individual countries is needed to try to change or to understand which marketing levers to use; this was made possible thanks to the system devised by Anholt with which you can observe a ranking that consumers make in reference to the liking of a country based on seven indicators: products, people, institutional interventions, culture, quality of life and tourism. Thanks to all of these tools, we will observe the diamond of Porter on Italy.

As previously stated, various research has come to the definition of a unique conceptual matrix with respect to the constitutional aspects of the country image. Within the different contributions, the analysis of perceptions has played a crucial role as it describes the process by which the consumer filters, organizes and interprets external and internal stimuli. The basic function of perceptions is also evident from the definition of the image that the country intends to describe, as country image is "the impact that generalizations and perceptions about a country have on the evaluation of its products and/or its brands" (Jaffe, Nebenzahl 2008).

Underlying this process of formation of the attitudes are, in fact, the consumers' socio-demographic characteristics that constitute the information from which the consumer is informed about the demand and the country's system. Moreover, compared to the newly cited process of information seeking, researchers have suggested that the effect of the country image can be explained by a dynamic model that considers two alternative theoretical constructs: the halo effect and the summary construct (Erickson, Johansson and Chao 1984; Johansson 1989, Johansson, Douglas and Nonaka 1985; Shimp, Samiee and Madden 1993). The halo effect states that, if a person has no prior knowledge or experience with the products made in a given country, they will still have their own image as a source for the products and services. On the contrary, the summary construct states that the country image is based on previous purchase and consumption experiences that the country already had for a domestic consumer. In other words, the country image acts as a halo effect when there is a lack of familiarity with the products of a foreign country.

As described above, it brings out the important distinction between the affective and cognitive component that interact together in determining the attitude towards a country. The affective

dimension refers to the emotional aspect of the psychological reactions that reflect the subjectivity of the individual in relation to people and goods. Cognitive aspects concern, however, the objective characteristics of the country and the product or service.

For a better understanding of the effects of the Country of Origin (CoO), one must examine the specifics of the decision-making process as well as the effects this process has on the CoO because, as noted in Chapter 1, the elements and attributes that lead to the decision by the individual takes on different weights depending upon individual differences. Globalization, its effects, and the reduction of distances through greater ease in moving and transport require a more thorough analysis of the phenomenon of Consumer Decision Making.

In order to reduce the cost of the decision, the consumer seeks help (Haubl & Trifts, 2000) and this aid will considerably reduce the total perceived and actual cost, thus lightening the cognitive load and reducing the number of items considered down to a manageable size. This inspiration becomes a proxy for many of the properties or characteristics that are expected to be held by the product. The proxy can thus be derived from the brand, from previous experience, expert opinion, by the dealer, the reputation, of the place, or by the Country of Origin.

Marketers must understandably take into account the characteristics of the target consumer and adapt the product to individual needs accordingly. In addition, the consumer often establishes a relationship with the brand, which can be love - brand love - or brand hate which revises the same characteristics of his personality.

Psychologists define the substance of human personality as "the systematic description of the traits" (McCrae & Costa, 1987), where traits are "relatively enduring styles of thinking, feeling, and acting" (McCrae & Costa, 1997).

After Decades of research on a taxonomy of human personality, consensus now rests upon five dimensions that provide a complete description of the human personality: Extraversion. Agreeableness, Conscientiousness, Emotional Stability vs. Neuroticism, Openness to experience.

In 1997, Aaker defined brand personality as "the set of human characteristics associated with a brand".

Brand personality is "the set of human characteristics associated with a brand". It is composed of a five-factor structure or set of dimensions: Sincerity, Excitement, Competence, Sophistication and Ruggedness.

The connection between brand and human personality is realized as following:

- **sincerity** taps into traits of **agreeableness** and **conscientiousness**;
- **excitement** includes items like **sociality**, **energy** and **activity** just as extraversion does;
- competence captures traits found in **Conscientiousness** and **extraversion**;

the other two dimensions, **sophistication** and **ruggedness**

Another important aspect is the Need for Status. Status, or social stratification, is prevalent in many aspects of modern society. Ridgeway and Walker (1995) define status as “one’s standing in a social hierarchy as determined by respect, deference and social influence.”

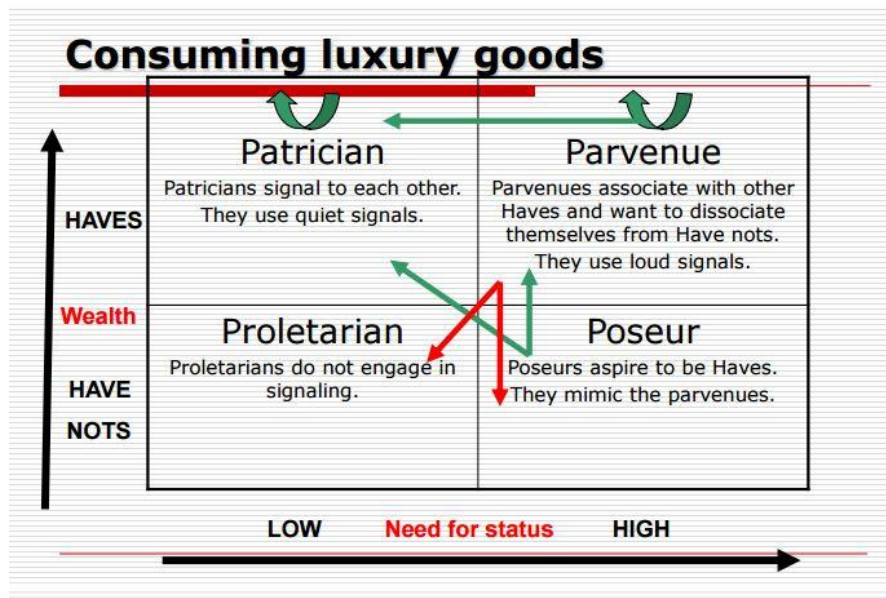


Fig. 2 Consuming luxury goods, Young Jee Han, Joseph C. Nunes, & Xavier Drèze. Signaling Status with Luxury Goods: The Role of Brand Prominence, 2010 Journal of marketing

As ultimately it affects the image of the country of origin, what are the elements that make up the Country of Origin effect?

- The geographical origin: In this regard, Thakor and Kohli in 1996 coined the term ‘brand origin’, defining it as "the place, region or country to which the brand is perceived to belong to by its target consumers" and noted that this perception depends on where the product was realized and how it is connected to a particular brand or company.

b) Effects on the consumer behavior: the consumer decision-making process begins long before the decision and involves effects that can last over time. The process consists of five stages: the perception of need, information search, evaluation of alternatives, purchase decision and post-purchase behavior.

This is a process that can be stimulated by marketers to increase the awareness and engagement, and this can be done prior to recognition of a need.

A further aspect to consider when it comes to consumer decision making concerns the competitiveness of the country. The construction of competitive advantage is first analyzed by Porter at the sector level with the traditional model structure-conduct-performance (1980), then at the firm level with the value chain (1985), as a system-wide country emphasizing the Competitive Advantage of Nations (1990) and finally as the "rediscovery" of the difference between countries in determining the strategies of business internationalization. Consistent with the RBW the country's system provides critical resources and expertise to companies to compete globally.

Diamond Porter is an economic model theorized by Michael Porter in his book *The Competitive Advantage of Nations* (1990). This model can be used to identify key factors that lead to the success of a particular nation in an industry, and has subsequently been widely adopted in the academic world.

“The competitive advantage of a country or region is the set of activities in which enterprises based in the country tend toward international competitive advantage” (M. Porter, 1990).

He has proceeded with six major factors: factor conditions, demand conditions, related industries and support, strategy, structure and rivalry of companies, government, case.

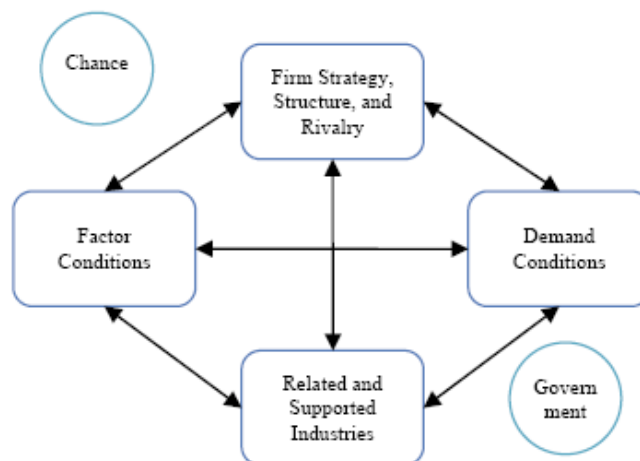


Fig. 2 Porter's Diamond model

Numerous studies have been undertaken to determine the nature of this phenomenon and its effects on the perception of customers and buying behavior.

Another view of the same phenomenon is the fact that the Country of Origin of a product can result in two different reactions, better defined as fact by the scholar Han. This effect is broken down more specifically in halo, or halo construct, and as the summary construct. More specifically, the halo effect works when the consumer has no direct experience with the goods that come from a particular country. The importance of this phenomenon is denoted by the fact that the first definition of the same was given in 1920 by Thorndike which, in psychological and social studies, identified this phenomenon as "the tendency of individuals to assess an object or a person on the basis of one or more distinctive features". In summary, the perception you have about a person or an object derives from the existence of it as positive or negative, or by a specific feature that distinguishes it.

When we talk about country's indicators, one of the most effective and complete indicators when it comes to national competitiveness is the Global Competitive Index, compiled by the World Economic Forum, whose goal is to provide insight and stimulate discussion about the best strategies and policies to help countries improve their competitiveness.

After analyzing the Global Competitive Index, you should refer to the item inside the indicator itself has a reference to the country: the so-called Nation Branding. When talking of Nation Brand, the brand we treat it is the country, the nation. Nevertheless, the practice leads to emphasize the distinction between these two terms, meaning 'nation' a large group of people who share the same culture and the same language, while 'Country' to the geographical area occupied by the nation

However, who coined the term nation branding is Simon Anholt in 1996, launching the Nation Brands Index, the first analytical study on the perceptions of ordinary people towards brand of nations. To build the index, the idea of Anholt was to extract every quarter a sample of five million consumers surveyed in global online panel of the Global Market Institute in Seattle and follow their perceptions about the culture, politics, trade, human resources, investment potential and the degree of tourist appeal of 36 advanced and developing countries. The Nation Brands Index is conducted annually and measures the image of 50 countries.

The focus is now about the internationalisation. How could the Made In asset become an internationalisation asset?

Internationalization is generally considered a gradual process, or more precisely "a process in which the company will gradually increase its presence abroad. This process involves the interaction between the development of knowledge of foreign markets and operations on the one hand, and the increase in the use of resources in foreign markets on the other."

The third chapter puts the focus on the tobacco sector, and, more specifically, on that of Italian cigars. I considered this a very interesting topic because in Italy there is a clear leader for the cigar industry: Manifatture Sigaro Toscano. This reality represents excellence in the industry around the world and made the Made in Italy its winning strategy and the cornerstone on which to base their communication. An initial analysis of the tobacco industry is then followed by a discussion on the retail scheme: how does distribution occur?

Information that not everyone knows is that Italy is the leading producer of tobacco in Europe. But what are the marketing techniques that can be used in the field? What are the limitations? The third chapter provides, among other things, an analysis of guidelines in the field. It must be said that the tobacco industry's regulations represent a real obstacle to the techniques of communication with companies in the sector, multinationals as well as not. Such legislation includes the exit from the market of small companies in the industry and great difficulties for large multinationals, that although are able to remain in the market, do so with difficulty. Other techniques are represented by the exploitation and increasing the commitment of the final consumer, with which one can reach a much more powerful result, through community brands, events, naming of the products, positioning and pricing. The chapter concludes with an important analysis technique of the territories in which enter and exports from Italy in reference to the tobacco culture sector. We will see then, in addition to other tools used, that the Country of Origin effect is still highly relevant with regards to the assessment that the consumer has of the individual product. ('Country-of-Origin' Effect and Consumer Decision-making by Abraham, Sanjay Patro)

Here we want to investigate the main characteristics of the sector, the retail point of view of the sector, the export from Italy and the marketing tools that can be used in the tobacco's sector.

Now, a focus is on the marketing tools:

- The packaging;
- In cigar's companies, brand communities are called clubs. Clubs are generally non-profit, non-political and non-partisan, and are socio-cultural. Their objective is to share a passion and slow cigar

smoke as a moment of encounter and cultural commitment. There are hundreds of clubs, officially created by cigar manufacturers, or created by amateur enthusiasts who are consumers. One of these is Cigar Club Association, which is a cultural association founded in 1999, which brings together numerous Cigar Club and thousands of enthusiasts throughout Italy and abroad.

- Events of Product Presentation by Inviting
- Naming: the naming of cigars usually draws values such as masculinity, social status, the gives value, but also references to the size of the product, or to taste. This is a tool with which the consumer of cigars is identified in the product and, in fact, seeks to elevate their Italian character and social status, as we shall see for Manufactures Tuscan cigar products.
- Propaganda

The fourth and final chapter offers an analysis of the business case, the case of Manifatture Sigaro Toscano, very thoroughly. After analyzing the company's history, which Manifatture always uses as an integral part of its marketing tools, we analyze their quantitative data and the desk analysis. A fundamental quality contribution to the thesis was provided by the survey submitted to 89 people and thorough qualitative interview with the General Manager of company, who provided the motivations underlying their internal strategic decisions, giving an added value to research in the area among enterprises of Italian excellence in terms of internationalization.

Sigaro Toscano was selected as a case study due to the scarcity of literature on this product that is described by some as "one of the best ambassadors of Italy abroad"⁶⁰.

This analysis aims to identify the main reasons for the success of Manifatture Sigaro Toscano through different tools and how the company uses/could use the assets of the Made in Italy.

I conducted a desk analysis on the company using quantitative data, drawing on financial statements and analyzing documents related to communication and marketing; other sources include the Internet, libraries and, more generally, literature. I then performed a qualitative analysis through a short survey subjected to a champion of 472 people (89 respondents) and an in-depth interview with the General Manager of the company, with whom I had the opportunity to retrace the main stages of the company's history, and explore the reasons that have prompted the company to adopt particular decisions. This allowed me to compare how people feel about the company and if the company understand customer's needs and feelings.

⁶⁰ GM Manifatture Sigaro Toscano, 2016

The famous Tuscan cigar was born in 1815 in Florence, and the State Monopoly produced it until 2004, when the Ente Tabacchi Italiani acquired British American Tobacco Italia. Ente was created for privatization, and all production activities, marketing and distribution of tobacco products that were first under the management of the Monopoly. In July 2006 the company returned to Italian hands, with the acquisition by the Maccaferri Industrial Group, led by the historic Bologna family. These are the main dates, which outlined the history of this company:

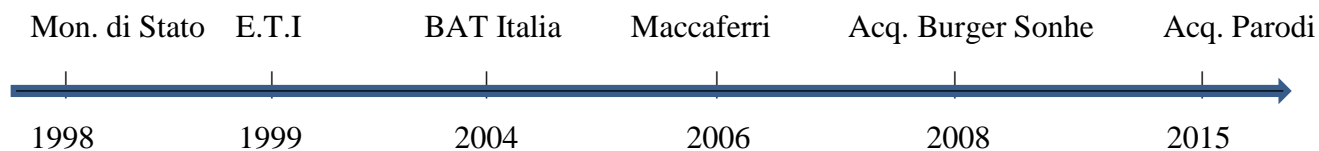


Fig. 3 Timeline with the main stages of Sigaro Toscano

The activities carried out in Italy by the company are first of all the production for its almost entirely and marketing of the final products. As we know, 90% of the company's turnover is made in Italy, the country of birth of the Tuscan cigar. Surely the launch of new products, makes the consumer curious and linked to the brand.

For the production of their cigars, Manifatture Toscano bought Italian Kentucky for 11 million in 2013, 95% in value of the entire crop. And in the three years 2014-2016 the project was implemented and continues today, increasing investments by 18% and increasing purchases of tobacco by at least 2 thousand tons per year. "The most appreciated products abroad - adds Maccaferri - are extravecchio Toscano, the first cigar with an Italian band, the classic Tuscan, on the market since the 30s; Toscanello the coffee aroma, with 10 years of success in the domestic market, now fashionable in Europe. All the cigars are tied to the history of our Italy. The "Toscano" is now recognized everywhere as a distinctive element of our lifestyle. "

From a commercial point of view, 2014 was primarily focused on the domestic market on the following guidelines:

- reinforcing the image of the Tuscan linking it to the values and the history of Italy:
- c) the launch of the Tuscan Pastrengo, exclusive cigar limited edition launched on the bicentennial of the birth of the Carabinieri
- d) launch of Tuscan works: Cigar designed to pay homage to Italian creativity
- support to the range of handmade and long cigars:

- d) launch a limited edition of three Versini the Toscano Originale, to emphasize the flagship cigar company;
- e) launch a limited edition of two Extravecchio variants (Delicate and Determined) to support the product that most of all suffered in the course of last year;
- f) launch a limited edition of 40 pieces of the ancient Tuscan vintage focusing attention on the segment of flavored, entry level in the world of cigars:
- c) launch of three variants (Mokha - Dolce - Espresso) designed to maximize the success of the Coffee Toscanello
- d) launch of two new variants (Mojito – Cherry Brandy) of the Cocktail line Pedroni

Between 2006 and 2012 marked the exponential growth in exports of Tuscan cigar: from 4.5 million units sold per year in 2006 to 13 million in 2014. A constant and progressive growth, which today has stabilized and that according to the shareholders' meeting of Sigaro Toscano is due to sales in duty free areas representing 5.4% of turnover and 7% of the cigars sold - a positive trend⁶¹ that consolidated turnover of 90 million euro (excluding taxes) with 180 million cigars produced in factories in Lucca and Cava de 'Tirreni.

Assets used are distributed into two main areas: Tradition and the Made in Italy.

- 1) **Tradition**, which is transmitted to the outside from the following features
- 2) The **Status Symbol** implies that the cigar, which clearly includes the Italian character of the product abroad, is seen as one of the drivers that push many consumers to smoke occasionally or frequently,
- 3) The "**conviviality**": the general manager of the company, Dr. Mariotti, former GM of British American Tobacco, the Tuscan cigar defines as a product to be divided in two, both physically and metaphorically, calling the conviviality of when you consume the product: it, in fact, needs to be divided into two parts, since it is possible to smoke it from both sides.

⁶¹ Ernesto Diffidenti - Il Sole 24 Ore, 2014

Furthermore, as observed in the third chapter, clubs are generally non-profit, non-political, non-partisan, and are socio-cultural. Their objective is to share a passion and slow cigar smoke as a moment of encounter and cultural commitment.

There are hundreds of clubs, officially created by cigar manufacturers, or created by amateur enthusiasts who are consumers.

Since 2003 publishes the magazine "Sigari!" and organizes Catadores courses at the Club members to teach the history and culture of the cigar and the tasting technique.

Sometimes they also organize conferences and national and international events, directly or through associated Clubs, for which events can also be arranged by the consumers themselves.

Clubs can also create forums where cigar enthusiasts come together and share a passion, values and their know-how on the sector.

To better understand the brand perception in the market, I submitted a survey to a sample of 476 people who live in U.S.A. and that are members of a Toscano's club (89 respondents).

The questions concerned the following areas: the perception of the product and its innovations, packaging, brands and events.

Simultaneously to finding answers to the questionnaire, for the purposes of deeper analysis and greater understanding of the business environment, regulatory and social environment in which the company operates Sigaro Toscano,

The interview was then structured into three main areas:

- The first dedicated to the product innovation and the same, asking what were the major products, and how they categorize them into products "star" and "cash cow", returning to the Boston Consulting Group matrix;
- The second macro-ness has been focusing on communication and branding;
- The third on exports and future plans in relation to this aspect.

The present study has set itself the goal of analyzing the Made in Italy and how the Country of Origin, from the point of view of Italian excellence, can be a key asset. Expanding on the cigar industry is derived from the deficit of literature in the field of the Italian cigar.

In particular, the question that we had posed was the following: with Italian excellence being a reality, can the assets of Made in Italy be used to position one Italian brand in foreign markets? What are the winning techniques to exploit this element?

The tools we have analyzed in theoretical are different.

If consumers of a specific country feed esteem and positive feelings toward a country, for one reason or another, almost certainly this feeling will also affect their liking of products manufactured in that specific country.

The Kapferer Prism, who has provided us with an outline of the elements that consumers take into account when evaluating a product. It concerns the external elements (physical elements, reports and reflection) as well as the internal elements of the brand (personality, cultures and mentalization) – the physical elements, brand personality, the relationship between brands and consumers, cultures – representing the system of values that incorporates the brand in itself derives from the objects and services it produces, and the reflection and mentalization (how the consumer feels through the use of the brand).

The Manifatture Sigaro Toscano company has very clear features of their product and their company: implementing product innovations, building and strengthening the brand personality and the relationship between brands and consumers, thanks to the club's management. Finally, for the mentalization, where the consumer wants to approach an aspired lifestyle through the consumption of the cigar product.

The limitations of the regulations are an important factor to consider, but to date Manifatture Sigaro Toscano was able to overcome the limitations that are invading the communications industry. Additional activities, as noted in chapter three, could be implemented, such as business co-branding with company abroad Wine or Spirits, forecasting figures in the organization of brand ambassadors. Several times, was matched to that of the cigar consumption of wine or hard liquor, especially for so-called products "meditation", so, to provide a resource of Brand Ambassador, as well as with the wine industry, it would be a lever innovative marketing also check the distribution and sales methods in other countries.

The winning tool for Toscano has been the Made in, that's for sure. This element has allowed them to achieve market leadership unmatched. A tool that could be implemented to grow the most is definitely that of a growth and an approach to countries that are culturally and socially close to Italy, obviously using the Made In tools, as suggested by the ranking of Anholt.