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Risks and Opportunities of Italian wine producing companies entering the Chinese market

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Introduction

Wine is an alcoholic beverage typical of Western culture and one of the most representative products of Made in Italy abroad. Although its cradle is in the Old World countries (Europe mainly), it is slowly but inexorably joining the eating habits of countries with realities and cultures that are different and far from the western ones. At the same time, as recommended by Crescimano and Galati, " *preferences and customs associated with wine consumption have changed; in fact, rather than satisfying purely gastronomic needs, wine's function is enriched with experiential, symbolic and hedonistic elements* " . [1] China is part of those realities where traditionally there was not such a deep wine culture as the one existing in the Old Continent, however its consumption habits are undergoing big changes.

As a matter of fact, over the past three decades the enormous economic development, succeeded by the increase in Chinese consumer's available income, and the growing Western lifestyle influence had led to an evaluable increase in wine consumption. China is having an extremely development, it is already world's second largest economy[2] , and within 2020 is going to become still wine's first market. [3] China wine market represent an important perspective for the Italian wine industry, , and although numerous Italian wineries consider it as a huge opportunity, however only a few are present on this market.

Being aware of these notions I started an internship in a wine producing estate in Tuscany. Poliziano is one of the most important realities for Vino Nobile di Montepulciano; it is a family owned winery with an average production of 850 thousand bottles per year.

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[1] Crescimanno M., Galati A., "Competitiveness of Italian Wines in the International Market", Bulgaria Journal of Agricultural Science , N. 1, 2014.

[2] The Guardian, 2014 .

[3] UIV " Cina nuovi primati entro il 2020".

My university background, my experiences in China, the internship at Poliziano and last but not least my passion for the Italian wine encouraged me to study in more depth the Chinese wine market, its characteristics, and finally try to draw a way for understanding and entering this market.

This dissertation has been developed with the aim of analyzing the opportunities of the Chinese wine market, with particular regard for the Micro, Small and Medium sized Italian wine producing companies and their difficulties and risks on penetrating this market.

The thesis is structured in four Chapters; Chapter 1 starts with an overview of the changing global wine industry, that over the last few decades has been affected by structural transformation, mainly due to the globalization phenomenon and the entering of new players on the world productive scenario. Thereafter we will focus on the Chinese wine market, starting from a general analysis of the alcohol consumption in China, therefore analyzing the political, social and economic changes occurred in the Country, that explain us the changing trend in wine consumption. It emerged that in the last decade China wine market size registered an evaluable increase, reaching the volume of 2 billion liters in 2016, thus becoming the fifth largest global wine market. After this excursus on the developments of the Chinese wine market, its consumers and the distribution channels, we will focus on the local production and the imported wine data; as we will see in the ending section of Chapter 1, there are already many players in the market, first of them France, followed by Australia, Spain and Chile. Finally Italy which closes the top five ranking, with a marginal market share (5%) , but with the best performance in terms of increasing average sales price per bottle (+ 21.92%) and the year-on year increase of value of 39.17 %.

Starting from all these data regarding the huge opportunities of the China wine market, in Chapter 2 we will proceed by analyzing the Italian wine industry and the structure of the Italian wine companies, in order to underline their characteristics and the problems that affect them in entering the Chinese wine market.

Through the study of Italian wine industry we will see that it is characterized by the presence of Micro, Small and Medium sized wine estates, very often family owned, but extremely focused on a qualitative production. We analyzed those companies export

strategies and the elements that influence their export performances , with particular regard for the Chinese market. Despite the fact that literature concentrates mainly on large scale producers, which benefit of economies of scale, have greater ability to increase resources and absorb risks, however our study focuses on the Italian wine SMEs, that better represent the Italian wine industry, and face much more problems that the larger ones.

Later, we considered it useful to analyze all those decisions and evaluations a company has to implement when considering export, in particular those made to avoid unpleasant situations such as the rising of financial losses. Thus, Chapter 3 focuses on the main risks these wine producing companies face when exporting in China. Not understanding risks or not implementing suitable strategies to minimize corporate risk could, not only have a negative influence on company's performances abroad, but also affect its financial status. We found it useful to distinguish between Occasional and Regular Exporters, since these two different practices involve a different commitment, thus a different grade of risk. We proceeded with a brief analysis of the main risks starting from the country/political risks, legal and finally all those that involve company's financial health and that could have a damaging effect on the overall performance and profitability of the company. In particular we analyzed the operational and financial risks, that in a wine producing company may generally arise from climate changing that can affect market prices, or those purely financial risks such as counterparty and liquidity risks.

Finally, in Chapter 4 we will analyze the Market Survey. As a matter of fact, a questionnaire in both English and Italian languages was created in order to better understand the real situation of the Italian wine SMEs. We chose Tuscany as the area where to distribute the survey, because of my closeness to the region and moreover, because it better represent the Italian tradition of cultivating vines.

The survey was highly important for our study because in addition to giving us an idea on the general characteristics of the wine producing companies , such as dimension, competitive factor, export orientation, etc., it helped us in understanding their performances China, and it gave us new elements to seize their criticalities during the internationalization process. We will see in the ending section of Chapter 4 that the

intrinsic characteristics of the Italian Wine SMEs, instead of being their strong points, in the most cases represent their limits when going abroad.

Abstract

葡萄酒是西方国家最常饮用的酒类之一,也是典型的意大利制造的产品之一。尽管红酒的发源地是欧洲大陆国家，但是它也慢慢的进入了距离很远，文化和现实情况都不相同的其他西方国家，并成为了他们的一种饮食习惯。同时，与红酒消费的有关习惯与偏好也发生了改变，也就是说红酒不是单纯只为了满足饮食需要，其功能也加入了体验式、象征式、和享乐主义元素。但实际上,葡萄酒文化相比于和其他欧洲国家与中国传统文化并没有很大联系.

然而，在过去三十年中，随着中国消费者可用收入的增加以及西方生活方式的影响日益增加，葡萄酒消费量可评估地增加，经济的巨大发展得以成功。中国正成为有一个紧密相关发展的国家，已经是世界第二大经济体，到 2020 年将成为葡萄酒的第一市场。中国葡萄酒市场对意大利葡萄酒生产商而言意义重大，虽然众多意大利葡萄酒厂认为这是一个巨大的机会，但在这个市场上只有少数几家出现。

当我对此有了这些认识，以及对意大利葡萄酒的热爱，这就让我更想去深入地研究中国葡萄酒市场及其特点，最后试图为理解和进入这个市场铺路。因此，本文的目的是分析中国葡萄酒市场的机遇，特别是中小型意大利葡萄酒公司及其在渗透这个市场方面的困难。

为此，本文首先从全球葡萄酒行业的变化入手，在过去的几十年里，由于全球化现象以及世界生产性情景中新的参与者比如中国的进入。之后我们谈谈中国市场，从对中国酒类消费的一般分析开始，分析国内发生的政治，社会和经济变化，对葡萄酒消费变化趋势的影响。事实上，中国葡萄酒市

场受到中国政府的推动，2001 年中国加入世贸组织后，深受其影响，一些外国葡萄酒进入中国，带来了新的技术和竞争。另外，影响中国葡萄酒市场的另一个因素是中国人收入的增加，这同时改变了中国的消费习惯。在经济繁荣之前，人们只能买得起白酒和啤酒等当地饮料，而随着人均可支配收入的增加，中国中产阶级的发展也得到了可评价的发展的西方，产品，中国中产阶级受教育程度越来越高，更健康，更需要外国。

在这方面，我们的研究表明，在过去的十年中，中国葡萄酒市场规模翻了两番，达到 20 亿升的数量，价值规模进一步增长，2017 年达到 430 亿欧元。中国证实了其作为最有吸引力的目的地市场之一的地位，主要集中在上海，北京，广州，天津，深圳等一二线城市，这里有大量的外籍人士和中国移民一代。

在了解了中国葡萄酒市场的发展和趋势之后，我们将重点介绍当地生产和进口葡萄酒的数据。在前五大出口国中，有法国，智利，澳大利亚，西班牙和意大利。尽管排名前五位，但 2016 年我国在进口葡萄酒价值和提高每瓶平均销售价格方面表现最佳。意大利在中国葡萄酒市场上的地位仍然处于边缘地位，因此有必要对意大利葡萄酒行业和意大利葡萄酒公司的结构进行分析，以突出其特征和影响进入中国葡萄酒市场。通过对意大利葡萄酒行业的研究，我们将看到它的特点是存在中小型葡萄酒庄园，通常是家族拥有的，但非常注重定性生产。我们分析了这些公司的出口策略和所有影响出口业绩的因素，特别是中国市场。尽管文献集中在规模经济效益较大的大规模生产企业，虽然具有较大的增加资源和吸收风险的能力，但我们的研究强调，通过实施成功的出口战略，中小型的葡萄酒企业能够成功地在中国市场建立。

再来，我们认为：分析公司在考虑出口时必须执行的所有决策和评估是有用的，尤其是那些为避免不愉快情况（例如经济损失上升）而做出的决定和评估。因此，第三章着重介绍这些葡萄酒生产企业在出口时面临的主要

风险。不理解风险或不实施合适的机制来最大限度降低企业风险可能会对公司的整体业绩和盈利能力造成破坏性影响。为此，我们从国家/政治风险，法律风险，最终涉及公司财务状况的风险，以及可能对公司的整体业绩和盈利能力造成破坏性影响等方面，分析了主要常见风险。

为了更好地了解意大利葡萄酒中小企业的真实情况，我们创建了市场调查。托斯卡纳被选为分发调查的地区，因为在所有地区，它更好地代表了意大利的葡萄种植传统。

这次调查除了给我们一个关于托斯卡纳酒厂在中国的出口业绩的情况之外，也证实了我们的假设，即超出公司层面的关键在于管理中国市场。意大利的葡萄酒公司往往采取过度的保护主义战略，这样做，他们没有抓住市场提供的所有机会。通过使用进口商/分销商作为出口渠道，意大利公司仍然存在风险，而且大多数情况下的情况并不令人满意。因此，为什么不改变你的战略，使用不同的分销渠道，如电子商务，这是不是没有风险，但至少目前比传统的提供更多的优势机会。

因此，无论公司规模如何，长远的投资策略，加上对中国人民和市场的深刻理解，以及最重要的是通过政府的更多支持，中小型意大利葡萄酒庄园可以成功在中国市场立足。

Chapter 1 : A changing wine global market: the rise of China

Over the last few decades, the wine market has been affected by huge structural transformation due to globalization and the entering of new international competitors. The enormous phenomenon of globalization, started in the late 1980s, has brought to an increase of relationships between countries and particularly of international trading; it led to the overcoming of materials and immaterial barriers, to the circulation of people, things, information, knowledge, ideas, technology, production and management techniques, and also to the unifying of the economic conditions, lifestyles, particularly in accordance with the Western model. This has helped to redefine the world wine market. If production and consumption have always been relatively localized, with limited exchanges with neighboring countries, with the arrival of globalization, there has been a greater unification of markets, a widespread internationalization of business activities and above all the emerge of new players on the global scenario, with the consequent tightening of competition. [4]

On one hand the entrance of new countries whose role is growing, set beside the traditional wine producing countries as Italy, France and Spain. On the other hand the demand for wine has also registered a geographical change with the fall in the traditional market and increase in new consumer markets as China, USA, India, North America, Brazil, Mexico and Russia. [5] This can be easily explained with the changing of consumer's preferences and customs associated with wine consumption; in traditional countries the more conscious and expert consumers started to ask for more quality

4Campbell and Guibert" Wine, Society and Globalization- Multidisciplinary perspectives on the wine industry" , 2007.
5 Bulgaria Journal of Agricultural Science, 20(No1), 2014, "Competitiveness of Italian Wines in the International Market"

wines, generating a decline in the quantity of wine sold and an increasing of consumers towards quality wines.

We will continue analyzing the structure of the wine industry all over the world.

1.1 The global wine industry: Old World Vs New World

It is clear that the economic structure of industry affects competition and the average profitability of firms in a particular market[6], and these structural differences depend on institutional heterogeneity and contrasting patterns of historical development. [7] Thus given industries show substantial structural differences across various geographic markets around the world.

The wine industry is a good example to explain the huge differences that persist in different areas of the world; let's take the basic concept of market control: in 2003 in France there were 232,900 wine producers and the top 10 brands controlled only 4% of the market. On the contrary, in Australia, four firms controlled over 75% of the local market. [8]

On the whole, we can see a marked difference in the wine industry structure when comparing the "Old World" producers (mostly European) to the "New World" firms (Australia, Chile, United States) . As we stated before, these differences are driven by the institutional heterogeneity and different patterns of historical development, but also by the competitive strategies employed by particular firms, because differences in industry structure are not purely exogenous, but also a product of the strategies adopted by firms.[9]

Wine-making in the Old World differs from the New World in many ways. In Europe we find small family owned wineries while larger publicly traded firms compete in New

[6] Michael Porter, Competitive Strategy, 1980.
[7] Tarun Khanna and Jan Rivki, "The structure of profitability around the world"
[8] International Business & Economic Research Journal, Vol 2, nr 9, " The changing structure of the global wine industry", 2003
[9] International Business & Economic Research Journal, Vol 2, nr 9, " The changing structure of the global wine industry" , 2003.

World countries. Old world producers benefit of governments subsidies, on average they don't invest much in technology and automation, for example they continue to hand-pick their entire supply of grapes. The New World firm on the contrary invest much more in innovation and technology, reducing considerably operating costs and enhancing the quality of their wines.

Overall there are three main factors to explain the structural differences between Old World and New World wine industries. First the major institutional differences between these geographic markets. The most important one concerns the regulatory regimes in various nations. While the New World producers have a very loose regulatory structure, European countries adopt very strict regulations that constrain producers' behavior. Let's briefly analyze the measures taken by the common organization of wine market (CMO) at the European level. These measures can be grouped in three major categories, measures concerning the limitation of grape-growing potential, classical intervention measures such as disposal and storage, and finally measures concerning trade. At national level, in 1963 Italy adopted the EU legislation designed according to the French concept of *terroir*. Recognizing the essential role of soil and climate in wine production, the EU regulation want to support the National government intervention with a quality based classification of wine which is the Controlled Denomination of Origin (DOC, in English CDO). The EU common organization of the wine market, together with the Italian government both intend to protect the identity of quality wines of particular regions from possible frauds and to facilitate commercialization through wine classification and brand recognition. [10] Overall in Europe regulation are more strict and control many aspects of winemaking, while fewer controls constrain production in nations as Us, Chile, South Africa and Australia. The Australian industry has particularly loose controls, for example producers can label wines made with grapes from broad geographical regions, they can identify the wine by the year it was bottled, they can also combine grapes from different vintages to make a particular wine. [11]

Historical patterns of development represent a second major factor explaining the differences between the two Worlds. In the Old World, winemaking has been organized

10Stasi A., Annals of Agricultural & Crop Sciences, " Italian Wineries' Strategies and Behaviors to Accomplish a Competitive Position on the International Markets", December 30, 2016.
11International Business & Economic Research Journal, Vol 2, nr 9, " The changing structure of the global wine industry", 2003

around the family farm , the land continued to be family's ownership and has been transmitted to the future generations. While Europe tends to have more privately held firms, most of the largest winemakers in the United States and Australia have become publicly traded corporations, and their motives are often different.

Finally, the third factor explaining structural differences consist in the competitive strategies of firms. In countries such as Australia and the United States publicly traded firms are prevalent and in pursuit of new revenue or cost savings have made strategic acquisitions, consumer branding, strategic advertisements, investment in innovation and technologies, etc.

All these strategic choices have re-shaped the competitive landscape in New World markets, making them becoming the new leaders on the Global Wine market and restructure the overall geographical scenario.

Fig. 1 Top 15 world wine-producing countries[12]

Country	2012	2013	2014	2015	2016
Italy	**45,616**	**54,029**	**44,200**	**50,000**	**50,900**
France	41,548	42,134	46,500	47,000	43,500
Spain	31,123	45,308	39,500	37,700	39,300
United States	21,650	24,400	23,100	21,700	23,900
Australia	12,259	12,310	11,900	11,900	13,000
China	13,511	11,780	11,600	11,500	11,400
South Africa	10,569	10,982	11,500	11,200	10,500
Chile	12,554	12,820	10,000	12,870	10,100
Argentina	11,778	14,984	15,197	13,358	9,400
Germany	9,012	8,409	9,202	8,900	9,000
Portugal	6,327	6,231	6,195	7,000	6,000
Russia	6,220	5,290	4,880	5,600	5,600
Romania	3,311	5,113	3,700	3,500	3,300
New Zealand	1,940	2,484	3,204	2,300	3,100
Greece	3,115	3,343	2,800	2,500	2,600
Rest of World	*27,400*	*30,400*	*26,500*	*28,900*	*25,400*
World	**257,900**	**290,000**	**270,000**	**276,000**	**267,000**

Source: OIV, March 2017

[12] 2016 data are provisional and are likely to change in future reports.

Global wine production in 2016 has been estimated by the International Organization of Wine and Vine (OIV) at 267 million hectoliters, and although the emerge of new competitors, the top ranking is still held by the traditional producing countries, that are in order Italy, France and Spain. Global production dropped by about 9 percent over the 2015's 276 million hectoliters, mainly due to the global warming which has a profound effect on wine. As for the 2015, in 2016 Italy is estimated to be in first place as the world's leading wine producer, with an estimated output of 50,900 million hectoliters. [13]

This data take into consideration the period of time between 2012 and 2016, a period without such a big changing of the landscape; actually the situation in the last 4 years has been pretty stable with only a few changing in the ranking between Italy, France and Spain. [14]

But if we compare this data with the 1999 one it is clear that in the last two decades the world vitiviniculture scenario has changed a lot.

Fig. 2 Top 15 world wine-producing countries between 1999 and 2016

Country	1999	2016	Var. 1999-2016 %
France	60,230	43,500	-27,7
Italy	58,068	50,900	-12,34
Spain	32,676	39,300	+20,27
United States	20,210	23,900	+18,25
Argentina	15,886	9,400	-40,82
Germany	12,295	9,000	-26,79
Australia	8,510	13,000	**+52,76**
South Africa	7,967	10,500	+31,79
Portugal	7,805	6,000	-23,12
Romania	6,503	3,300	-49,25
China	5,199	11,400	+119,27
Chile	4,806	10,100	+110,15

[13]Mediobanca, "Wine Industry Survey", April 2017, page 7

[14] In the past five years the world wine producing countries podium was held by the same countries, Italy, France and Spain, with only a few changing among them. While in 2015 the worlds' biggest producing country was Italy, the previous year it was France.

Greece	3,679	2,600	-28,62
Hungary	3,338	2,600	-22,10
Brazil	3,189	1,400	-56,09
Rest of World	*30,573*	30,100	*-1,54*
World	**280,934**	**267,00**	**-4,95**

Source: OIV, elaborated by the author

If we look at the chart above we can immediately state that a change has occurred. It is clear the fall down of wine production in the traditional countries as Italy, France, Argentina, Germany and Portugal, and as a consequence, the rising of production in the New World countries. Growth in wine production is particularly significant in China, Chile and Australia. From our point of view the Chinese data(+119,27%) is extremely important and it doesn't have to scare the Old World producers. The increase in the cultivation of wine varieties in China, especially through the advancement of quality wine-growing, can be an advantage for those traditional producers and therefore their export in that market. This is a signal that the wine culture is gradually penetrating the Chinese market, and this makes of China an important destination market.

It is useful to recall European evolution on the US market also thanks to the qualitative growth of oenological production made in California. [15]

Fig. 3 World wine-consuming countries in million liters

[15] Wine Meridian, " Dobbiamo preoccuparci della crescita del vigneto cinese?" , giugno 2017

Country	2012	2013	2014	2015	2016
United States	30.0	30.2	30.4	31.0	31.8
France	28.0	27.8	27.5	27.2	27.0
Italy	**21.6**	**20.8**	**19.5**	**21.4**	**22.5**
Germany	20.3	20.4	20.2	20.6	20.2
China	17.1	16.5	15.5	16.2	17.3
UK	12.8	12.7	12.6	12.7	12.9
Spain	9.9	9.8	9.9	10.0	9.9
Argentina	10.1	10.4	9.9	10.3	9.4
Russia	11.3	10.4	9.6	9.3	9.3
Australia	5.4	5.4	5.4	5.3	5.4
Canada	4.9	4.9	4.7	4.9	5.0
Portugal	5.0	4.8	4.7	4.8	4.8
South Africa	3.6	3.7	4.0	4.2	4.4
Romania	4.3	4.6	4.7	3.9	3.8
Japan	3.1	3.4	3.5	3.5	3.5
Rest of world	*56.2*	*57.2*	*57.9*	*55.7*	*54.8*
World	**244**	**243**	**240**	**241**	**242**

Note: 2016 data are estimated and are likely to change slightly in future reports.

Source: OIV, April 2017

According to OIV data the United States still topped the list of the world's biggest wine drinking nation in the past 5 years, followed by France and Italy. The US wine market is huge and in the last decades we can verify a new important component, the Millennials, a young group of wine drinkers, aged between twenty-one and thirty-five who demand more diversified products and drinking experiences. [16]I f we look at China we find it at fifth place with an estimated consumption of 17.3 million hectoliters in 2016, slightly increased compared to the 2015 one. China seems to emerge from its recent doldrums, and the Chinese wine market shows a trend of recovery driven by the rise of the affluent upper-middle class and digital innovations in communication and sales channels. Chinese wine market is entering into a new stage of growth in line with its economy.

We will discuss China's wine market characteristics more thoroughly in the next paragraph, after a brief excursus on alcohol consumption in China and the development of wine production.

[16] Food and Beverage Magazine" Millennial Wine consumer in the US",2015 https://www.fb101.com/2017/01/millennial-wine-consumers-us/

1.2 China and wine: alcohol and its consumption

Although China is worldwide known as the main producer and consumer country of tea, however alcohol consumption is deeply rooted in the Chinese tradition, and it plays an important role in the daily life of Chinese people. The Chinese word for alcohol is *jiǔ* and it has the same pronunciation as the words for 'longevity' and 'forever' [17], that's why in ancient times and still nowadays alcohol is never absent from ceremonies, banquets , family celebrations, and finally in business meetings. Thus it is clear that in China alcohol is considered more than a mere source of pleasure, it is something about respect, friendship, personal achievement, but also about traditions, happiness and finally it is a sign of good omen. Chinese people use to drink several kinds of alcoholic beverage; there are white liquors like *baijiu*, which is a clear spirit distilled from grains as sorghum, rice, and maize. *Baijiu* comes in various strengths and flavours, and generally falls in the 45-55 percent alcohol by volume level. Then there is an another variety of Chinese liquor, the yellow liquor called *huangjiu*. This refers to fermented alcoholic beverages which are brewed directly from grains such as rice, wheat or millet, and the alcohol content is usually less than 20 percent. Very often this kind of beverage is used as traditional Chinese medicine,[18] since Chinese people believe that moderate drinking of alcohol is good for one's health. Beer has also a great importance regarding the production and consumption of alcoholic beverages; in 1900 a brewery was founded in Harbin, the capital of Heilongjiang Province, and today there are more than 1,500 domestic beer brands in China making it, until 2016, the world's leading nation for beer production and consumption[19].

However, even if there is a long-standing tradition of grain based alcoholic beverages, the increase in per capita income, associated with an increase of Western influence, expatriates, young professionals and campaigns to promote healthier lifestyles, had led

17 Gbtimes , http://gbtimes.com/life/spirit-chinese-alcohol-drinking-culture
18 Johanne COCHRANE, Hanhui CHEN, Katherine M. CONIGRAVE, Wei HAO, "Alcohol use in China" , "Types of beverage alcohol", Oxford journals Alcohol and Alcoholism, Vol.38, N.6, pp. 537-542, 2003 http://alcalc.oxfordjournals.org/content/38/6/537.full.pdf+html
19 FOXBusiness , http://www.foxbusiness.com/features/2016/03/31/china-is-now-worlds-largest-beer-market.html

to a growth in wine consumption, making it being one of the major player in global wine trade, and an important destination market for many exporting countries.

1.3 Brief history of Chinese wine production and its developments

China has a long-standing wine history dated back more than 4,600 years. [20] During the Han Dynasty (206 B.C.-220 A.D.) *Vitis vinifera* (common grape vine) was introduced from central Asia. Wine grape cultivation and wine culture came to China along the Silk Road firstly in Xinjiang and then expanded to the rest of China. In the Yellow River region where the ancient Chinese civilization was nurtured, began the large-scale viticulture activities of wine grape planting and wine making (Liu and Murphy, 2007). During the Tang Dynasty (618 A.D.-907 A.D.) which was the largest and most powerful dynasty of China the grape wine drinking and grape wine culture made great progress. For the wealth and stability of society, grape wine not only became a favorite drink of emperors and ministers but also was popular in folk. However the real development of wine consumption started in recent decades, it began in 1892, when an overseas Chinese diplomat, Zhang Bishi, imported half a million plants from America and started his winery Changyu Pioneer Wine Co. in Yantai, Shandong province[21]. This was the stepping stone for the development of modern Chinese wine production and the beginning of a wine industry . When the People's Republic of China was established, there were five wineries, among them only two were Chinese , while the remaining three were founded by foreign people, and the wine production was about 0.85 mhl per year. [22] During the Mao's era, the study and the production of wine were intensified, new wineries were built , while the most important ones were renovated thanks also to the introduction of European grapes and modern techniques. But it was from 1978 onward ,

[20] Pieter Eijkhoff, " Wine in China, its history and contemporary developments", 2000.
21 China Daily, "Wine pioneer Changyu has storied history, bright future" , http://usa.chinadaily.com.cn/life/2012-05/30/content_15425180.htm
22 Asian Journal of Management Research, Volume 4, 2014 , "The Evolution of Wine Emerging Markets :the case of China" , page 686.

when economic reforms were introduced, that Chinese economy changed totally and China finally became a global player. The leader of the "Four Modernization" project was Deng Xiaoping, and his intention was to strengthen the fields of agriculture, industry, national defense and science and technology in China. The reforms, strongly pragmatic and gradual, had led to the changing of the economic system, from a planned economy to a market oriented economy and to the coming out from its isolation and stagnation. Gradually it started to interact with the industrialized economies, especially thanks to the "Open door policy", which consisted in the introduction of four special economic zones (SEZ) in southern China with tax incentives in order to attract foreign capital and businesses. This process influenced positively also the wine industry, by promoting local production and the diffusion of foreign imported wines. As far as the local production, in the late 1980's , Chinese government pushed for the increasing of wine production in order to take it to the international standards level. It started awareness campaigns aimed at reducing the consume of high concentration alcoholic beverages (grain-based spirits) , in favor of ones with low alcoholic content (wine and beer) in order to preserve national stocks of rice for food production and to reduce the heavy consumption of liquors. In 1994 Chinese government provided norms regarding the national production of wine, and parameters which must be respected in order to increase wine knowledge and to obtain a high quality product. [23] As a matter of fact, with the opening up of the market, wine became increasingly important within the habits and customs of Chinese consumers, furthermore, the growing commercial relations with abroad helped the wine sector to come into contact with the global wine trade (especially with France) and with new and important opportunities. But it was only until after 2000 that the Chinese wine industry has experienced substantial changes in terms of production , consumption and import. One of the most significant factors was its admission to the WTO in 2001. Since China entered the WTO a large number of foreign wines entered China bringing competition, new technology and management experience. The domestic wine production increased from 0.78 million hectoliters to 11.5 million hectoliters and the total vineyard area scaled up from 31,600 ha to 847,000 ha between 1980 and 2016 . (Fig 4)

23 National Standard of the People's Republic of China , promulgated by General Administration of Quality Supervision, Inspection and Quarantine, The People's Republic of China Standardization Administration of China (SAC) (1994, 2005)

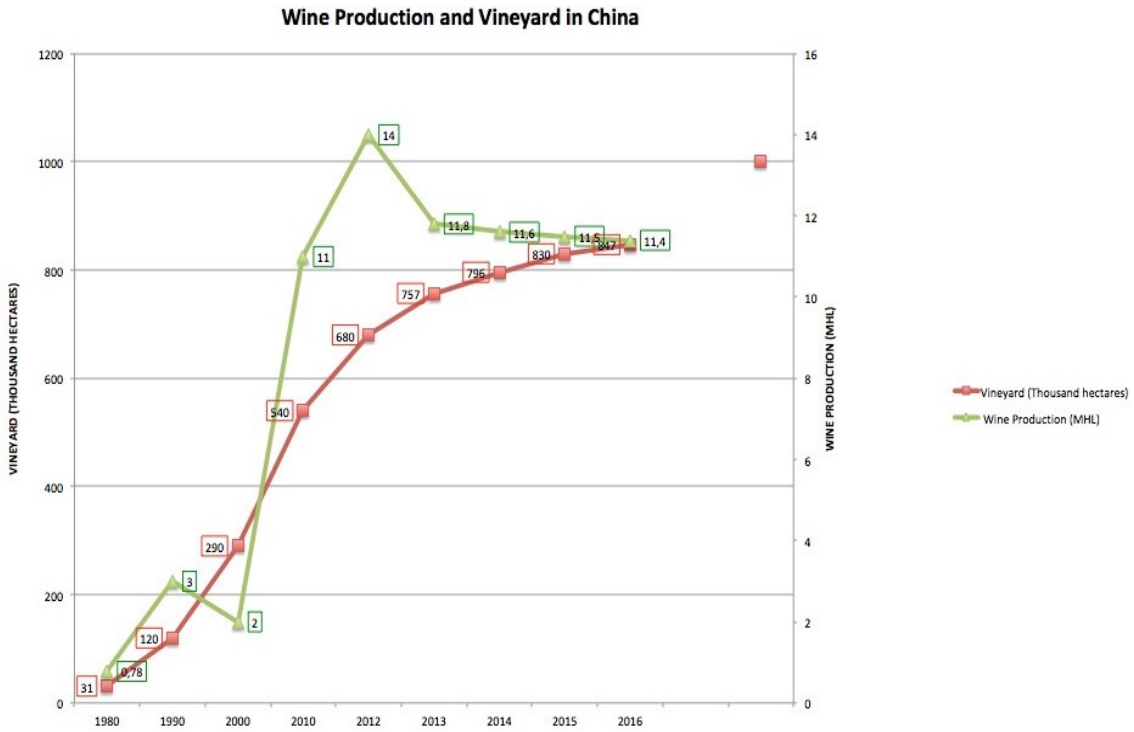

Fig. 4 Wine Production and Vineyard Surface in China between 1980 and 2016.

Source: OIV April 2017, elaborated by the author.

In addition to this, the import duty on bottled wine has been reduced from 43% to 14% and on bulk wine from 43% to 20%. [24] This has had a positive impact on the market, offering local consumers the opportunity to taste a wide range of product at more affordable prices.

In recent decades, the Chinese wine industry has achieved great developments. Wine industry has been one of the most rapidly growing and promising light industries in China. The "12th Five-Year Plan" for the Chinese wine industry (2012) highlights the importance of government guidance and support to the Chinese wine industry especially in the improvement of wine producing regions, the adjustment of industrial structure, the development of science and technology, the assurance of product quality and the combination of wine culture and Chinese wine brands.

24 Asian Journal of Management Research, Volume 4, 2014,"The Evolution of Wine Emerging Markets :the case of China" , page 685.

Politically, in order to guide and support the domestic wine industry, China has released several national legislations and policies but compared to other wine producing countries which have a complete legal system, China still has a long way to go.

An another factor influencing Chinese wine market is the increasing of Chinese people's income; this process started right after the 1978's reforms, which transformed China from a predominantly agricultural country to an industrializing one. According to the statistics, in 1978 the per capita net income of residents was 1.34 yuan (EUR 15), while the latest data show that in 2016 China's per capita disposable income stood at 23.821 yuan (EUR 2.871) , with an annual increasing of about 6,3% (Chinese Academy of Social Sciences) .[25] [26]

By 2022, the McKinsey research on China's Middle class suggests that more than 75 percent of China's urban consumers will earn from 60,000 to 229,000 Renminbi (EUR 7.450 to EUR 28.146) per year. [27]
In the following chart we have a graphic explanation of the changing of the disposable income per capita for urban and rural residents during the period between 1995 and 2016. As we can see there is a consistent growth for both the categories, but the gap between the two is still huge.

[25] China Daily , "China's personal income rises 6.3% in 2016", http://www.chinadaily.com.cn/business/2017-01/20/content_28010029.htm

[26] Data concern the average per-capita annual disposable income in China between the Urban and the Rural residents.
[27] McKinsey Quaterly, "Mapping China's middle class", June 2013, https://www.mckinsey.com/industries/retail/our-insights/mapping-chinas-middle-class

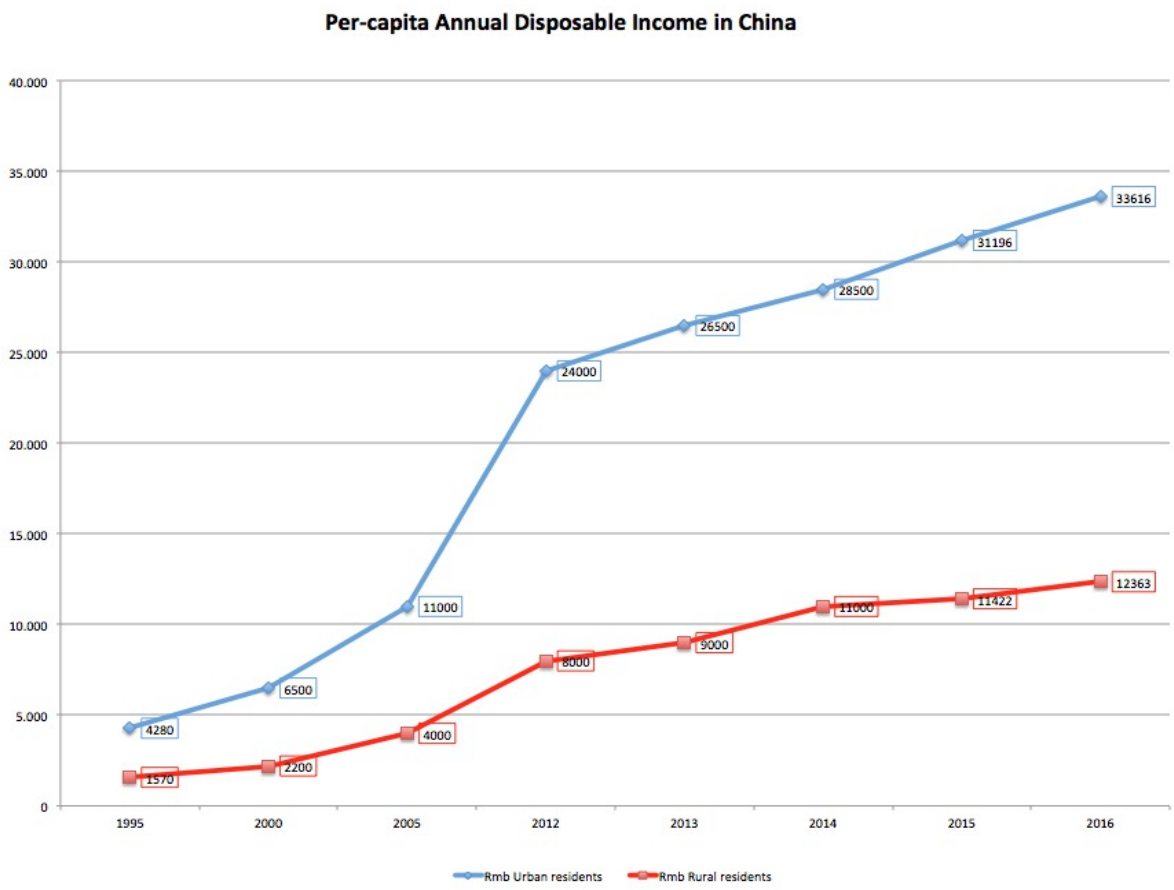

Fig. 5 The Per-capita Annual Disposable Income in China.

Source: Research HKTDC, China Daily Journal 2017, elaborated by the author.

Regarding the Urban residents households, as we can see from the chart below, China is rapidly moving from a lower-middle to a middle, upper middle and affluent class society . The segment of poor people is increasingly reducing, while the affluent and the upper-middle ones are more and more wide.

Fig. 6 Income-wise classification of China's Urban households (%)
Source: China Digital Banking Report 2017.

The huge growth of the per capita disposable income has led to an increase in consumption, a visible shift from mass to premium products, moreover to the changing of many Chinese's dietary habits. Before the economic boom, many consumers could afford only local alcoholic beverages, especially *baijiu* and beer. Together with the increasing of per capita income, there has been the development of Chinese middle class, that in 2016 reached 37,4% of the population (Chinese Academy of Social Sciences).
The McKinsay research, carried out through questionnaires and in-depth interviews, suggests that more than the burgeoning middle class, the upper middle class is about to become the principal engine of consumer spending over the next decade.
These two elements combined together had brought to a social transformation that changed enormously consumer's behavior, which became healthier, more educated, more demanding for a modern lifestyle and influenced Chinese wine demand over the last decade, permitting them to have access to high-value products, in particular to foreign alcoholic beverages. The evolution of the middle class means that sophisticated and experienced customers, able and willing to pay a premium for quality and to consider optional goods and not just basic necessities, will soon emerge as the dominant force.

1.4 Nowadays Chinese wine market

From 2005 and 2014, China's wine market size has quadrupled in volume, from 547 million liters to 2 billion liters. The value size grew even faster after 2007, reaching 134 billion Renminbi (EUR 17 billion) in 2014. [28] This means that Chinese people year by year are drinking more expensive wine.

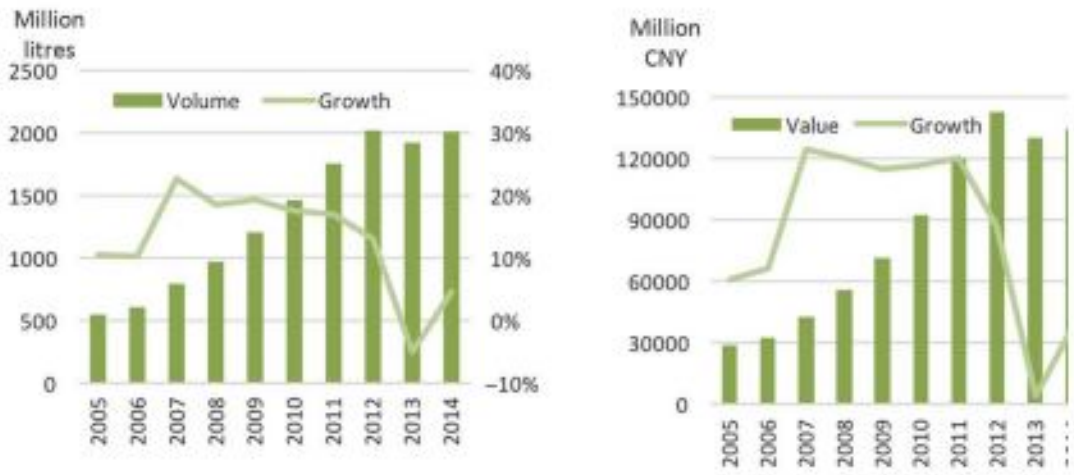

Fig. 7, 8 China Market Sales by Volume and Value 2005-2014.

Source: The Wine Value Chain in China, 2017.

China is already world's first consumer of spirits, and within 2020 is going to become still wine's first market. [29] According to Wine Intelligence's CEO this market is gradually moving to a positive normality, made of people who buy wine to drink it not just to donate it; furthermore, during the Hong Kong International Wine &Spirits Fair, Justin Cohen[30] had spoken about the changing of Chinese wine market from an elite market to a mass one. Both agree on the fact that one of the elements of breakdown between the past and the current situation has been the Chinese government's anti-corruption policies. [31]

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[28]Capitello R., "The Wine Value Chain in China", 2017
29UIV, " Cina nuovi primati entro il 2020" , http://www.uiv.it/cina-nuovi-primati-entro-il-2020/
30Senior Research Associate al Ehrenberg-Bass Institute , University of South Australia
[31] The 2012 tightening of government gifts has had a strong impact on both wine imports and domestic sales. The market, especially as far as fine wine was concerned, was driven by purchases made for the sole purpose of paying homage: buying wine to give it, and less often to drink it.

Moreover, the changing scenery of the Chinese population, from rural to urban, with better access to consumption goods, combined with increased per capita income and the ascent of the middle class, provide the foundation for a long-standing growth in the Chinese wine market. The seize of the country, with a population of approximately 1,388 billion in 2017 [32], which is expected to reach 1,4 billion by 2020, made China becoming an attractive export market for wine producers around the world.

According to *I numeri del vino* last data, in 2016 China was one of the most interesting markets for wine, it was the fourth world destination for value, with EUR 1.6 billion and 6.3 million hectoliters of imported wine. Although 2016 year was characterized by the Yuan (CNY) devaluation of an average 6% , which slightly reduced the growth measured in Euros (+16%) compared to the one measured in the local currency (+24%) , the Chinese market is still one of the few with amazing opportunities to increase wine consumption and therefore imports. [33]

1.5 Wine Consumption

In 2014 China was the fifth largest global wine market, with a consumption of 16 million hectoliters which was almost half of the United States total consumption, and in 2016 it reached 17.3 million hectoliters. Regarding the per capita wine consumption, in 2016 it only ranks 36th in the world, with 1.34 litres per capita, but by 2020 the per capita consumption is expected to grow to 1.53 litres. [34]

In the chart below we have a panoramic about the China total wine consumption and the per capita one.

Thanks to economy's expansion, the improved living standards and the growing middle class, from 2005 to 2012 there was a rising trend in both total alcohol consumption and the per capita wine consumption of China. The increased household incomes allowed consumers to

32World Population Review, http://worldpopulationreview.com/countries/china-population/
[33] I numeri del vino, 2016
[34] The drinks Business "China to become second largest wine consumer by 2020", March 2017.

enjoy a wider variety of alcoholic beverages, such as imported wine; for decades it has been seen as a status symbol and a crucial element of doing business, but in the last years it started to be considered part of people social life outside of work.

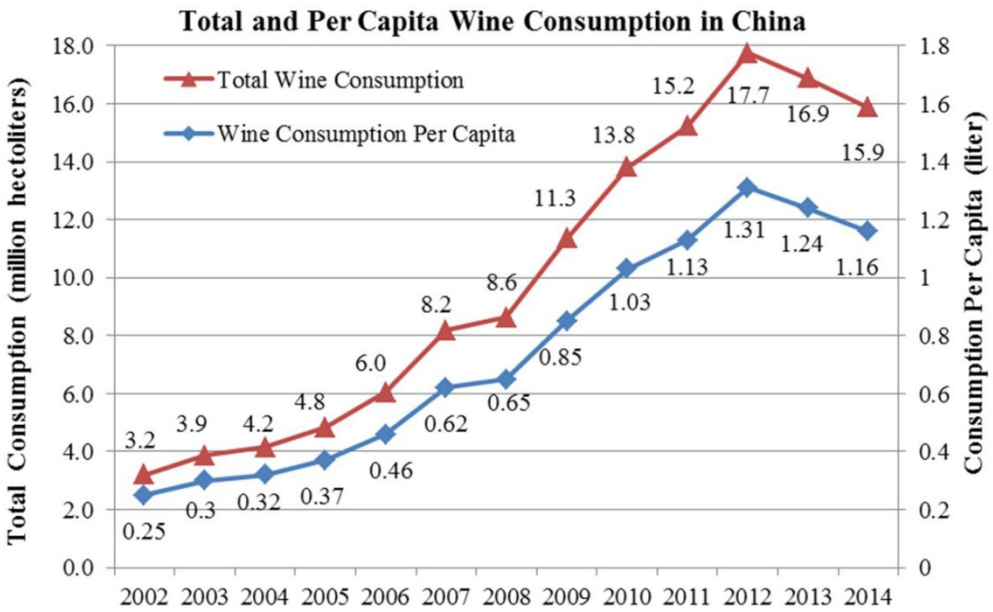

Fig. 9 Wine Consumption in China.

Source: ASKCI (2015), National Bureau of Statistics of China(2015).

However, due to government tightening from 2012 to 2013 the wine consumption dropped from 17.48 million hectoliters to 16.82 million hectoliters with a rate of 3.8% and the wine production decreased more sharply from 13.82 million hectoliters to 11.78 million hectoliters with a rate of 14.7%. Although in 2014 the wine production decreased less than the year before, with 1.4%, the wine consumption sank approximately 6.1%. This trend affects the domestic wine industry and foreign wine companies. As an example, according to "The drink business magazine" (2015) for wines from Bordeaux region the sales volume decreased by 9% and the sales value decreased by 17% in 2014.

Moreover, in 2015 the Chinese annual GDP growth rate was 6.9 % with 0.4% less compared to 2014. The slowdown of the economic growth rate or the "new normality" of the Chinese economy affects both the consumption of wine and the production of wine in China (Fig.6). At the same time the anti-corruption campaign by the new Chinese government to some

extent leads to a decrease in wine selling. This especially affects imported luxury wines that were often given as gifts to government officials or businessmen.

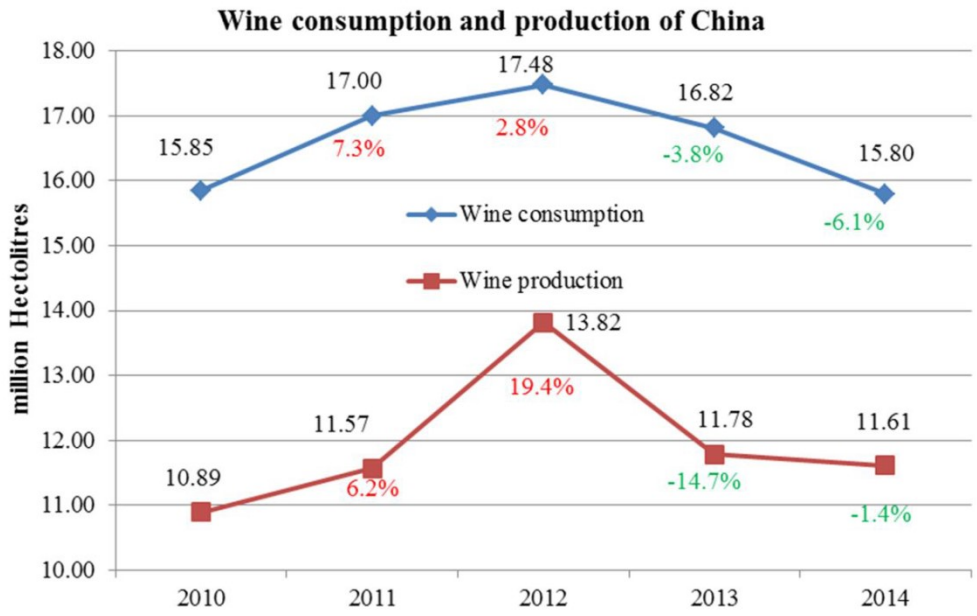

Fig. 10 Wine Consumption and Production of China.

Source: OIV (2015), ASKCI (2015).

1.6 Distribution Channels

With regard to consumer reach, due to the enormous variety of Chinese areas, sales by different distribution channels vary across different regional markets. For example, the on-premises sales share is higher in eastern and southern coastal cities than the interior regions.

Specialized wine importers or distribution agents can easily distribute directly to supermarkets, restaurants and liquor stores. Regarding the local wines, 54% of wine sales in China were through retail chains (supermarkets, discounters, other outlets). While imported wines, after the online sales, are mostly sold in hotels, restaurants, and through foreign retail (Euromonitor International data) . Chinese consumers truly trust international supermarket chains because believe they can ensure better quality of the goods sold and they worry less about fake wine bottles.

At this point it is dutiful to mention the 2013 sharp changing in wine sales channels. According to the Euromonitor International statistics (2016), the share of on-trade channels declined between 2013 and 2014 by 10%. This changing may have been influenced by the anticorruption campaign of 2012. When looking at the off –trade channels we see a continuing growth with the increasing interest of at-home consumption due to the affluent upper-middle class and the use of e-commerce.

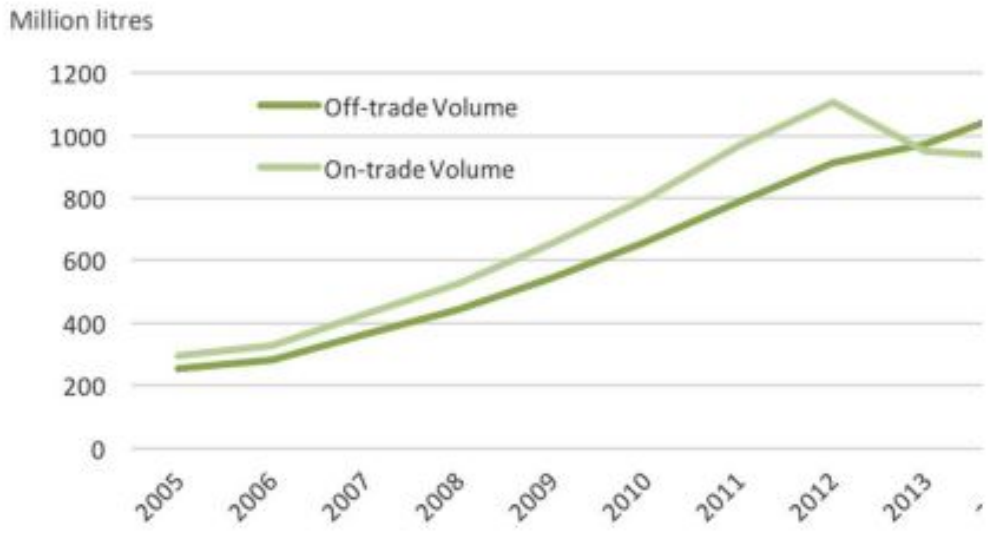

Fig. 11 Wine sales volume: on-trade vs. off-trade

Source: The Wine Value Chain in China, 2017.

Regarding the off-trade e-commerce channel, in 2016 more than 21 million people in China bought wine from on-line stores[35]; it could seem strange that luxurious food items are sold on-line, but Chinese people are now using internet not only for seeking information about the products, but more and more to buy them. Internet is considered in China a reliable source of information, making comparisons, and of buying high-quality products and services. Moreover it is a cost-effective, convenient and trustworthy platform through which wine companies can directly interact with millions of users. The phenomenon started in 2008 (Prowine China) and currently there are more than 700 million of internet users, and more than 659 million users of social media. [36] In the following charts we have a comparison between the store sales and the online

[35] Zhongguowine.com " Wine sales in China is boosted through e-commerce", April 2017.
[36] China Digital Banking, "Overview China Consumption trends" ,Report 2017

sales from 2007 to 2016. China online sales are growing with a fast speed, and this phenomenon is pulling up also the wine sales. Recent researches indicate that Chinese online sales of alcohol beverages will double by 2020 as more consumers look for product information online before buying. When purchasing a wine, the new consumers like to have information on the grape varieties, maturity, the maker, their history, and the production process in order to make an informed decision. [37]

Fig. 12,13 Online Vs Offline Shopping in China

Source: China Digital Banking, "Overview China Consumption trends", Report 2017

Internet users can buy wine through on-line stores but also through social media as WeChat, which became efficient wine stores.

A big part of these data are made by the Chinese Millenials (25-34 years) , which are increasingly using internet for everyday purchasing, and the 50% of whom is buying wine on-line. [38]

Geographically speaking, because of its huge dimension, China can not be simply considered as a single country. The nature and make-up of regional markets is different across China. For instance, it can be divided in tier 1 cities as Beijing, Guangzhou,

[37] China Briefing, " Sales, Import and Manufacture of Alcoholic beverages in China", July 2017, http://www.china-briefing.com/news/2017/07/20/sales-import-manufacture-alcoholic-beverages-china.html
[38] Il Sole 24 ore, "L'e-commerce "porta"per il vino italiano in Cina" , 2016.

Tianjin, Shanghai and Shenzhen, which are big globalized cities, enormously developed, with a huge presence of expatriates, and those where consumer trends emerge most. They have higher incomes, population and a more western life-style. Here wine consumption hold the highest volume, and the same for the imported wine , which account for 53% volume of imported wine sales. (Asia Journal of Management Research)

However, due to the increasing diffusion of foreign brands, first tier cities have begun to show signs of saturation, which has provoked higher operational costs and market competition amongst foreign brands. With the economic growth and changing lifestyles, entering lower tier markets has now become a more practicable alternative for new entrants. Apart from reduced operating costs, lower tier markets also offer first-mover advantage that can help gain greater long-term market success. At this regard we should start mentioning tier 2 cities, as Changsha, Dalian, Fuzhou, Hangzhou, Harbin, Guiyang, Qingdao, etc. Compared to tier 1 cities they are back in development about 4-5 months. However, since the Chinese government focuses on economic development in China's interior and particularly in tier 2 cities, in the next future there will be improved distribution channels and better access to imported products, which develop new market for wine.

In the graphic below we can wee the different per-capita consumption among China's most important cities. Despite the difference in tier-1 cities is visibly high, however several tier-2 and tier-3 cities top in growth terms.

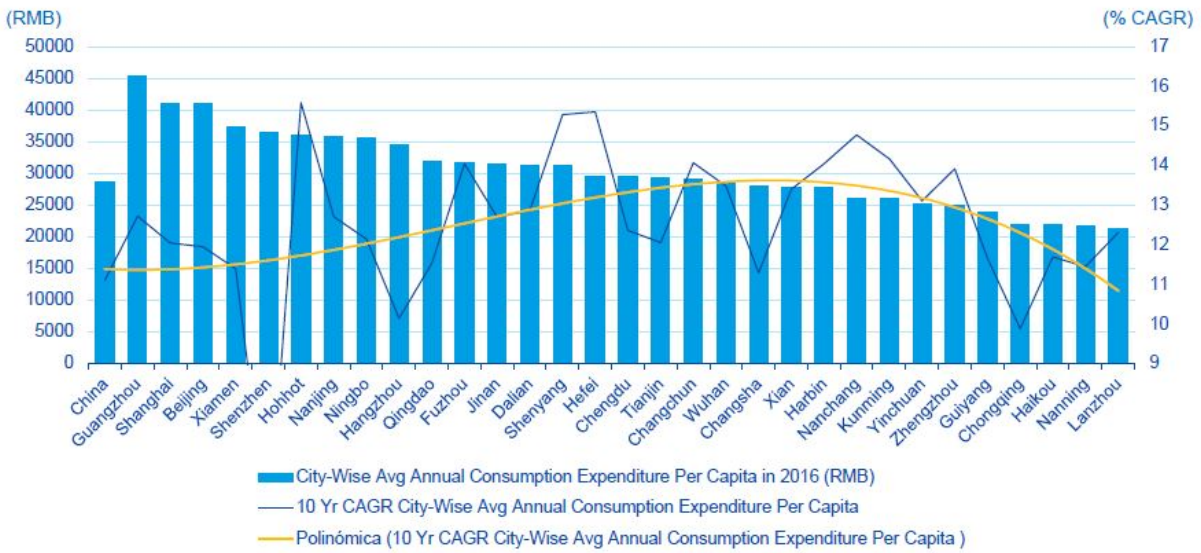

Fig. 14 The per-capita consumption in the Chinese cities (2016) .

Source: China Digital Banking, "Overview China Consumption trends", Report 2017

1.7 The Chinese consumer

Whilst is one of world's most prominent market, however it is also the most complicated one; China wine market is extremely segmented and in continuous evolution, as does its consumers.

In order to fully understand Chinese consumer's characteristics, we have to start by reminding that the great economic development that China is currently facing, started not so many years ago, but with the beginning of the twenty-first century [39]. The recent rise of the middle class, in tandem with the increased disposable income provide the foundation for the development of the Chinese wine market.

Moreover we have to take into consideration the differences between the inhabitants of the different regions of China. Chinese cities are conventionally divided into three different tiers. Economically developed cities as Beijing, Shanghai, Tianjin and Guangzhou, with developed infrastructures and services. Here the wine market is well developed but maybe already saturated. People from these cities benefit of a high level of education, and have a better access to consumption goods. [40] They has already been "educated", and it's aware of brands and the wine characteristics. Then we have second tier cities as Harbin, Changsha, Qingdao, etc. Here we have an incessantly growing economy, and year after year better services. These became the target of many companies, thank to the fact that the market has not been educated yet, and then is not as competitive as the first tier cities market. In tier three cities the scenario is completely different, in these areas competition is almost absent, and the only wine consumed is the Chinese one. Here we have a different economic situation which doesn't permit the consumer to afford the cost of the expensive imported wine. [41]

[39] Daxue consulting, " The new Chinese wine consumers in 2016", June 2016.
[40] The Australian Journal of Agricultural and Resource Economics," The evolution of foreign wine demand in China", 2013.
[41] Barbatelli&Partners, Management consultant, "China Market for Italian wines and Import procedures".

Let's focus now on China's imported wine drinkers, in order to understand who are the principal addressee of the wines we export from Europe. Wine Intelligence in 2014 identified six distinct types of imported wine drinkers, each representing a different relationship with wine.

a) Frugal Occasional: they are infrequent wine drinkers who drink wine mainly to celebrate special occasions; they have a low engagement and they tend to be more prince-sensitive.
b) Health Sippers: Price conscious wine drinkers with a narrow repertoire. They drink wine occasionally for its perceived health benefits.
c) Social Newbies: younger consumers, the Millenials. They just began to learn about wine and see it as an interesting and social drink. They have a good education, belong to wealthy families, and are willing to spend some more for their choices. Attracted by western consumption patterns, they are already the biggest category of imported wine drinkers.
d) Adventurous Connoisseurs: Frequent wine drinkers, confident in their wine knowledge and wiling for high-spending. They have a broad repertoire of source countries, regions, varietals and brands.
e) Prestige- seeking Traditionalists: Conservative, high spending consumers, who particularly favor French wine. They choose imported wine because of the symbolization of prestige and social status.
f) Developing drinkers: Consumers developing a habit of drinking wine because they like the taste: They have a growing interest in wine and begin to see wine important in their life.

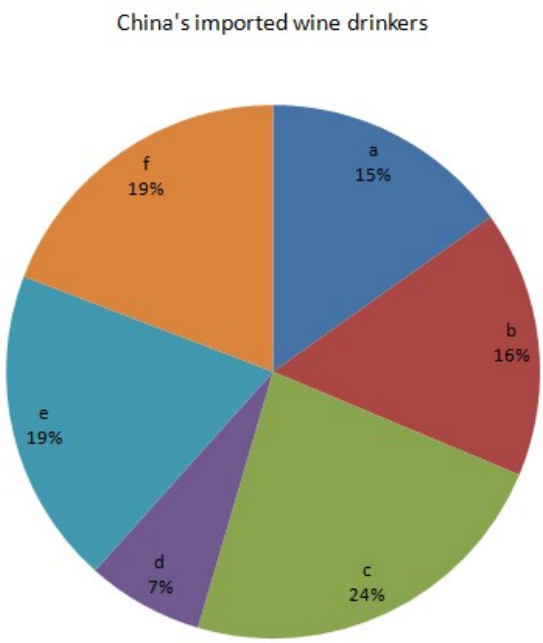

Fig. 15 China's Imported wine drinkers

Source: Wine Intelligence, Vinitrac China, 2014, elaborated by the author.

However China's middle class and consumers are also divided into different generations, the most important of which is the Millenials one.

The Chinese Millenials are the teenagers and people in their early 20s, born after the mid-1980s and raised in a period of relative abundance. Their parents, who experienced years of shortage, are focused primarily on building an economic stability. Many Chinese Millenials were born after the beginning of a new era of economic reform and after China's open door policy. They are confident, independent minded, and determined to display that independence through their consumption. Above all they are the only children in their families because of the China one-child policy. For this reasons they have a private income, with an even higher spending power since they benefit of their own and the parent's income too. He has been educated and exposed to the digital world, that he manage with natural ability. For this reason they are more inclined to check the Internet for other people's previous experiences or comments. This generation is the most Westernized nowadays, they are happy to try new things and prone to prefer expensive products as considered intrinsically better than cheaper ones. These consumers look for emotional

experiences through better taste or higher status, they are loyal to the brand they trust and prefer niche over mass brands (McKinsey Quarterly) .

In terms of brand and type of wine we can see that they have a strong preference for red wine instead of white wine, although the consumption of the latter is gradually increasing in the last years . This is mainly due to the fact that in China the red color stands for happiness, love and luck, and Chinese people are still very traditional.

Regarding the different tastes, the Chinese prefer fruity, softer, less irritating wines. For red wines, the most famous variety is Cabernet Sauvignon. For white wine, the Chardonnay is the best known. Other varieties such as Sauvignon Blanc or Riesling are also highly appreciated by Chinese consumers, and can be found easily in the area.

1.8 Local production and Imported Wine

We have to start by considering the fact that wine production was introduced in China for the first time in 1892, and that at those times the final customers were western citizens living in China. Today Chinese middle class is starting to consume wine not only for special occasion but in their everyday life. The interest in wine is growing and with it the consumption .

Most of the wine consumed and sold in China comes from the local production (80%) . In 2016, China produced 11.4 million hectoliters of grape wine, ranked by OIV the sixth biggest wine producing country in the world[42], and the second country in the world for the largest vineyard, after Spain. China is betting a lot on wine production, on improving quality and creating a Chinese wine reputation. During the last Vinexpo in Bordeaux (2017) , the world's leading wine and spirits exhibition, there were 22 exhibiting wineries coming from China, in particular from the Ningxia province. Despite the restriction of weather and geographical conditions, however the quality of these wines is increasing year by year, and Chinese producers started looking for importers on the international market.[43] Local production have a privileged position in terms of distribution, advertisement and social media channels, but from 2001 on the popularity

[42] The Drink Business, " China's wine production drops for fourth consecutive year" , 2017
[43] WineTimes, "La Cina al Vinexpo, 22 aziende dal Ningxia", 2017
http://www.winetimes.it/wine-times-travel/la-cina-al-vinexpo-22-aziende-dal-ningxia/

and the greater trust toward imported wine made the latter becoming a good competitor.

Since 2001, when China became a member of the World Trade Organization (WTO), the imported wine tariff fell from 65% to 14% (bottled wine) and 20% (bulk wine). Foreign wines began to enter the Chinese market at a fast pace. The import volume increased from 29.23 thousand tons to 383.43 thousand tons from 2001 to 2014 (13.1 times). The import value increased from EUR 18.9 million to EUR 1,209 billion from 2001 to 2014 (63.7 times). In 2013, after the impact of the government's anti-extravagance campaign, both import volume and value decreased, but from 2015 on both back to increase.

In 2016 China imported 6.38 million hectoliters of wine, a year on year increase of 15.28 %. Its import value also grew by 16.38 % year on year to EUR 2 billion. [44] Bottled wine dominates the majority of wine imported taking up 92.8% of the total value imports. In 2016 China imported 4.81 million hectoliters of bottled wine at an average price of EUR 3.87 (ex-cellar) per bottle. [45]

At this point we should analyze the wine pricing in China. According the statistic website Nombeo the cost of a domestic bottle of wine (mid-range wine) is around CNY 70 (EUR 9,00) . [46] Regarding the imported one, the most salable wine products that enter the Chinese market are those mid-range wines, that means , in terms of pricing, those with a price tag from EUR 2,00 to EUR 5,00 (ex-cellar) per bottle. These ex-cellar wines plus the aggregate tax (custom duty, excise tax, value added tax) , after converting to Chinese Yuan, generate a Chinese price cost from CNY 25 to CNY 60 per bottle. Therefore, through 1, 2 or more level of distribution, at reaching the hand of the consumers the end price would be up to CNY 100 and CNY 250 per bottle, that is almost 4 times of the landing cost to China , or 6.7 times to the ex-cellar pricing. Following this pricing structure an EUR 10,00 bottle wine would need to be priced at around CNY 600 per bottle (EUR 67,00) . [47] Chinese consumers who have not such a wide wine

[44] The Drink Business, " China's wine imports up in volume and value in 2016", 2017 https://www.thedrinksbusiness.com/2017/02/chinas-wine-imports-up-in-volume-and-value-in-2016/
[45] I numeri del vino, "Cina, importazioni di vino 2016" http://www.inumeridelvino.it/2017/06/cina-importazioni-di-vino-2016.html
[46] Nombeo.com , https://www.numbeo.com/cost-of-living/country_result.jsp?country=China .
[47] China wine business " Why premium wines not sold in China?", December 2016. https://www.chinawinebusiness.com/single-post/2016/12/15/Why-Premium-Wines-Not-Sold-in-China---A-Distribution-Structure-All-Wine-Merchants-Must-Know

knowledge would not pay that much to buy these wines, worried that these wines are not famous brand or are they fake. While those who have the knowledge and grasp the information channel, they know these wines are over-priced and not worth for the value of money. So due to this difficult market structure, Chinese consumer could hardly enjoy high quality, sophisticated imported wines and international wineries and wine merchants could not benefit from their investment into China.

Total of China's wine import in 2016 :

	Volume(million hectolitre)		**Value (EUR)**		**Average Price (EUR)**	
	Volume	Year-on-year	Value	Year-on-year	AVG Price	Year-on-year
Bottled wines	4.81	21.99%	1.866 billion	17.2%	EUR 3,87	-3.92%
Bulk wines	1.43	-1.49%	95 Million	14.42%	EUR 0,66	16.15%
Sparkling wines	0.12	-0.59%	47 million	-6.14%	EUR 3,83	-5.58%
Total	6.38	15.28%	2 billion	16.38	EUR 3,14	0.95%

Fig. 16 China's wine import in 2016
Source: Decanter.com and Chinese Customs, elaborated by the author.

According to China National Association of Liquor and Spirits Circulation bureau , the total supply ratio of the 2016's domestic wine production and imported wine volume is 70% (Chinese wine) to 30% (imported wine) in the Chinese wine market.

In the chart below we can see two components, the wine local production combined to the imported wine volume from 2004 to 2014.

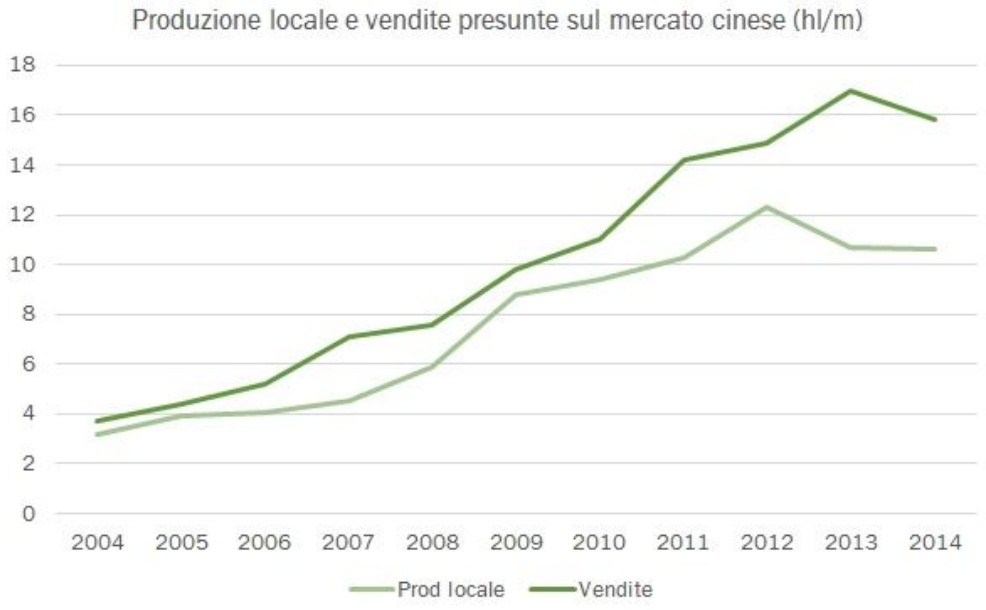

Fig. 17 Local production and imported wine volume from 2004 to 2014
Source: Euromonitor International 2016, elaborated by the author.

In order to analyze the Chinese wine market more in depth let's take a look to the following chart which contain the main player in China's market.

	Volume(million hectolitre)		**Value (EUR)**		**Average Price(EUR)**	
	Volume	Year-on-year	Value	Year-on-year	AVG Price	Year-on-year
France	1.91	14.88%	820 million	11.83%	EUR 4,29	-2.66%
Australia	0.79	40.15%	461 million	23.48%	EUR 5,81	-11.89%
Spain	0.72	32.39%	120 million	26.65%	EUR 1,67	-4.34%
Chile	0.60	23.37%	177 million	23.16%	EUR 2,96	-0.18%

Italy	**0.25**	**14.15%**	**96 million**	**39.17%**	**EUR 3,76**	**21.92%**
USA	0.09	-2.52%	44 million	1.76%	EUR 4,58	4.39%
South Africa	0.09	4.19%	28 million	-9.90%	EUR 3,07	-13.52%
Portugal	0.06	18.22%	15 million	18.80%	EUR 2,37	0.50%
Argentina	0.05	12.25%	19 Million	15.79%	EUR 3,52	3.15%
Germany	0.03	0.23%	13 million	-3.80%	EUR 3,66	4.02%

Fig 18 China's Wine import in 2016

Source : Decanter.com and Chinese customs, elaborated by the author

We can clearly see the country of origin of the imported wine in China. The top five exporting countries are still France, Chile, Australia, Spain and Italy.

French wines take the largest sale volume and the largest sale value of bottled wine in China, with 1.91 million hectoliters of wines worth about EUR 820 million, accounting for 44% of total value of bottled wine imported. [48] The average price for a bottle of French wine is EUR 4.29 , one of the highest among all the countries. French is exporting high quality wines, and aims at amore niche market. For Chinese people, French culture and food bring a good image to French wines and contribute heavily to the sale success (Yu et al., 2009). Australia too is adopting a niche market strategy with an average price for bottle of EUR 5.81. Australian wines registered a 40% increase in volume and 23% increase in value in the last year, mainly due to the reduced import tariffs on Australian wines to 8.4% in 2016, as part of a free trade agreement between the nations (ChAFTA).

Moreover, the Free Trade agreement includes the cancellation of trade tariffs in 2019.

[48] The Drink Business, "China's wine imports up in volume and value in 2016" , 2017 https://www.thedrinksbusiness.com/2017/02/chinas-wine-imports-up-in-volume-and-value-in-2016/

Although the actual impact on costs is still scarce, the agreement has given great confidence to producers, importers and distributors of both countries.

Chilean wine exports to China have been growing over the past 12 years since the two countries signed a Free Trade Agreement in 2005. That saw China removing all tariff on Chilean wines in 2015. Chile has got zero-tariff to enter the Chinese market, however once in China, the wines are still subject to 17% VAT and 10% consumption tax. [49] In 2016 Chile exported EUR 177 million worth of wine to China[50] , with an average price per bottle of EUR 2.96.

The lower-priced Spanish wines find their way in China reaching a different range of consumers. In fact, Spain exported to China 7.2 thousand hectoliters of wine, worth about EUR 120 million. The average price for bottle is EUR 1.67, the lowest compared to the top five ones.

Coming to Italy, which closes the top five, in 2016 and continued in the first semester of 2017, it had the best performance in terms of imported wine value. Italy has exported in China nearly 258 thousand hectoliters of bottled wine (+ 14.15% vs. 2015), recording an important increase in the value of shipments, + 39.17%, up to a total turnover of over 114.2 million euro.[51]

[49] The Drink Business, "China surpasses the Us as Chile's biggest wine export market", 2017 https://www.thedrinksbusiness.com/2017/04/china-surpasses-the-us-as-chiles-biggest-wine-export-market/

[50] Decanter.com, " China is now Chile's most lucrative wine export market", 2017 http://www.decanter.com/wine-news/china-now-chiles-lucrative-wine-export-market-366612/

[51] I numeri del vino, "Esportazioni di vino Italiano –aggiornamento primo semestre 2017", settembre 2017, http://www.inumeridelvino.it/2017/09/esportazioni-di-vino-italiano-aggiornamento-primo-semestre-2017.html

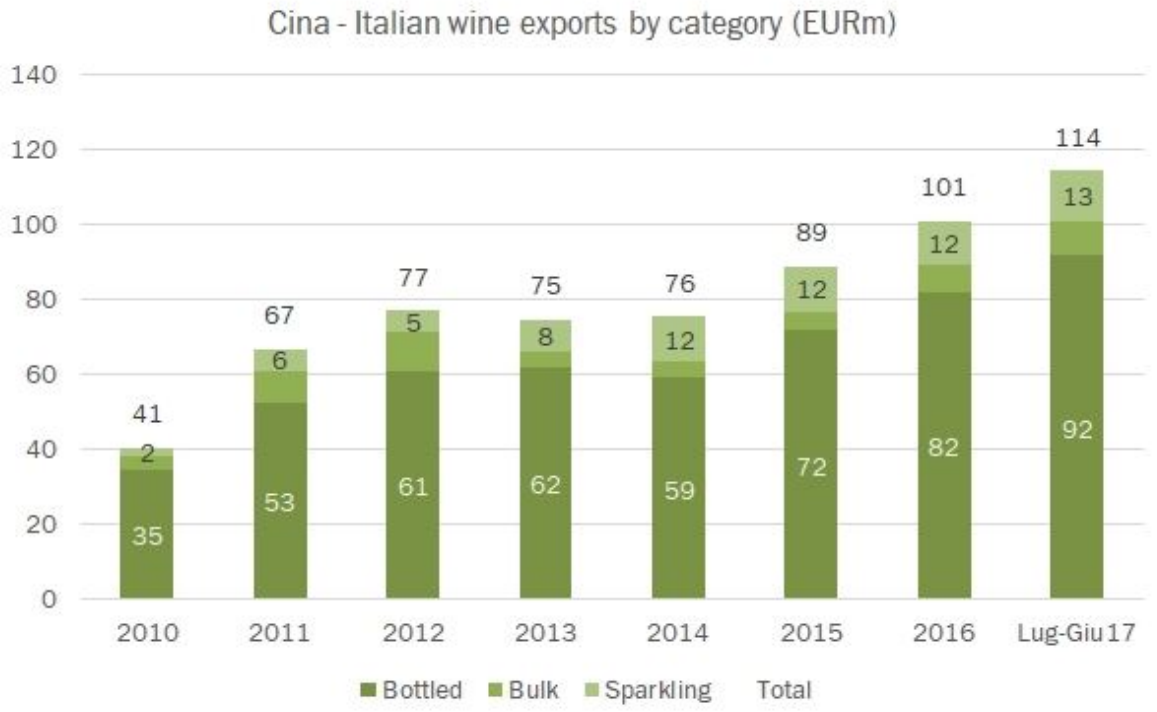

Fig. 19 China-Italian wine exports by category (EURm).
Source: I numeri del vino, 2017.

Our country is the supplier with the best performance in terms of increasing the average sales price per bottle, increased by 21.92% over 2015, up to EUR 3.76, while for the other 4 countries that preceded it was recorded a decrease in the average price per bottle.

Chinese consumers have a good impression of Italian lifestyle and many of them are keen about luxury products from Italy. This should not be surprising given the great attention paid to the Italian vines and the excellent quality of the products. The great value of Italian wines is already established in the United States, where we export three times more than France, three times more than Australia and six times more than Spain in terms of value.

However Italy's position in the Chinese market is still marginal, its market share is about 5.9 % [52] , and the reasons behind this situation are many, starting from the delay of Italy in the Chinese market, which has allowed our French cousins to form the Chinese

[52] China Daily, " Italian wines matures in the Chinese market", 2017
http://www.chinadaily.com.cn/business/2017-09/29/content_32627631.htm

population in terms of wine culture, and to make the wine consumption automatically associated with France for many years.

Moreover, the wakefulness of Italian producers of being cohesive in promoting first and foremost the Italian wine, and just subsequently start to differentiate themselves. These and many others are the reasons that have not allowed the world's first wine producing country to have one of the top three positions within the market with the current fastest development.

The next chapter will focus on a more in-depth analysis of the Italian wine industry, in order to better understand the issues and to outline the possible keys to success for Italian producers who want to break through the Chinese market.

Chapter 2. The Italian Wine Industry

The Italian wine sector is one of the excellence of Made in Italy, it is internationally successful and, due to its ability to produce wealth, is a central part of the national agri-food system. [53] In 2015, Italy was the first producer of wine with a share of 18.2% of the world's total, re-winning the lost title in 2014 in favor of France (17.3% of the total). In the same year, the value of Italian production was valued at 12.9 billion euro.

Since the aim of our study is to highlight Italian firm's export behavior in the Chinese market, we need to investigate some of the characteristics of Italian wine industry and therefore the structure of Italian wine companies in order to bring to light their strategies and their criticalities in entering the Chinese market.

Italy is a country with a wine culture historically rooted , where each region boasts a production of fine wines, perfectly settled in the local culinary tradition. Our social fabric is clearly tied to wine, like a thread that connects several generations.

The linkage between the wine, the territory and the population is very strong and widespread. Some wines are a characteristic element of regional identity, such as Nero d'Avola in Sicily, Barolo in Piedmont, Prosecco in Veneto and Brunello in Tuscany; they became a fundamental part of the social background.

Italy is a country exceptionally suitable for viticulture, however, for better or for worse, from the Middle Ages to today in many areas have changed very little in the way of growing vines and making wine. Italy's productive scenario is made up of thousands of small family businesses, which though had brought Italy to be one of the main players on the international scene.

While maintaining a very traditional background structure, in the last few decades the wine industry has undergone profound changes even in Italy. Among the factors that led to these changes, we can remark the 479/2008 European regulation [54], the already

[53] A. D'Amato," La gestione finanziaria delle imprese vitivinicole. Valutazione degli investimenti e creazione del valore", Giappichelli Editor, 2013.
[54] Regulation (EC) No. Council Regulation (EC) No 479/2008 of 29 April 2008 on the common s organization of the market in wine sector , amending Regulations (EC) 1493/1999, (EC) No. 1782/2003, (EC) No. 1290/2005 and (EC) No. 3/2008 and repealing Regulations (EEC) No. 2392/86 and (EC) No.

mentioned international affirmation of new wine producers and consumers, and the evolution of the country's distribution structure. Following data from the last Census of Italian Agriculture, Italian wineries in 10 years are halved, moving from 791.091 (2000) to 383.645 in 2010. There has been a decreasing of 52% in Italian wineries. However, the area invested in vineyards decreased by only 12%, which means that the average business area has increased by 82%. [55] This means that the small and micro size businesses are disappearing, against a restructuring and strengthening of the national wine sector.

Regarding the offer, thus, there has been a progressive reduction of operators, with a consequent moderate increase in businesses size and a push for greater efficiency. The dynamic of the demand has also contributed to these transitions .

The change of consumer tastes and the emergence of new consumption areas, as China, have triggered different trends, which can be summarized in two macro-phenomena: the reducing of domestic consumption by shifting the demand to quality wines and the growth in exported products share, especially in the mid-high quality brands.

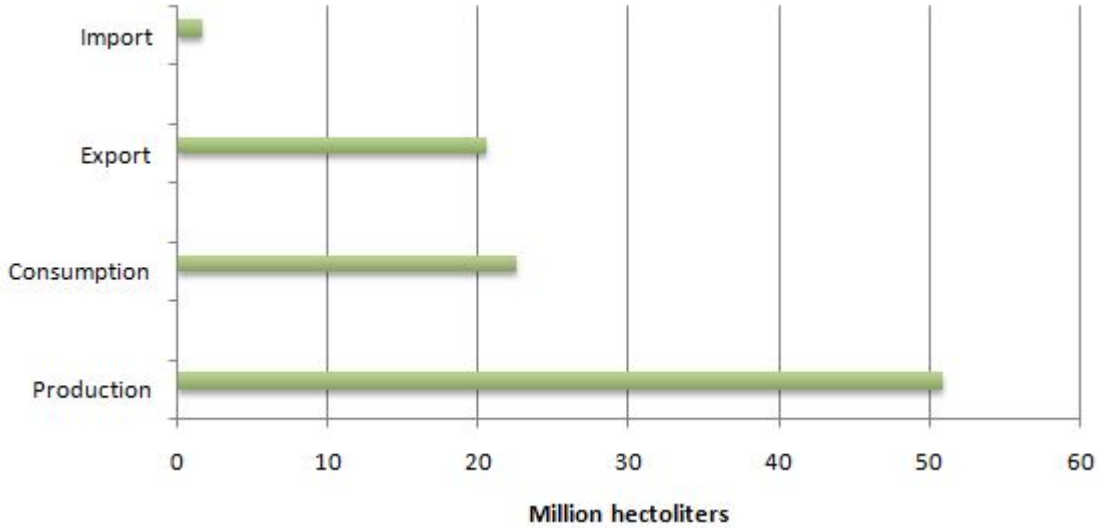

Fig. 20 Italian Wine Market 2016

1493/1999. This Regulation introduces a profound reform of the Common Market Organization (CMO) for wine and aims to ensure the competitiveness and sustainability of the wine sector. It entered into force on 1 August 2008.

[55] I numeri del Vino, "La dimensione media delle aziende vinicole italiane – Censimento ISTAT 2010", 2012 inumeridelvino.it /2012/02/la-dimensione-media-delle-aziende-vinicole-italiane-censimento-istat-2010.html

Source: OIV 2017, elaborated by the author

In the chart above we can see the current situation of the Italian wine market in terms of volume. Only slightly more than a half of the wine produced is for national consumption (22,5 million hectoliters) , while the other half is destined to foreign markets (20,6 million hectoliters) . In Italy wine is also imported (1,7 million hectoliters) but this data saw a dramatic decrease compared to the last year (-38% on 2015) .

In the chart below we can see the progressive increase of Italian wine export in terms of value by category. In 2016 we have the highest historic of Italian wine export with 5582 million euro, up 4.4% over last year. This is a very good result; Italy is second only to France, which is world's biggest wine exporting country in terms of value with 8,232million hectoliters in 2016. And second to Spain in terms of volume of wine exported.

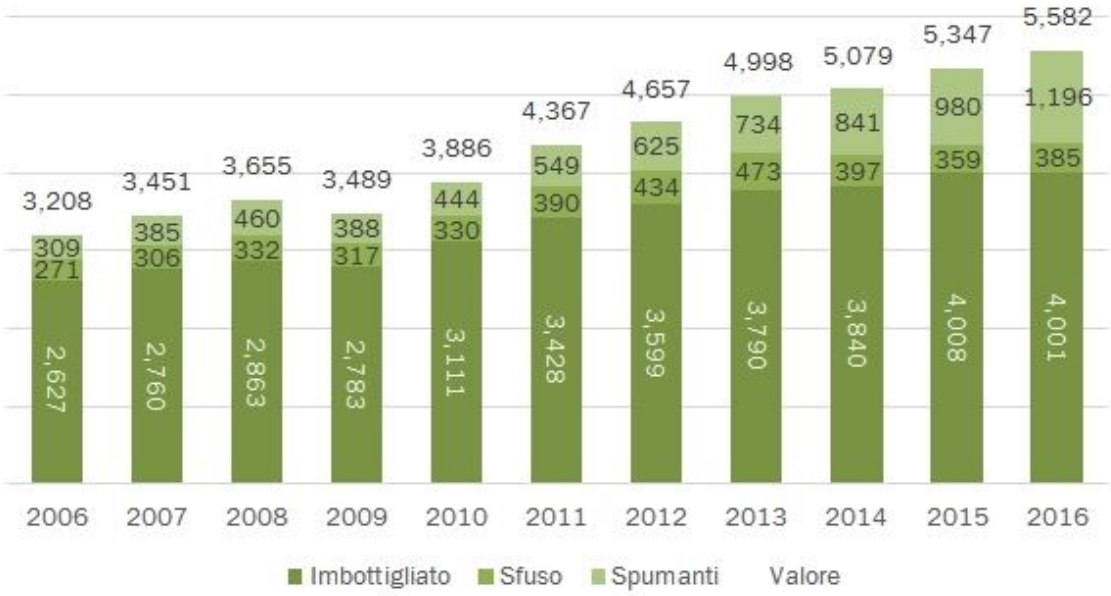

Fig. 21 Italian Wine export in EUR
Source: I numeri del vino, 2016

Before analyzing the Internationalization strategies of Italian wine SMEs let's take a look to the characteristics of these companies.

2.1 Characteristics of Italian wine SMEs

The Italian wine production system is characterized by a strong dualism, on one side we have thousands of small agricultural companies that produce a little quantity of wine, often for their own consumption. On the other side there are companies with high levels of professionalism and a great wine production.

2.1.1 The legal nature of Italian wine SMEs

The majority of the Italian wineries are family owned companies. This is the oldest organizational model of enterprise and recently it became the subject of numerous studies, thus enlarging the literature on this field. In particular I found very interesting an article of C. Gallucci and G. Nave , " Family VS Non Family: Un'analisi sulle performance nel Wine Business" (2011), which investigates the performance of wine businesses and aims to verify the family effect on company performance. Although already emerged that the family presence in the property and in the management can at the same time represent an advantage and a limit, however, the Gallucci and Nave study represent a step forward in this field. The family nature of the business, as anticipated, is certainly one of the factors influencing the way the wine family business is governed: the wine produced by an entrepreneurial family becomes the transmission vehicle of that family's values, symbols, tradition and the territory in which it lives. So, according to this study, in order to exercise the leverage role for creating value a solid family reputation is needed. In this case family become an asset on which to invest.

Generally they are small-sized companies, vertically integrated, engaged both in winemaking, bottling and sales.

Together with the private family owned Italian wineries, there are some shareholding companies as SRL or SPA, economically autonomous or depending on national or international groups. According to a Mediobanca Survey on the 140 major companies producing wine which in 2015 had a turnover up to 25 thousand euro, the 55.9% of the total net asset was family owned. Then there is a strong component of cooperatives and consortiums, engaged in the processing of the members' harvested grapes, production

and selling of the wine, with an ownership of the net asset around 21.3%. [56] In 2016 there were 498 wine cooperatives in Italy, which produced 40% of the total wine national sales. [57] According to the Mediobanca Survey , among the top 16 places in the ranking of wine-making companies for sale, there are 8 cooperatives, which invoiced more than 100 million euro. The leading cellars of turnover are: Cantine Riunite & CIV, Caviro, Mezzacorona, Cavit, Soave, Cevico Group, Collis Veneto Wine Group and La Marca. The main Italian wine cooperatives show a special dynamism abroad, recording higher performances than the average achieved by the entire national wine sector (+ 5.8% vs. + 5.4%). [58]

2.1.2 Firm's dimension

After the legal institution, an important element to analyze is Italian firm's size which is the element from which we can evaluate the productive system of the Italian wine. Dimension is an important concept as it influences the production costs and the economic and structural potentiality due to the economies of scale and the external weight in relation to the power on suppliers, distributors and customers and to the possibility to develop relationships with the actors of wine value network.

According to literature, firms' size is one of the most important factors affecting its performance, and in particular its export performances. As stated by Erramilli and Rao (1993) "*larger firms are supposed to be more efficient because they can benefit from economies of scale to get higher profitability; in addition they have a greater ability to increase resources and absorb risks than smaller one*".

Moreover, as suggested by Calof (1994) "*smaller firms may be more risk averse due to the lack of information, and the relatively higher impact of an international mistake compared to what it would be for larger firms*".

[56] Data based on the Mediobanca Survey "Wine industry", April 2017.
[57] Alleanza delle Cooperative Italiane – Agroalimentare , "Il vino Made in Italy è Made in Cooperativa", 2016
[58] Alleanza delle Cooperative Italiane – Agroalimentare , "Il vino Made in Italy è Made in Cooperativa", 2016

However, recent studies have demonstrated that in the wine sector, firm size and export intensity, as measured by the ratio of exports to sales, are not necessarily adversely correlated (Bonaccorsi, 1992; Calof, 1994; Moen, 1999; Zucchella, 2001). Thus, SMEs are not prevented from being strong exporters; what makes SMEs internationally competitive is a good strategy that compensates for small size and resource constraints (Knight and Cavusgil 1996, Zucchella and Maccarini, 1999).

The Italian wine sector is traditionally characterized by a low unitary dimension of businesses, in terms of vitally and wine-producing areas, and low concentrations. The small size of companies is nothing new in a country where almost all the businesses are small and very small. Although the European policies made an attempt in making the wine sector more efficient and in reducing the gap between the demand and the offer, however it didn't eliminate the substantial parceling of the offer.

2.1.3 Low-end and High-end wines

Closely linked to firm dimension are the concepts of economy of scale and the type of wine produced. According to literature, the wine industry is characterized by economies of scale, however the process for a better concentration and for an increase of the businesses dimension doesn't seem too predicted. We have to consider the fact that in the wine sector the critical success factors are also affected by the type of product the company produces. In fact, while in the low-end wine production the dimensional economies have without doubts a significant weight for the business competitiveness, for the high-end wines even a small scale production allows to reach an optimal economic balance. Those low-end wines , which are not characterized by quality, tradition and *terroir* values, in order to attract the consumer can rely primarily on the price factor. The low level of differentiation can not create an evaluable competitive advantage for the business, therefore the chance to operate with a sufficient business dimension that cut the production costs become the competitive leverage to use.

On the contrary the high-end wines are characterized of a high level of differentiation , whether product intrinsic or due to strategic product branding which allows to gain good prices even when the cost structure is not such efficient. In fact, high quality wines'

reference target is mid-high, made by those consumers who are looking for an experiential consumption, therefore willing to pay higher prices. Those businesses belonging to this range, although having a reduced company dimension can better succeed and benefit of greater chances to survive. Even though there is no global consensus on the criteria to be met in order to describe a quality wine, yet the international/ global market has led to the implementation of a quality grading system based on the mix of "volume and price", which nowadays segmented world's wine market. It is based on a vertical market segmentation according to the "quality/price" ratio, and companies who sells their products abroad must consider this practice.

	Segments	EUR/bott. 0,75 L	Characteristics
Luxury Market	Icon	> 150 EUR	Long-established brand, complexity, aging potential, high scores by critics
Premium Market	Ultra premium	15-150 EUR	Typicality, quality grapes, good complexity, specific characters, origin, image, brand awareness
	Super premium	7-14 EUR	Image, complexity, aging potential , good reviews from critics
	Premium	5-7 EUR	Brand awareness , origin, good structure, character, richness, typicality linked to the grape or to the variety
Mass Market	Popular premium	3-5 EUR	Mix of character and accessibility, recognizable varietal characteristics, origin, brand
	Basic	< 3 EUR	Varietal, fruity, accessible, brand

Fig. 22 The qualitative segments in the global wine market.

Source: A. D'Amato, "La Gestione finanziaria delle imprese vitivinicole. Valutazione degli investimenti e creazione del valore", 2013, elaborated by the author.

The Italian wine industry is characterized by a propensity on producing mid-high quality wines, mainly due to its long term tradition of making wine but also due to the need of facing the new trends of wine consumption. According to the latest data, in 2017 we had 40% for producing 332 of DOC wines (Denomination of Controlled Origin) and the 73 DOCG wines (Denomination of Controlled and Guaranteed Origin) , 40 % of the 118 IGT wines (Geographical Indication) and the remaining 30 % of table wines. [59] Moreover it emerged that cooperatives are much more inclined in producing mid-high quality wines (DOC, DOCG, IGT), while those shareholding companies are more eager in producing high-premium wines.

Italy is the country with the widest variety of wines produced; according to Ismea data there are more than 500 varieties of Italian wine, which is a great treasure, but at the same time it represents an obstacle in communicating it abroad. This big variety confuses the new international consumers which know very little about the Italian wines and the Italian regions. Therefore, marketing techniques should be redefined, going for a more simplification, focusing on the great *terroir* we have, but always accompanied by the brand Italy.

2.1.4 Number of bottles produced

Thanks to a Wine2Wine Survey (2015) made on 412 wineries we can have a clear idea of the dimension in terms of wine bottles produced and the turnover of Italian wine companies.

Only 6.2% of producers claim to have a limited production slightly up to 15,000 bottles per year. About 16% are in the range from 15,001 bottles to 50,000. Over 16% of the producers are positioned with an annually production ranging from 50,001 bottles to

[59] La Stampa, "Italian wine exports enjoy a record-high", 2018 , http://www.lastampa.it/2018/01/03/esteri/lastampa-in-english/italian-wine-exports-enjoy-a-recordhigh-CjOaB6wE9PG0sTPJOjePNN/pagina.html

100,000. Most manufacturers, 27.6% are positioned in the mid range of production, with an amount ranging from 100.001 to 400,000. The percentage of wineries that produce from 400,001 bottles to 1,000,000 drops to 11%, while the amount of producers that exceed one million bottles produced per year is just over 20%.

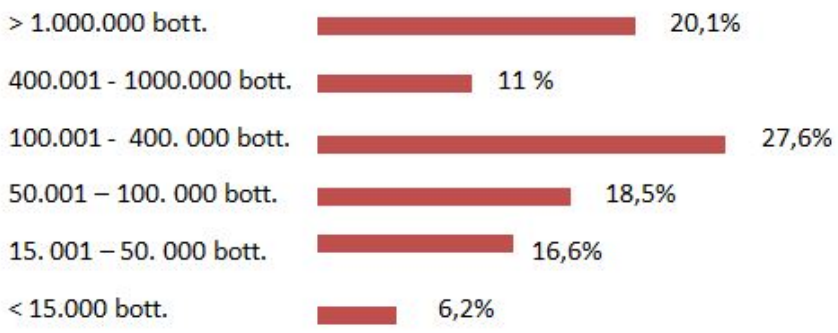

Fig. 23 Number of wine bottles produced by Italian wine companies.

Source: Wine2Wine, Veronafiere 2015.

In terms of turnover, the sample shows the following distribution: 16.6% of wineries declare a turnover of less than EUR 150,000 per year. The largest number of wineries declare turnover among EUR 150.001 and EUR 500.000, while 16.6% of the cellars declare turnover from EUR 500.001 to EUR 1.000.000.

This data leads to the conclusion that 55.8% of the cellars have an annual turnover under one million euro, confirming a relatively small size, and consequently requiring a more complex management of all the control and investment activities that are increasingly demanded by domestic and world wine market.

Only 11.1% of the surveyed companies report sales ranging from 1 million to 2 million, while the 12.5% is in the range of 2 million to 5 million. Finally, the number of companies declaring a turnover of over 5 million euro is just 19.9%.

2.2 Internationalization strategies of Italian Wine SMEs

The globalization of the wine market brought a structural transformation in terms of wine production and consumption all over the world. On one hand it introduced new producing countries, while on the other it caused a decline in wine consumption that affected all those Old World countries, among whom there is also Italy. In all these saturated markets Small and Medium wine companies face strong competition from other domestic wine producers as well as imported wines, thus, for this reason they are increasingly considering new markets.

In analyzing the small and medium-sized Italian wine estates, according to a Resciniti and Fortuna survey (2011) , it emerge that such small businesses, characterized by limited size and limited credit accessibility, among the numerous internationalization strategies have activated the export . [60]

The export strategy is characterized by the concentration of activities in the country of origin while those related to the commercialization of products are internationalized in foreign countries. According to literature we can have direct or indirect export. In the first case the exporting company acts directly without any kind of intermediary firm, usually through the e-commerce channel or by setting up a branch office or subsidiary in the target country. The exporting company sells directly to the customer and this brings a lot of advantages as the total control of pricing, the full understanding of the target market, the buyer's needs and there is no one taking a share of the margin. However this kind of export requires a conspicuous commitment of human resources, time and money.

Then we have the indirect export, which involves the presence of an intermediary, a distribution company, a trading company or an agent, between the exporting company and the final customer. This export strategy include both positive and negative aspects. The main advantage consist in the fact that the exporting company has the chance to

[60] R.Rescinti, D. Fortuna, "Le strategie internazionali delle medie imprese tra standardizzazione e adattamento dell'offerta", 2011.

enjoy the opportunities offered by the market without bearing too expensive investments and making great changes in the internal organizational structure. Among the export strategy, the appointment of a local agent or distributor is the most recurring mode of entry for the SMEs who intend to go internationally; moreover it is also a means to reach International markets that are either risky or not big enough to justify a major investment. It can be also a way to test markets before a greater commitment of resources. The difference between an agent ad a distributor is that the former is a salesperson that takes orders, while the latter is responsible for the logistical, stocking, transporting and billing aspects.

This entry mood is also a fast way to reach the market. Once the exporting company has identified the right agent/ distributor they can immediately start the business. Moreover it involves low political risk, low technological leakage and low managerial complexity.

In the Chinese market mostly there are three categories of agents and distributors, that are domestic companies , government monopolies or large international trading companies.

Although this represent the less demanding strategy, both financially and operationally, however at the same time it is also the most labile; there is in fact no direct relationship with the destination market and with the final customer, which does not allow the company to acquire the adequate knowledge to offer a competitive bid, making the firm exporting weak to its distribution channel and easily replaceable by other companies willing to enter the market. Moreover, there could arise case of conflict of interest when sales reach a certain level; it could be due by the fact that distributors are usually compensated by a commission as a percentage of sales. If sales increase, the remunerative percentage may reach a point that it is higher than the fixed costs required to set up a subsidiary in that market. Thus for this reason between the company and the distributor may arise some disputes that in the most positive cases bring to the agreement of becoming partners, rather than a simple company- distributor relationship.

Since indirect exporting involves fewer financial resources than direct exporting the literature predicts that smaller agri-food firms will prefer the indirect export entry mood. [61]

Export is the most used strategy of Italian wineries since wine production is closely linked to the territory. Only a few large companies adopt strategies as the acquisition of vineyards abroad, such as Antinori in Napa (California) or, to quote a foreign company, the French Château Lafite-Rotschild in Shandong (China). Such strategies have great potential because they allow to exploit the know-how and the brand but having a product that is born in the market where it will be sold. The Château Lafite-Rotschild decision will allow the French company to bypass the entry tax of alcoholic beverages and alcohol into China thus reducing logistical costs. However these strategies require substantial investments and the returns, aside from being uncertain, are in the long run. In the Italian scenario, dominated by small businesses, export is the most affordable and also the less risky one.

Once analyzed the most common entry strategy for Italian wine SMEs and their intrinsic characteristic we will continue studying what are those elements affecting firm's exporting behavior and performances, in order to understand their criticalities.

According to literature , theoretical approaches to the study of the determinants of a firm's export behavior include, on the one hand the RBV theory [62] focused on the study of the keys driving forces in the internationalization process and, on the other hand, the Contingency theory and the Industrial organization theory, which suggest that environmental factors influence the firms' strategies and their export performance. [63] While the RBV theory focus on the internal determinant, that include structural and behavioral aspects that have a potential effect on exporting (resources and capabilities), Contingency theory and Industrial organization theory support the external factors,

[61] Agribusiness International Journal, "The Direct or Indirect Exporting Decision in Agri-food Firms", 2017.
[62] RBV is an approach to achieving competitive advantage that emerged in 1980s and 1990s, after the major works published by Wernerfelt, B. ("The Resource-Based View of the Firm"), Prahalad and Hamel ("The Core Competence of The Corporation"), Barney, J. ("Firm resources and sustained competitive advantage") and others. The supporters of this view argue that organizations should look inside the company to find the sources of competitive advantage instead of looking at competitive environment for it.
[63] International Journal of Wine Business Research, " Determinants of export performance in French wine SMEs", 2007.

linked to the environment in which the firm operates and the industry in which the same firm belongs.

2.3 External factors affecting firm's export performance

2.3.1 The Political framework

There are various elements that influence Italian wine firms exporting performances, first and foremost, the Italian and European political framework where the Italian Ministry of Agricultural , Food and Forestry Policies operates. As stated before, although a high quality production of wine, the Italian wine industry is heavily fragmented and precarious; the great majority of small and very small enterprises, mainly family owned, does not have the means to keep up with the new international standards and carry out an effective exporting action. All these elements added to the fact that in Italy there is a total absence of an export support policy by the Italian Ministry of Agricultural Policies, and a bankruptcy management of the sole existing support export policy which comes from the European Union, the CMO.

To stay at the national level, there are several National Bodies and Institutions that are involved in the process of promotion and exporting agri-food products, such as the Minister of Foreign Affairs (MAE) , the Institute of Agro-Food Development (ISA), the Ministry for the Economic Development (MIIPAF) , the Italian Foreign Trade Institute (ICE), and for the specific case of China, the China-Italy Chamber of Commerce (CICC) . The Ministry of Foreign Affairs has the task of representing and protecting Italy's interests at international level regarding political, economic, social and cultural relations with foreign countries . [64] The Institute of Agro-Food Development (ISA) is a financial company with sole partner in the Ministry of the Agricultural, Food and Forestry Policies (MIPAAF). This financial company is involved in supporting and promoting the development of agro-industrial projects, and, through specific legal instruments, it supports businesses operating in the transformation and commercialization of the agricultural products. In accordance with the provisions of the 2016 Stability Law ,

[64] MAE, http://www.esteri.it/mae/en/

starting from the 1st January 2016, the company is incorporated into the Institute of Services for the Agricultural Food Market (ISMEA) [65].

The National Institute for Foreign Trade is the body that has the task of developing, facilitate and promoting Italian economic and trade relations with foreign countries, paying particular attention to the needs of Italian Small Medium Enterprises, their consortia and groupings. The ICE also deals with the promotion of the agri - food sector in the world that is mainly articulated through organizing and participating in the major international fair events. The participation in these international events occurs through the organization of "Padiglione Italia".

Finally, the Italian Chamber of Commerce in China, an association that brings together several Italian operators including small and medium-sized enterprises, industrial groups, banks, law firms and transport company. The Chamber of Commerce informs members about the trend of the Chinese economy through several publications, organizes meetings with Italian and Chinese personalities and offers support to anyone who requests it.

Regarding the European level, since 2007 when EU member states signed the Treaty of Lisbon , which entered into force on 1 December 2009, the European Union has exclusive competence regarding the exchange and investment policies of the member states. In fact, under the Lisbon Treaty, foreign direct investments became exclusive competence of the EU. This is the reason why the CMO . The introduction of the CMO (Common Market Organization) goes back to 1969; the latest CMO wine reform was adopted by the EU in 2008 and included in the 2013 single common market organization . The wine CMO is also the measure that grants funding and contributions to wine growers. In Italy it operates with annual bids issued by the Ministry of Agriculture and autonomous regions or provinces. It allocates to Italy over € 336 million per year. The resources are directed to the restructuring of vineyards (140 million a year) and investment in the cellar (45 million). More than 100 million are intended to co-finance the costs incurred to promote wine in non-EU markets by participating in fairs and industry events. [66] Thus according to this policy Italian

[65] ISMEA, http://www.ismea.it/istituto-di-servizi-per-il-mercato-agricolo-alimentare
[66] European Commission, Agriculture and Rural development, Wine, https://ec.europa.eu/agriculture/wine_it

wineries can benefit from an European monetary support not higher than 50% of the value of their investment. This support should generate in Italy investments in promotion of Italian wine in non-EU markets for more than 200 million euro. While the Mipaaf Decree nr. 1715 of 20/03/2017 regarding the public funds for the year 2017/2018 has been already issued (with some errors, and it needs to be revised) , Italian wine producing companies are still waiting for the issuing of the 2016/2017 funds, which have never been released.

As we can see there are many actors involved in supporting Italian wineries in their management, production and promotion of wine, both at national and European level; however, Italian wine producers doesn't seem to be satisfied about their behavior. Moreover there is a general dissatisfaction with the national institution lacking support policy.

Regarding the European level, where many things can be done , we can affirm that something is changing. The European Commission is proposing a new trade and investment strategy for the European Union which involves a program of negotiations through bilateral and regional agreements. [67] Trade agreements are when two or more nations agree on the terms of trade between them; they remove or reduce the tariffs and duties that countries impose on imports and exports. The European Union already established many Trade Agreements, for example the EU-Canada Comprehensive Economic and Trade Agreement (CETA) which entered into force on 21st September 2017, or the EU-South Korea Free Trade Agreement (FTA) applied since July 2011. [68] The EU is also negotiating the EU-Japan Economic Partnership Agreement and in July 2017 they reached a an agreement in principle on the main elements. Trade agreements are really important in the new globalized economy; they don't just eliminate tariffs, they also address behind-the-border barriers that impede the flow of goods and services between parties, encourage investment, enhance cooperation, and can address other issues, such as intellectual property, e-commerce and government procurement. They can increase country's productivity and contribute to higher GDP growth by allowing businesses to access to cheaper inputs, introducing new technologies and promoting competition and innovation.

[67] European Commission, "Trade for All- New Eu Trade and Investment Strategy", http://ec.europa.eu/trade/policy/in-focus/new-trade-strategy/
[68] European Commission, Trade.

For all this reasons, stated China's attractiveness as a rapidly growing consumer market, in 2013 the European Commission started debating an agreement with this country. The aim is to provide investors on both sides with predictable, long-term access to the EU and Chinese markets and to protect investors and their investments. Moreover, in 2016 the EU adopted a new strategy on China, the EU-China 2020 Strategic Agenda for Cooperation. The Strategy promotes reciprocity, a level playing field and fair competition across all areas of co-operation. It also includes a trade agenda with a strong focus on improving market access opportunities – including negotiations on a Comprehensive Agreement on Investment.

An bilateral agreement between Europe and China would definitely influence the Italian wine export. If we only take into consideration the final price matter, we can surely affirm that it would be subjected to a strong fall, that would make Chinese consumers more disposed to purchase Italian wine. Unfortunately, under such an hypothetical commercial agreement Italy wouldn't be the sole enjoying lower tariffs, but France and Spain too, which will surely increase competition among the European countries.

2.3.2 The Fragmentation of Italian Wine Industry

The Italian wine production system is characterized by a strong fragmentation of both the vine planted area, the farms, and the way of promoting Italian wine abroad. In the first place there is a fragmentation regarding the structure of the wine companies; as stated before in Italy there is a big amount of family owned wine companies (Individual companies) , as well as Joint-stock companies, Cooperatives, Consortiums, etc. The company dimension is fragmented too. Moreover, in Italy we have many names, born as a "valorization" of our eno-typicalness (terroir), regulation and protection of our products. Unfortunately, to date there is very little clarity, that feeds first of all our greatest competitors as France or Argentina, but also all the "Made in Italy" products. To this we add the separate promotional activities, each focused on promoting their area at the expense of the nearby production area, forgetting that we are talking about products made in Italy before areas and typicalities.

All these elements are reflected on the way the Italian producers promote their wine abroad and therefore on the way the Italian wine is perceived. The impression is that there is no

coordination between the Italian producers. There is no common understanding or idea about how to advertise Italian products on the international market.

Obviously, the wine sector in Italy needs to establish a leading body for the whole system, an organ made up of people dealing with the world of wine, a body of professionals made of producers, technicians, and other figures that revolve around the wine sector, who can redesign the wine system and talk to the institutions by leveraging the real the needs of the industry, to create an identity of wine-making in Italy, to promote it the world, to activate the right tools for monitoring and reporting counterfeiting, a body that can target and analyze concrete markets on which Europe can rely on activating dedicated funds in those countries that can really show interest in activating promotion activities of our products.

2.4 Internal factors affecting firms' exporting performance

In Italy wine business is very oriented to foreign markets and this is not simply a strategic choice but a need, due to the declining trend in the domestic market and the higher opportunities abroad.

Therefore, the challenges that Italian companies are faced with are noteworthy, they must pay attention not only to the quality of the offer, but increasingly to internationalization that will enable them to reach new and larger markets where to place their products.

However, in facing these new duties, Italian industry is in many respects weakened by a small-business structure and a strong fragmentation of supply and brands, making it more difficult for a large-scale unit strategy.

2.4.1 Company's Business Strategy

As in all sectors, wine companies need to define a business strategy in order to obtain a competitive advantage in the local or foreign market. Strategic planning is the decision-

making process that enables a company to develop the best strategic choices in order to obtain a sustainable advantage over competitors. [69] The need to arrange a strategic plan is linked to the growing competition and the constant evolution of the competitive environment, which without a proper strategic approach, would be totally unpredictable; this is even more true and complicated when it comes to achieving success at international level. In other words the purpose of business strategy is to build a competitive business system that leads to economic value creation. The latter is created when the revenues generated by the business are equal or larger than the total cost of doing business. [70]

There are two possible strategic ways that firms operating in the wine business can undertake:

· the Differentiation Strategy (market-driven) ;

· the Cost leadership strategy (product-driven). [71]

According to Porter Competitive Strategy's theory , differentiation involves all strategic decisions that have the aim to distinguish the product from competitors in order to reinforce the value and the income generated by it. It consists in realizing a product with characteristics of uniqueness that has high value for a large number of customers and which differs considerably from competitors. This strategy permit to fix higher prices, increase sales, maintain the customer close to the brand, thus achieving the so called advantage of differentiation. Although the vineries guided by this strategy bear high production costs, however benefits are higher too, starting from prices resistant in time, high perceived quality, identity linked to the terroir, limited production and orientation toward quality. Brands can differentiate themselves through packaging, vine types, the quality of plants and soil and the origin of grapes.

All these elements, except for the soil and the origin of grapes, are not sustainable in the long term and they can easily be imitated by competitors; these strategies of differentiation therefore require continuous attention and improvement. Those wineries that want to reach the exclusivity of the product they will therefore use limited

[69] J.S. Armstrong, Strategic Planning and Forecasting Fundamentals, 1983.
[70] P. Lasserre, Global Strategic Management, Third Edition, " Designing a global strategy", Chapter 2, page 28.
[71] M.Porter, "Competitive Advantage:Creating and Sustaining Superior Performance", 1980.

distribution channels, refusing to introduce the product in the segment of the large organized distribution. For wine producers that undertake this strategic direction, high class restaurants are the main sales channels, especially for high range wines. In this case, the ambition is to not distribute the wine to the greatest number of consumers but to limit it to a narrow circle of customers, which recognizes in such wines the elements of uniqueness and exclusivity in qualitative terms so that they are willing to pay a higher price.

In terms of wine, a differentiation strategy means that the product is able to satisfy not only a material need but also an intellectual one, related to the history, tradition and culture of the country of origin.

On the contrary, through the Cost Leadership Strategy, wine companies work with the lowest costs in the sector and they are less focused on quality. This kind of strategy is principally suited to those markets with price sensitive consumers.

In order to have the maximum efficiency companies must build an advantage based on elements that are difficult to reproduce otherwise they won't be able to create a superiority in the market. Thus, all those large distribution channels are recommended, in order to bring the product to the greatest possible number of customers; moreover by setting very competitive prices they can satisfy more groups of consumers and thus obtain a cost advantage.

Usually those companies who decide to put in place the first strategy issue on the market a limited number of bottles but with the highest quality, fixing prices very high; while companies that choose the second strategy place on the market large quantities with lower quality, at much more contained prices.

Chapter 3. Risks and Opportunities involved in the internationalization process of Wine SMEs

When a company decides for foreign investment, it has to choose the geographical location where to implement the operational assets. This type of decision involves several factors, such as the need to assess country's attractiveness in terms of market /competitive opportunities and risks of operating in that country. In fact, according to literature " *a country will be attractive to foreign investors if in investing in that country, they get a return that is equal or higher than their risk adjusted weighted cost of capital*". [72] Since the foreign investment decision is basically the same as any investment decision, if we apply the precious concept to a business investment, the company needs to evaluate two fundamental questions: 1) if the market and the resource prospects, as well as the competitive conditions in that country are such that given a set of competitive advantages the business can generate an equal or higher return than the cost of capital; 2) if the risks of operating in this country are acceptable for the shareholders and employees.

We could summarize these two questions of foreign investment into the following general framework of opportunities and risks analysis:

[72] P. Lasserre, Global Strategic Management, 3rd Edition, " Assessing Countries'Attractiveness", pag. 174.

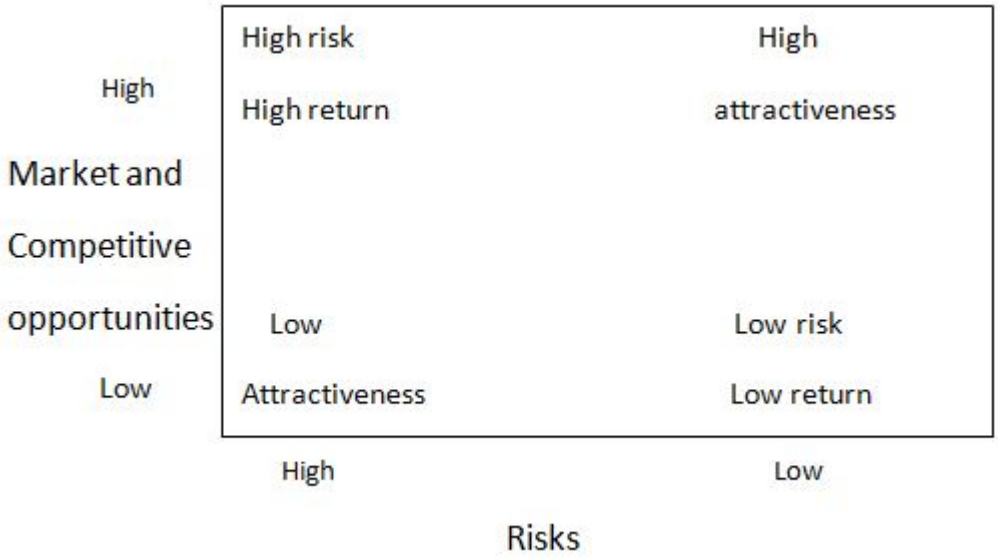

Fig. 24 General Investment Framework.

Source: P. Lasserre , Global Strategic Management, 3rd Edition, elaborated by the author.

The previous figure summarize what actually a foreign investment decision involves, that is the assessment of opportunities/risks trade-off. Thus a country with a high market and competitive opportunities associated to a low potential risk, enjoys of a high attractiveness, and it represents the perfect environment for investment destination. However this ideal market is not so easily to find, then it is necessary to well evaluate country's market and competitive opportunities and it's combined risks in order to determine whether or not the firm will invest in that market.

In assessing country's' opportunities, the company need to consider its market, resources and industry and opportunities, as shown in the chart below.

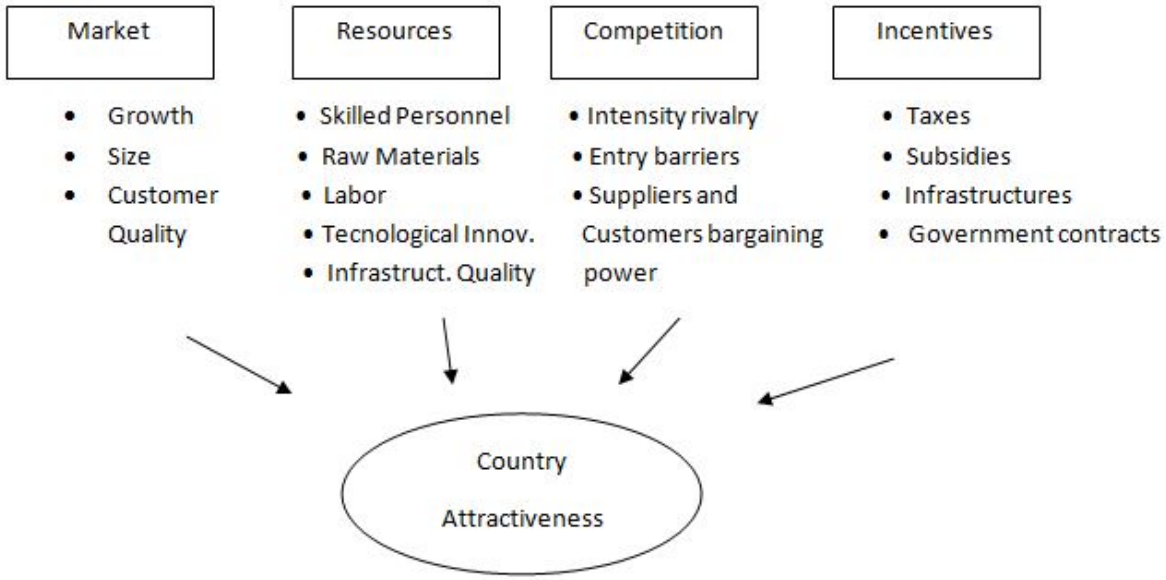

Fig. 25 Framework for country market and industry attractiveness assessment.

Source: P. Lasserre, Global Strategic Management, 3rd edition, elaborated by the author.

In terms of market attractiveness, it is important to assess how important is the demand in this country, thus the potential demand for the products or services of the firm. Moreover Customer quality describes the nature and diversity of market segmentation prevailing in a country, and the profile of the value curve in each segment. Literature generally distinguish between two generic clusters, low-end and high-end.

According to the last statistics, the Chinese economy expanded 6.9 % year-on-year in 2017, beating market expectations of 6.7 % . GDP Annual Growth Rate in China averaged 9.66 % from 1989 until 2017, reaching the record of 15.4 % in the first quarter of 1993 and a record low of 3.8 % in the fourth quarter of 1990. [73]

[73] Trading Economics, " China GDP Annual Growth Rate, https://tradingeconomics.com/china/gdp-growth-annual

Moreover, in the last decade China moved from belonging to the "Emerging countries" segment, characterized by high grow rate and relatively low income per capita, to a "Newly Industrialized Economy (NIEs), characterized by high growth and moderate high wealth. [74]

The countries falling under this category have seen a rapid export-driven economic growth and a consistent migration of workers from rural to urban areas. Regarding customer quality, refer to Chapter 1 where customer segmentation has already been widely discussed.

With respect to market size, as already mentioned in Chapter 2, in the last 10 years China's wine market quadrupled in volume, reaching 2 billion liters. According to some recent researches, in 2017 there were 48 million Chinese " wine lovers". Moreover, according to *China Wine Market* research[75], the number of wine lover will increase to around 70-80 million in 2020. There will be a growing demand for middle-priced wines , whom market is expected to increase by 65%; there will be a decrease on the demand of low-wines by 7%, while high-priced wines demand will increase respectively by 24%.

Concerning the resources item, we need to investigate whether or not the country is a critical source of natural resources, skilled personnel, technological innovation, labor, the quality of infrastructures and support services. According to the World Bank statistics, China is the leader for natural resources, followed by Russia and the United States. Regarding the quality and cost of labor, thus human resources, it belongs to the high level of education and low labor cost cluster, together with India, Russia and Poland. [76]

The competitive analysis is an important tool too, and it has the objective to determine the potential profitability of being present in a country given its industry competitive context and the entry barriers. Professor Michael Portman has suggested that there are five forces that determine the long-term profitability potential of an industry, that are the Intensity of rivalry, the entry barriers, the substitutes, suppliers' bargaining power and buyers' bargaining power. If we try to analyze China's wine industry competitive context using Porter's Five Forces, we could state that in China's first tier cities there is an overcapacity of competitors, thus it is recommendable to consider other locations such as second tier cities.

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[74] The Balance, "What are Newly Industrialized Countries?", 2017 https://www.thebalance.com/what-are-newly-industrialized-countries-nics-1978978

[75] China Wine Market (Zhongguo Wine) is an information website about the wine market in China. http://www.zhongguo-wine.com/

[76] P. Lasserre, Global Strategic Management, 3rd edition, " Assessing country attractiveness", page186.

There is a high intensity of competitive rivalry with the presence of many foreign and local wine producing companies. There are not many substitute products and services for this type of industry, thus it can result in new player joining the wine industry in China. Customer possess a very high bargaining power, due to the intensive competition. In other words, it is very easy for consumers to change the brand they are consuming, thus companies are forced to offer additional benefits in order to increase the levels of customer loyalty.

After having analyzed China's wine market opportunities we can now move to the other fundamental element involved in foreign investment, that is risk.

Profits and risks are in fact complementary dimensions and are both related to the company's business. Profit can be seen as a goal of the company, of the entrepreneur or of the capitalists. Profit is to be achieved, along with other objectives such as business development. The company could bear costs that in the short term make profits decrease, but increase it over the long term. For this reason it is recommended to avoid choices that give good results in the short term but involve greater risks or detract the attention from other objectives such as corporate growth. The risk, in fact, represents the other side of the coin. It comes from uncertainty. The business activity consists in investing a certain amount of capital in the purchase of productive factors, at a certain price, in the hypothesis of reselling the finished product obtaining a realizable value, which is greater than the capital invested. The company bears certain costs in anticipation of uncertain revenues. The risk is therefore the possibility that the realizable value is lower than the invested capital.
After having briefly defined what the risk and profit concepts represent for a company, we will now see how these two fundamentals are placed within the Italian wineries.

The Italian wine industry, and in particular most of the Italian wine SMEs since the beginning of the 2000s have been facing a severe crisis , due mostly to the decrease of the internal demand, which have weakened their financial health. Thus, in this new context of intensive international competition the development and the improvement of the export practices and performances seemed to be the strategy to both improve the national and international position , and to create new sources of revenue in order to restore their financial health. Export became a very important part of the Italian system, giving to the Italian wine a significant importance in international markets. In fact, in 2017 Italian wine export increased

by 7%, while sales totaled 6 billion euro. [77]

Even though exporting is an entry mode to foreign markets which involve little investment and the minimal business risk , however, in the wine industry in particular there are number of additional risks and costs that influence SMEs performances in a given country. When taking the decision to export wine, there are many aspects that must be decided by the local producer. After evaluating the market potential of the target country, the company has to consider the different types of risks involved with export practices to particular territories. At this point the company needs to put into effect a risk management system which can manage the risks associated with both the domestic and export markets. [78]In order to comprehend risks and put into practice risk management strategies, during this chapter we will introduce the areas of export risk that need to be evaluated. Underestimating risks or not putting into effect suitable strategies to minimize corporate risk could have a harmful effect on the performance and profitability of the company. On the contrary, being aware of the risks associated with exporting to a particular country is, therefore, an important factor, as it could determine how the company will mitigate against these risks. This also has a connection with the level of market penetration and profitability that can be achieved in a particular target export market. In fact, the level of risk is strongly linked to the degree of penetration the company put in effect, thus it depends on whether the company carries out a continuative export or it is just an occasional exporter.

3.1 Occasional VS Regular Exporters

As already stated, the effectiveness of the export practices are closely linked to the type of strategy adopted, the degree of market penetration, the type of product offered, and the type of commitment that we are willing to assume. It is useful to mention that exporting products in Asian countries, especially in China, requires a substantial commitment, in terms

[77] La Stampa, "Italian wine exports enjoy a record-high", 2018, http://www.lastampa.it/2018/01/03/esteri/lastampa-in-english/italian-wine-exports-enjoy-a-recordhigh-CjOaB6wE9PG0sTPJOjePNN/pagina.html

[78] "Export Risk & Management", Marketing Consultancy Division, Export Consultancy Unit, Export Bulletin Nr. 6.

of human resources, market studies, willingness to understand and go against a culture that is far distant and totally different from their own, desire to get involved in a constant way.

At this regard, before focusing on the type of risks that may occur when dealing with export practices, we will first proceed by segmenting the Italian wine producers according to their export engagement in the Chinese market in two different clusters, those that conduct a continuative and stable export and those that occasionally sell their product on the Chinese market.

The reason that stands behind this segmentation is that different type of export engagement involve different measures of investment and at the same time different grade of risks.

Regular exporters are the highly efficient firms that invest enough capital to serve the domestic and foreign markets. Occasional exporters are less efficient, smaller firms whose export decision varies with the state of the internal demand. When domestic demand is relatively low, these firms products are in surplus so they become interested in foreign opportunities.

Let's first take in consideration those wine producing companies that occasionally conduct businesses with Chinese partners. Among them we find a cluster of small companies with a small production capacity, that can not serve a wide range of markets, thus they give priority to the domestic demand that is less costly to access. Secondly there are also medium-large companies that have a higher production capacity but prefer to focus their attention to more traditional markets as the European and the American ones.

It is very likely that their knowledge of the Chinese market is vague, they know for sure that it is a market in strong development and that there can be high margins of profit, thus for this reason when they have the opportunity they take advantage of it. These companies do not focus much on the Chinese market thus their investment is null or very limited. Since they do not have a long term strategy their risk on this market is very low and with that also profits are not expected to be too much conspicuous.

They did not invest a lot in finding and building a stable relationship with the most suitable importer or distributor; they probably do not help him in gaining trust and loyalty from the Chinese consumers. They do not participate at wine promotional or fair events. Since their

presence on the Chinese market is highly marginal thus their future opportunities are limited too.

On the other side when talking about wine producing companies that regularly export wine in the Chinese market we refer to companies that have started with a strategy that not only responds to current circumstances, but will have greater developments during the long term. Probably they already gain large experience on world's major wine markets as US and Europe, thus, in view of what the Chinese wine market will be in the next five years, they started implementing an export strategy focused on China. They invested capital in studying the market, the consumers, the demand and finally the competitors. They spent time in looking for the most suitable importer or distributor, and then in building with them a stable relationship made by mutual engagement in realizing brand awareness and gaining consumers trust and loyalty. These companies are directly present on the Chinese market participating at wine events and fairs, accompanying the Chinese partner in order to better explain company's history, tradition and inner characteristics. Probably their current profits are not so consistent, probably they sometimes struggle for being competitive in this market, however they will see their efforts rewarded in the future.

3.2 Risks arising from Export activities

At this point, in order to start analyzing the risk factors, we will go on with a brief description of the problems that may arise and which will need to be addressed in the main risk groups associated with exporting.

An exporting company may face country or political risks; this implies the danger that some government action could interfere with the export/import practices in some way, which could take several forms, including loss of property, market share, ability to operate etc. This is prevalent in those countries that may experience major political instability, which could result in defaults on payments, exchange transfer blockages, nationalization or confiscation of property. Various organizations monitor the effects of political changes on businesses and a list of websites can assist in keeping abreast of any changes in this area.

In our specific case of China the chance of nationalization of industries have to be considered (this has already happened in China in 1949). Likewise, there are risks of confiscation, expropriation, currency inconvertibility and contract repudiation. [79] All these elements could be originated by the only real risk existing in China, that is the constant battle between the country's central government and the provincial and local governments over applicable law , and observance or non-observance of it. This makes it difficult for companies operating in China to know exactly what the rules are. [80]

It could also face legal risks, that are differences in local laws among overseas countries, which may have an impact in areas such as import procedures, taxation, employment practices, currency dealings, property rights, the protection of intellectual property, agency/distributorship and other related subjects. Obtaining advice from reliable legal practitioners in the target countries concerned is, therefore, important in order to understand the legal obligations for the company, before it starts to export its products to that country.

In selling into the vast Chinese market there are some crucial issues the wine producer will encounter. Most of the sales starts through arrangements with Chinese Importers or Distributors , so the first thing is to settle down a clear and complete business contract. Flows of liabilities, and in fact the business deal itself, are controlled by the contract between the parties. Care should be taken in understanding contract law of the country where one will be conducting business.

A central element in exporting products in China is the threat that they may suffer from counterfeiting , as happened some year ago to the refined French Winery " Chateau Lafite" when in the Chinese market they were found bottles with counterfeit labels. [81] In fact, although China is part of the World Trade Organization (WTO), this does not mean that the Designation of Origin automatically benefit protection in its territory, as it should be under the International Agreement (TRIPS). Indeed, in the past, it has already been seen that the

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[79] Georgine K. Fogel, Lawrence Technological University, "Business Environment In China: Economic, Political and Cultural Factors", 2010.
[80] China Risk Management, http://www.chinariskmanagement.com/Political.html
[81] Vinit, " La contraffazione cinese colpisce I Grands Cru francesi" , http://www.vinit.net/vini/Le_Mie_Degustazioni/La_contraffazione_cinese_colpisce_i_Grands_Crus_francesi_8372.html

United States, even though they were part of that international agreement for much longer than China, did not protect European Designations, exploiting some "flaws" of such agreements . This made it possible to sell the Chianti of California legitimately for several decades, until the European Union has concluded a special agreement with the United States on this matter.

On the other hand, there is currently no international agreement between the Union and China on the protection of designations of origin, a matter which obviously concerns essentially European producers. Given the situation, the only tool available to them is the protection of trademarks, in some way recognized in China. However, a significant thing need to not be neglected: our writing system differs totally from the Chinese, which creates a lot of difficulties. We can think of protecting a trademark in Europe with our characters in China, but perhaps that's not enough, as consumers in that country might not even recognize it. Then it is also conceivable to protect the translation into Chinese, but the transition between the two languages is rather complex. Registering a European brand in China will therefore prevent others from coming to that country. However, it is not enough to simply register: after that the market must be monitored in order to react to their possible usurpations.

It is allowed the registration of any visible mark, including a word, a drawing, a letter, a number, a three-dimensional object (3D) or a combination of colors or a combination of the aforementioned elements, provided that this enables the goods of a specific subject (natural person, legal entity or other type of organization) to be distinguished. The duration of a registered trademark is 10 years, starting from the moment in which the relative registration is approved. [82]

After listing some general risks that may arise in export activities with China, we will now focus on those that may influence company's financial health.

[82] E. M. Appiano, "La protezione in Cina di marchi e denominazioni di origine", Wineacts.it , http://www.wineacts.it/contattaci/13-appiano/commercio/627-la-protezione-in-cina-di-marchi-e-denominazioni-di-origine.html

According to literature, each investment involve some grade of risk; in finance risk refers to the degree of uncertainty and/or the potential financial loss derived from an investment decision. [83]

In this chapter our aim is to analyze those risks correlated to the investments related to enlarge company's market share in the Chinese market and to gain profitability.

3.3 A challenge within the wine industry

Wine industry is characterized by elevated added value, higher compared to other sectors. [84] The quality of the final product, in fact, is the result of many variables that include the choice of the right wine grape variety for that particular location, soil, climate, timing, together with the right entrepreneurial management. Moreover the globalization of the markets, the evidences in climate changing and the entering of new competitors, had led to an increase of the frequency and intensity of risks associated with wine production, commercialization and internationalization practices . Thus wine producers have to cope with all these new risks that may provoke losing a part or the complete production in very short time, changing in prices, costs of production, revenues and profits.

In winemaking enterprises finance plays a peculiar role in the light of the characteristics of the business. The seasonal trend that distinguishes the production of these companies and the consequent misalignment between the exits and the monetary income increases their financial needs, which is even more dilated when the winery is engaged in the production of wines for aging. Naturally, the complexity of company financial management is accentuated when it also carries out the wine-growing phase, in consideration of the financial commitment, the dynamics of the cash flows and the long payback times of the investment. From this point of view, the financial management of wine-producing enterprises is critical both for the effective governance of financial diameters, and in the assessment phase of the convenience and financial feasibility of business investments. From the first point of view,

[83] The Journal of Finance, " Risk Management: Coordinating Corporate Investment and Financing Policies", 1993, http://onlinelibrary.wiley.com/doi/10.1111/j.1540-6261.1993.tb05123.x/full
[84] Seccia, Santeramo, Nardone , " Risk management in wine industry: A review of literature", Department of Agricultural, Food and Environmental Sciences, University of Foggia, 2016 .

the main problem is related to the harmonization of outgoing and incoming flows, through various measures that act, on the one hand, on the attenuation of the effects of seasonality and, on the other, on the articulation of a structure sources adequate to restore a balance between outputs and income.

In terms of investment valuation, the multiplicity of productive and organizational solutions of the wine-growing activity introduces significant areas of complexity, which do not allow the business to be treated as a distinct set of initiatives shared by the product. In fact, the characteristics of investments, from the financial commitment point of view ,such as temporal extension, risk, etc., tend to vary with the transition from the production of table wines to that of quality wines, from the production of ready-made to consumption wines to that of aged wines, from the exercise of the only wine-growing activity to the wine-making one. The change in international competition, characterized by the emergence of new competitors from contexts where the wine business is subjected to minor regulatory constraints and finds greater convenience in carrying out, requires a rethinking of the size of the plants, especially for the production of not high quality. The small size of the companies, characteristic of the Italian wine sector, is in fact a weak point because it affects the levels of efficiency achievable in production and influences the degree of negotiable power that can be exercised. We will now analyze the various stages of the wine production chain, in order to better understand the risks involved in wine production. From a general point of view, the technical cycle of companies opens with the use of the raw material and closes with obtaining the finished product. These cycles have an annual cadence and variable duration, as long as the wine needs or does not need to be aged. In general it opens between September and December, with the harvesting and conferment of the grapes, and closes between March and April of the following year, with the end of the vinification phase. For wines that do not require further processing phases, from April onwards the bottling and the commercialization phase can begin, while for the other wines, the technical cycle continues until the moment when the product is considered ready for the sale. The economic cycle describes the sequence of operations, of economic importance, that accompany the technical cycle. In particular, this cycle is defined by the initial sustaining of a cost for the acquisition of inputs and the subsequent realization of revenues against the sale of the finished product. The monetary cycle, on the other hand, refers to the manifestation of exits

and receipts against the acquisition of inputs and the sale of outputs. Naturally these cycles are found variously intertwined due to the usual diversity of their duration. Undoubtedly the extent of the technical cycle influences that of the other two: the duration of the production process influences the moment in which it is possible to commercialize the product and, consequently, the realization of the revenues and the consequent income. Because of its characteristic of seasonality it produces different economic and monetary effects. The wine production cycle, in fact, being unique in the year, concentrates the most relevant activities in a rather short period of time, lasting a few months between August and December. For this reason, the company is having to manage strong outputs of resources concentrated in a limited period of time. To this cost trend the company contrasts a flow of revenues distributed fairly over the year, for the sale of the wines of the previous harvests and of the wines of the year already marketable before the end of the year.

3.4 Risk Management in wine producing companies

After having analyzed the various stages of the wine production chain, we need to introduce the concept of Risk Management, a matter where finance is totally involved. From a general point of view, the Risk Management can be defined as the process aimed at identifying, measuring and treating business risks. The variability and the variety of the context conditions and the operating conditions of the company need approaches aimed at identifying the possible events that may occur and the consequent predisposition of containment measures. In this framework, we can distinguish different categories of risks to which the company is subjected.

According to the literature we can distinguish between: Strategic Risks, deriving from the institutional / political environment, from the management of the relationship with the customers, from the competitive pressure and from technological evolutions. Operational Risks, related to the production activity.
Financial risks, divided into price risks (changes in interest rates, exchange rates or prices of financial assets), counterparty risks (possible customer insolvency) and liquidity risks

(difficulty of the company to meet its obligations). Finally we have compliance risks. This category includes risks deriving from non-compliance of company behavior with laws (fiscal, accounting, environmental, etc.) and regulations in force(accounting standards, stock exchange regulations, etc.) . [85]

From an economic point of view, these risks have an impact on costs and revenues size, through the variation of the basic variables that define company's functioning (quantities sold, sales prices, procurement consortiums, plant productivity, etc.).

In companies operating in the wine sector, the above categories of risks differ significantly according to the activity carried out by the company. Under equal conditions, in fact, they must face not only the risks involved in the wine-making activity, but also those related to the vine-growing activity.

In this dissertation we will mainly focus on the Operative and Financial risks, the ones that better involve the internationalization process.

Among the Operative risks, the most emblematic one is the climatic risk. Grapevines are a crop grown in distinct climate regimes that provide the ideal conditions to produce high-quality grapes . However, such a close association with the climate makes the crop very sensitive to fluctuations in weather conditions. [86] Thus, impacts of climate changes are reflected on yield and on the quality of grapes and wine, which arise consequences on prices, costs of production, revenues and profits of growers and winemakers. [87] An economic analysis realized by Folwell et al. consider two kinds of risks, production (operative) and market risks. The production risk has been related to the unexpected lower yields caused by less fruit buds flowering as a consequence of low temperatures in wintertime. While the market risk has been considered with reference to the price fluctuations as result of changes in the market supply and demand. This study realized a simulation model which includes both types of risks taking into account the costs of production and prices by combination of weather effects on yields. The results of the study shows that climate events and market

[85] K. Sadgrove, " The complete guide to business risk management", 2005, p. 18.
[86] Seccia, Santeramo, Nardone , " Risk management in wine industry: A review of literature", Department of Agricultural, Food and Environmental Sciences, University of Foggia, 2016 .
[87] G.V. Jones, L.B. Webb, "Climate change, viticulture and wine: challenges and opportunities", Journal of Wine Research, 2010.

unpredictability affect considerable revenue variability for winegrowers because of the volatile costs and yields.

At this point, in order to better clarify the just mentioned theory, we can use the 2017 vintage which is a good example of lower yields due to the climate changing. In fact, this year the combination of the devastating spring frost and the extreme heat wave nicknamed "Lucifer" , curtailed the 2017 wine harvest size in several regions of Italy. *Assoenologi* estimated that Italy saw one of its smallest wine harvest for 60 years. It looks like, for all varieties, the grapes are smaller than usual, and the first harvested vineyards are making highly concentrated juice, which shows a lot of balance and qualities. Thus, according to some Italian producers forecasts, for the 2017 vintage we are going to have small amounts of opulent wines. [88] This event influences a lot the decisions that wine-makers are required to face with. According to the general secretary of the Italian Wine Union (UIV) , Paolo Castelletti, the lower wine production will correspond to an increase of costs and wine prices. However, he clarifies, this price increase will not necessary fall on the final consumer, at least for the low-end wines segment. This because low-end wines customers probably may not understand the changing price, since they are not enough sophisticated and inclined to spend more money than the year before. On the contrary, prices increase can fall on the final consumer when taking into consideration high-end wines, that have a more refined and cultured consumer, that may have knowledge about the changing climate, that may have higher spending power and can better understand the price appreciation. [89] Therefore, in the case of low-end wines , the increased costs and wine prices will be distributed on the part of the supply chain preceding the final consumer, that includes the wine producing company, the importer and the distributing segment.

This represents an objective risk for wine making companies that will bear high costs in the production and commercialization phases, without increasing the wine prices to keep intact consumers loyalty. Moreover it represents a risk for importers and distributors that will see their revenues lower than the year before.

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[88] Decanter, "Italy faces one of the smallest wine harvest for 60 years", 2017 , http://www.decanter.com/wine-news/italy-wine-harvest-2017-smallest-60-years-375270/
[89] Adnkronos, " Vendemmia scarsa pesa su prezzo vino?", 2017, http://www.adnkronos.com/fatti/cronaca/2017/09/10/vendemmia-scarsa-pesa-prezzo-vino_x3g7zcXWpdButmeG1JyamM.html?refresh_ce

In fact, many times the exporting wine company when sending the wine price list doesn't know yet how the market will change in the future, moreover it has to keep the prices competitive in order to conclude the business. Thus, this is a crucial point that must be well evaluated by the producing company, furthermore if it has a long term strategy in a certain market.

The second type of risk that results to be crucial in exporting businesses is the so called financial risk, that is the type of risk that involves financial loss to firms. It generally arises because of instability and losses in the financial market caused by movements in stock prices, currencies, interest rates, etc. But it also includes risks that are caused by the not fulfillment of obligations by the other party.

Financial risk can be classified in various types: we can have price risks (or market risks) , counterparty risks and liquidity risks.

Prices variations are the most familiar risks in commodities, because certain commodity industries have high volatility and high price risk. Since changes in commodity prices can reduce producer's margin and make budgeting difficult, thus producers, manufacturers and consumers are all affected by changes in prices. Prices are based on the supply and demand of a market. Despite it is impossible to predict exactly which way a price will move in the future, however, by using historical data and trend watching, the risk of unexpected price movements can be reduced. Moreover, parties can agree on futures contracts to make sure they buy or sell their products at an acceptable price.

In general we can state that international activity and the development of companies helps in reducing risk; diversification is one of the greater benefits of exporting. If we assume that the domestic market is saturated, in case of non exporting company , its sales and profits will fall. While if they have diversified their sales abroad they increased the probability of survival. [90] Thus for wine producing companies that regularly export in more countries, price risk is easier to be reduced, because they will probably have losses on some areas but still high profit margins in some other.

[90] C. Maurel, " Financial approach to export performance in French wine SMEs", 4th International Conference of the Academy of Wine Business Research, Siena, 2008.

Among the price risk cluster we find also the foreign exchange risk, which is a risk factor that is often overlooked by small and medium-sized enterprises (SMEs) that wish to enter, grow, and succeed in the global marketplace. It exists when financial transactions are denominated in a currency other than that of the base currency of the company. It also exists when the foreign subsidiary of a company have financial statements in a currency other than the reporting currency of the consolidated entity. The risks consist in a disadvantageous movement in the exchange rate of the denomination currency related to the base currency before the date when the transaction is ended. [91]

The exchange risk, which basically represents the sensitivity of the economic-financial flows of the company to the trend exchange rates. The deferral of payments and of collections, combined with the volatility typical of the markets evaluates uncertainty about the progress of the turnover and / or company costs. So the risk of change is the most known and obvious. An exporting company, if it is invoiced in a foreign currency, is likely to cash out less than expected if the exchange rate goes down. Or an importing company risks pay for supplies more than expected if the exchange salt. Both risks may co-exist when the company imports raw materials and exports the products finished. Even if the company invoices all the amount in its own currency, it may still have a risk of "indirect" exchange if its customers abroad can not anymore afford to buy or if their foreign suppliers have no longer a convenience to sell due to exchange rate fluctuations.

Both exporters and importers are faced with currency risks when dealing with China, and the devaluation of the Renminbi in August 2015 shows how volatile things can be. In China, the official exchange rate of the Yuan (Renminbi) to the US dollar is daily fixed by the PBOC, the Central Bank of the country, leaving the markets free to flow in an oscillation band of +/- 2% compared to the exchange rate fixed. In August 2015 in three moves the Chinese central bank cut the exchange rate by 4.6%, surprising the markets that were expecting an intervention on the oscillation band of +/- 2%.

[91] "Market Entry Strategies in Light of Internationalization of Enterprises", The wine value chain in China, 2017.

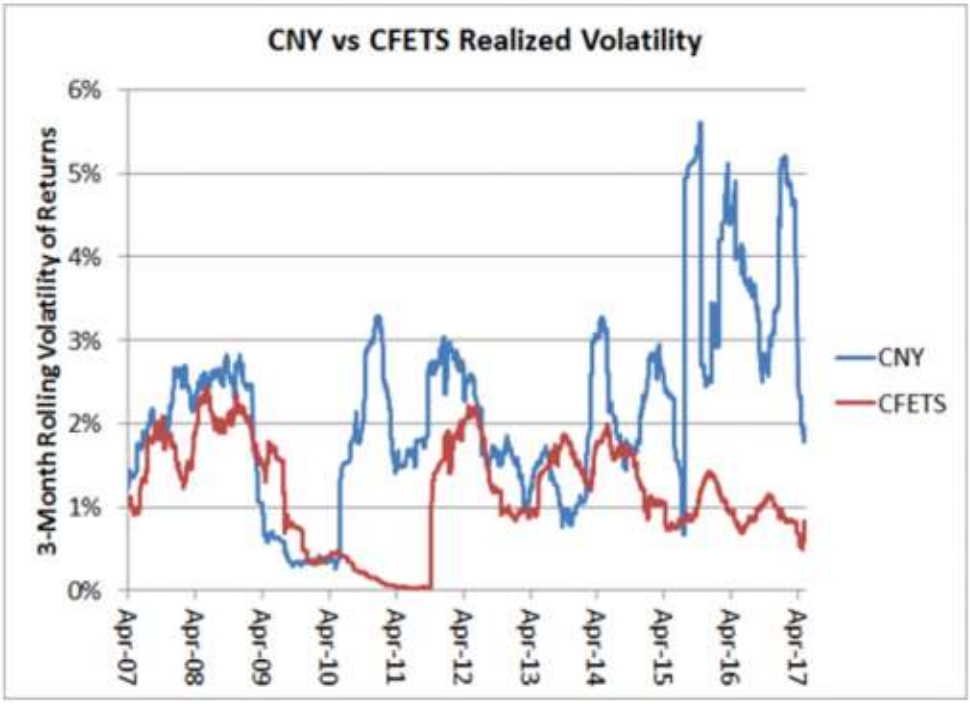

Fig. 26 CNY vs CFETS Realized Volatility (April 2007-April 2017).

Source: Atimes.com

This strategy seems to have the purpose of increasing the export volume, as buyers are stimulated by a lower price, and at the same time increasing the cost of imports into China.

The goal of Chinese Government is to make the Yuan currency competitive against the Dollar, at least in Asia. Today Chinese Yuan is the eighth most widely used currency in the world. [92]

International trade can be denominated in any currency, this is a choice made by the trade partners, so exporting companies can decide whether to cash in Chinese or Euro currency. Regarding the choice of using Chinese currency, the benefits can derive from a more extended payment condition, since commercial payments in Chinese currency may be extended up to 360 days, while those made in foreign currency may not be deferred for more than 90 days.

Moreover, in the case of payments in the Chinese currency, more favorable terms might be obtained from the supplier, as Chinese partner might prefer to use its domestic currency.

[92] Currency Exchange International, https://www.ceifx.com/news/400/10-Most-Traded-Currencies-in-the-World

However, this is not always the best solution; the primary issue is to understand how to determine who should bear the risk of exchange rate risk**.** If the prices are fixed and settled in the Chinese currency, the risk arising from changes in exchange rates is in charge of the European company. Finally, volatility is a crucial indicator in the markets. It is an index of the degree of risk that expresses the price fluctuation potential. The volatility of the Chinese currency is much higher than that of the US Dollar, the Canadian Dollar and the Pound. More volatility means higher costs because is greater the risks of value fluctuations, therefore for those wine producing companies is recommended to use Euro or US Dollar currency.

Firms with exposure to foreign exchange risk can use some foreign exchange hedging strategies to reduce those risks, for example using money markets, foreign exchange derivatives such as forward contracts, options or swaps.

However, when we take in consideration the wine industry and in particular Italian wine SMEs, we occasionally run into this risk; because in the most cases these companies use the Euro currency in their transactions.

Among the financial risks, the second cluster is the so called Counterparty risk, which implies the possibilities that a customer will default on payment, or the customer's business may fail, or there is political or economic volatility. For a company, at least initially, it is sensible to protect itself against payment default, to use payment methods which can provide some level of security (for example using irrevocable letters of credit) . The Producer/Exporter's bank should provide advice on payment options and their relative advantages.

In our specific case of China, according to the last reports on delays in payment, this risks must be well evaluated. In fact, in 2016 the percentage of late B2B invoices in Asia Pacific has increased by 45.4% . Actually, the highest average frequency of late payments was recorded in China while the lowest concerns Japan. [93]

Keeping this in mind, it is useful for a foreign supplier to consider the different forms of payment, with their different security levels.

[93] Atradius.it " Barometro sui comportamenti di pagamento APAC 2017", https://atradius.it/pubblicazioni/barometro-comportamenti-pagamento-asia-pacifico-2017.html

The advance payment is a form of payment that presupposes a high level of trust of the Chinese customer in the supplier and the certain fulfillment of the latter of the obligations provided in the contract.

Regarding the Letter of Credit, this is a letter from a bank guaranteeing that a buyer's payment will be received on time and for the correct amount. In case that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase.

Even if this payment method guarantees a good level security, it has also some disadvantages. First of all the fact that the responsibility for payment is transferred from the customer to the customer's bank. The Bank will not have any interest in checking the quality of the products or services provided, but will require the perfect correspondence of the details shown in the Letter of Credit with those indicated in the contractual documents and delivery.

Any discrepancy will invalidate the LC and relieve the bank from their payment obligations. Furthermore, the release of the letters credit has a considerable cost to the buyer and to the seller, and therefore may be inadequate in the case of contracts of limited value.

Document collection: this is a form of payment that provides for the settlement of the payment at the time of delivery of the documents from the seller. The titles of properties (such as bill of lading) are not released to the buyer until he has done the payment (payment against documents) or not accepted to pay (documents against acceptance). This form of guarantee is advisable in some cases: for example if the goods are of critical importance for the Chinese customer's operations, however, it may present a risk to the seller, such as in the case of perishable goods, as the buyer could ask to renegotiate the price.

If the relationship between the two parties is stable and based on mutual trust, or if the level of market competition requires it, the exporting company can take in considerations the extended payment system , which offers less guarantees, but it is certainly the most liked by the customer.

At this point we consider it useful to focus on this latter payment system.

Each company, in the dynamic nature of its operating and monetary cycle, has to make important decisions regarding the commercial credit policy: if and when to grant payment extensions, on the basis of which information support, with what medium / maximum time horizon, the additional guarantees, the forms of payment, the level of coercion in the recovery of any missing payments, etc. In general, the lower the familiarity of the exporting company with the market where the customer resides, the greater the criticality of defining adequate credit policies for customers. Being able to offer a personalized payment plan tailored to the customer's expectations is a very effective marketing tool, and vice versa, not being able to meet the needs of the customers with regard to payment extensions often makes it impossible to fully seize the opportunities offered by the market. At the same time, a commercial credit policy marked by extensive enlargements, if not supported by an adequate corporate culture and by the use of appropriate risk management tools, as well as significant consequences on the financial balance of the company, can lead to significant effects negatives on the economic situation, following delays in payments and higher losses on loans.

From the relational marketing and the new idea of services perspective, acknowledged the central role of customer satisfaction for the purpose of a progressive loyalty of the same, and reiterated the need for the company to maximize the value for its purchaser, this underlines the importance of conceiving the offer not only with reference to the tangible elements but also as a reference to service components, which are no longer considered as purely accessory elements but as determining attributes of each company's offer.

Therefore, according to the literature, granting a credit should not be considered as an investment to be compressed, but as an important marketing mix tool aimed at influencing customer behavior and therefore in developing sales and profits and encouraging the company to penetrate the market. [94]

From the business management point of view, the commercial credit policy increases the company risk profile. In fact, as a fundamental item of company assets, accounts receivables constitute one of the main risk factors at company level. The cases in which incorrect credit policies and the resulting losses on receivables are not uncommon, especially if the company

[94] P. Bertuzzi, "La gestione del rischio di credito nei rapporti commerciali", Dipartimento di Economia Aziendale, Università degli Studi di Brescia, 2002.

does not have adequate management and risk transfer principles, are the basis for the company's decline.

The risk management process aims to identify the most appropriate policies to deal with the issues identified during the risk identification phase and, after evaluating the various impacts in terms of costs and benefits, indicate the most cost-effective solution for the risk assessment. It is clear that the complete elimination of the risk of default is obtained only by not serving those categories of customers deemed to be at high risk, thus avoiding the same credit, (thus requiring payments to the order or delivery), or providing for forms of payment deemed safe by the company (ex. letters of credit confirmed by a leading Italian bank and absence of reserves). In order not to achieve policies that would limit the opportunities offered by the market, it is necessary to consider the techniques of prevention and protection, which are very effective in managing the risk of commercial insolvency.

Preventing the risk of insolvency means adopting a corporate philosophy and an organizational attitude aimed at putting in place all those procedures aimed at reducing the probability of the occurrence of non-payment. Among these, the ability to develop an efficient process of collecting economic and financial information on its customers as well as the assignment and monitoring of exposure on each individual position is fundamental. A further point on which to focus is the prevention by the supplier of possible disputes / protests raised by the buyer that could cause the same to suspend the payment. First and foremost by establishing a collaborative atmosphere with the customer, putting an effective system of quality management and complaints, and establishing precisely the pre-contractual phase, the responsibilities of the parties.

On the other hand, with regard to insolvency risk protection policies, these must be aimed at reducing the amount of damage consequent to the payment by a customer.

Chapter 4. Market Survey

After analyzing the changing global wine scenario and the reasons behind this phenomenon we can firmly assess that China became a very attractive export destination for many wine producing companies around the world. In fact, in the last two decades China verified a strong economic development with the rise of Chinese middle class and an increase of per-capita disposable income, which caused a steady growth in consumption. Moreover, forecasts by Euromonitor and other market research institutes indicates that Chinese wine market will continue to grow, even becoming within 2020 still wine's first market.

Despite its great potential, Chinese market also has many obstacles which may lead to discourage many export activities. China is geographically far distant from Europe and the same for its culture; it is characterized by a different concept of family, education and society. Its consumption habits are far different from our tradition too, in fact it is a young wine consumer country, thus all these element might frighten those Micro, Small and Medium sized wine estates which can not afford big and risky investments, because compared to large companies they have fewer resources available for export activities.

According to our researches, currently there are already many wine producing players in China, most of them coming from France, Spain, Chile, Australia and only a few from Italy. Despite Italy confirmed its position as world's biggest wine producer also in 2016, and it is the home to some of the oldest wine-producing regions in the world, however it only ranks 5th in the Chinese market.

After a systematic market research which analyzed the current Chinese wine market also in terms of the Italian brands already established here, it emerged that big companies as Gaja, Antinori, Masi, Zonin, etc., after implementing a proper export strategy they achieved some goals, such as getting themselves recognized among their competitors and starting to gain some evaluable market share. As stated before, despite big and successful wine companies still need to face many challenges and obstacles, however they possess much more resources so able to minimize risks.

At this point our aim is to demonstrate that those Micro, Small and Medium sized wine estates do not have to be afraid of China's distance and diversity, and as a consequence deprive themselves from the chance of entering this market. On the contrary they need to investigate more about it and follow a proper path that can enable them to be in when China wine market will become still wine's first market.

Since our aim is to draw a way for both Micro, Small and Medium sized wine companies that are facing problems in this market, and for those who have the purpose to enter here, we realized a survey that wants to investigate on the current situation.

4.1 Structure of the Survey

The survey includes three Sections, (Section A, Section B, Section C) , each of them focused on a specific subject.

The first part of the survey, that is Section A, regards some general information about the company, as the place of the firm, the dimension, the type of legal entity, its competitive factor, the export orientation and the internationalization drivers.

SECTION A : General Information

1. Origin of firm (City) _____

2. Dimension of firm

   - Number of employees _____
   - Number of bottles produced _____
   - Total sales amount (EUR) _____

3. Commercial Entity

   ☐ Individual enterprise ☐ L.t.d ☐ Joint-stock company

4. Competitive factor

   ☐ Wines price ☐ Wines quality

5. Export Oriented ?

   ☐ Yes Where? ☐ Europe
   ☐ North America
   ☐ South America
   ☐ Africa
   ☐ Asia
   ☐ Oceania

   ☐ No

Fig. 27 Market Survey- Section A

All these information are important in order to understand the kind of company we are dealing with. For this reasons, after the location of the company the first essential question concerns its dimension, which will allows us to understand if we have to consider it a consolidated medium size wine estate, or a small-micro sized wine company. In this case dimension is given by three parameters, which are respectively the number of employees, the number of bottles produced and finally the total sales amount (EUR). According to the EU recommendation 2003/361 issued by the European Commission, applied to individual firms, we can define Medium Sized company which has less than 250 employees, Small Sized company which has less than 50 employees and finally Micro Sized company those which has less than 10 employees. [95]

[95] European Commission, "What is a SME?", http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en

The numbers of bottles produced it is an important element too, because it influences the production costs since it is closely linked to the concept of economies of scale. This number in fact tells us whether we have a company that benefit of economies of scales to get higher profitability or it is characterized by a high level of product differentiation.

Finally the total sales amount is an important data since it regards the performances of these companies. In particular, according to the EU recommendation 2003/361 issued by the European Commission, applied to individual firms, those who have an annual turnover not higher than 50 million euro are considered Medium Sized companies, while those with an annual turnover below 10 million euro are Small Sized companies, finally we have Micro Sized companies, that are those with an annual turnover lower than 2 million euro. [96]

After analyzing firm dimension it is appropriate to verify its legal nature, which was divided in three categories, first of all the "Individual enterprise". This means, that a single person manages the business and does not create a company (such as a limited liability company). This person provides capital, represents the business to the outside and bears the entrepreneurial risk. Then we have the "Ltd Company" , where the suffix stands for Limited, indicating that it is a private limited company. It can have one or more members, and shareholder's liability is limited to the capital they originally invested. Finally we have the "Joint-stock company", which are commonly known as Corporations. In a public joint stock company, shares are transferable, they may be traded on a registered exchange, while, for private joint stock companies, they are transferable between private parties. Regarding the liability concept, it differs by country.

Then we asked about firm competitive factor, whether is based on pricing or wines quality. In the first case we will have wine companies that produce low-end wine, applying the economies of scale strategy, or we will have companies that produce high-end wines with a smaller scale production. This element is important in order to understand the potential positioning of this company's wines in the destination market.

The last two questions of Section A investigate on company's export strategy, first of all it is important to assess whether or not this company adopted the export strategy, and where.

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[96] Ibidem.

We divided the places according to the 6 geographical continents; this data is important because it says a lot on the company's strategy. The choice of the country differ in the opportunities they offer to the company for its strategic development. Some countries, according to their size, growth or the quality of human and natural resources, are critical for companies' long term competitiveness. Not be present in these key countries would represent a serious disadvantage for companies who want to be global players. [97] As mentioned earlier, the United States are currently the biggest market for wine consumption, thus a company who plans export activities should definitely consider it. Moreover, according to the Uppsala Internationalization model, who explains the process of internationalization of companies, firms will tend to internationalize first to physically close countries and gradually move to more physically distant countries. Thus, Italian wine companies should first consider the European wine market, because of its lower resource commitment and closeness. However, considering the fact that China wine market is growing rapidly and it will become world's first fine wine market, it deserves great consideration.

Secondly we inquired about the reasons behind the export strategy, thus the Internationalization drivers, which were divided in nine factors: decrease of the internal demand, national competition, international competition, imitation strategy, incentives of the government, protract of product lifecycle, entrepreneurial choices, supply push and customer push.

Then it's time to look at Section B, which is the one dedicated to the export activities destined to the Chinese market. It includes five mixed questions that regard the company export performances in China. Thus, whether it has implemented a continuative export or China represents only a spot market. Then we inquired about the total amount of sales (EUR) in this country and the billing currency. The fourth question of this section focuses on the price range of the wine addressed to China (ex-cellar, per liter) . For this reason we divided the wine prices in four segments. The last question regards the channels used for export in China, such as trading companies, importer or distributor, company own business unit in China, e-commerce, consortium networks, or others.

[97] P. Lasserre, "Global Strategic Management", Third Edition, "Designing a global strategy", Chapter 1, page 37.

SECTION B: Export to China

7. Export performances

☐ Continuative export ☐ Spot market

8. Sales in China (EUR) _____

9. Billing currency

☐ Euro ☐ Dollar ☐ Other

10. Price range of the wine addressed to China (ex-cellar, per liter)

☐ < EUR 3 ☐ EUR 3,5-7 ☐ EUR 7,5-10 ☐ > EUR 10,5

11. Export channels for China

☐ Trading companies ☐ E-commerce

☐ Importers/ Distributors ☐ Consortium network

☐ Own business unit in China ☐ Others

Fig. 28 Market Survey, Section B.

Market Survey Section B gives us an idea on the positioning of the company in the Chinese market. First of all from the export performances we can deduce the kind of presence the company has activated here. Continuative export means that the company has established a solid relationship with one or more importers or distributors, that periodically make purchases according to a prearranged contract. On the contrary, in the wine sector we define "Spot market" the relationship or the business that right after the transaction and the delivery of the good is immediately ended. Thus in this case there is not a future continuative relationship governed by a stipulated contract among parties. The billing currency is also fundamental when managing international transactions. According to the type of currency established by parties there can be different matters and risks that must be taken in consideration. When arriving at the price range of the wine addressed to China we want to investigate on the market positioning of the company. It is desirable that the choice of the wine destined to a specific market is the result of the company analysis of that market customer segments. Customer segments are the groups of customers that have similar value curves and they can be identified by income level, geographical location, age,

etc. The strategic choice here will be for the company to decide whether it concentrates its segmentation on one or two customer clusters (focused positioning), or whether it pursue to embrace many or all customer segments (broad positioning). After the customer groups the company want to serve, the price is closely related also to the type of value attribute it wants to offer (the already mentioned cost leadership versus differentiation strategy).

Finally the export choice of the export channels are highly important and require a primarily consideration. Working with Wine Trading specialized companies has many benefits, as that they may have a deep understanding of the customer needs, so they are better in communicating with them. However this may represent a heavy cost for the small medium sized wine company.

When the choice is the importer/distributor, this figure will help the company in arranging the distribution in foreign areas. Distributors with lot of experience in importing and shipping are the fastest and easiest way of selling on foreign markets. However to pick the wrong distributor is not so hard, in fact it is very common for small medium sized companies to deal with the wrong distributor which don't act according to the rules and eventually ruins the company reputation abroad.

Setting up your own international department means that the company and the brand will directly enter this market. This gives the total control on distribution, customer, marketing, etc., however it means a huge engagement in terms of money and personnel.

E-commerce has become now a very used tool to send out products in the world. Through this channel producers are directly in contact with the local customers and they manage the price, shipping, promotion and advertisement of the product.

Section C focuses on all those practices included in the investments dedicated to market analysis.

SECTION C: Market Orientation

12. Investments on market research

- ☐ Human resources
- ☐ Knowledge of the market
- ☐ Market data
- ☐ Consumers' study

13. Commercial costs

- ☐ Chinese website
- ☐ Advertisement
- ☐ Chinese brochures
- ☐ Fair and Exhibitions

14. Other investments dedicated to Chinese market

_____

_____

15. Return on China sales (EUR) _____

16. Rate of satisfaction of firm performances on Chinese market (indicate from 1 very low , to 5 very high)

_____

17. Problems

- ☐ Communication issues
- ☐ Copyright/ Trademark protection
- ☐ Cultural issues
- ☐ Instability of the Chinese market
- ☐ Entry barriers
- ☐ Due to the importer's management
- ☐ High costs

18. Firm's needs in order to improve its performances on Chinese market

- ☐ Italian government support
- ☐ Consortiums support
- ☐ ICE support
- ☐ Establishment of FTA

Fig. 29 Market Survey, Section C.

The questionnaire was distributed to all the wineries operating in the territory of Tuscany region, during the period between September 2017 and January 2018.

4.2 Survey Results

We will now analyze survey's results, trying to combine those similar strategies in order to understand the current trend. For each section we will take the useful elements in order to outline companies' characteristics and strategies adopted in the export process to the Chinese market and thus trying to understand their criticalities.

Section A

In Section A we have a number of general information that help us in understanding the kind of company we are dealing with. According to the SME's segmentation based on EU recommendation 2003/361, 33% of the respondent companies are resulting to be Micro Sized Companies, with less than 10 employees, 47% of the respondents companies are Small Sized Companies with less than 50 employees and finally 18 % of the respondents are resulting to be Medium Sized Companies since they have less than 250 employees. Furthermore a 2% of Large Businesses emerged, since they have more than 250 employees.

Micro	Small	Medium	Large
33%	**47%**	**18%**	**2%**

As for the number of bottles produced on average by the company, the great part of them (35%) produces a number not exceeding 1000.000 bottles. In this case companies are not adopting economies of scales, while preferring a more diversified and refined product. They are mostly Micro and Small Medium Sized companies focused on a more qualitative production. Then we have a 20 % of companies that produces less than 10.000.000 bottles per year. At this point the products is still diversified but the company is adopting also the economy of scale practice. They are usually bigger companies, belonging to the category of

those Small and Medium Sized companies, that are characterized by an evaluable production of wine.

An 18% of the responding companies produces less than 400.000 bottles per year, thus they are Micro, Small Sized companies focused on product diversification. Finally we have a 19% of very small companies that produce less than 100.000 bottles of wine per year, and an 8% of very big companies that produce more than 11.000.000 bottles per year.

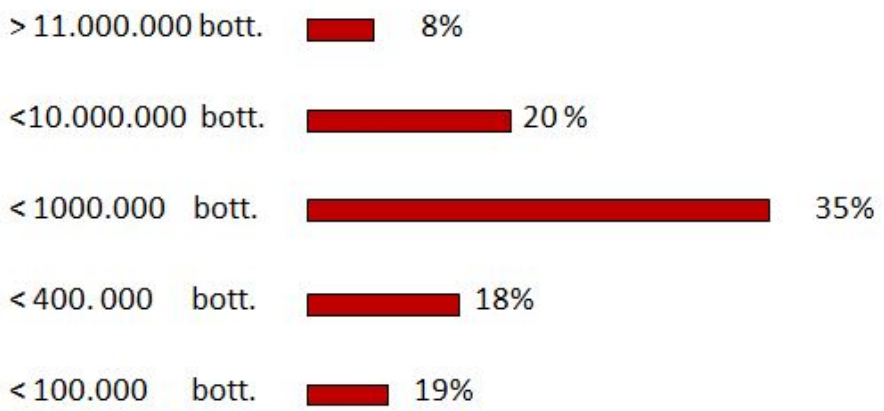

Fig. 30 Number of bottles produced by the interviewed companies.

As the total sales amount question, not all the participating companies agreed to answer the question. However, on the basis of the answers we had, we can state that 55 % of companies declare to a have a total sales amount not higher than EUR 10 million, 25% of the responding companies has less than EUR 50 million of sales amount, while 15 % of companies declare to have not more than EUR 2 million of sales amount. Only 5% of the interviewed companies have a total sales amount higher than EUR 50 million.

Regarding the legal nature of the wine producing companies that operate in Tuscany, we can state that we have a majority of Individual Enterprises (75%) and the other 25% are all L.t.d companies.

Most of the companies declare quality as its competitive factor (80%) while the rest 20% states to be more focused on pricing.

The 91% of the interviewed companies are export oriented, and mainly in the most popular wine markets as Europe, North America, South America and Oceania. Asia, and in particular China, is not the destination market of all the companies interviewed, many of them (30%)

say they are still too small to start thinking about exporting in China. Then we have the remaining 9% that declare they have a small production on wine, thus are not considering export yet.

When talking about the internationalization drivers, we can see that the reasons that most drives to internationalization to China are the so called Entrepreneurial choices and the Customer Push. For many of the interviewed companies the exporting practice comes from managerial choices, and the main reason is the customer push (54%) . Thus Italian wine producers perceive a big demand from the Chinese market, which is an important element that shows the great interest of this country in the Italian wines. Then the second very relevant reason is the decrease of the internal demand (18%), which push the Italian wine producers to seek for new markets abroad.

Then we have equally the following reasons, the International competition, the supply push and incentives of the government.

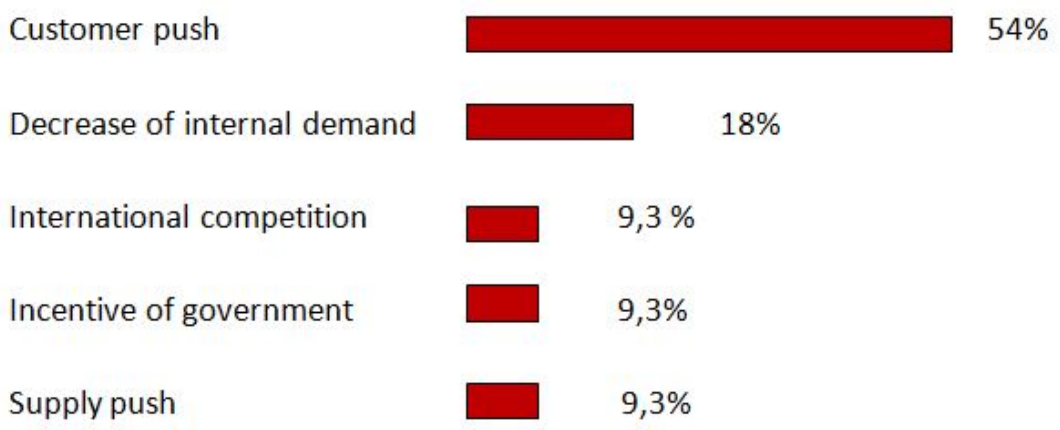

Fig. 31 Internationalization drivers, Survey results.

Section B

Section B is the one that in particular focuses on company's export to China. Regarding the first question, that is the export performances, the 60% of the interviewed companies declare to conduct a continuative export in China, while the remaining 40% consider China as a Spot market where they occasionally export.

As the billing currency, no one of the interviewed companies uses any currency that differs from the Euro. Thus no US Dollar and no Chinese Yuan.

The main export channels for China are the Importer/ Distributor (90%), while only 10% of the companies uses Trading companies, and only one of the interviewed companies has its own business unit in China.

Section C

This Section focuses on all those practices dedicated to the study and the building of brand awareness on the Chinese market. Regarding investments made by the company on market research, we can state that only a 65 % of the interviewed companies invest capital for market researches, data, consumer's studies, and human resources. Among these, the top company's investment is for market knowledge, while only a few consider also researches on consumer segmentation. The remaining 35 % of the responding companies did not activated any kind of the just mentioned activities.

Regarding the commercial costs, we can state that almost the 93% of the interviewed companies participate to Fair and Exhibitions in order to gain awareness among Chinese consumers. Great part of them invested on translating brochures and a few on a Chinese version website.

As the rate of satisfaction for company's performances in the Chinese market we can assess that from 1 to 5, where 1 is very low and 5 is very high, the majority of the companies (50%) picked 3, while we had a 25% of companies that picked 2 and a 25% of companies that are totally unsatisfied which picked 1.

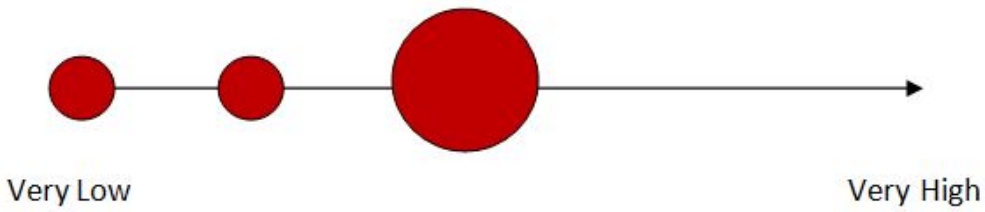

Fig. 32 Rate of Companies satisfaction when exporting in the Chinese market.

Concerning the problems that companies face when dealing with the Chinese market, at the top we have the Instability of the Chinese market picked by almost all of the companies. Then at the second place we have problems due to the management of the Importer/ Distributor. Then we have cultural distance, communication issues and Copyright problems.

4.3 Results Analysis

After having reported the results obtained by interviewing the wine producing companies in Tuscany , we will proceed by mixing some of these data in order to understand the current trend. Primarily we will segment the responding companies according to their production strategy and we will try to understand which cluster is the most efficient in this market.

We segmented the companies in three clusters, High-end wine producing companies (A) , Low- end wine producing companies (B) ,and Companies with a large segmentation of wines (C).

A) High-end Wine Companies are characterized by a qualitative production, made with no economy of scale, thus by adopting a very high product diversification. The prices are high, they include those Super premium, Ultra premium and Icon wines, thus with a long aging potential, high critic scores and a good complexity. These companies created value, with investments on the product but also on the destination market (Chinese market analysis, consumers study, fairs and exhibitions, brochures, etc.) Their percentage of Good Performances on the Chinese market, made by mixing the type of export (Regular), the amount of China sale, and the rate of satisfaction (more than 2) , is approximately 41%.
B) Low—end Wine Companies are characterized by lowering the production costs, thus adopting economies of scale, with a big production of bottles of wine. Prices are mid-low, and include those Popular premium and basic wines. They do not engage any high investment for the market knowledge, however most of them participate to

fairs in order to get commercial partners. Their percentage of Good Performances on the Chinese market is around 19%, thus not so high.

C) Companies with large segmentation of wines, they are Small, Medium sized companies that have a diversified portfolio, thus they produce some mid-low wines but also some high-end wines. They make little investments for Chinese market knowledge, mostly for market and consumers studies. Their percentage of Good Performances on the Chinese market is 40%.

Hence, as we can see from the above clustering, on the basis of the type of wine production, the number of bottles and some others variables, the High-end wine companies and those with a large product diversification have more success on the Chinese market.

Thereafter, we can see that when mixing company's dimension with the export performance on the Chinese market (Occasional or Regular Exporter) we can understand whether or not company's dimension represent an obstacle for the successfulness of the internationalization process.

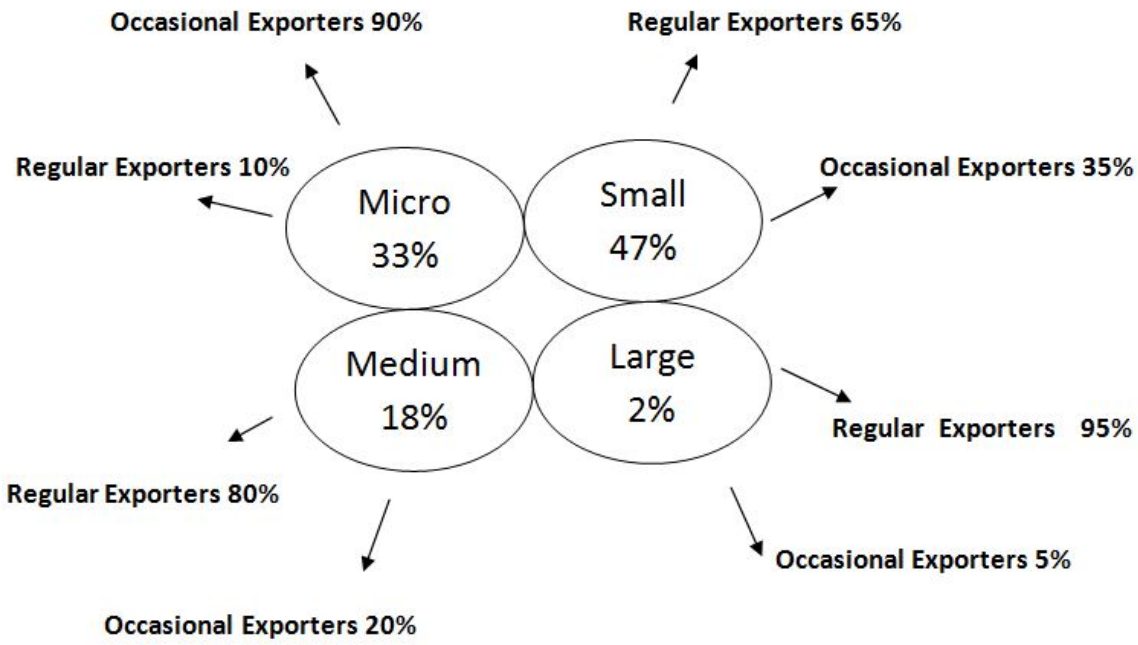

Fig. 33 Company's Dimension mixed to Export Performances on the Chinese market.

As we can see from the above graphic, even if the company dimension does not completely determine the internationalization process, however it turns out to be an important component. It is evident that the Micro Sized companies are those most characterized by an Occasional export in the Chinese market (90%) , while only 10% of these have established regular export activities. When we move to Small Sized companies or Medium Sized companies we see that their export performances on the Chinese market are better, relatively 65% of Regular Exporters for the former and 80% of Regular Exporters for the latter.

In our opinion, this outcome is given by the distinctive features of the Italian SMEs, which instead of representing their strengths, can become critical points. SMEs strengths related in particular to their small size, include the link between these and the territory, the way of communicating, characterized by greater simplicity and the absence of complex superstructures; relationships are direct and allow faster response times and greater production flexibility. The SMEs have fewer resources and for this reason they must adapt and equip themselves, optimize using creativity to remain competitive in terms of market and efficiency. All these characteristics risk to become their own limits, in fact the organizational structure for as it is defined does not foresee professional growth paths for the employed resources. The final products often becomes the exclusive point of concentration of the forces employed, and this too much attention to the product can penalize the growth of the company.

The long standing existence of the company, made of direct experience, risks to turn into a philosophy of closure, made of methodical recurrence of well-known and consolidated approaches, thus penalizing innovation and research. We will proceed analyzing some of Italian wine producing companies main features that instead of representing a plus, turn to be their major limits.

First of all the role of marketing, which is little or nothing considered, thus in the most cases products can not be recognized. This aspect is often forgotten or subject to reductions of budget, without considering that marketing is important and decisive for the future of the business. In the internationalization process, large companies will invest important budgets in marketing campaigns with the direct aim of generating high demand and in the short time.

On the contrary, SMEs are often not able to commit significant investments due to lack of resources, structures, flow of production and finance. It therefore emerges that Italian wine SMEs have not a systematic or strategic approach to internationalization, whereas conducting occasional or unstructured operations. The result is a penalty for their opportunities, growth and success.

If we link all this to the results concerning the investments for studying the foreign market, its customer and its culture, an another weak point comes to light. According to literature the lack of market knowledge of the foreign market constitutes the most important obstacle to internationalization. [98] Therefore, at the base of a satisfactory export activity, in a distant and different country like China, there must be a detailed study of the market, the capacity, the consumers, the competitors, the way of doing business and finally the culture of the country.

When we again analyze survey's results, there is an another issue that seems critical for these wine exporting companies, the export channels. According to our results, the most common sales channels still result to be the local Importer or Distributor (90%). This is the easiest and require a limited or null investment. Moreover, other strong point are that the Chinese Importer or Distributor very often has a good market knowledge, good financial resources, and the already established distribution channels. However, the first obstacle is to find a reliable and suitable commercial partner; once found it, the producer has very little power in influencing the commercial activities. An another important factor is the presence of more companies among the Importer's portfolio, which may cause competition or lack of attention to one some of them. There is a poor control of the market and little chance to follow the evolution of final customer's tastes. Moreover, counterparty insolvency or delay on payments are not to be excluded.

Thus, despite the Italian wine producing SMEs strategy in entering the Chinese market is to avoid the rise of risks, however this entry mode very often includes more risks than others, such as the ones just mentioned. In fact, a too much protective attitude, too much influenced by aversion to risk, on the contrary may lead to the foreclosure of any possibility of growth. If the Italian wine SMEs growth potential is high, the limited resources available,

[98] Carlson, 1975; Forsgren and Johanson, 1975; Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Welch and Wiedersheim-Paul, 1980.

bureaucratic and operational difficulties, combined with the lack of knowledge of the foreign market, and last but not least the complexity of finding reliable and cooperative local partners, are all elements that together constitute the main obstacle a successful internationalization process. In this context, the e-commerce and marketplaces can offer the most immediate business solution.

There are many advantages of using digital to sell products abroad and in particular in China.

4.4 Internationalization through digital export

Let's start from the fact that currently in China, nine tenths of commercial transactions take place on the Internet. Furthermore in 2017,the 47% of the global e-commerce market goes through China. [99] Thus when approaching this market is it very important to understand the fact that in China currently there are more than 700 million of internet users, and more than 659 million users of social media. The on-line sales are growing very fast and this phenomenon is pulling up also the wine sale: in 2016 more than 21 million people bough wine from on-line stores.

We will proceed trying to understand why it became so common and profitable to sell through digital shops. First of all it is very easy to install it, both in the case of marketplace and its own e-commerce store will not take more than 3 weeks because is operational. As for the e-commerce channel, it is very advantageous because you have full control of the store, as there is no need to respect anyone's policies. Furthermore, there are no commissions on sales and maintenance costs.

The costs to start an online store are undoubtedly low especially when compared to the costs needed to open a physical store in the city center. A contained investment for the opening of a functional and user-friendly platform, combined with a low investment for online advertising, can be much more profitable than exercising the activity in a shop. On the

[99] Agi.it, "Cosa significa per il commercio mondiale se Alibaba supera Amazon (per un giorno)", https://www.agi.it/estero/alibaba_amazon_ecommerce_shopping_on_line-2242657/news/2017-10-11/

other hand, since managers bring down many of the costs, thus consumers can have discounted prices.

Elasticity is an another point in favor of the digital business. In fact, according to your needs and your commitments it is easy to plan each day a few hours to dedicate to the e-commerce project, to respond to user issues or set up a new advertising campaign. Furthermore the e-mail box collects communications and orders that can be processed almost in real time.

Networking is an another important element. In fact, it is not only easy to opening e-commerce or finding someone who creates it at a good price, but it comes out to be very easy especially in integrating with other channels such as social networks and in reaching a vast number of people throughout the national and international territory. Through the e-commerce websites also commercial actions can be carried out more quickly and effectively. A price change, when decided, is immediately seen by everyone; a commercial campaign, published on the website, becomes immediately operational for the whole market. It is also easy to contact and retain customers, with ad hoc newsletters and special promotions sent by e-mail.

Monitoring: through the use of tools like Google Analytics, the seller has the means to observe and monitor the users access keys, the paths realized, the most viewed products and many other useful information to improve and create information and targeted content. All this makes e-commerce a truly competitive storefront on the market.

On the other side, there are also some critical issues, such as the fact that building customers' trust takes time. In already existing marketplaces like T-mall, the level of trust is very high. Customers know what to expect, they are familiar with the policies and are pretty sure that they will get for what they pay (and if they do not, they can appeal).

Moreover, the technical challenges can be considerable: the choice of the right payment system like Ali-pay, Ten-pay, Baidu wallet; the need to take care of all the technical challenges related to traffic and transactions, create live support via chat, manage stocks, organize efficient delivery systems, etc.

At this point it is useful to mention one of the major obstacles in e-commerce businesses, which is the foreign exchange risk in cross border e-commerce (CBEC) . Foreign exchange risk management is a decisive factor in cross border e-commerce, especially when dealing with Chinese Yuan currency high volatility. It refers to potential to lose money because of a change in exchange rate.

As a matter of fact, this is the reason why the Italian wine producers totally excluded the use of this currency for their export practices. However our suggestion is for the Italian wine companies to start considering to use the Yuan currency since it is becoming increasingly important and already in use by a large segment of the world's population. In particular through the e-commerce channels, Chinese consumers would like to be able to buy from their own home Italian products, and to use a payment system familiar to them. On the other hand, in the case of the Importer/ Distributor, he would benefit from using its own currency in transactions, which could lead to more favorable conditions for the exporter too. It is clear that both parties must be aware of the opportunities and risks and therefore adopt the appropriate policies for the coverage of the latter.

Generally, the most widely used practice in order to minimize the exchange risk, is to raise the transactions cost for all partiers, such as contractors, investors and consumers. Otherwise an another option for minimizing this kind of risk it could be monitoring daily the foreign exchange and therefore change the online prices.

Hence, the very first step is to inform and train producers about the importance, potential and opportunities of the web. The awareness of how important digital tools can be can and must be a trigger to seize these opportunities, and can lead SMEs out of the crisis and at the same time give rise to startups that are able to exploit these tools. This theme is very current and very debated, and in this regard we can mention the study commissioned by Google at Doxa that shows the direct dependence between a country's digital maturity and the percentage of companies that export and entertain international relations. [100] Thanks to this study, it emerges that, in particular for those countries with a high growth rate, the relationship between digitalization, internationalization and export is necessary and

[100] In October 2013, Google entrusted Doxa, a study to assess the impact of web communication channels on the processes of internationalization of SMEs. Doxa is an institution specialized in opinion polls, market research and statistical analysis.

important both for a first approach to foreign markets and for a consolidation of the same. The opportunity is that of a foreign opening with costs and times lower than traditional mechanisms. The ability to use the web to communicate and grow in distant markets, becomes an economic advantage for SMEs, who often find themselves in difficulty following the strategies of an Importer / Distributor of which little or no information is known.

Thanks to the opportunities of the web, the peculiarities of SMEs stop being a limit and indeed acquire greater value to become the strong point on which to leverage the processes of internationalization.

At this point it is necessary to mention the absence of a unitary system that informs, guides and provides adequate support to Italian wineries that want to enter the Chinese market. A consortium network (or even better, ministerial) would be necessary, in which take part all the Italian consortiums, with the aim of giving a concrete aid to the Italian wine producing SMEs. We particularly like this Consortium Network idea because it could represent an excellent compromise given the real closeness of the consortia to the companies in question.

Conclusions

In the last decade the global wine industry has been affected by structural transformations, due to the massive phenomenon of globalization, the introduction of new players and finally the digital transformation that is involving all the industries. In particular, the wine industry is becoming an increasingly important element in the dynamics of international trade and in the relations between the Old and the New World countries. Moreover the wine sector is one of the excellence of Made in Italy, and due to its ability to produce wealth it is a central part of the national agri-food system.

At this regard it is important to introduce the fact that the wine production and consumption areas of the world have undergone structural changes, and the most emblematic case is that of China, which in 15 years has seen its wine production increasing by 119% while its wine consumption in 2017 reached 2 billion liters; moreover, statistics confirm that by 2020 it will be world's fine wine first market. Despite the fact that Italy is currently worlds' wine first producer country, however in the Chinese market we are only at the 5th place in terms of market share, after France, Chile, Australia and Spain.

Hence the aim of this dissertation was understand the opportunities of the Chinese market for the Italian wine producing companies and therefore to analyze the criticalities that characterize these companies when entering China wine market.

For this purpose, after an in depth analysis of the Chinese market, and of the Italian wine producing companies, the market survey distributed among the Tuscany wine producing estates has finally bring to light some of the issues that do not allow them being successful in this fully developed market.

First of all the small size of these companies, which do not completely determine the internationalization process, however it is an important component when related to human and financial resources, minimizing risks, marketing campaigns and digital innovation. We see that the small dimension of the companies do not allow them to engage evaluable investments in human resources specialized in that specific country, in marketing issues, in

digitalization processes, and so on. Despite dimension and financial flow are important in the internationalization process, however a very well structured strategic plan is essential in a successful export practice. Very often the Italian wine companies, due to their family nature, their long standing existence, their tight connection to the territory, do not foresee innovation, while the well-known and consolidated approaches are preferred. Moreover, in this context, market studies, consumers studies, marketing campaigns, results to be frugal and not seen as important elements for company's success and profit.

On the contrary, they are essential elements when dealing with a country far and distant like China, that present different consumption habits, tastes, and that uses different channels to make purchases. China, such as all fast-growing countries, is becoming increasingly digital, it currently has more than 700 million internet users and in 2016 more than 21 million people bought wine from on-line stores.

Thousands of producers try, each for themselves, their own way to sell their wines and make a profit in Italy or abroad. However the costs, the energy, the time, the risks necessary for this path are sometimes, especially for the "little ones", much greater than the company could foresee, and despite investments and sacrifices, it happens that the results are not the ones expected.

The low efficiency of commercial investments, often accompanied by a lowering of price lists brings to a double negative effect of reducing the ability to produce future revenues and reduce profits in the immediate future. Moreover, vintages with poor harvesting as the 2017 one, or with significant and persistent drops in the price of bulk, or the loss of one or two important customers represent a danger to which companies that are fragile from an economic point of view are heavily exposed.

Starting from these notions the Italian wine producing companies that want to export their products in this country should implement an adequate and well structured export plan, considering the opportunities this market offers and being willing to take some risks too. Nowadays a too much protective and risk adverse attitude deprive from opportunities that others are more ready to take on.

However, it is burdensome to add that a well developed country, as Italy considers itself to be, should have a greater support from consortium organizations and public institutions. A Consortium Network should be created in order to give information, assistance and all the tool these companies need in their internationalization process. Moreover, commercial agreements should be established among Europe and China, that would simplify the import-export practices, would generate a greater flow of products, knowledge and finally finance.

It would be desirable to create a multidisciplinary reference for those who want to buy or sell and need to be accompanied in this process. There is the need for a connection platform, an economic entity able to expand the turnover, control costs, save time and increase profits on foreign markets and in particular in the Chinese one.

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