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**Internationalization of Italian wine in the  
Chinese market:  
the case study of San Marzano Wines**

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## **Introduction**

Over the last 40 years, China has become one of the world's fastest-growing economies. The result of this incredibly rapid development is that the Chinese market represents a big opportunity for many Italian small and medium-sized enterprises. This is not only because recently, despite what is happening in the world, China's GDP is still constantly increasing, but also, and more important because Chinese consumers are becoming more and more demanding with the regard to international products, especially when it comes to Italian luxury goods. So, it is not surprising that many Italian firms desire to enter China and design a new positioning to tap into this prosperous market. There are many reasons why a company decides to enter a new market, from exploiting competitive advantages, reaching a new segment of customers, to building a globally known brand.

This paper aims to analyze what strategies Italian small and medium-size companies should undertake and how they manage to become relevant outside their home country. In particular, it is interesting to underline which are the main features and trends of the market in which a firm wants to enter so that it can develop an effective strategy to reach the desired goal and to support the international positioning successfully over time.

The first chapter gives an overview of the concept of business model and business strategy. As a firm decides to enter a new market, regardless of which internationalization path, it should look at its business model and analyze which part of it need to be reviewed and therefore modified to accomplish the desire objectives. In this context, this paper would touch on the fundamental basis of business strategy. Starting from the business model, managers can identify if any building block should be modified to deliver high-value products to the market. Among the other strategies, managers should take into consideration the possibility to grab untapped markets where the competition is irrelevant, and thus create a 'blue ocean' of opportunities for profitable growth. Regarding international strategy, companies that want to enter new markets ought to carefully implement a comprehensive analysis of the internal and external factors that might help to gain competitive advantages abroad. Besides deciding which internationalization path to apply, companies should look into the opportunities given by the new market to select the most profitable one.

Because of my interest in the Chinese language and culture, the second part of the study will analyze the specificities of the Chinese market, which is one of the most attractive international markets for foreign companies. The turning point of the Chinese economy happened in 1978 when under the leadership of Deng Xiaoping, the government implemented policies to open the door to foreign enterprises. Thanks to those policies, China has favored the increment of trade with other countries and the entry of new technologies and management systems in the country, which in turn have triggered big changes in China's economic structure. The rapid growth has allowed the increase of the Chinese middle-class and their disposable incomes. As a result, the way by which Chinese consumers purchase products has changed a lot, leading foreign companies to chase after them. When targeting Chinese consumers, companies should be aware that the Chinese market is different from the western market in which Italian companies are used to operating. Besides differences in terms of specific characteristics of the market, consumer behavior, and channels of distribution, one of the main differences of the Chinese market, compared to other countries in the world, is the extensive use of technology and online channels which recently have become an essential part of everyone's daily lives. For these reasons, companies should rethink their way of doing business according to those features, and therefore they need to adapt their strategy to serve the market effectively and efficiently. The challenge for all the companies that want to establish their presence in the market is therefore to manage this digital-centric environment by developing specific marketing strategies.

An important characteristic of the Chinese market on which this work focuses is the increasing demand for luxury products. China became the second-largest luxury market, and it is expected to be the world's leading luxury market by 2025. In this context, made in Italy plays a dominant role. Chinese consumers love Italian products because of their fine design, exquisite taste, and sophisticated elegance, famous for the diffusion of the Italian lifestyle worldwide. Therefore, by relying on their country of origin, which is synonymous with perfection in details, elegance, style, and taste, Italian companies have a specific advantage when entering the new market. The sectors in which the made in Italy is particularly well known and appreciated abroad are fashion, food & beverage, art, and cars.

Since this paper will analyze the situation of the Italian wine in the Chinese market, the third chapter will take into examination the wine market in China, from the domestic product, the import trade, and consumption patterns. Recently, Chinese consumers have shown a great preference towards wine not only because it is a symbol of wealth and social status but also because of its well-known health benefits. However, the consumption of wine in China is determined by several factors, such as economic, social, and cultural.

Through the case study of San Marzano Wines, a southern Italian company producing and exporting wine in China, it is possible to make out how Italian companies run their business activities in a diverse environment with a particular focus on the strategies needed to capture the attention of customers, build awareness, and gain relevance in the target market.

## 意大利葡萄酒在中国市场的国际化：森美赞诺葡萄酒的案例研究

在过去 40 年中，中国已成为世界上增长最快的经济体之一。这个快速发展的结果是，对于许多意大利中小企业进入中国市场是一个巨大的机遇。尽管最近世界正在发生着变化，但中国的 GDP 仍在不断的增长，更重要的一个原因是，中国的消费者对国际产品的要求越来越高，尤其是意大利的奢侈品。因此，毫不奇怪，许多意大利公司希望进入中国，这个繁荣的市场。一家公司决定进入新市场的原因有很多，比如利用竞争的优势为了接触新的客户群、或者建立全球知名品牌。

本文总共三章：

第一章解释了商业模式和商业战略的概念。

当一家公司决定进入一个新市场时，无论走哪条国际化道路，它都应该审视自己的商业模式，并根据本公司的情况分析需要对其中的哪一部分进行修改，以实现预期的目标。

因此在这样的背景下，本文将触及在商业战略的基础上。从业务模式开始，管理者可以确定是否应该修改任何构建块以向市场交付高价值的产品。在其他的战略中，管理者应考虑如何抓住与竞争无关且未开发市场的可能性，从而创造利润增长机会的“蓝海”。对于国际战略来说，想要进入新市场的公司应该仔细地可能对有助于在国外获得竞争优势的内部和外部因素进行全面分析。除了决定采用哪条国际化道路以外，公司还应该研究新市场带来的机会，选择利润最高的一条。

由于我对中国语言和文化感兴趣，研究的第二部分我将重点分析中国市场的特殊性，因为中国市场是最吸引外国公司的国际市场之一。中国经济的转折点发生在 1978 年，当时在邓小平的领导下，政府实施了向外国企业敞开大门的政策。由于这些政策的展开，有利于中国增加于其他国家的贸易往来以及新技术和管理制度进入中国，这反过来又使中国的经济结构发生了巨大变化。快速增长的结果是使得中国中产阶级以及可支配的收入得以增加。结果，中国消费者购买产品的方式发生了很大的变化，导致外国公司纷纷效仿。企业在瞄准中国消费者时，应该意识到一个问题，中国的消费与意大利的不同。

除了市场的具体特征、消费者行为和分销渠道方面的差异外，与世界其他国家相比，中国市场的主要差异之一在于技术和在线渠道的广泛使用，目前这些已成为每个人日常生活中必不可少的一部分。基于这些原因，公司应该根据这些特点重

新思考自己的经营方式，因此他们需要调整自己的商业战略，以有效地为市场服务。因此，对于所有希望在中国建立业务的公司来说，挑战在于通过制定具体的营销战略来管理这种以数字为中心的环境。

这项工作关注的中国市场的一个重要特征是对奢侈品的需求正在不断增加。中国已经成为第二大奢侈品市场，预计 2025 年将成为世界领先的奢侈品市场。在这种情况下，意大利制造起着主导作用。中国消费者喜爱意大利产品，因为其精致的设计、口味和优雅，这些都表意意大利的生活方式。因此，意大利公司凭借其是原产国，并在细节、优雅、风格以及品味上成为完美的代名词，在进入新市场时具有特定优势。“意大利制造”在国外特别知名和受欢迎的领域是时装、食品和饮料、艺术和汽车。

由于本文将分析意大利葡萄酒在中国市场的情况，因此第三章将解析中国的葡萄酒市场：国内产品、进口贸易和消费模式。最近，中国消费者对葡萄酒表现出极大的偏好，不仅因为它是财富和社会地位的象征，而且因为它众所周知对健康的益处。然而，中国的葡萄酒消费是由经济、社会和文化等多种因素决定的。

通过对意大利南部的一家在中国出口葡萄酒的公司森美赞诺葡萄酒 ( San Marzano Wines ) 的实际案例研究，可以了解到意大利公司是如何在多元化的环境中开展业务活动，吸引客户注意力、建立知名度以及如何为目标市场中获得相关性。

# I. Business strategies for entering new markets

## 1.1. The Concept of Business Model

Before going into the detail of what this paper aims to analyze, that is the business strategy of a particular company in the Chinese market, this chapter gives an overview of what the business model is and how it can be innovated is strongly recommended.

The concept of *business model* has appeared throughout the economic boom of the 1990s and it became a crucial part of every company's strategy. The importance of the business model resides in the fact that it explains how value is created and delivered to customers at which cost.<sup>1</sup> Thereby a well-developed business model should contain the answer to these questions: who's the business customer? What is the business value proposition? How is the business delivering the offer to its customers? (fig.1) Thanks to this framework, businesses have an overall picture of their entire way of managing activities within the organization.

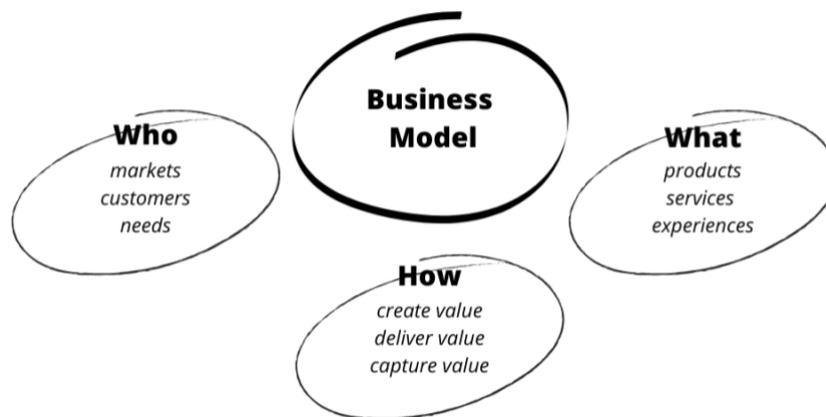


Figure 1 - The Business Model (Sniukas, M., (2012), Making business model innovation happen, *Applied Innovation Management*, adapted by me)

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<sup>1</sup> Sniukas, M. (2012) Making business model innovation happen, Innovation Management Guide. *Applied Innovation Management*. p. 8

In this regard, the *business model canvas* is a great tool in helping to understand a business model in a clear and structured way.<sup>2</sup> As defined by Osterwalder and Pigneur (2010), the business model canvas is “a shared language for describing, visualizing, assessing, and changing business models”, and it consists of 9 building blocks (fig. 2):<sup>3</sup>

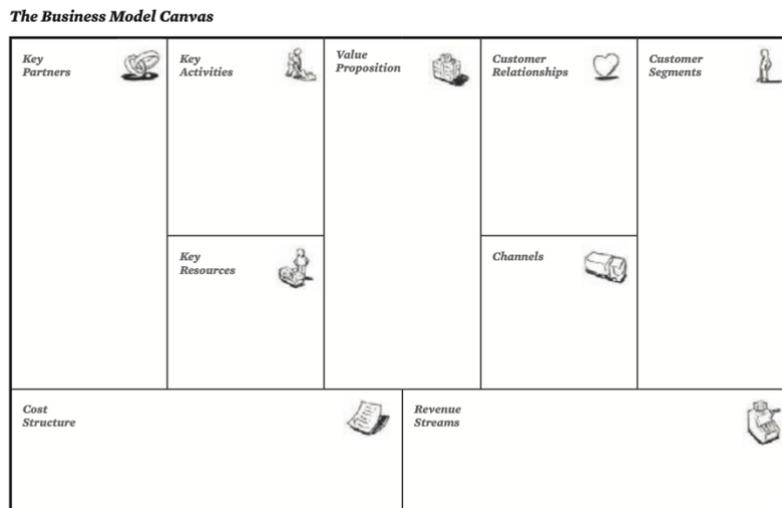


Figure 2 – The business model Canvas. (Osterwalder, A., Pigneur, Y. (2010) *Business model generation*, Wiley, p. 50)

1. *Customer segments* describe groups of people or organizations that a company wants to reach and serve. There are different types of customer segments such as mass market, niche market, or diversified market.<sup>4</sup>
2. *Value propositions* define the range of products and services that create value for a certain customer segment. Valuable elements are customization, performance, newness, price, etc.<sup>5</sup>
3. *Channels* describe the bridge by which a company reaches its customer to deliver value. Examples of channels are salesforce, web sales, wholesaler, etc.<sup>6</sup>
4. *Customer relationships* describe the kind of relationships a company builds with each customer segment. Customer relationship comprises personal assistance, self-service, communities, etc.<sup>7</sup>

<sup>2</sup> BMI. *Business model canvas*. <https://www.businessmodelsinc.com/about-bmi/tools/business-model-canvas/>

<sup>3</sup> Osterwalder, A., Pigneur, Y. (2010) *Business model generation*, Wiley, pp. 22-23

<sup>4</sup> Ivi, pp. 26-27

<sup>5</sup> Ivi, pp. 28-31.

<sup>6</sup> Ivi, pp. 32-33.

<sup>7</sup> Ivi, pp 34-35.

5. *Revenue streams* represent the money a company gains from customer segments. A company can generate revenue through asset sale, usage fee, subscription fee, or leasing.<sup>8</sup>
6. *Key resources* are the most fundamental assets enabling the business model to work. They can be physical, intellectual, human, and financial.<sup>9</sup>
7. *Key activities* describe all the activities that a company performs to make its business model work, for example, production, network, and problem-solving.<sup>10</sup>
8. *Key partnerships* explain the company's network of suppliers and partners. The types of partnerships are strategic alliances, joint ventures, cooperation, and buyer-supplier relationships.<sup>11</sup>
9. *Cost structure* identifies all costs that a company bears to run a business. Business model cost structures are cost-driven or value-driven.<sup>12</sup>

While the business model canvas helps to create value for businesses, the value proposition canvas helps businesses create value for their customer.<sup>13</sup>

The value proposition canvas has two sides: the customer profile and the value map.<sup>14</sup> This framework is used to ensure that there is a fit between the product and the market.<sup>15</sup> The customer profile explains the company's customer understanding, while the value map expresses how the company plans to create value for its customers.<sup>16</sup>

To summarize, with the value proposition a company describes which benefits customers should expect from products and services, and how those products and services differ

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<sup>8</sup> Osterwalder, A., Pigneur, Y. (2010) *Business model generation*, Wiley, pp. 36-38.

<sup>9</sup> Ivi, pp. 40-41.

<sup>10</sup> Ivi, pp. 42-43.

<sup>11</sup> Ivi, p. 44.

<sup>12</sup> Ivi, pp. 46-47.

<sup>13</sup> Rouw, C. (2017, Jun.) When to use the value proposition canvas. *Far Reach*. <https://www.farreachinc.com/blog/when-to-use-the-value-proposition-canvas>

<sup>14</sup> Osterwalder, A., Pigneur, Y., Bernarda, G., Smith, A. (2014) *Value proposition design: how to create products and service customers want*, Wiley. p.31

<sup>15</sup> B2B International (n.d.) *What is the value proposition Canvas*. <https://www.b2binternational.com/research/methods/faq/what-is-the-value-proposition-canvas/>

<sup>16</sup> Osterwalder, A., Pigneur, Y., Bernarda, G., Smith, A. (2014) *Value proposition design: how to create products and service customers want*, Wiley. p.31

from the competition. <sup>17</sup> However, to design the appropriate benefits a company must also observe the customer behavior and verify customer characteristics in the target market.

Further deepening into what composes the value proposition canvas, it can be noticed that graphically the value map is broken down into products and services, pain relievers and gain creators (fig. 3). On the other hand, the customer profile is divided into customer jobs, gains and pains. <sup>18</sup>

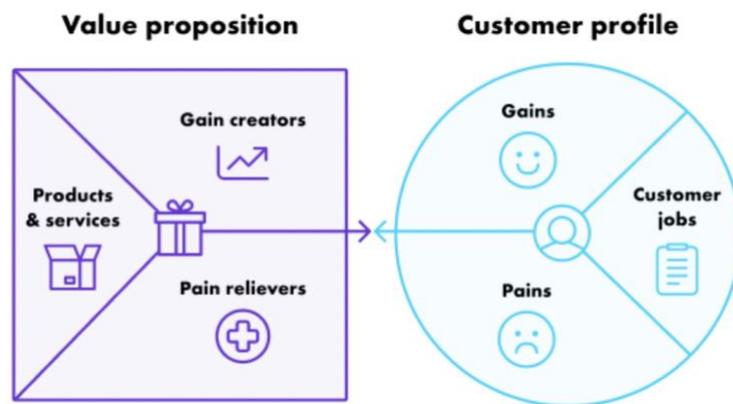


Figure 3 - Value proposition canvas structure (source: <https://www.digitalnatives.hu/blog/value-proposition-canvas/>).

When the two sides of the value proposition canvas seem overlapping, the company has achieved what is called *fit*, that is when products and services produce pain relievers and gain creators that match with jobs, pains, and gains that matter to customers. <sup>19</sup>

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<sup>17</sup>Cote, C. (2020, July). How to create an effective value proposition. *Harvard Business School Online*. <https://online.hbs.edu/blog/post/creating-a-value-proposition#:~:text=A%20value%20proposition%20is%20a,prove%20the%20brand's%20stated%20value>.

<sup>18</sup> Varga, D. (2020, Oct.). How to use value proposition canvas: the definitive guide. *Digital Natives*. <https://www.digitalnatives.hu/blog/value-proposition-canvas/>

<sup>19</sup> Osterwalder, A., Pigneur, Y., Bernarda, G., Smith, A. (2014) *Value proposition design: how to create products and service customers want*, Wiley. Pp. 36-37.

## 1.2. Business model innovation

As it was already mentioned before, the definition of a firm's business model is extremely important because it provides managers the possibility to test whether the model works, or it needs to be revised.<sup>20</sup> The reason why companies may decide to modify and innovate their business model is to gain more competitive advantage in the industry and generate more value for customers and stakeholders.<sup>21</sup>

Business model innovation is the process by which a company transforms key elements of its business or develops a completely new way of doing business.<sup>22</sup> As stated by Sniukas (2012), business model innovation includes changes of elements of an existing business model or the creation of a new business model.<sup>23</sup> In the first case, business model innovation is defined as revolutionary, while in the second one it is considered as radical since the business model is completely transformed into something new.

The process of business model innovation is not an easy one, companies often fail in the development of an effective strategy that can combine innovation efforts with business strategies.<sup>24</sup> Thus, managers should first identify opportunities for innovation, and then develop ideas on how to take advantage of these opportunities.<sup>25</sup>

Sniukas (2012) pointed out that the basic steps of the business model innovation process are:<sup>26</sup>

1. Setting the stage: the first phase regards the clarification of what the business goals are, and why the company needs to pursue innovation along with the definition of the team in charge of running the model innovation. Once the previous are identified, the team should define goals, metrics, and project plans to be followed.

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<sup>20</sup> Magretta, J. (2002, May). Why business models matter. *Harvard Business Review*. <https://hbr.org/2002/05/why-business-models-matter>

<sup>21</sup> Boston Consulting Group. Business model innovation. <https://www.bcg.com/en-au/capabilities/innovation-strategy-delivery/business-model-innovation>

<sup>22</sup> Sniukas, M. (2012) Making business model innovation happen, Innovation Management Guide. *Applied Innovation Management*. p. 8.

<sup>23</sup> Ivi, p. 12.

<sup>24</sup> Pisano, G.P. (2015, June). You need an innovation strategy. *Harvard Business Review*. <https://hbr.org/2015/06/you-need-an-innovation-strategy>

<sup>25</sup> Sniukas, M. (2012) Making business model innovation happen, Innovation Management Guide. *Applied Innovation Management*. p. 15.

<sup>26</sup> Ivi, pp. 15-20.

2. Discovery: the second phase includes describing the current business model, the industry in which the company operates, the market, and future trends that may affect business activities.
3. Development and design: the third step implies the development of creative ideas for innovating the business model.
4. Conversion: the fourth step involves the activity of putting ideas into action and test customers' reactions.
5. Commercialization: the last phase occurs when the business model innovations are further improved and implemented.

Once the business model is innovated, the company should be able not only to provide better offerings but also to gain more outstanding results.<sup>27</sup> Moreover, innovation is important as it allows the company to survive and thrive in a changing environment.<sup>28</sup>

### 1.3. Ten Types of Innovation

Since firms manage their business activities in a constantly challenging environment characterized by changes in consumers' needs, managers should understand what type of innovation is the most suitable for leveraging the overall outcomes.<sup>29</sup> When thinking about innovation, companies might fall into banality and think about innovation of products, however, creating new products is just one of the many innovations that companies may pursue.<sup>30</sup> What firms might ignore is that innovation may also involve

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<sup>27</sup>Zott, C. (2020, Oct). Why business model innovation could be the key to getting better results. *Forbes*. <https://www.forbes.com/sites/iese/2020/10/26/why-business-model-innovation--could-be-the-key-to-getting-better--results/?sh=4b11634a46b0>

<sup>28</sup>Landry, L. (2020, May). Business model innovation: what it is and why it's important. *Northeastern University*. <https://www.northeastern.edu/graduate/blog/implementing-business-model-innovation/#:~:text=Business%20model%20innovation%2C%20then%2C%20describes,venue%20streams%20or%20distribution%20channels>.

<sup>29</sup> Kylliäinen, J. (2019, Oct.) Types of Innovation – The ultimate Guide with definitions and examples. *Viima*. <https://www.viima.com/blog/types-of-innovation>

<sup>30</sup>Gassmann, O., Frankenberger, K., Csik, M. (2013). *The St. Gallen Business Model Navigator*. (University of St. Gallen Working Paper).

other business activities, such as new interactions and type of engagement with customers or new ways of delivering services.<sup>31</sup>

By analyzing almost 2.000 cases of successful innovations, researchers discovered the main parts of a business model that a company can innovate and developed a framework called *Ten Types of Innovation*.<sup>32</sup> This framework is a diagnostic tool that helps companies evaluating innovation possibilities inside the organization, analyzing the external environment, and identifying potential opportunities.<sup>33</sup> The reason why managers should use this tool is to spot growth opportunities and challenge the industry by introducing disruptive innovations.

The *Ten Types of Innovation* framework (fig. 4) is composed of three main categories: configuration, offering, and experience, which inside have subcategories referring to specific business activities.<sup>34</sup> It is worth noting that the framework depicts the ten types from the most internal one, namely the profit model, to the most external, that is the customer engagement.<sup>35</sup>

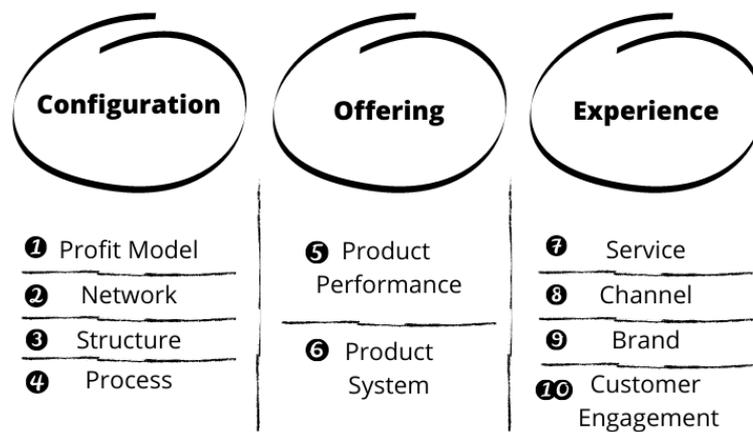


Figure 4 - The Ten Types framework (Keeley, L., Pikkell, R., Quinn, B. Walters, H. (2013) *Ten types of innovation: the discipline of building breakthroughs*. Wiley. p. 42, adapted by me)

<sup>31</sup> Keeley, L., Pikkell, R., Quinn, B. Walters, H. (2013) *Ten types of innovation: the discipline of building breakthroughs*, Wiley, p. 28.

<sup>32</sup> Ivi, p. 35-36.

<sup>33</sup> Ivi, p. 37-38.

<sup>34</sup> Ivi, p. 41.

<sup>35</sup> Ibidem.

To achieve a competitive advantage and offer innovative products and services to the market, a company should analyze each part of the framework and check whether and where it is possible to generate innovative ideas. Considering that nowadays markets and customers are more and more sophisticated and demanding, many types of innovation carefully combined are required to generate higher profits.<sup>36</sup>

All the previous topics fall into the macro category of business strategy that a company might implement to perform its business model and outperform competitors.

#### **1.4. What is strategy?**

According to the definition given by Porter (1996), strategy is defined as “the creation of a unique and valuable position, involving different set of activities”.<sup>37</sup> Thus, a firm’s competitive advantage is the result of all the activities performed to create, produce, sell, and deliver a product or a service.<sup>38</sup> Although there are many definitions of strategy, they all involve concepts such as the long-term direction of an organization, its scope, its advantage over the competition, the strategic fit with the business environment, and the company’s resources and competencies.

Therefore, the most common definition of strategy could be:

« *Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations*». <sup>39</sup>

Since strategy leads to the achievement of the overall purpose of a company, strategic decisions are characterized by complexity, be made in situations of uncertainty about the future, and linked to operational decisions, they required an integrated approach along with relationships and networks outside the organization (suppliers, distributors, and customers), and last, they involve considerable changes as to obtain the desired result.<sup>40</sup>

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<sup>36</sup> Keeley, L., Pikkell, R., Quinn, B. Walters, H. (2013) *Ten types of innovation: the discipline of building breakthroughs*, Wiley, p. 190.

<sup>37</sup> Porter, M. E. (1996). What is strategy? *Harvard Business Review*, 4134, 1.

<sup>38</sup> Ibidem.

<sup>39</sup> Johnson, G., Scholes, K., & Whittington, R. (2008). *Exploring corporate strategy* (8<sup>th</sup> ed.). Prentice Hall.

<sup>40</sup> Johnson, G., Scholes, K., & Whittington, R. (2008). *Exploring corporate strategy* (8<sup>th</sup> ed.). Prentice Hall.

As the business model and business strategy are the basis of a company, they both need to be consistent with each other to allow a company to achieve a strategic position in the market.<sup>41</sup> For achieving a strategic position, a company should have two options: performing different activities from the competition or performing similar activities but in different ways.<sup>42</sup>

Besides the definition of strategy, there are many other terms related to it, such as the mission, vision, goal, objective, strategic capability, business model and so forth.<sup>43</sup> For instance, the *mission statement* identifies a firm's business, objectives, and methods to reach its goals, and the *vision statement* defines the desired future of the company.<sup>44</sup>

While the mission and the vision of a firm are general expressions aiming at communicating the overall purpose of the organization and the desired future state of it, the concept of strategy is broadly related to all the decisions and choices taken within the organization to accomplish the overall goals. As an example, the international strategy is one of the strategic choices undertaken by a firm that operates its business across different geographical markets.<sup>45</sup>

### 1.5. Levels of strategy

There are three levels of strategy within an organization.<sup>46</sup>

The first level is *corporate-level strategy*, which refers to the overall goal of an organization and how it will create add value to the different business units. This level of strategy comprises geographical coverage, variety of products or services, and allocation of resources among different parts of the organization.<sup>47</sup>

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<sup>41</sup> Slavik, Š., Zagoršek, B. (2016). Relationship between business strategy and business model studied in a sample of service companies. *Journal of Competitiveness*, 8 (4). Doi: <https://doi.org/10.7441/joc.2016.04.05>

<sup>42</sup> Porter, M. E. (1996). What is strategy? *Harvard Business Review*, 4134, 1.

<sup>43</sup> Johnson, G., Scholes, K., & Whittington, R. (2008). *Exploring corporate strategy* (8<sup>th</sup> ed.). Prentice Hall, pp. 8-10.

<sup>44</sup> Bain & Company. *Mission and Vision statements*. <https://www.bain.com/insights/management-tools-mission-and-vision-statements/>

<sup>45</sup> Johnson, G., Scholes, K., & Whittington, R. (2008). *Exploring corporate strategy* (8<sup>th</sup> ed.). Prentice Hall, p. 294

<sup>46</sup> Ivi, p. 7.

<sup>47</sup> Ibidem.

The second level is the *business-level strategy*, sometimes also called *competitive strategy*, as it defines how businesses of the corporate strategy manage the competition in their markets. <sup>48</sup>

The third level is known as the *operational strategies*, which refers to all the strategies employed by different parts of the organization for delivering the first two levels of strategies in terms of resources, processes, and people. <sup>49</sup>

In addition, another level is represented by the *strategic business unit*, a fully functional entity that manages its business separately from the headquarter to which however it has to report its operation. <sup>50</sup>

Considering the different levels of strategy in a company, it is worth mention that the corporate-level strategy and the business-level strategy are the same in companies that have just one business. <sup>51</sup>

## 1.6. Strategic management

The term *strategic management* refers to the management of a company's resources and capabilities, such as resources management, measurement of financial performance, level of customer service, and analysis of the strategic position and choices for the future of the business. <sup>52</sup>

The strategic management involves three actions: understanding the strategic position, making strategic choices for the future, and managing strategy in action (see fig. 5).

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<sup>48</sup> Johnson, G., Scholes, K., & Whittington, R. (2008). Exploring corporate strategy (8<sup>th</sup> ed.). Prentice Hall. p. 7.

<sup>49</sup> Ibidem.

<sup>50</sup> The Economic Times. *Definition of 'Strategic Business Unit'*. <https://economictimes.indiatimes.com/definition/strategic-business-unit#:~:text=Definition%3A%20A%20strategic%20business%20unit,important%20part%20of%20the%20company.>

<sup>51</sup> Johnson, G., Scholes, K., & Whittington, R. (2008). Exploring corporate strategy (8<sup>th</sup> ed.). Prentice Hall. p. 7.

<sup>52</sup> Ivi, p.11.



Figure 5 - The Strategic Management (Johnson, G., Scholes, K., & Whittington, R. (2008). Exploring corporate strategy (8<sup>th</sup> ed.). Prentice Hall., p. 12, adapted by me)

By understanding the strategic position, managers can identify the impact of the external environment, organization's strategic capability, and the expectations and influence of stakeholders on the business strategy.<sup>53</sup> For analyzing the external environment, companies may use the PESTEL framework to define the macro forces (political, economic, social, technological, environmental, and legal) that might impact business performance.<sup>54</sup> This framework is often used in combination with the SWOT analysis, which helps managers delineate strengths, weaknesses, opportunities, and threats of a company.<sup>55</sup> These two analytical business tools are complementary since they give a clear picture of both the internal and external factors that affect business activities.<sup>56</sup> Regarding the strategic capability of the organization, these are a firm's resources and competencies that provide advantages over competitors.<sup>57</sup>

A great influence on strategy is also given by stakeholder expectations on an organization's scope, and cultural and historical context, which can also impact a business strategy leading to some changes in trajectories.<sup>58</sup>

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<sup>53</sup> Johnson, G., Scholes, K., & Whittington, R. (2008). Exploring corporate strategy (8<sup>th</sup> ed.). Prentice Hall. p. 13.

<sup>54</sup> Oxford College of Marketing. *What is a PESTEL analysis?*. <https://blog.oxfordcollegeofmarketing.com/2016/06/30/pestel-analysis/>

<sup>55</sup> Frue, K. (2018, Mar.). How combining PEST and SWOT analysis is essential for all businesses. *Pestle Analysis*. <https://pestleanalysis.com/combining-pest-and-swot-analysis-for-business/>

<sup>56</sup> Ibidem.

<sup>57</sup> Johnson, G., Scholes, K., & Whittington, R. (2008). Exploring corporate strategy (8<sup>th</sup> ed.). Prentice Hall. p. 13.

<sup>58</sup> Ivi, p. 13-14.

As concerns the second element of strategic management, when managers choose to pursue specific strategies among various available options, they are taking strategic choices.<sup>59</sup> Examples of strategic choices are, for instance, pricing and differentiation, starting from diversification of products, and international strategies, which will be the subject of the following paragraphs.

At last, the third element, which is the strategy in action, occurs when the strategic choices are put into practice.<sup>60</sup>

### **1.7. The Blue Ocean Strategy**

To better understand how to pursue innovation and differentiation, it is important to mention the theory of the *blue ocean strategy* by Chan Kim and Renée Mauborgne, two famous business theorists and economists. According to this strategy, the market universe is composed of two sorts of oceans: red oceans and blue oceans.<sup>61</sup> Red oceans refer to the known market space, all the industries that already exist at the moment, while blue oceans designate the unknown market space, which constitutes all the non-existent industries.<sup>62</sup>

Since red oceans are characterized by well-defined and accepted rules of the game, companies in these oceans try to outperform their competitors to gain a greater share of demand.<sup>63</sup> The blue oceans, by contrast, are untapped market spaces characterized by demand creation and the opportunity to gain highly profitable growth, thus competition is irrelevant since the rules of the game still need to be set.<sup>64</sup>

As claimed by the theorists of the blue ocean strategy, the reason why companies should create blue oceans is that nowadays globalization has created a complex situation defined

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<sup>59</sup> Johnson, G., Scholes, K., & Whittington, R. (2008). *Exploring corporate strategy* (8<sup>th</sup> ed.). Prentice Hall. p. 14.

<sup>60</sup> Ivi, p. 15.

<sup>61</sup> Chan Kim, W., Mauborgne, R. (2005) *Blue Ocean Strategy: how to create uncontested market space and make the competition irrelevant*. Harvard Business School Press. P. 4.

<sup>62</sup> Chan Kim, W., Mauborgne, R. (2005) *Blue Ocean Strategy: how to create uncontested market space and make the competition irrelevant*, Harvard Business School Press, p. 4.

<sup>63</sup> Ibidem.

<sup>64</sup> Ibidem.

by an increasing number of industries, excess of supply, rising price wars, and shrinking profit margins.<sup>65</sup>

It is also important to mention that because companies are focused on matching their competitors, their strategies are often similar.<sup>66</sup>

Thereby, companies need to make the competition irrelevant by creating and capture new demand.<sup>67</sup> As we have already seen, beating on the competition is not the right strategy in blue oceans, indeed creators of blue oceans follow a strategy that has been defined as *value innovation*.<sup>68</sup>

While it is generally believed that companies must choose between differentiation (create value to customers at a higher cost) or low cost (create reasonable value at a lower cost), companies in the blue oceans can at the same time pursue both these strategies.<sup>69</sup>

By following the value innovation strategy, companies can reduce or eliminate the factors an industry competes on and increase the value for buyers by creating something that the industry has never offered.<sup>70</sup> Moreover, buyer value derives from the utility and price offered by the firm, and the company value is the result of its price and cost structure, thus a company can achieve value innovation only when the entire system of its utility, price, and costs activity is well-coordinated.<sup>71</sup>

Given the basic knowledge of the blue ocean's strategy, it is necessary to go deeper and analyze the tool used to capture an uncontested market space.

One of the most important analytical frameworks employed in this context is the *strategy canvas*. Thanks to this framework, company may first delineate the existing conditions in

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<sup>65</sup> Chan Kim, W., Mauborgne, R. (2005) *Blue Ocean Strategy: how to create uncontested market space and make the competition irrelevant*, Harvard Business School Press, p. 8.

<sup>66</sup> Chan Kim, W., Mauborgne, R. (2004). Value innovation: the strategic logic of high growth. *Harvard Business Review*. <https://hbr.org/2004/07/value-innovation-the-strategic-logic-of-high-growth>

<sup>67</sup>Blue Ocean Strategy. *What is blue ocean strategy?* <https://www.blueoceanstrategy.com/what-is-blue-ocean-strategy/#:~:text=Blue%20ocean%20strategy%20is%20the,thereby%20making%20the%20competition%20irrelevant.>

<sup>68</sup> Chan Kim, W., Mauborgne, R. (2005) *Blue Ocean Strategy: how to create uncontested market space and make the competition irrelevant*, Harvard Business School Press, p. 12.

<sup>69</sup> Ivi, p. 13.

<sup>70</sup>Blue Ocean Strategy. *Value Innovation*. <https://www.blueoceanstrategy.com/tools/value-innovation/>

<sup>71</sup> Chan Kim, W., Mauborgne, R. (2005) *Blue Ocean Strategy: how to create uncontested market space and make the competition irrelevant*, Harvard Business School Press, p. 17.

the known market space and what customers receive from the existing competitive offerings on the market.<sup>72</sup>

The strategy canvas has two dimensions, on the horizontal axis there are all the factors the industry competes on, while on the vertical axis there are offering levels for customers.<sup>73</sup> As a result, the *value curve* illustrates a company's strategic profile across the various factors of competition in the industry (fig. 6).<sup>74</sup>

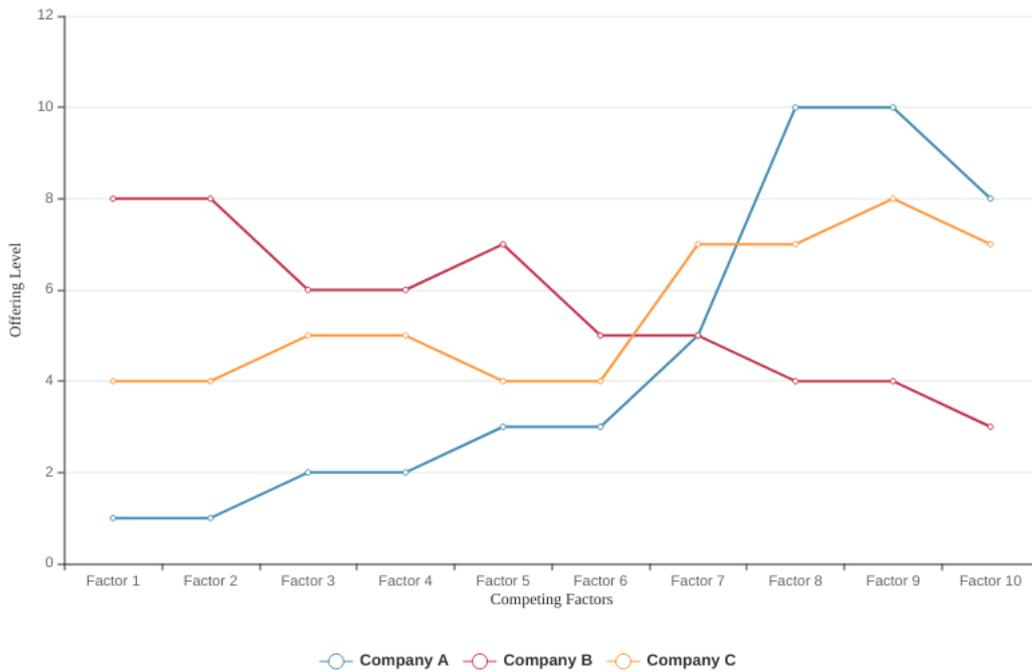


Figure 6 - Strategy Canvas Template (<https://online.visual-paradigm.com/diagrams/templates/strategy-canvas/strategy-canvas-template/>)

Thanks to this framework, companies can reorient their strategic focus from competitors to alternatives and from customers to non-customers of the industry, so that they can understand how to redesign buyer value elements.<sup>75</sup> In other words, the strategy canvas model is used to identify traditional factors influencing competition in the industry, then to highlight new strategies leading to the creation of new market space.

<sup>72</sup> Chan Kim, W., Mauborgne, R. (2005) *Blue Ocean Strategy: how to create uncontested market space and make the competition irrelevant*, Harvard Business School Press, pp. 25-27.

<sup>73</sup> Ibidem.

<sup>74</sup> Chan Kim, W., Mauborgne, R. (2002). Charting your company's future. *Harvard Business Review*. <https://hbr.org/2002/06/charting-your-companys-future>

<sup>75</sup> Chan Kim, W., Mauborgne, R. (2005) *Blue Ocean Strategy: how to create uncontested market space and make the competition irrelevant*, Harvard Business School Press, p. 28.

## 1.8. The Ansoff Matrix

Among different strategic choices, it is worth mentioning a tool designed to help companies to undertake choices about products and markets.<sup>76</sup> The *Ansoff matrix*, also called *product/market growth matrix*, was developed by Igor Ansoff and published in the Harvard Business Review in 1957 to provide companies the available strategic directions for growth.<sup>77</sup> Taking into consideration the two variables of product growth and market growth, the matrix results in four strategies:

- *Market penetration*, which focuses on increasing sales of existing products into existing markets;
- *Product development*, which focuses on the development of new products for an existing market;
- *Market development*, which focuses on selling existing products in new markets;
- *Diversification*, which focuses on the introduction of new products in new markets.

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It is relevant to notice that these four strategies present different levels of risk, moving from the left side of the matrix, the less risky is market penetration, while diversification strategy has the highest level of risk.<sup>79</sup>

Since this paper concentrates on business internationalization, we will look deeply into what Ansoff defined as ‘market development’ to analyze the various approaches for international strategy.

## 1.9. International Strategy

Given that international business is “the study of the transactions taking place across national borders for the purpose of satisfying the needs of individual and organization”,<sup>80</sup> international business strategy refers to the various business strategies used by companies that want to manage their business in different geographical markets (Johnson

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<sup>76</sup> Johnson, G., Scholes, K., & Whittington, R. (2008) *Exploring corporate strategy* (8<sup>th</sup> ed.). Prentice Hall. p. 256.

<sup>77</sup> Oxford College University. *Using the Ansoff matrix to develop marketing strategies*. <https://blog.oxfordcollegeofmarketing.com/2016/08/01/using-ansoff-matrix-develop-marketing-strategy/>

<sup>78</sup> Ibidem.

<sup>79</sup> Corporate Finance Institute. *What is the Ansoff matrix?*. <https://corporatefinanceinstitute.com/resources/knowledge/strategy/ansoff-matrix/>

<sup>80</sup> Collinson, S., Narula, R., Rugman, A.M. (2017) *International business* (7<sup>th</sup> ed.). Pearson, p. 5.

et al., 2008). There are many reasons why a firm, regardless of its size and assets, decides to carry out an international strategy, for example, bringing abroad its products or services, competing with international rivals in a new market, or managing activities across national borders.

Before implement an international strategy, companies should first examine the internationalization drivers and sources of competitive advantage. In other words, the international strategy relies on both the external environment and organizational capabilities, that are unique resources and core competences of a company.<sup>81</sup>

Many are the key drivers pushing towards internationalization. Thanks to the diffusion of new technologies, communication between country and people have increasingly improved. As a direct consequence, people worldwide can easily communicate and share their experiences and needs, leading to a standardization of consumers (Johnson et al., 2008).

While in the past companies might need to adapt products and services according to specific customers' tastes, today they might produce one product and potentially meet the demand for that product coming from everywhere throughout the world. In this case, it can be noticed how consumers have become standardized, for instance, a 45-year-old Indian male is likely to buy the same beard razor that a 45-year-old Italian male would buy.

Even though it might seem easy to recognize such trends globally, it is useful to apply some tools for analyzing the situation and draw a careful diagnosis of the strengths and opportunities offered by such a globalized market. According to the framework provided by George Yip, professor of marketing and strategy at Imperial College Business School of London<sup>82</sup>, the four drivers for internationalization are market drivers, cost drivers, government drivers, and competitive drivers.<sup>83</sup> The first refers to the fact that today the presence of similar customer needs and tastes along with the possibility to transfer marketing activities lead to the standardization of markets. The second driver refers to the

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<sup>81</sup> Johnson, G., Scholes, K., & Whittington, R. (2008) *Exploring corporate strategy* (8<sup>th</sup> ed.). Prentice Hall. p. 294.

<sup>82</sup> Imperial College London. *Professor George Yip*. <https://www.imperial.ac.uk/people/g.yip>

<sup>83</sup> Johnson, G., Scholes, K., & Whittington, R. (2008) *Exploring corporate strategy* (8<sup>th</sup> ed.). Prentice Hall. pp. 295-298

opportunity to reach scale economies increasing volume beyond national market demand. The third one refers to the various policies, such as tariff barriers, capital flow controls, and ownership restrictions, that governments may adopt to shape the country's economic situation and promote internationalization. At last, there are competitive drivers which refer to the increasing interdependence between country operations and the presence of globalized competitors.<sup>84</sup>

To better understand the last driver, we might say that a firm with a plant in Italy serving both the French and the German markets must coordinate operations between the three areas to compete efficiently on each market. If the firm is not able to manage operations across borders, it will be likely to be more vulnerable to globalized competitors.

To sum up, many are the factors supporting or inhibiting internationalization strategy, this also includes the type of industry in question and the ownership of some competitive advantages.

### **1.10. Sources of competitive advantage: the Porter's Diamond**

Starting from the reality that when a firm enters new markets, it may have significant disadvantages compared to existing competitors, such as lack of market knowledge, absence of relationships with local customers, suppliers, and so forth.<sup>85</sup>

However, a company may have some specific national sources of advantage that can play a crucial role in the international environment.

In general, "a competitive advantage refers to factors that allow a company to produce goods or service better or more cheaply than its rivals",<sup>86</sup> for what concern the international environment, national sources of advantage refer to those competitive advantages that countries own due to specific factors available to them.<sup>87</sup>

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<sup>84</sup> Johnson, G., Scholes, K., & Whittington, R. (2008) *Exploring corporate strategy* (8<sup>th</sup> ed.). Prentice Hall. pp. 295-298.

<sup>85</sup> Ivi, p. 300.

<sup>86</sup> Twin, A. (2021, Mar.). Competitive advantage. *Investopedia*. [https://www.investopedia.com/terms/c/competitive\\_advantage.asp](https://www.investopedia.com/terms/c/competitive_advantage.asp)

<sup>87</sup> Porter, E. (1990). The competitive advantage of nations. *Harvard Business Review*. <https://hbr.org/1990/03/the-competitive-advantage-of-nations>

For instance, it might be helpful to consider how many countries and regions are often associated with a specific competitive advantage: the Swiss in the watch manufacturing, the north Italians in leather and fashion goods, the German in white goods, and so forth.

In this regard, the *Porter's Diamond* model, known as the Porter Diamond Theory of National Advantage, helps delineate which determinants contribute to the creation of national advantages.<sup>88</sup> The model developed by Porter is based on four country-specific factors:

1. *Factor conditions* which are quantity and quality of raw materials, land and labor, technological innovation, infrastructure, and capital, basically the 'factors of production';
2. *Home demand conditions* which refer to the nature of the domestic customers, for instance approaching with sophisticated and demanding customers within the national borders helps train a firm to be effective and competitive abroad;
3. *Related and supporting industries* which are the local supporting industries with which companies establish mutual relationships;
4. *Firm strategy, structure and rivalry* which refer to the strategies undertaken by companies to compete in the industry, its structure, and the nature of domestic competition.<sup>89</sup>

Thanks to this model, companies can identify how to build home-based advantages that might help them to gain competitive advantages on a global scale.

As already mentioned, international strategy results from the analysis of a company's external environment and organizational capabilities, which in turn influence the selection of the international market and the way firms plan to do that, that is the entry mode.

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<sup>88</sup> Johnson, G., Scholes, K., & Whittington, R. (2008) *Exploring corporate strategy* (8<sup>th</sup> ed.). Prentice Hall. p. 300.

<sup>89</sup> Ivi, pp. 300-301.

### **1.11. Equity and non-equity entry modes**

Once a company have established which are sources of competitive advantage that can be exploited abroad, it has to face another important strategic decision, that is the way by which it wants to enter the new geographical market.

Entry modes fall into two categories: *non-equity entry modes* and *equity entry modes*. The difference between the two is the level of commitment, which is higher in the case of equity entry modes.

*Non-equity entry modes* include direct or indirect export, licensing, and franchising agreements. The advantage of using a non-equity entry mode is the lower risk of financial losses as they require low initial investments.<sup>90</sup> Thus, it is more likely for a company to start by exporting, and then move to ‘riskier’ entry modes.

*Equity entry modes*, on the other hand, involve foreign direct investments (FDI), which could be with shared ownership or full ownership. An example of shared ownership entry mode is the international joint venture, which is an agreement with which two foreign companies combine their assets to achieve mutual benefits.<sup>91</sup> Whereas, greenfield investment and acquisition are examples of full ownership entry modes.

Consider the higher level of commitment in these types of entry modes, companies pursue equity entry modes when host-countries governments provide favorable incentives or when the risk perceived is low (Collinson, et al. 2017).

### **1.12. International Market Selection (IMS)**

When developing an international strategy, the international market selection (IMS) is another strategic decision that managers need to evaluate accurately.

The literature on this topic uses both the term ‘selection’ and ‘segmentation’, however, different terms concern two different ways of considering the market.<sup>92</sup> In most cases,

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<sup>90</sup> Collinson, S., Narula, R., Rugman, A.M. (2017) International business (7<sup>th</sup> ed.). Pearson, p. 63.

<sup>91</sup> Ivi, p. 64.

<sup>92</sup> Papadopoulos, N., Martin, O. (2011) International market selection and segmentation: perspectives and challenges. Journal Marketing Review, 28 (2), p. 133.

the word *selection* refers to the segmentation of the world in different country markets, based on national country markets, whereas *segmentation* refers to the identifications of different group of consumers within a certain country market. (Papadopoulos and Martin, 2011).

Discussing international market selection, deciding which international markets to enter is a complex strategic decision for several reasons.

IMS is an important decision made by the managers who might be not think rationally because of their cognitive limitation, limited market information and amount of time.<sup>93</sup> Moreover, IMS is a complex process because it involves information research about countries, products, and consumers, which could be difficult to collect before market entry (Papadopoulos and Martin, 2011). For these reasons, companies should follow a step-by-step approach to end up with the most suitable markets.

One common approach to international market selection is following a screening process of different country factors, starting from a screening of the desirability of products and services in a market, through country financial and economic conditions, political, legal, and socio-cultural forces, to end with the screening of competitive environment.<sup>94</sup>

Similar to the previously mentioned process is the PESTEL analysis since it involves political, economic, social, technological, environmental, and legal forces.

Adopting a careful analysis is even more important when the selection involves emerging markets (EMs).

Scholars agree about the impossibility to rely on traditional factors for the analysis of emerging markets. The traditional criteria for international market selection are product-specific market size and growth, availability, and cost of factors of production, level of economic development, the country environment, psychic distance, market-based factors, competition, information, and market knowledge.<sup>95</sup>

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<sup>93</sup> Papadopoulos, N., Martin, O. (2011) International market selection and segmentation: perspectives and challenges. *International Marketing Review*, 28(2), 134.

<sup>94</sup> Collinson, S., Narula, R., Rugman, A.M. (2017) International business (7<sup>th</sup> ed.). Pearson, p. 420-422.

<sup>95</sup> Sakarya, S., Eckman, M., Hyllegard K.H. (2007). Market selection for international expansion: assessing opportunities in emerging markets. *International Marketing Review*, 24(2), 211-212.

Thereby, it is necessary to integrate some additional tools as to create a framework that can apply also to emerging markets. For example, in-depth analysis of emerging countries should also integrate additional criteria such as long-term market potential, cultural distance, competitive strength of the related industry and customer receptiveness (Sakarya et al., 2011).

In this way, companies can have a clear picture of the situation in emerging markets and choose the most suitable for its products or services.

### **1.13. The Standardization vs Adaptation dilemma**

Within the context of international strategies, when going abroad, a firm faces the dilemma between standardization and adaptation of marketing strategies.

Those pushing toward standardization suggest that international markets are homogeneous and global and thus managers need to standardize their goods and services for their existence and growth at a global level.<sup>96</sup>

On the contrary, supporters of adaptation argue that due to significant differences between countries and regions, the standardization approach is not a viable path, thus companies should adapt their products and services to fulfill the requirements of different international markets.<sup>97</sup>

Therefore, the most fundamental question in developing a global marketing program is the extent to which the marketing program should be standardized across countries, a decision that has a profound impact on the various marketing processes.

One of the most authoritative supporters of standardization was the legendary Harvard professor Theodore Levitt.<sup>98</sup> In 1983, Levitt stated that companies should see the world as one large market, regardless of superficial regional and national dissimilarities.<sup>99</sup>

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<sup>96</sup> Hussain, A., Khan, S. (2013) International marketing strategies: standardization versus adaptation, *Management and Administrative Sciences Review*, 2(4), 354.

<sup>97</sup> Ibidem.

<sup>98</sup> The Harvard Gazette. *Professor Theodore Levitt, legendary marketing scholar and former Harvard Business Review editor, dead at 81.* <https://news.harvard.edu/gazette/story/2006/07/professor-theodore-levitt-legendary-marketing-scholar-and-former-harvard-business-review-editor-dead-at-81/>

<sup>99</sup> Keller, K. L. (2012) *Strategic brand management: building, measuring, and managing brand equity* (4<sup>th</sup> edition), Pearson. p. 521.

According to Levitt, leaps in technology and communication have led to the shortening of the world's distances, firms must focus particularly on customization to offer advanced, functional, and low-priced products globally (Keller, 2012). As stated by Levitt (1983), to develop a successful global marketing strategy, a firm should have a common brand name, packaging, and communication to satisfy the global market.<sup>100</sup>

Examples of a standardization strategy could be represented by Coca-Cola or McDonald's.<sup>101</sup> However, many critics are not always unanimous in this regard, because they argue that marketing activities are not always standardized (Keller, 2012). The reason for such disagreement results from the belief that differences in consumer behavior persist across countries.

Indeed, many firms adopt a more customized marketing mix based on local preferences and features. The results of the study conducted by Whitelock (1987) demonstrated that by using modification strategy firms were able to achieve a higher export turnover compared to those that follow a standardized strategy.<sup>102</sup> This shows that in many cases adaptations are needed to achieve success.

The concept of standardization and adaptation are both too extreme.<sup>103</sup> Thus, a company should carefully analyze the overall state of the industry and choose the right strategy according to the type of product or service and the international market features.

According to intercultural studies that analyzed the connection between culture and entrepreneurship, the national culture affects the way by which firms operate globally. For instance, thanks to their experience in international business and the large number of resources allocated, multinational enterprises (MNEs) may easily solve the standardization dilemma, while small and mid-size enterprises (SMEs) face a more difficult challenge when competing globally.<sup>104</sup>

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<sup>100</sup> Hussain, A., Khan, S. (2013) International marketing strategies: standardization versus adaptation, *Management and Administrative Sciences Review*, 2(4), 355.

<sup>101</sup> Pelzel, K. (2020, Oct.). Branding and marketing using a global standardization strategy. *Medium*. <https://medium.com/an-idea/branding-and-marketing-using-a-global-standardization-strategy-dd11f38a8b6f>

<sup>102</sup> Whitelock, J.M. (1987). Global marketing and the case for international product standardization, *European Journal of Marketing*, 21(9), pp. 32-44.

<sup>103</sup> Kraus, S., Meier, F. (2016). Standardization vs. adaption: a conjoint experiment on the influence of psychic, cultural and geographical distance on international marketing mix decisions. *European Journal of International Management*, 10 (2), 127-149.

<sup>104</sup> Apetrei, A., Kureshi N.I., Horodnic, I.A. (2015). When culture shapes international business, *Journal of Business Research*, 68, p. 1519. <http://dx.doi.org/10.1016/j.jbusres.2015.01.044>

The four strategies used by managers to balance standardization and adaptation are: <sup>105</sup>

1. *Adaptation by indifference* by which entrepreneurs adapt their business to local cultures by giving authority to local employees. <sup>106</sup>
2. *Adaptation by submission* occurs when entrepreneurs need to adapt to local culture. <sup>107</sup>
3. *Standardization by superiority* by which entrepreneurs follow a standardized business strategy in the international market, ignoring the local culture. <sup>108</sup>
4. *Disputable standardization* occurs when entrepreneurs create an interaction between the two cultures. <sup>109</sup>

The choice of these four strategies strongly depends on factors such as entrepreneurs' international business experience and personal values, and business activity (Apetrei et al., 2015). As previously noted, the standardization-adaptation dilemma has to do with the entrepreneur's culture and the host culture.

#### **1.14. Culture in the business environment**

Culture is one of the several factors that influence the strategic decisions within an organization and shape the way organizations do business outside their home country. <sup>110</sup>

Culture has two levels: the *psychic* or *psychological level*, and the *institutional level*. <sup>111</sup>  
The former "focuses on the internalized norms, attitudes, and behavior of individuals

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<sup>105</sup> Apetrei, A., Kureshi N.I., Horodnic, I.A. (2015). When culture shapes international business, *Journal of Business Research*, 68, pp. 1520-1521. <http://dx.doi.org/10.1016/j.jbusres.2015.01.044>

<sup>106</sup> Ibidem.

<sup>107</sup> Apetrei, A., Kureshi N.I., Horodnic, I.A. (2015). When culture shapes international business, *Journal of Business Research*, 68, p. 1520-1521. <http://dx.doi.org/10.1016/j.jbusres.2015.01.044>

<sup>108</sup> Ibidem.

<sup>109</sup> Ivi, p. 1521.

<sup>110</sup> Kaplan, M., Dollar, B., Van Durme, Y., 王大威. (2016, Mar.). Shape culture: drive strategy. *Deloitte*. <https://www2.deloitte.com/us/en/insights/focus/human-capital-trends/2016/impact-of-culture-on-business-strategy.html>

<sup>111</sup> Collinson, S., Narula, R., Rugman, A.M. (2016). *International business* (7. ed.). Pearson, pp. 159-160

from a particular culture”; the latter “looks at national (or group) culture embodied in institutions”.<sup>112</sup>

Regarding the first level of culture, it is worth mentioning the theory of cultural dimension developed by Geert Hofstede in 1980, which help to identify cultural differences across countries.<sup>113</sup>

Geert Hofstede defined culture as “the collective programming of the mind that distinguishes the members of one group or category of people from others”.<sup>114</sup>

*Hofstede’s cultural dimensions* model can be used for a wide range of fields, such as in psychology, sociology, marketing, and management studies.<sup>115</sup>

By analyzing 116,00 questionnaires from over 60,000 respondents in seventy countries, Hofstede first developed five dimensions, then he assigned indexes on each dimension to every country, and finally associated demographic, geographic, economic, and political aspects of society to the various dimensions (Soares et al., 2006).

The five cultural dimensions are:

1. *Individualism – collectivism*, which delineate the relationships individuals have in each culture (Soares et al., 2006). individualistic society are characterized by individuals that take care of only themselves, whereas in collectivistic societies individuals expect their peers to look after them.<sup>116</sup>
2. *Uncertainty avoidance index*, which “expresses the degree to which the members of a society feel comfortable with uncertainty and ambiguity”.<sup>117</sup>
3. *Power distance index*, which “express the degree to which the less powerful members of society accept and expect that power is distributed unequally”<sup>118</sup>

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<sup>112</sup> Collinson, S., Narula, R., Rugman, A.M. (2016). *International business* (7. ed.). Pearson, pp. 159-160

<sup>113</sup> Corporate Finance Institute. What is Hofstede’s cultural dimensions theory?. <https://corporatefinanceinstitute.com/resources/knowledge/other/hofstedes-cultural-dimensions-theory/>

<sup>114</sup> *Hofstede Insight*. Geert Hofstede’s: the dimension paradigm. <https://hi.hofstede-insights.com/models>

<sup>115</sup> Soares, A.M., Farhangmehr, M., Shoham, A. (2006). Hofstede’s dimensions of culture in international marketing studies. *Journal of Business Research*, 60, p. 280.

<sup>116</sup> *Hofstede Insight*. Geert Hofstede’s: the dimension paradigm. <https://hi.hofstede-insights.com/models>

<sup>117</sup> Ibidem.

<sup>118</sup> Ibidem.

Thereby, it influences hierarchy and dependence relationships both in the society and organizational environment (Soares et al., 2006).

4. *Masculinity – femininity*, which refers to the existence of different preference in society. The masculinity is defined by values such as achievement and success, while the latter by preferences for quality of life, cooperation, and modesty. <sup>119</sup>
5. *Long-term orientation – short term normative orientation*, which concerns with the orientation of society toward the tradition and the future.

Even though Hofstede created this framework for human resources management, managers worldwide use this model to compare cultures and countries to develop more accurate business strategies (Soares et al., 2006).

It is interesting to note that on the website called *Hofstede Insights* it is possible to make a comparison between different countries using the five dimensions of the social psychologist. <sup>120</sup>

For instance, figure 7 shows the comparison between Italy and China in each cultural dimension.

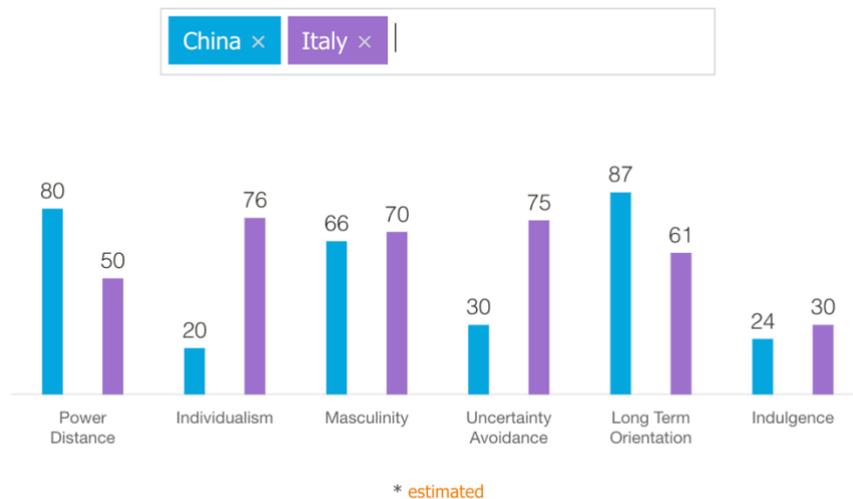


Figure 7 - Country comparison according to Hofstede's model <https://www.hofstede-insights.com/country-comparison/china,italy/>

<sup>119</sup> Hofstede Insight. *Geert Hofstede's: the dimension paradigm*. <https://hi.hofstede-insights.com/models>

<sup>120</sup> Hofstede Insight. *Country comparison*. <https://www.hofstede-insights.com/country-comparison/>

## II. People's Republic of China

### 2.1. Chinese history

When thinking about China and the many opportunities related to doing business there, people often ignore the strategic path that China has followed to become what it is today, the world's second-largest economy.

During the last decades, the People's Republic of China has seen rapid development from being an undeveloped country characterized by poverty, inequality and low quality of life, to be a dynamic and prosperous country with a big high- and middle-income group of population. Many argue that China's rise from a poor developing country to a major economic power in about four decades has been breathtaking.<sup>121</sup>

Today China ranks first in terms of economic size on a purchasing power parity (PPP) basis<sup>122</sup>, value-added manufacturing, merchandise trade, and holder of foreign exchange reserves (Morrison 2019).

This incredibly rapid transformation has pushed many researchers to study Chinese economic growth for defining which were the drivers of such growth. In the first place, starting from the communist victory in 1949, we can distinguish two different periods:

1. The pre-reform period (1954-1977) in which the Chinese Government maintained policies that kept the economy very poor, stagnant, centrally controlled, vastly inefficient, and relatively isolated from the global economy.<sup>123</sup> Under the leadership of Chairman Mao Zedong, China maintained a centrally planned economy characterized by the control of the state on economic output and prices. Economic growth was extremely volatile, with the rate of growth ranging from 21.3% in 1958 to -27.3% in 1961 (during the Great Leap Forward period).

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<sup>121</sup> Morrison W.M. (2019). China's economic rise: history, trends, challenges, and implications for the United States, *Congressional Research Service*, p. 5

<sup>122</sup> PPPs are indicators of price level differences across countries. They indicate how many currency units a particular quantity of goods and services costs in different countries. (Eurostat. Purchasing Power Parities – Overview. <https://ec.europa.eu/eurostat/web/purchasing-power-parities> )

<sup>123</sup> Morrison W.M. (2019). China's economic rise: history, trends, challenges, and implications for the United States, *Congressional Research Service*, p. 2

2. The post-reform period (1978- today) during which the Chinese leadership launched important economic reforms towards liberalization and openness to the global environment. Particularly the Chinese government instituted four special economic zones (SEZs) closed to the coastal area to attract foreign investment, increase exports, and more importantly to import high technology products into the mainland. China's SEZs were established in Xiamen, Shantou, Shenzhen, Zhuhai, and Hainan.<sup>124</sup> Through tax and trade incentives, it has reached a great success that later allowed China to become the world's second-largest economy.

In particular, the key factors that have triggered such growth are for instance the development of the rural non-farming sector, the massive inflow of foreign capital, structural transformation, reform-induced efficiency improvement and promotion of trade.<sup>125</sup> The development of TVPs (township, village, and private enterprises) became the pivotal point for China's economic growth in the 1980s, some of these enterprises achieved great results so that today they are multinational companies such as Haier, which produces white goods all over the world.

Regarding foreign direct investment (FDI), China has been the most popular destination of FDI for years. The first offshore investment in China was in 1979, after that many foreign enterprises have started to invest hundreds of billion into the market. As a result, the primary sector declined, whereas the second sector bolstered in both income shares and employment. Finally, China highly promoted and encouraged pursuing foreign trade, especially exports, to meet its need for foreign exchange and technology transfer.

Therefore, since China began to open and reform its economy in 1978, the gross domestic product (GDP)<sup>126</sup> growth has averaged almost 10% a year, and more than 800 million people have been lifted out of poverty. As a result of these improvements, significant steps forward have been made in the health system, education, and other services over the

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<sup>124</sup> Crane, B, Albrecht C., Duffin K.MK., Albrecht C. (2018). China's special economic zones: an analysis of policy to reduce regional disparities. *Regional Studies, Regional Science*, 5 (1), p. 100.

<sup>125</sup> Wu Y. (2004). *China's economic growth: a miracle with Chinese characteristics*, Routledge Curzon, p. 16.

<sup>126</sup> GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. (The World Bank. China's GDP growth (annual %). <https://databank.worldbank.org/metadataglossary/gender-statistics/series/NY.GDP.MKTP.CD> ).

same period.<sup>127</sup> Chinese growth was so impressive that the World Bank described it as “the fastest sustained expansion by a major economy in history”.<sup>128</sup>

As shown in fig. 8, China’s GDP enjoyed sustained growth in the 1980s and 1990s. Although this growth slowed down in the late 1990s, it still achieved a rate of 7% in 2001. Recently the Asian Giant is suffering a decline, in fact, China’s GDP growth rate for 2019 was 5.95%, a decline of just 0.8% from 2018. In 2020 due to the pandemic situation, its GDP dropped down to 2.30%, recording a 3.65% decline compared to 2019.<sup>129</sup>

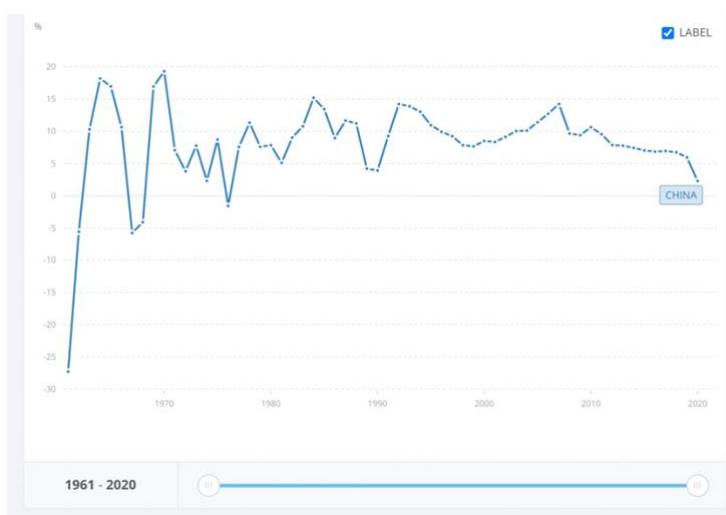


Figure 8 – China’s GDP growth (annual %) source: <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=CN>

Undoubtedly, Covid-19 has left national economies and businesses face a hard challenge, as governments struggle with the new lockdown measures to block the spread of the virus.

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In the first quarter of 2020, the second-largest economy recorded the first contraction in decades due to the epidemic.<sup>131</sup>

<sup>127</sup> The World Bank. (n.d.) *The World Bank in China Overview*. <https://www.worldbank.org/en/country/china/overview>

<sup>128</sup> Morrison W.M. (2019). China’s economic rise: history, trends, challenges, and implications for the United States, *Congressional Research Service*, p. 2

<sup>129</sup> Macro Trends. (n.d.) *China GDP Growth Rate 1961-2021*. <https://www.macrotrends.net/countries/CHN/china/gdp-growth-rate>

<sup>130</sup> Jones, L., Palumbo, D., Brown, D. (2021, 24 January) Coronavirus: How the pandemic has changed the world economy. *BBC News*. <https://www.bbc.com/news/business-51706225>

<sup>131</sup> Textor, C. (2021, 20 July) Projected coronavirus impact on China’s GDP growth 2021. *Statista*. <https://www.statista.com/statistics/1102691/china-estimated-coronavirus-covid-19-impact-on-gdp-growth/#statisticContainer>

Despite the outputs of the first quarter of 2020, which have seen a decline of -6.8%, according to the Global Economic Prospects report released by the World Bank, China's GDP is expected to grow by 8.5% in 2021.

This forecast depends on the fact that lately Chinese consumer demand has been increased. For example, sales during this year's shopping festival have shown a strong consumer demand.<sup>132</sup>

The Chinese government has embraced a new economic growth, defined as the 'new normal', which is characterized by the focus on private consumption, services, and innovation instead of fixed investment and exports.

Thanks to this strategy, Chinese leadership could avoid falling into the "middle-income trap",<sup>133</sup> that occurs when countries reach a certain economic level but start to experience a decrease in economic growth rates because of their inability to exploit new sources of growth.

The Chinese government has put innovation as a top priority in its economic plan, the project "Made in China 2025" announced in 2015 is a great example of this kind of strategy. The initiative aims to upgrade and modernizing China's manufacturing in 10 sectors to increase the competitiveness of Chinese industries, foster Chinese brands, and reduce China's reliance on foreign technology by making China a major or dominant global manufacturer of various technologies (Morrison, 2019).

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<sup>132</sup> Global Times. (2021, June). *World bank forecasts China's GDP to grow 8.5% in 2021, leading world economic recovery.* <https://www.globaltimes.cn/page/202106/1225764.shtml>

<sup>133</sup> Larson, G. Loayza, N., Woolcock, M. (2016). The middle-income trap: myth or reality? *Research & Policy Brief, World Bank Malaysia Hub 1*, p.1.

## 2.2. China's international trade

Along with its rapid economic growth, China has experienced a flourishing international trade.<sup>134</sup> Thanks to the various economic reforms carried out under the leadership of Deng Xiaoping, China has witnessed a transformation from a closed economy to an open one, from an inward-oriented country protected by trade policies to an outward-oriented one with an open market.<sup>135</sup>

The open-door economic strategy has initiated a new phase in the evolution of China's economic relations with foreign countries. Moreover, as regards imports, China has reduced trade barriers to intensify its openness to the world, for instance in the 1980s it deleted its import substitution list; in 1982 the initial tariff was fixed at the rate of 56%, two decades later, China reduced the average rate to 15% in 2001 and 8.8% in 2008. (Heshmati et Sun. 2010)

These trade policies have led China to reduce both export quota and import quota. The former was reduced from 227 in 1992 to 66 in 2001, the latter from 53 in 1992 to 33 in 2001. During the 1980s, imported goods included mainly energy, raw materials, machinery, electronics, light, and textile industries. Another event that has triggered a great change in the Chinese economy was Deng Xiaoping's trip to southern China, due to which a substantial number of foreign investors created joint ventures with a massive transfer of technology in the country.

However, what really helped China becoming a global economic partner was its entry into the World Trade Organization on December 11, 2001. By entering the global international organization, China agreed to eliminate import quotas, licenses, and other non-tariff barriers, and at the same time, it took steps also in the market of telecommunications, financial, insurance and banking services.

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<sup>134</sup> Peng, S. Heshmati, A. (2010). *International trade and its effects on economic growth in China* (Discussion Paper 5151), Institute of Labor Economics. p.2. <http://ftp.iza.org/dp5151.pdf>

<sup>135</sup> Ivi, p.7.

Fig. 9 shows China's trade performance from 1978.

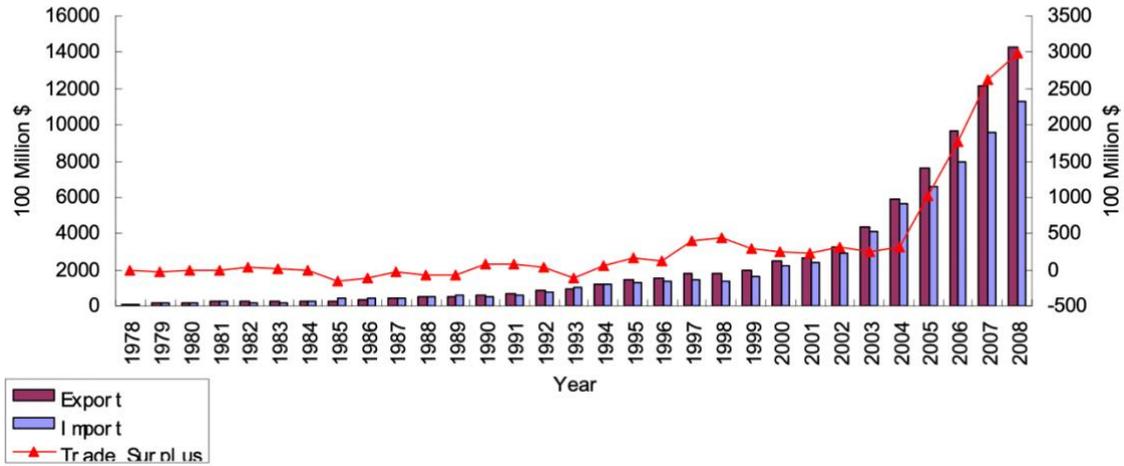


Figure 9 - China's Trade performance (Heshmati, A., Sun, P. (2010) International Trade and its effects on economic growth in China. IZA DP No. 5151 p. 10)

The most significant partners who have benefited from China's openness are the European Union, the United States, and Japan. In 2008 the total share of these three countries accounted for 40% of the total trade.<sup>136</sup>

According to U.S. trade data, the total amount of trade between the two countries grew from \$5 billion in 1980 to \$660 billion in 2018. Nowadays China is the largest merchandise trading partner of the United States and its third-largest export market.<sup>137</sup> However China's position in the world has raised some concerns among U.S. policymakers, who claimed that China does not act as a fair player in the global market, this is because of the financial aids provided by the Chinese government to Chinese companies and businesses. These concerns have led U.S. President Donald Trump (2017-2020) to begin a trade war toward China, the economic conflict between the two countries has started in January 2018 when Trump decided to set tariffs and other barriers on

<sup>136</sup> Peng, S. Heshmati, A. (2010). *International trade and its effects on economic growth in China* (Discussion Paper 5151), Institute of Labor Economics. p.12. <http://ftp.iza.org/dp5151.pdf>

<sup>137</sup> Morrison W.M. (2019). China's economic rise: history, trends, challenges, and implications for the United States, *Congressional Research Service*, p. 5

Chinese goods to push the Chinese leadership to make a change in their trade practices and intellectual property theft. In response to Trump's claims, Zhang Xiangchen, the Chinese ambassador at the World Trade Organization, argued that there is no evidence for such accusations. After three years of continuous conflict, negative effects have influenced both countries' trade and reputation. The only hope for two disputants is to find a balance given by the possibilities of a pragmatic dialogue with the new American administration.

Besides the ongoing economic conflict with the United States, China remains one of the most well-considered countries with which many multinational companies hope for doing business.

### **2.3. Doing business in China: Challenges and opportunities**

If it is true that China is one of the top recipients of foreign direct investment since 2000, it should be said that the majority of FDI comes mainly from Asian countries and Hong Kong. The reason behind this is related to the fact that western countries are increasingly concerned about some features that characterized the Chinese market such as local laws and regulations, the threat of counterfeiting by local businesses, and most importantly the lack of predictability in the business and political environment.<sup>138</sup>

When considering the possibilities of doing business in China, Westerners often associate all the contradictions with the Tao symbol for Yin Yang. The symbol comes from Taoism, a religion born in China, and it depicts a white and a black swirl. Each swirl has a dot of the opposite color, meaning that everything contains the seed of its opposite. Thus, instead of being the opposite, they are relative to each other. Yin is the darker swirl, which represents the female side, Yang is the lighter swirl which portrays the male. The dot of opposite color inside reveals their reciprocity. One of the main ideas of Taoism is the belief that the universe is composed of balancing forces, that is energies and vibrations

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<sup>138</sup> Anglès V. (2019). Doing business in China: challenges and opportunities. *Global Business Organization Excellence*, Wiley 38, p. 54 <https://doi.org/10.1002/joe.21910>

which act depending on different contexts. For instance, water flowing calmly in a river is yin, but when it goes over the waterfall, it becomes yang.<sup>139</sup>

Thus, according to this perspective, Yin and Yang should not be seen as opposites, but as an expression of a constant move toward the opposite. This concept may be difficult to understand by westerners, who are used to categorize more systematically, but when it comes to thinking about China, they should perhaps consider that China perceives itself as being in continuous movement, so it is no surprising to alternate progress and openness with reactionaryism and protectionism (Anglès, 2019).

In other words, a firm that wants to enter the Chinese market, must know and understand the various aspects of Chinese culture that inevitably affect the way Chinese people interact in their daily life and so in business environments.

Among the various Chinese cultural aspects, the followings are the most important:

1. Reciprocity and saving face. During the Great Leap Forward and the Cultural Revolution (1966-1976), Chinese education was centered upon the political theories of Mao's Little Red Book.<sup>140</sup> The only way by which Chinese people could obtain things was through personal relationships (关系 *guanxi*). Relationship in China is built around a gift/counter-gift dynamic. As a result, people use this kind of dynamic to get back a "gift" in the future. Regarding the business context, the link between reciprocity and hierarchy leads to the creation of connections with people who have achieved a high status, which in turn has been achieved thanks to connections. This explains why relationships and hierarchy have great importance in China more than in the West, and why people of a certain status would not share a cup of tea with someone belonging to a lower level in the hierarchy.
2. Megalomania. This is related to the concept of saving face (面子 *mianzi*), however, it is amplified by one's obsession towards power and authority. Megalomania

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<sup>139</sup> Bellaimey, J. The hidden meanings of yin and yang. *Ted Education* (<https://ed.ted.com/lessons/the-hidden-meanings-of-yin-and-yang-john-bellaimey>)

<sup>140</sup> The Little Red Book, also titled Quotations from Chairman Mao Zedong, was originally produced in 1964 by the People's Liberation Army and it contains 267 aphorisms from the Communist Chinese leader. BBC News. (2015, Nov.) *Who, What, Why: What is the Little Red Book?* <https://www.bbc.com/news/magazine-34932800>

could be explained through history, people born before the 1960s were not skilled and trained, they could only rely on personal relationships. Therefore, they tried to show and amplify any proof of success to do not feel less competent than others. In addition, it is commonly used for Chinese companies to hire foreigners to make a good image and to convey a perception of prestige.

3. Loyalty. Another characteristic embedded into the Chinese tradition regards the collectivistic view of society. People rarely follow their instinct to decide whether to do something or not, instead, they think and act as a group and thus benefit the whole society. Loyalty affects the business context as well. In this case, personal loyalty is deemed relevant compared to loyalty towards the organization.

The above-mentioned aspects of Chinese culture still have a preponderant influence in the business field.

Apart from the cultural features, foreign entrepreneurs must consider some issues that are peculiar to the Chinese business environment. For example, managers may find some barriers to collect business information; non-listed companies <sup>141</sup> are not required to register financial reports or balance sheets; many institutions working on the business field, such as chambers of commerce, are not always properly organized; legal registry and licensing procedures are often unclear, rarely respected, and weakly enforced (Anglès, 2019, p. 6).

Thereby foreigners encounter many challenges and difficulties in understanding and following a path that is not transparent and that is frequently changed due to the pace of change in China.

When doing business in China foreigners may face many threats, however, China offers quite a few opportunities that can be analyzed just by those connoisseurs of the Chinese market.

Even though the government's policies may seem to be protectionist and anti-Western, the law in China makes no distinctions between foreign and local companies. Furthermore,

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<sup>141</sup> A non-listed company is a firm that has issued equity shares that are no longer traded on a stock exchange. Companies might be unlisted because they are too small to qualify for a stock market listing, it might have too few shareholders or they want to avoid ownership disclosure requirements. ([https://www.investopedia.com/terms/u/unquoted\\_public\\_company.asp](https://www.investopedia.com/terms/u/unquoted_public_company.asp)).

what matters for Chinese people is the ease of manage trade and do business, thus they should be considered as stable and reliable commercial partners.

The initiative launched by President Xi Jinping in 2015 is a great example, the success of the 'Made in China 2025' plan highly depends on western technology and experience.<sup>142</sup>

Among the other aspects that might worry foreign investors, there is also what is called 'blacklist', which is a list of sensitive strategic sectors closed to the western presence. This list includes sectors such as water, energy, minerals, technology, and so forth.

Despite that, on the other hand, there are plenty of sectors in which foreign investors are welcome and encouraged to participate. Moreover, China offers great incentives to attract foreigners in particular provinces designated for those open sectors. For example, provinces such as Guangdong, Fujian, Tianjin, and Shanghai have become very flourishing for the market of service and technology, and recently seven new free trade zones have been created in Chongqing, Shaanxi, Liaoning, Sichuan, Zhejiang, Hubei, and Henan.

Exemplar is the case of Fincantieri, one of the world's largest shipbuilding groups, a global Italian leader in cruise ship design.<sup>143</sup> The Italian company has signed a joint venture<sup>144</sup> with CSSC Cruise Technology Development Co. Ltd (CCTD), the commercial agreement between the two businesses allows a technology license of the ship model platform and provides technical services to Shanghai Waigaoqiao Shipbuilding Co. Ltd (SWS), which is the subsidiary of CSSC. These services include project management activities, supply chain management, and sales of components.

The joint venture is now working on the first cruise ship built in China for the Chinese market.<sup>145</sup> Indeed, the cruise has particular characteristics to meet Chinese customers' needs, swimming pools will be with less water depth, onboard restaurants will cook Cantonese special dishes, and some areas that normally are devoted to relaxing and wellness will be replaced by karaoke rooms and by other entertainments that are more consistent with Chinese preferences. Moreover, as Chinese traditionally do not like

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<sup>142</sup> Orestes, G.D., Xu, M.H. (2018) Made in China 2025: Market Opportunities for EU SMEs, *EUSME Centre*. <https://www.eusmecentre.org.cn/guideline/made-china-2025-market-opportunities-eu-smes>

<sup>143</sup> Fincantieri. (n.d.) *Who we are*. <https://www.fincantieri.com/en/group/who-we-are/>

<sup>144</sup> A joint venture is a combination of two or more parties that seek the development of a single enterprise or project for profit, sharing the risks associated with its development. (Legal information Institute. *Joint Venture: an overview*. [https://www.law.cornell.edu/wex/joint\\_venture](https://www.law.cornell.edu/wex/joint_venture)

<sup>145</sup> Fincantieri. (2020, Nov.). *Dry Dock works for the first Chinese cruise ship start in Shanghai* <https://www.fincantieri.com/en/media/press-releases/2020/dry-dock-works-for-the-first-chinese-cruise-ship-start-in-shanghai/>

sunbathing because to them dark skin is a characteristic of peasants,<sup>146</sup> the upper area of the cruise will be fully covered to do not let sunlight penetrate.<sup>147</sup>

In addition, in 2013 the Chinese government has launched the ‘‘belt and road’’ initiative (BRI), also known as one belt one road (*yidai yilu* 一帶一路) which is a global infrastructure development strategy to improve regional integration, increasing trade and stimulating economic growth.<sup>148</sup> The BRI includes a silk road economic belt and a 21<sup>st</sup> century maritime silk road connecting China’s coastal regions with Asia, Africa, and Europe. Through this initiative, by the end of March 2020, China has already signed a memorandum of understanding (MoU) with 138 countries. The project is one of the most ambitious not just from a political and operational point of view, but also from a financial standpoint.<sup>149</sup>

Italy also joined the BRI on 23 March 2019, when the Italian Minister of Labor and Industry Luigi Di Maio and the Chinese Commerce Minister Zhong Shan signed a trade agreement worth 2.5 billion euros. Therefore, Italy became the first member of the G7, the group of seven major economies, to participate in the BRI program to increase exports and rebalancing trade.<sup>150</sup>

To sum up, the initiative adopted by the Chinese government represents a great opportunity for improving economic and financial cooperation, people-to-people ties, and development across the globe.<sup>151</sup>

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<sup>146</sup> Levin, D. (2012, 3 August) Beach Essentials in China: Flip-Flops, a Towel and a Ski Mask. *The New York Times*. <https://www.nytimes.com/2012/08/04/world/asia/in-china-sun-protection-can-include-a-mask.html>

<sup>147</sup> Dominelli, C. (2020, 11 November) Fincantieri: dalle piscine al karaoke, ecco la prima nave costruita in Cina per il mercato locale. *Il sole 24 ore*. [https://www.ilsole24ore.com/art/fincantieri-cabine-design-ecco-prima-nave-costruita-cina-il-mercato-locale-ADEWEg1?refresh\\_ce=1](https://www.ilsole24ore.com/art/fincantieri-cabine-design-ecco-prima-nave-costruita-cina-il-mercato-locale-ADEWEg1?refresh_ce=1)

<sup>148</sup> European Bank for Reconstruction and Development (n.d.) *Belt and Road Initiative*. <https://www.ebrd.com/what-we-do/belt-and-road/overview.html>

<sup>149</sup> Istituto per gli studi di politica internazionale (n.d.) *One Belt One Road*. <https://www.ispionline.it/it/tag/one-belt-one-road>

<sup>150</sup> Associated Press News (2019, Mar.). *Italy, China sign accord deepening economic ties*. <https://apnews.com/article/dae5c72c5cf94e6cb3dce96f9ba9c62f>

<sup>151</sup> The World Bank Group. (2019). *Belt and Road Economics: Opportunities and Risks of Transport Corridors*. <https://www.worldbank.org/en/topic/regional-integration/publication/belt-and-road-economics-opportunities-and-risks-of-transport-corridors#authors>

## 2.4. Chinese market research

Before reaching out to the Chinese market, making a visit to have a look into the opportunities that it has to offer, managers should have comprehensive knowledge about the demand for the company's product or service, about the customers' willingness to pay a certain price, and about the frequency with which they will demand company's offerings. In this case, a manager should start with prior market research, which will help to determine commercial opportunities.

One problem that arises at this point is the fact that any market research, as well as statistics, is as accurate as in Europe or North America.

Research may show that a specific product is not present in the market, so this will lead to believe that consumers are not willing to buy it. On the contrary, some research will even say that similar products already exist in the market, thus companies do not find it convenient to enter it.

For achieving a basic knowledge of the market in which a firm would like to enter, it is necessary to collect analyses and reliable statistics that are very hard to find in China. Surely the most important providers of such information for Chinese markets are the home embassy in China, Chinese embassies abroad, home government providers, home-country professionals and businesses, dedicated trade bodies, and of course the Web as well.<sup>152</sup>

The truth is that China has a market for any good product, and one of the most attractive things for firms is that there are more than 1.3 billion people in China, thus if just some of them will buy the product, the company would find its niche in the market.

Another aspect that certainly attracts many firms is the rising Chinese middle class and their spending power. Before going further to their spending patterns, it would be appropriate to delineate in broad terms the profile of the middle-class.

In 2015, the Pew Research Center, a nonpartisan fact tank, published an analysis on the changes in the distribution of the growing population by income from 2001 to 2011 with special regard to the change in the global middle-income population or global middle-

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<sup>152</sup> Ambler, T., Witzel, M., Xi, Chao (2017). *Doing Business in China* (4. ed). Routledge, p. 6

class. This study results in profiling five groups of people based on a family's daily per capita consumption or income: poor (\$0-2), low income (\$2-10), middle income (\$10-20), upper-middle class (\$20-50), and high income (more than \$50). In particular, all dollars are expressed in 2011 prices and converted to 2011 purchasing power parity dollars.<sup>153</sup>

Thus, according to the research, the first bracket consists of people earning  $\leq$  \$2, the minimum daily per capita income that must be exceeded to climb out of poverty; the second group is represented by people with a daily per capita income between \$2-10, so \$10 is the threshold that must be overcome to achieve middle-income status.<sup>154</sup>

Regarding the Chinese context, the research has revealed that China is the principal contributor to the development of the global middle-income population. From 2001 to 2011, 356 million people stepped out of poverty leading to an increase in China's low-income population; whereas during the same period also the size of the Chinese middle-income population recorded an increase of 203 million, from 32 million in 2001 to 235 million in 2011.<sup>155</sup>

As a matter of fact, during the past decades, thanks to China's economic development, hundreds of millions of people overcame poverty and today they represent a significant burgeoning middle class. In 2018, this burgeoning middle class constituted nearly 707 million people, more than half of the population.<sup>156</sup>

Naturally, this portion of the population is highly sought after by firms, because they generally have enough income to satisfy primary needs such as food, clothing, and shelter, and a disposable income for additional consumption or savings. According to the research conducted by the World Bank, which uses a dollar-per-day amount along with purchasing power parity (PPP), the world has witnessed a soaring growth of Chinese incomes.

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<sup>153</sup> PPP is explained in note 122.

<sup>154</sup> Kochar, R. (July 2015) A global middle class is more promise than reality: from 2001 to 2011, nearly 700 million step out of poverty, but most only barely. *Pew Research Center*, p. 8.

<sup>155</sup> Ivi, p. 34.

<sup>156</sup> China Power. (2017, Apr.). *How well-off is China's Middle Class?* China Power. <https://chinapower.csis.org/china-middle-class/>

China's Gross National Income (GNI) per capita <sup>157</sup> increased ten times since 2000 till reaching \$10,410 in 2019, as shown in fig. 10.

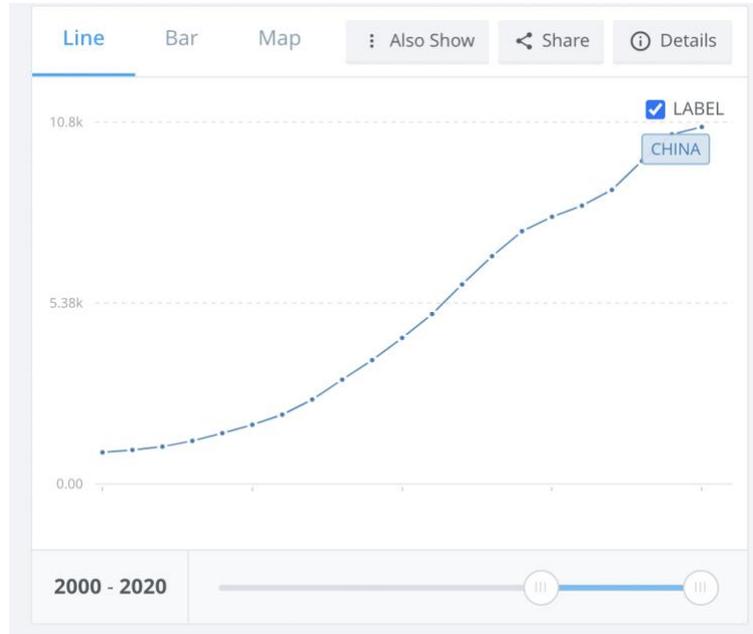


Figure 10 - China's GNI per capita (2000-2019) source: <https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?end=2020&locations=CN&start=2000>

## 2.5. China's consumption patterns

Over the last decades, China has witnessed a huge transformation from an investment-driven to a consumption-driven economy, leading to the rise of new consumers who are wealthier, digitally empowered, and more demanding. <sup>158</sup>

These economic, societal, and demographic changes contributed to the evolution of a new consumer profile and shifts in consumption patterns. The situation is completely changed

<sup>157</sup> GNI per capita (formerly GNP per capita) is the gross national income, converted to U.S. dollars using the World Bank Atlas method, divided by the midyear population. GNI is the sum of value added by all resident producers plus any product taxes not included in the valuation of output plus net receipts of primary income from abroad. (The World Bank. *GNI per capita, Atlas method (current US\$) - China*. <https://databank.worldbank.org/metadataglossary/health-nutrition-and-population-statistics/series/NY.GNP.PCAP.CD>)

<sup>158</sup> Accenture (2018) *Capturing growth in China: New consumers*. <https://www.accenture.com/acnmedia/PDF-9/Accenture-Capturing-Growth--China-New-Consumers-English.pdf#zoom=50>

over the last 10 years when urban Chinese were able only to cover basic needs such as, food, clothing, and housing. Nowadays, with an annual disposable income of 140,000-300,000 renminbi, they have enough money for dining out, buying beauty products, flat-screen TV, and overseas holiday.<sup>159</sup>

Using numbers, the World Bank stated that these urban consumers represent the main driver of the Chinese economy, as their spending accounts for more than 60% of GDP growth.

It is not surprising that many companies, especially foreign companies, seek to enter and gain profits from this rich and fast-growing market.

To do so, companies need to be aware of economic, societal, and demographic changes to understand the market and to better capture differences in patterns of expenditure. For instance, if a firm wants to target the middle-class, it does not need to change its business model or de-engineer its products, whereas for targeting low-income consumers and benefiting from a much bigger market, a firm should lower its products' prices and adapt its business model to it.<sup>160</sup>

As it was already mentioned before, high incomes brought to some shifts in spending habits. Moreover, many differences between rural and urban consumers came out from some surveys run in the country. McKinsey & Company, one of the most trusted consulting multinationals, which conducts dedicated surveys to help leading businesses, governments, and not-for-profits improve their performance and achieve their objectives, published a report about Chinese consumers and their main characteristics in 2019.

In general, two adjectives are the most appropriate when defining Chinese consumers: resilient and confident. The reason behind this attitude is because the Chinese have not experienced an economic recession or downturn, not even in 2008-2009 when many countries suffered the dramatic consequences of a global financial and economic crisis. Thus, in comparison to other countries' consumers, the Chinese are considered to be the

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<sup>159</sup> Ho J., Poh F., Zhou J., Zipser D. (2019). *China Consumer Report 2020: the many faces of the Chinese consumer*. Greater China Consumer & Retail Practice. McKinsey & Company. p. 3. <https://www.mckinsey.com/~media/mckinsey/featured%20insights/china/china%20consumer%20report%202020%20the%20many%20faces%20of%20the%20chinese%20consumer/china-consumer-report-2020-vf.pdf>

<sup>160</sup> Atsmon Y., Magni M. (2012). Meet the Chinese consumer of 2020: evolving economic profiles will continue to be the most important trend shaping the market. Retail Practice. *McKinsey Quarterly*. p. 3.

most optimistic.<sup>161</sup> Consumer confidence naturally derives from the fact that during the last years, salaries have constantly increased, and the unemployment rate has remained low.

Thus, when talking about Chinese consumers, three questions naturally come to mind: how much they are willing to spend, what they want to buy, and where.

First, as the McKinsey survey reveals, there are some differences in terms of consumers' confidence between cities and regions, for example, people from Fuzhou-Xiamen city have shown more confidence about their future income, saying that they expect it to increase significantly. On the other hand, people living across Byland-Shandong city have shown a more pessimistic view of the same topic.<sup>162</sup>

Second, consumers are becoming more and more conscious about their purchases, thus lifestyle services, leisure activities, and entertainment are highly preferred instead of categories such as food and beverage.<sup>163</sup>

Regarding the place where they are used to buy their products or services, it must be said that even though China is the world's largest e-commerce market (see the following paragraph for more insights on Chinese e-commerce), physical stores are still relevant for consumers since they seek for engagement both online and offline. For this reason, companies must be able to develop an omnichannel strategy to increase overall consumers satisfaction.<sup>164</sup>

To sum up, the most important trends analyzed by McKinsey's report of 2020 are:

1. Young digital natives living in lower-tier cities (Tianjin, Suzhou, Hangzhou, Chengdu and so) are reshaping China's consumption. They, indeed, represent 25 % of the population, but 60% of total spending growth. As these consumers finish work in the early evening, they have enough time to eat out, have fun with friends, do shopping and keep up with trends. Another important aspect to evaluate is that they are not worried about the future, thus, they are more likely to spend more

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<sup>161</sup> Poh F. (2020). *The Chinese consumer: resilient and confident*. Consumer packaged goods and retail practices. McKinsey & Company. p. 2

<sup>162</sup> Atsmon Y., Magni M. (2016). *Chinese consumers: revisiting our predictions*. *McKinsey Quarterly*. p. 2

<sup>163</sup> Zipser D., Chen Y., Gong F. (2016) *Here comes the modern chinese consumer*. Retail March 2016. McKinsey & Company. p. 3.

<sup>164</sup> Ivi, p. 4

money on their purchases, especially because they yearn for showing their social status.

2. Differently, many consumers, especially those living in first-tier cities, are becoming more and more concerned with savings. This is the case of rich, middle-aged Chinese who have no spare time for entertainment, therefore they are willing to spend more just for getting better-quality products.
3. Another interesting trend regards the health sphere. Nowadays, several consumers are showing particular interest in what they eat and drink. As stated in the report, 60% of consumers in big cities spend time reading product labels to check whether ingredients are healthy. Certainly, this trend is more present in wealthy cities such as Shanghai, Beijing, or Shenzhen. It is also important to consider that the Chinese idea of healthy living is different from the western one. They give more importance to the harmonious balance of mind and body, hence the focus is mainly on traditional exercises such as yoga and tai chi, which besides movements also provide a positive flow of energy. Regarding this, the 2017 Chinese consumer report by McKinsey distinguished three different segments of healthy consumers: ‘back to basics’ seeking for natural products, ‘balance seekers’ looking for physical fitness along with mental health, ‘driven workaholics’ and ‘indifferents’ who do not care about their health.<sup>165</sup>
4. Concerning traveling, Chinese consumers recently have shown a sophisticated attitude towards the choice of their trips within China and/or abroad. Instead of choosing a large package tour, which was mostly favored ten years ago, now they prefer to opt for self-guided trips and to plan by themselves.
5. At last, during the last decade, Chinese consumers are mainly preferring high-end Chinese brands. This may sound weird since years ago the perception about Chinese brands was extremely negative, Chinese goods were regarded as products

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<sup>165</sup> Baan W., Luan L., Poh F., Zipser D. (2017) *Double-clicking on the Chinese consumer: the new health craze, the rise of the post-90s generation, and other trends worth watching*. 2017 China Consumer Report, McKinsey & Company. pp. 8-10. <https://www.mckinsey.com/featured-insights/china/double-clicking-on-the-chinese-consumer>

of poor quality and inferior performance. Today, consumers would rather purchase Chinese brands in 13 out of 19 categories such as basic items like milk, fresh food, home cleaning products, as well as technological devices like phones, computers, and white goods. This has nothing to do with the brand origin or the price, because nowadays consumers pay money for a more valuable product, of better quality, catered to them, and even an excellent after-sales service. Service levels in China are amazingly high, people switch their phones, sign up to a platform, create an account, choose a payment method and start to experience the purchase (Felix Poh, 2020).

Regarding the country of origin,<sup>166</sup> Chinese still make confusion about where brands come from and where products are manufactured.

Special consideration should be given to what is called the “post-90s generation”, which is one of the fastest-growing and influential segments of Chinese consumers. Although many could be more familiar with the term *millennials*, it seems that ‘millennials’ is not always appropriate as a term because the post-90s generation has different connotations compared to the post-80s generation and even to western millennials.

What is different is the environment in which people born between 1990 and 1999 grew up. Unlike their parents, they grew up in a China characterized by an incredibly high level of wealth, great exposure to western influence, and last but not least the wide access to new technologies.

It comes without saying that due to these factors, this group of consumers is far more diverse from the previous one; they are more open to trying new things, to share their experience more freely, and they are more likely to prefer quality over quantity.<sup>167</sup>

Their attitudes toward various aspects of life such as success, health, family, brands, and product can be used as a lens through which companies can define many segments within it.

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<sup>166</sup> Country of origin (COO) represents the country or countries of manufacture, production, design, or brand origin where a product comes from. It represents an important factor for consumers when evaluating products. (Johnson Z. S., Tian Y., Lee S. (2016) Country of origin fit: when does a discrepancy between brand origin and country of manufacture reduce consumers’ product evaluations? *Journal of Brand Management*, 23(4), pp. 2-3.)

<sup>167</sup> Lannes B., Hatherall R., Ding J., Han W., Booker M. (2018) *Consumption in China: ten trends for the next 10 years. How companies can succeed in a richer, older, more innovative China*. Bain & Company. p. 3.

Many experts, like the authors of the abovementioned report, argued that the post-90s generation can be divided into five definite segments:

1. Happiness Seekers (representing 39% of the generation), which are confident about their economic situation, but their success is measured in terms of happiness rather than material goods. As a result of this way of thinking, they do not look at brands as a mean for achieving a social status or showing their identity. They are willing to pay a premium price for purchasing a high-quality product, an environmentally - friendly product would be an example of such a case.
2. Success Seekers (27%), which are well-educated professionals struggling with stress and fatigue for reaching their ambitions. Their life goal is to become rich. For this reason, they are more likely to buy what they like when they want just for rewarding themselves for all their efforts.
3. Laid Back (16%), which are not interested in getting rich. They are in their comfort zone without suffering from that. The outcome is a disregard for branded or tech products.
4. Spendthrifts (10%), which represent a valuable consumer group for companies because of their materialism and lax attitude. They like the latest fashions so much that they are likely to spend money to wear top brands and attend the most leisure activities.
5. Homebirds (8%), which are still under their parents' roof and so they rely on them for expensive and long-lasting products. For sure, people in this category are more inclined to save money for hard times.

Brands are increasingly trying to become more trusted in the eyes of consumers because Chinese consumers lately have improved their loyalty level towards brands. Since they have experienced so many brands, they are able to recognize differences.

Moreover, thanks to social media, they have created a huge network of sharing information and opinions about products and brands.<sup>168</sup>

Another trend that is redefining Chinese consumption is the shift in entertainment preferences. While before Chinese were used to go to shopping malls for buying goods, now they expect to go there and find some valuable experiences for spending time with their families. Indeed, inside shopping malls, stores selling products account for just 20-30%, the remaining 70-80% is constituted by other kinds of stores such as restaurants, cinemas, gyms, beauty spas, or playgrounds for kids.

The new composition of shopping malls provides consumers with more enjoyable activities, and most important is the possibility to spend more time with the family according to everyone's wants, as kids can play sports while parents get a massage.

Furthermore, there are other interesting features highlighted in reports published during the last 10 years by the same consulting company. According to them, the increasing confidence about the future disposable income recently pushed consumers to spend more on discretionary items.

This is particularly true if we take into consideration that Chinese consumers desire to trade up to more premium products and brands.<sup>169</sup>

Fig. 11 clearly shows the high percentage of Chinese consumers willing to pay for a more expensive brand in FMCG<sup>170</sup> categories compared to U.S. and German ones.

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<sup>168</sup> Zipser D., Leibowitz G. (2016) *What's driving the Chinese consumer*. Podcast transcript. McKinsey & Company. pp. 2-3.

<sup>169</sup> Baan W., Luan L., Poh F., Zipser D. (2017) *Double-clicking on the Chinese consumer: the new health craze, the rise of the post-90s generation, and other trends worth watching*. 2017 China Consumer Report. McKinsey & Company. p. 5.

<sup>170</sup> FMCG includes food, non-alcoholic beverages, alcoholic beverages, personal care, household products.

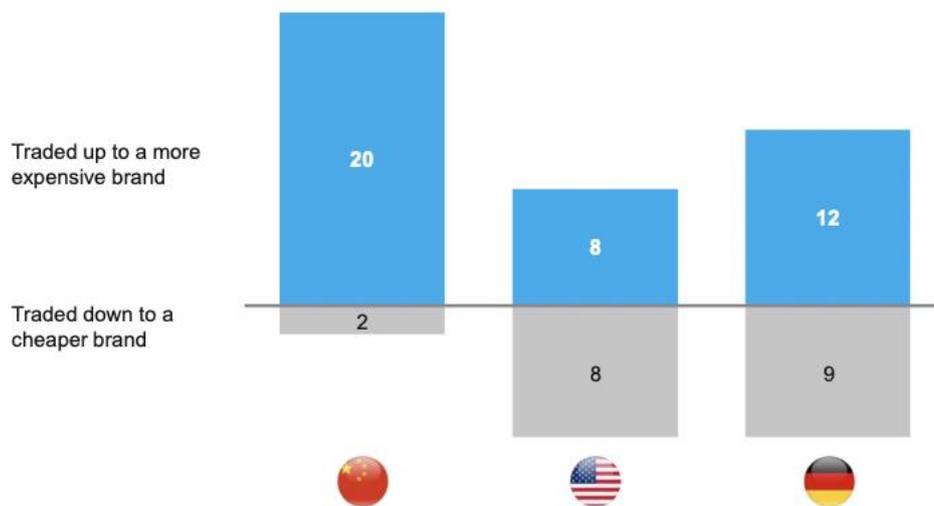


Figure 11 - Trading up (and down) in FMCG categories: China, US, Germany source: McKinsey 2018 Global sentiment survey

It is also important to mention another booming shift in consumers patterns, that is the spread of the sharing economy to many categories.

According to the Oxford English Dictionary, the sharing economy is defined as ‘an economic system in which assets or services are shared between private individuals either free or for a fee, typically by using the internet’.<sup>171</sup>

In China, this kind of economic system is largely used in many categories, Chinese consumers are already familiar with the concept of paying for the access rather than owing a certain thing. This is the case of sharing transportations such as bicycles, cars, taxis, and so.

The next level of the sharing economy in China could be represented by the sharing of appliances, apartments, apparel, knowledge work, and even medical facilities.<sup>172</sup>

<sup>171</sup> Oxford Learner’s Dictionaries. *Sharing economy*. <https://www.oxfordlearnersdictionaries.com/definition/english/sharing-economy>

<sup>172</sup> Ma Y., Zhang H. (2018) development of the sharing economy in China: challenges and lessons. In: Liu KC., Racherla U. (eds) *Innovation, Economic Development, and Intellectual Property in India and China*. Springer, pp. 473-474.

## 2.6. The luxury market in China

The luxury world is another important feature of the Chinese market that deserves special mention. As noticed before, Chinese consumers lately have shifted to more expensive products in searching for good quality and exclusive design. This orientation towards quality along with the increase of disposable income has led Chinese consumers to be even more attracted by luxury brands.

Over the last decades, China has become one of the leading countries in the world's luxury market and it is expected to be the world's biggest luxury market by 2025.<sup>173</sup>

As shown in fig. 12, Chinese consumers' spending on luxury products will almost double in 2025.

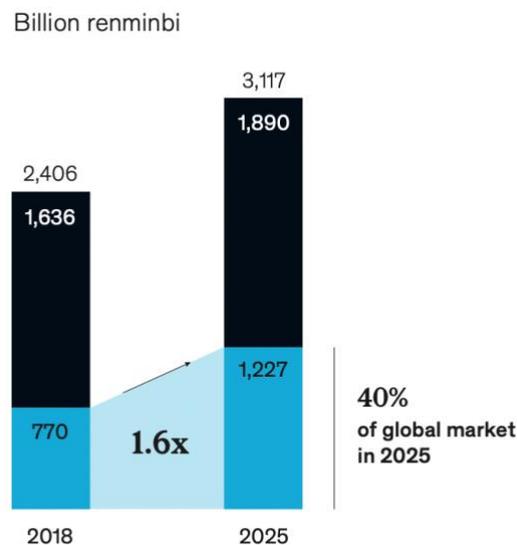


Figure 12 - Chinese consumers' spending on luxury goods 2018-2025 (The Chinese luxury consumer (2019) McKinsey Quarterly)

This incredible growth in the luxury market has pushed many experts to understand which are the driving factors of luxury consumption.

First, according to the article published by McKinsey & Company (2019), three generations are representing the luxury market in China: the post-1965-1970s generation,

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<sup>173</sup> Danziger, P.N. (2020). *China is headed to be the world's largest luxury market by 2025, but American brands may miss out.* Forbes. <https://www.forbes.com/sites/pamdanziger/2020/11/22/china-is-headed-to-be-the-worlds-largest-luxury-market-by-2025-but-american-brands-may-miss-out/?sh=19fd088d6a3b>

the post-1980s generation, and the post-1990s generation (Millennials). The last two categories have many similarities so that four groups of customers can be identified<sup>174</sup>:

1. Luxury newcomers: consumers who are not particularly wealthy but who spend a lot on high-end products. <sup>175</sup>
2. Status surfers: consumers who follow the latest trends but who are not affluent and the least brand loyal. <sup>176</sup>
3. Luxury connoisseurs: consumers who have higher aspirations because of their higher incomes or family money and who are more sophisticated as they look for niche luxury brands. <sup>177</sup>
4. Fearless young spenders: consumers who are more interested in what is fashionable rather than for branded products. <sup>178</sup>

Regarding the last group of consumers, it must be said that recently Chinese luxury consumption has changed due to the rise of a new segment of consumers composed of Millennials and Gen-Z, who is not moved by the same motivations of the older generations.

According to a survey conducted by *Vogue Business* in China and *Huxiu*, there are three trends for understanding young Chinese luxury consumers: <sup>179</sup>

- a mature approach towards luxury: Millennials and Gen-Z argue that luxury products are too expensive, big logos are not chased anymore, and that they are more influenced by their social circle than by traditional media. Moreover, many of them see the purchase of a luxury item as an investment able to long-last due to its quality;

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<sup>174</sup> Kim, A., Luan, L., Zipser, D. (2019, Aug.) The Chinese luxury consumer: if you're in luxury goods and services, China is the story. *McKinsey Quarterly*. <https://www.mckinsey.com/featured-insights/china/the-chinese-luxury-consumer>

<sup>175</sup> Leroy, J.P. (2011, Aug.) Newcomers drive growth in luxury market. *Fashion Network*. <https://www.fashionnetwork.com/news/Newcomers-drive-growth-in-luxury-market,198091.html>

<sup>176</sup> Young, J. (2020, Oct.) Looking at luxury in a post-pandemic China. *The China Guys*. <https://thechinaguys.com/looking-past-luxury-in-a-post-pandemic-china/>

<sup>177</sup> WARC. *China's young luxury shoppers are brand conscious, not brand loyal*. <https://www.warc.com/newsandopinion/news/chinas-young-luxury-shoppers-are-brand-conscious-not-brand-loyal/42503>

<sup>178</sup> Kim, A., Luan, L., Zipser, D. (2019, Aug.) The Chinese luxury consumer: if you're in luxury goods and services, China is the story. *McKinsey Quarterly*. <https://www.mckinsey.com/featured-insights/china/the-chinese-luxury-consumer>

<sup>179</sup> Vogue Business. *Three key trends of China's young luxury consumers*. <https://www.voguebusiness.com/consumers/three-key-trends-of-chinas-young-luxury-consumers>

- young Chinese consumers prefer shoes, cosmetics, and streetwear as a symbol of social status;
- they rely on their parents for the purchase of luxury goods as they can't afford them yet, or they ask for loans. This results in problems of overconsumption and debt in China.

For luxury brands, this change in the consumption of luxury goods leads to a need to establish a real connection with consumers and adapt marketing campaigns according to their preferences.

## 2.7. China's E-commerce

As it can be noticed, access to technologies boosted the connectivity in the country. In fact, China's internet penetration rate<sup>180</sup> has extraordinarily increased, in 2000 just 1.8% of the population was able to be connected, while in 2017 the percentage grew to 54.3, recording an amazingly rapid soaring.

China is one of the most digitized countries in the world amounting to 1,44 billion people and 1,61 billion mobile connections.<sup>181</sup>

Even though the number of internet users has enjoyed significant growth in 2019, there is still a gap between urban and rural areas. As the China Internet Network Information Center stated, in 2020 the percentage of internet users in urban areas was around 76.4%, while 52.3% in rural areas.<sup>182</sup>

However, the Chinese government has been implementing many policies for the expansion of e-commerce to the countryside to promote rural development and reduce the differences between rural and urban areas.<sup>183</sup>

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<sup>180</sup>The internet penetration rate corresponds to the percentage of the total population of a given country or region that uses the internet. (IGI Global, *What is internet penetration rate*. <https://www.igi-global.com/dictionary/internet-penetration-rate/15439> )

<sup>181</sup> Centro Studi per l'Impresa Fondazione Italia Cina (2020) XI Rapporto Annuale. *Cina 2020: scenari e prospettive per le imprese*.

<sup>182</sup> China Internet Network Information Center (2020). *The 46th China Statistical report on Internet Development*. <https://www.cnnic.com.cn/IDR/ReportDownloads/202012/P020201201530023411644.pdf>

<sup>183</sup> Couture V., Faber B., Gu Y., Liu L. (2018). *E-commerce integration and economic development: evidence from China*. (NBER Working Paper 24384) National Bureau of Economic Research. <http://www.nber.org/papers/w24384>

Thanks to these policies, by the end of 2017 on China's major e-commerce platform, Taobao, there were 2000 rural markets, so-called *Taobao villages*, which have been provided with all electronic devices and skills to sell agricultural products, handicrafts, and manufactured goods throughout China.

As a result, the implementation of such policies has led to the improvement of economic conditions and the creation of new jobs in poverty-stricken areas of the country.<sup>184</sup>

Thus, small villages are also contributing to the growth of China's e-commerce market, which is now the largest in the world with a revenue of US\$1.117 billion in 2020.<sup>185</sup>

Although many Chinese consumers have started to live a more frugal life due to the high living costs, other categories of consumers have started spending more. For example, one of these categories is represented by the younger generation, young boys and girls who use mobiles for everything, from ordering at restaurants to sharing a cab. It is interesting to notice that Millennials and Gen-Z are increasingly fascinated by the luxury market, so that forecast says that they will represent 55% of the world's luxury market by the end of 2025.<sup>186</sup>

Other categories are wealthy middle-aged people who buy quality products, and senior consumers who are predicted to be 36,5% of the population by 2050.<sup>187</sup>

All the above-mentioned categories strongly rely on the web to search for information about products, use social networks for sharing experiences and feedback, and then make the purchase. Speaking of numbers, Chinese online users spend 6 hours on the web, and they prefer using their smartphones over their personal computers.<sup>188</sup>

Concerning the most used search engine applications, data from August 2021 reported that Baidu has 68,66% of the market share, followed by Sogou (14,28%), Bing (3,65%), Google (2,41%), Haosou (1,34%), and Shenma (1,28%).<sup>189</sup>

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<sup>184</sup> Wang, J. (2019, Nov.) *Taobao Villages driving 'Inclusive Growth' in Rural China*. Alizila. <https://www.alizila.com/taobao-villages-driving-inclusive-growth-rural-china/>

<sup>185</sup> EcommerceDB (n.d.) *The eCommerce market in China*. <https://ecommercedb.com/en/markets/cn/all>

<sup>186</sup> Danziger, P.N. (2019). *3 ways Millennials and gen-Z consumers are radically transforming the luxury market*. Forbes. <https://www.forbes.com/sites/pamdanziger/2019/05/29/3-ways-millennials-and-gen-z-consumers-are-radically-transforming-the-luxury-market/?sh=3095e88c479f>

<sup>187</sup> Centro Studi per l'Impresa Fondazione Italia Cina (2020) XI Rapporto Annuale. *Cina 2020: scenari e prospettive per le imprese*.

<sup>188</sup> Centro Studi per l'Impresa Fondazione Italia Cina (2020) XI Rapporto Annuale. *Cina 2020: scenari e prospettive per le imprese*.

<sup>189</sup> StatCounter GlobalStats (n.d.) *Search Engine Market Share China*. <https://gs.statcounter.com/search-engine-market-share/all/china>

Social networks also play an important role in Chinese society, the average Chinese online user spend many hours on different social media. Among the most popular WeChat is the first one in the ranking, followed by Weibo, Xiaohongshu (Little Red Book), and Douyin.<sup>190</sup>

Since the Chinese society is infused with a collectivistic view, Chinese consumers trust recommendations of Key Opinion Leaders (KOLs), Chinese influencers whose online contents generate even more engagement than brands' official accounts. The category of KOLs in China is not to be intended as the same in Italy, whereas Italian influencers are people who become popular on the web (*wǎng hóng* 网红), Chinese influencers are also singers, actors, bloggers, and TV celebrities.<sup>191</sup>

Talking about digitalization, it is worth noting that China currently is the largest and fastest-growing e-commerce market, with an annual growth rate of 35%.<sup>192</sup>

Indeed, Chinese e-commerce is increasing at a faster pace compared to other countries, it is forecasted that more than 50% of China's retail sales will derive from e-commerce in 2021.<sup>193</sup>

As stated by Nikhil Reddy, banking and payments analyst at Global Data, over the last five years Chinese e-commerce evolved rapidly thanks to high internet and smartphone penetration, increasing consumer confidence in online shopping, the emergence of e-commerce platforms, and the availability of alternative payment methods such as Alipay and WeChat Pay.<sup>194</sup>

Recently, every company seeking more visibility must be on popular e-commerce platforms such as Tmall or JD.com to reach the target of online shoppers, of which

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<sup>190</sup> DeGennaro, T. (2020, 30 June). 10 Most popular social media sites in China. *Dragon Social*. <https://www.dragonsocial.net/blog/social-media-in-china/#:~:text=Today%2C%20WeChat%20is%20the%20largest,call%20it%20the%20Chinese%20Facebook>.

<sup>191</sup> East Media. (n.d.) *Influencer in Cina: chi sono KOL, come sceglierli e come collaborarci*. <https://www.east-media.net/scegliere-influencer-in-cina/>

<sup>192</sup> Business.com. *The 10 largest e-commerce markets in the world by country*. <https://www.business.com/articles/10-of-the-largest-ecommerce-markets-in-the-world-b/>

<sup>193</sup> Cramer-Flood, E. (2021, Feb.). In global historic first, ecommerce in China will account for more than 50% of retail sales. *eMarketer*. <https://www.emarketer.com/content/global-historic-first-ecommerce-china-will-account-more-than-50-of-retail-sales>

<sup>194</sup> Global Data. (2021, Apr.). *E-commerce market in China will reach US\$3 trillion in 2024, forecasts GlobalData*. <https://www.globaldata.com/e-commerce-market-china-will-reach-us3-trillion-2024-forecasts-globaldata/>

number in China increased at an extremely high speed, from 160.51 million in 2010 to 782.41 million in 2020 (Statista, 2021)<sup>195</sup>.

The main characteristic of these e-commerce applications is that they are comprehensive of everything consumers may need, from booking a taxi to paying bills, including financial services such as insurance and banking.<sup>196</sup>

Being on such platforms for western companies certainly requires a marketing strategy tailored for each channel, that is the development of an integrated marketing communication plan. According to the definition given by Belch G. and Belch M., “the integrated marketing communications management involves the process of planning, executing, evaluating, and controlling the use of the various promotional-mix elements to effectively communicate with target audiences”.<sup>197</sup>

Communicating one consistent image and message to a large audience on different platforms is the key to serving consumers at each step of their journey.

Therefore, a company seeking to satisfy consumers’ needs not only has to develop a great presence on the most popular e-commerce spaces but also must promote its brand on social media such as WeChat, Xiaohongshu, Weibo, Douyin, and so on.

Achieving this kind of strategic position in China means gaining many profits from the boost of online sales due to the advertising on social media and with a well-planned influencer marketing campaign.

For starting to do so, a company must learn which are the peculiarities of China’s e-commerce and then understand how to manage the marketing mix according to those peculiarities.

The main characteristics of e-commerce in China are:

1. Before purchasing a product, consumers start collecting information online.

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<sup>195</sup> Ma, Y. (2021, 1 March). *Number of new online buyers in China 2010-2020*. <https://www.statista.com/statistics/277362/number-of-new-online-buyers-in-china/>

<sup>196</sup> The Economist. (2021, Jan.). *Why retailers everywhere should look to China*. <https://www.economist.com/leaders/2021/01/02/why-retailers-everywhere-should-look-to-china>

<sup>197</sup> Belch, G.E, Belch M.A. (2018). *Advertising & Promotion: an integrated marketing communications perspective* (11. Ed.). Mc Graw Hill. p.74.

2. In most cases, online consumers look for unique products that cannot be found or sold in physical shops.
3. Social networks play an important role as means for acquiring information about a product, its seller, the unique selling proposition (USP),<sup>198</sup> along with all services included in the price.
4. As can be deduced, price is not a determining factor in their purchasing decision, if the product can deliver on the promise made in the USP, consumers are willing to pay an even higher price for it.

Besides being sometimes barriers for foreign enterprises, these features are also the key chance for companies to grasp a slice of consumers, enter their lives, connect with them and reinforce brand-consumer relationships over time.<sup>199</sup>

To better remark the magnitude of e-commerce Chinese, it could be helpful to look at the last data recorded during the Covid-19 pandemic crisis.

The National Bureau of Statistics of China has reported that, although in 2020 total retail sales of consumer goods declined by 3.9%, online retail sales of physical goods conversely increased by 14.8% throughout the same period.<sup>200</sup> Covid-19 crisis has further boosted the growth and expansion of e-commerce as people were not able to go to physical shops during the lockdown.

As stated by Richard Liu, CEO of JD.com, starting from the COVID-19 outbreak, JD has improved its supply chain coordination and advanced technology capabilities to deliver daily necessities in a short time.<sup>201</sup>

For this reason, predictions about the future of Chinese e-commerce seem to be positive. Regarding the forecasts by Global Data, Chinese e-commerce is expected to register a

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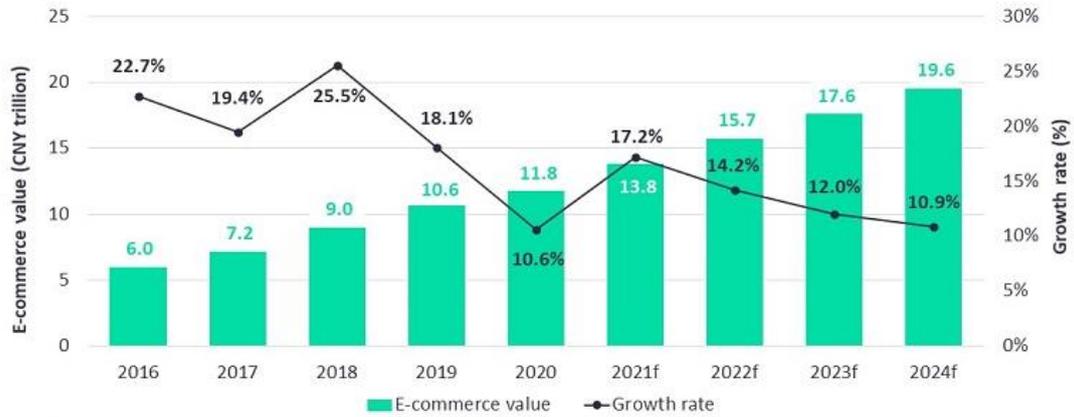
<sup>198</sup> “Unique Selling Proposition (USP) is the perceived benefit of a good which makes it unique from the rest of the competing brands in the market”. <https://economictimes.indiatimes.com/definition/unique-selling-proposition>

<sup>199</sup> Asialink Business. *E-commerce in China* <https://asialinkbusiness.com.au/china/sales-and-marketing/e-commerce-in-china?doNothing=1>

<sup>200</sup> GlobalData (2021, 20 April). *E-commerce market in China will reach US\$3 trillion in 2024, forecasts* GlobalData <https://www.globaldata.com/e-commerce-market-china-will-reach-us3-trillion-2024-forecasts-globaldata/>

<sup>201</sup> Kharpal, A. (2020, 24 August). *China’s e-commerce giants get a boost as consumers continue to shift online after coronavirus*, CNBC. <https://www.cnbc.com/2020/08/24/china-e-commerce-boosted-by-shift-to-online-shopping-after-coronavirus.html>

high compound annual growth rate (CAGR) <sup>202</sup> of 12.4% from CNY13.8 trillion in 2021 to CNY19.6 trillion in 2024.



Note: "f" refers "forecast"

Figure 13 - China E-commerce Value (CNY trillion), 2016-2024 source: Global Data Banking and Payment Intelligence center

<sup>202</sup> The Compound Annual Growth Rate (CAGR) is the annualized average rate of revenue growth between two given years, assuming growth takes place at an exponentially compounded rate. (Gartner Information Technology, *Gartner Glossary* <https://www.gartner.com/en/information-technology/glossary/cagr-compound-annual-growth-rate>)

### III. The wine market in China

#### 3.1. The wine market in China: origins and future forecasts

In the Chinese language, the binomen *pútao* 葡萄 means ‘grape’. With the addition of the morpheme *jiǔ* 酒 ‘wine’, it forms the compound word *pú tao jiǔ* 葡萄酒, that is ‘grape wine’ (Li, 2008).

When talking about the wine market in China, the first question that naturally comes to mind regards the history and the development of this booming industry.

It is often believed that the wine industry in China is a new phenomenon and that Chinese winemakers have started this path to satisfy the recent demand for wine, instead, the wine culture and winemaking find their roots during the Han Dynasty (206 B.C. – 220 D.A.). At that time the most known grape variety for wine production, called *Vitis vinifera*, came from Central Asia to China. (García-Cortijo et. al., 2019)

However, wine production and consumption had their peak in the ancient Tang Dynasty, the largest and powerful dynasty in China's ancient history in power from 618 to 906 A.D. Already during Tang Dynasty, wine was not only for the celebration of culture, language, and arts at the imperial court, but it was also available for the consumption of the rest of the nation.<sup>203</sup>

The popularity of drinking wine in the Tang Dynasty was due to the following reasons:

- While before Tang Dynasty the availability and production of wine was limited because of low efficiency and obsolete technology, with the reunification of the country under the Tang Dynasty, the winemaking industry was the protagonist of a rebirth in a peaceful and flourishing environment.

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<sup>203</sup> China Wine Competition. (2018, July) *Historical Overview of the Wine Market in China*. <https://chinawinecompetition.com/en/blog/insights-1/historical-overview-of-the-wine-market-in-china-107.htm#:~:text=While%20the%20modern%20wine%20industry,grape%20wine%20culture%20first%20emerged.>

- At that time, drinking alcohol was not forbidden as Tang Dynasty policymakers were open-minded and promoters of wine consumption on many occasions, among which there are also entertaining guests.
- The prosperous commercial exchange with foreigners has also helped the Chinese to taste some new specialties brought by foreign visitors, who were distinguished by bold personalities and passion for drinking.<sup>204</sup>

Therefore, during the Tang Dynasty, the consumption of wine started to grow again, and the industry enjoyed a new blooming period.

However, the first modern Chinese winery, called *Changyu*, was opened by Zhang Bishi (1841-1916), a Chinese diplomat, in 1892 in the Yantai region of Shandong province. Another important date is 1978 when the official policy of ‘reform and opening up’ has broadened new horizons for the Chinese wine industry.

Later, in 1980 Chinese wine production was focused on wine juices, drinks made with wine, water, and sugar, some of which have been banned in 1994. Thanks to the entry into the World Trade Organization (WTO), China has been asked to abandon certain types of business practices that were used to protect the local market from foreign producers, and thus, from then, Chinese wine had to follow international standards, in terms of composition and quality.<sup>205</sup> It is also in 2001 that tariffs on bottled wine dropped down from 65% to 14%, a significant decrease.

Starting from 2001, Chinese consumers have been fascinated by imported wines, especially red wines coming from French and producers in Bordeaux. Moreover, thanks to the entry into the WTO, China has experienced the entry of new technology and

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<sup>204</sup>Min News. (2021, Sept.) *Why did wine culture prevail in the Tang Dynasty? A brief analysis of the Tang Dynasty literati under the influence of wine culture.* [https://min.news/en/culture/a8e145794c5cf8be0cfdd4ae38e1eb74.html?\\_cf\\_chl\\_jschl\\_tk\\_=pmd\\_gcqoI0ktLK8C1pJDV9QIBv6dtUNE4qlqOGP123nbBiQ-1629641173-0-gqNtZGzNAICjcnBszQiR](https://min.news/en/culture/a8e145794c5cf8be0cfdd4ae38e1eb74.html?_cf_chl_jschl_tk_=pmd_gcqoI0ktLK8C1pJDV9QIBv6dtUNE4qlqOGP123nbBiQ-1629641173-0-gqNtZGzNAICjcnBszQiR)

<sup>205</sup> Li, D. (2014, Jan.). The history of Chinese winegrowing and winemaking – part 2. *Decanter China.* <https://www.decanterchina.com/en/columns/demeis-view-wine-communication-from-a-chinese-winemaker/the-history-of-chinese-winegrowing-and-winemaking-part-2>

management system in the country, and thus, imported wine has triggered great competition within the wine sector.<sup>206</sup>

Then, the Chinese government has done many steps towards the improvement and stimulation of china production and consumption, for example in 2012, with the “12<sup>th</sup> Five-Year Plan” for the Chinese wine industry, China has revealed its commitment to the industry approving new regulations about the quality of the domestic wine.<sup>207</sup>

As a result, at the end of 2013, red wine was more consumed by Chinese than French consumers.

It must be said, however, that the consumption of wine in China cannot be compared to the one in western countries, especially Europe. Chinese consumption of that time was not characterized by the appreciation of huge varieties of wine, instead, the liquid, mostly Bordeaux, was used for gifts and celebrations during business lunch and convivial occasions (IWSC, 2021).

In 2017, 30% of the wine consumed in China was imported by China’s top five wine exporters: France, Australia, Chile, Spain, and Italy (this order refers to 2017).<sup>208</sup>

As illustrated in figure 14, which shows both quantity and value, China wine import consistently increased over the period from 2001 to 2015, registering an import value of US\$552,09 million.

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<sup>206</sup> Li, Y., Bardají, I. (2017) A new wine superpower? An analysis of the Chinese wine industry. *Cahiers Agricultures*, 26. <https://doi.org/10.1051/cagri/2017051>

<sup>207</sup> China Wine Competition. (2018, July) *Historical Overview of the Wine Market in China*. <https://chinawinecompetition.com/en/blog/insights-1/historical-overview-of-the-wine-market-in-china-107.htm#:~:text=While%20the%20modern%20wine%20industry,grape%20wine%20culture%20first%20emerged.>

<sup>208</sup> Wang, N. (2018, Jan.). China’s top 10 wine importing countries in 2017. *The drink business*. <https://www.thedrinksbusiness.com/2018/01/chinas-top-10-wine-importing-countries-in-2017/>

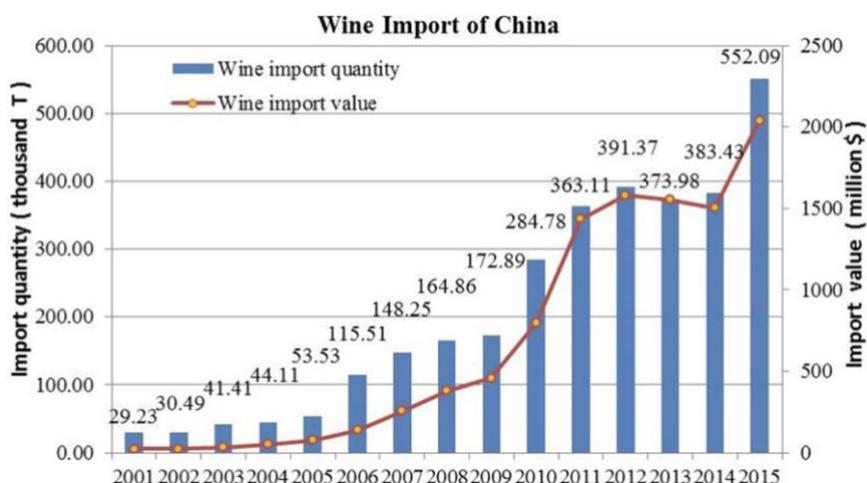


Figure 14 - Wine Import of China (quantity and value in million US\$) source: Li and Bardajì, 2017

The remaining percentage of wine consumed is produced within the Chinese territory.

As stated before, the Chinese market has a huge potential, indeed numbers speak for themselves, in 2018 the wine market size accounted for US\$14.8 billion, and by 2023 it is expected to reach US\$ 18 billion.<sup>209</sup>

Because of the Chinese slowing economy, defined as the ‘new normal’<sup>210</sup>, and the China-US trade war, since 2018 China’s wine market has been declining significantly. Furthermore, the Covid-19 crisis has not helped the situation, instead has contributed to slow down the wine industry, along with other industries in the country. One consequence of the pandemic emergency was that China’s imported wine decreased by 27% in 2020. However, it must be noticed that during 2020 imported wine grew more than domestic wine production, in fact, according to China alcoholic drinks Association (CADA) imported wine accounts for 60% of the market share in terms of volume (IWSC, 2021).

Despite what happened due to the covid-19 spread, Global Data has predicted that the Chinese wine sector is expected to reach US\$137.3 billion in 2024, with a CAGR of

<sup>209</sup> Wang, N. (2021, July). IWSC Market Insight: The Chinese wine market. *International Wine and Spirit Competition*. <https://www.iwsc.net/news/wine/iwsc-insight-the-chinese-wine-market>

<sup>210</sup> Peston, R. (2015, Sept.). What is China’s ‘new normal’? *BBC News* <https://www.bbc.com/news/business-34344926>

14.7%. Particularly, the data provider forecast has projected a growth of 14.7% in the still wine category, followed by sparkling wine growth of 14.1%.<sup>211</sup>

Although China has been the first country to face Covid-19 spread, it also has been the first one starting to recover from this period of lockdown, which has led inevitably to a slowing down of the economy. Thanks to its rapid economic recovery, the Chinese wine sector is predicted to grow just as it was before the pandemic crisis.<sup>212</sup>

### 3.2. China's domestic wine production

In China, wine-growing regions are mainly distributed from the eastern coastal areas to the west desert one, comprising Shangdong, Hebei, Beijing, Tianjin, Shanxi, Shaanxi, Jilin, Xinjiang, Ningxia, Gansu, Inner Mongolia, Yunnan, and Sichuan.<sup>213</sup>

Ningxia, a region in the northwest of the country, emerged as one of china's top wine regions with a great variety of grapes such as Cabernet Sauvignon, Cabernet Gernischt, and Chardonnay.<sup>214</sup> Moreover, it seems that China has planned to transform Ningxia into the rivals France's Bordeaux. According to the plan approved in May by the central government, by 2035 Ningxia's Helan Mountains district will produce 600 million bottles of wine, for a value of 3.12 billion dollars.<sup>215</sup>

According to data from the International Organization of Vine and Wine (OIV), "the world wine production, excluding juices and musts, in 2020 is estimated at 260 mhl", signaling an increase of +1% compared to the previous year.<sup>216</sup>

The overall situation of domestic wine production is quite complex. Although Chinese consumption has been growing more and more, domestic production is not sufficient to

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<sup>211</sup>Global Data. (2020, Dec). *China's wine market to reach US\$137.3 bn in 2024, says Global Data.* <https://www.globaldata.com/chinas-wine-market-reach-us137-3bn-2024-says-globaldata/>

<sup>212</sup>Park, J. (2021, Mar.). Growing consumer demand for wine in China in 2021. *Wine Intelligence.* <https://www.wineintelligence.com/growing-consumer-demand-for-wine-in-china-in-2021/>

<sup>213</sup>Li, D. (n.d.) Wine Regions in China. *Decanter China.* <https://www.decanterchina.com/en/regions/china/>

<sup>214</sup>Ningxia Wine. (2018, Oct.). *Wine Searcher.* <https://www.wine-searcher.com/regions-ningxia>

<sup>215</sup>Chen, E. (2021, Aug.) *China wants to build up its wine country into one that could rival France's Bordeaux.* CNBC. <https://www.cnbc.com/2021/06/21/china-wine-ningxia-strives-to-be-france-bordeaux-amid-tariffs-on-australia.html>

<sup>216</sup>International Organization of Vine and Wine. (2021, Apr.) *State of the world vitivinicultural sector in 2020.* <https://www.oiv.int/public/medias/7909/oiv-state-of-the-world-vitivinicultural-sector-in-2020.pdf>

satisfy Chinese consumers. In fact, among the top wine-producing countries, China currently ranks 10<sup>th</sup> in the OIV's report.

Furthermore, as shown in figure 15, in 2020 the wine production in China has been witnessing a decline of 16% compared to 2019 (OIV, 2021).

<i>mhl</i>	2016	2017	2018	2019 Prov.	2020 Prel.	2020/2019 % Var.
Italy	50.9	42.5	54.8	47.5	49.1	3%
France	45.4	36.4	49.2	42.2	46.6	11%
Spain	39.7	32.5	44.9	33.7	40.7	21%
USA	24.9	24.5	26.1	25.6	22.8	-11%
Argentina	9.4	11.8	14.5	13.0	10.8	-17%
Australia	13.1	13.7	12.7	12.0	10.6	-11%
South Africa	10.5	10.8	9.5	9.7	10.4	7%
Chile	10.1	9.5	12.9	11.9	10.3	-13%
Germany	9.0	7.5	10.3	8.2	8.4	2%
China	13.2	11.6	9.3	7.8	6.6	-16%
Portugal	6.0	6.7	6.1	6.5	6.4	-2%
Russia	5.2	4.5	4.3	4.6	4.4	-4%

Figure 15 - Wine production in major countries (source: OIV, 2021)

Reasons behind this fact could be perhaps technological constraints, climate conditions, and low productivity, all factors that make Chinese wine less competitive than imported wine (OIV, 2021, p. 7).

Regarding the type of wine, due to China's size and its variety of climates, there are many grape varieties across the country. The most planted wine grape varieties are Cabernet Sauvignon, Cabernet Franc, and Chardonnay, which in 2015 accounted for 250,00 mu (16,667 ha) of the total 1,560,000 mu (104,000 ha).<sup>217</sup> However, each region is specialized in a specific variety of grape, for example, Bordeaux blended with Cabernet Sauvignon and Merlot, and Cabernet Gernischt in Ningxia, Merlot and Chardonnay in

<sup>217</sup>Wu, S. (2015, Dec). Cabernet Sauvignon reigns in Chinese wine regions, shows report. *Decanter China* <https://www.decanter.com/wine-news/cabernet-sauvignon-reigns-in-chinese-wine-regions-286209/>

Hebei, Merlot and Cabernet Franc in Shanxi and a greater range of variety can be found in Yantai, which is famous for the presence of more than 140 wineries.<sup>218</sup>

Nevertheless, despite the general belief of Chinese consumers, who consider wine solely as an imported product, many local wineries are reshaping the country's wine sector and trying to build an impressive domestic supply.

Among the most renowned Chinese wine companies, Changyu Pioneer Wine Company stands out of importance as it is the first established in China (1892). The Chinese diplomat Zhang Bishi, who decided to open China's first pioneering winery, imported numerous types of wine grapes from western countries and started the Chinese path towards modern wine production. Nowadays Changyu is a dynamic group including international shareholders such as ILLVA Saronno (Italy) and International Finance Corporation (U.S.). Its product selection comprises wine, sparkling wine, brandy, and healthy liquor. In 2006, the company established a quality grading system to classify wines into different categories such as selected, prestige, superior, and master's choice class.<sup>219</sup>

Changyu Pioneer Wine Company, also called Château Changyu, has worked several years in collaboration with Lenz Moser, one of the most famous oenologists coming from the Austrian family Moser, to give birth to the company known as Chateau Changyu Moser XV in Ningxia region.<sup>220</sup> For the production of wine, the company uses almost exclusively Cabernet Sauvignon, which is one of the most cultivated wine grape varieties in China and the world, to produce six different wines: Purple Air coming from the East (2016), Grand Vin Cabernet Sauvignon (2016), Moser Family Cabernet Sauvignon (2016), Moser Family White Cabernet (2017), Helan Mountain Cabernet Sauvignon (2017), and Helan Mountain White Cabernet (2018).<sup>221</sup>

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<sup>218</sup>China Wine Competition. (2018, July). *What you need to know about Chinese grape varieties and wines*. <https://chinawinecompetition.com/en/blog/insights-1/what-you-need-to-know-about-chinese-grape-varieties-and-wines-105.htm>

<sup>219</sup> China Wine Competition. (2019, June). *Top Chinese wine producers to watch in 2019*. <https://chinawinecompetition.com/en/blog/insights-1/top-chinese-wine-producers-to-watch-in-2019-138.htm>

<sup>220</sup>Berry Bros. & Rudd. (n.d.). *Changyu Pioneer Wine Company*. <https://www.bbr.com/producer-2661-changyu-pioneer-wine-company>

<sup>221</sup> Chateau Changyu Moser XV. (n.d.). *The wines*. <http://www.changyu-moser-xv.de/start/>

Furthermore, last year the oldest Chinese winery has signed an agreement with China's Jinmao's Shanghai International Shipping Service Center Development Co., Ltd. and Shanghai International Wine & Spirits Trade Development Co., Ltd. to open a theme park in Shanghai. The park, 7,000 square meters, will provide customers with many activities, from immersive experience to the tasting of food and wine. <sup>222</sup>

Other companies that have gained relevance in the Chinese wine industry are Bate Lu Wines Ltd., which uses ancient methods to make fine wine with the natural flavor of raw grain, Chateau Aroma, which received organic food certification by national authorities, and Dynasty Wines, which was honored with the *Certificate of the Best-Selling Grape Wines* of the country. <sup>223</sup>

Concerning domestic wineries, it must be noticed that regional authorities heavily support the cultivation and production of wine producers who decided to live in regions with complex environments and climate conditions. Main support is given through technology training, road innovation, water, and electrical infrastructure. Thanks to the renovated importance given to traditional culture and patriotism, recently Chinese wineries have received much more attention and interest from Chinese consumers who before were mainly interested in imported wines. <sup>224</sup>

### 3.3. Consumption of wine in China

The Chinese wine market is considered a vibrant market not only for production but also, and perhaps more important, for wine consumption. <sup>225</sup>

However, as stated by Recio Gracia (2021), talking about the Chinese market can be misleading because in China there are different markets according to different types of consumers within the market.

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<sup>222</sup> Liang, A. (2021, Feb.) Changyu to open a wine theme park in Shanghai. *The Drink Business*. <https://www.thedrinksbusiness.com/2021/02/changyu-to-open-a-wine-theme-park-in-shanghai/>

<sup>223</sup> China Wine Competition. (2019, June). *Top Chinese wine producers to watch in 2019*. <https://chinawinecompetition.com/en/blog/insights-1/top-chinese-wine-producers-to-watch-in-2019-138.htm>

<sup>224</sup> Peng, M. (2021) The Chinese wine market's top trends for 2021. *Shanghai Paper*. <https://shanghai-paper.com/the-chinese-wine-markets-top-trends-for-2021/>

<sup>225</sup> Garcia-Cortijo, M.C., Villanueva, E.C., Castillo-Valero, J.S., Li, Y. (2019). Wine consumption in China: profiling the 21st century Chinese wine consumer. *Ciência e Técnica Vitivinícola*, 34(2), 71-83. <https://doi.org/10.1051/ctv/20193402071>

First, a general distinction must be done to highlight the differences between Chinese and Westerns wine consumers.

In western countries wine is embedded in the culture, history, and religion, so that western people have always been used to drink wine on many occasions. Regarding Chinese consumers, although the wine was introduced in China for the first time during the Han dynasty, Chinese people have learned about wine only during the past decade (García-Cortijo et al., 2019).

China's traditional national drink is a distilled drink from a variety of grains (rice, corn, wheat, and sorghum), known as *bái jiǔ* 白酒.<sup>226</sup> *Baijiu* has a high percentage of alcohol (about 50%) and it is commonly consumed during business negotiations, holidays, family celebrations, and ceremonies for guests.

Later, with the entry of wine into the Chinese market, Chinese people started to taste different kinds of wine, and they learned about the negative effects of such a high degree of alcohol on people's health. Thus, they reduced the consumption of *baijiu* for a more health-conscious option: red wine.<sup>227</sup>

Since China entered the WTO, wine consumption in China has grown incredibly. As displayed in fig. 16, it increased from about 1 billion liters in the year 2000 to 1.8 billion liters in 2019. It is worth noting that figure uses the term *apparent consumption* because the available data might not be so much accurate, consumption numbers resulted from net trade and domestic production, which is likely to be unprecise for several reasons.<sup>228</sup>

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<sup>226</sup> International Wines and Spirit Competition. (n.d.). *Baijiu: learn about China's national drink and the best bottles to try*. <https://iwsc.net/news/spirits/baijiu-learn-about-chinas-national-drink-and-the-best-bottles-to-try>

<sup>227</sup> Daxue Consulting. (n.d.). *Understand the drinking culture in China*. <https://daxueconsulting.com/understand-drinking-culture-china/>

<sup>228</sup> Recio Gracia, P., Martinez, R. (2021, Apr.). The chinese wine market: what SMEs should't ignore. *EUSME Centre*. <https://www.eusmecentre.org.cn/event/2021-04-22/chinese-wine-market-what-smes-shouldnt-ignore>

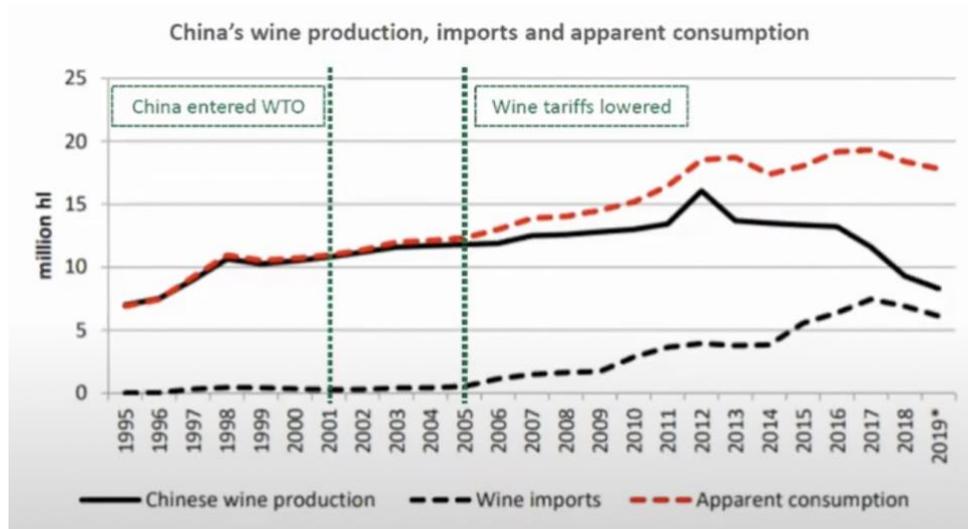


Figure 16 – China’s wine production, imports and apparent consumption (source: EUSME Centre, 2021)

Even though wine consumption in China has shown an incredible growth recently, China’s per capita consumption is less than 2 liters per year, considerably far from wine consumption in leading countries such as France or Portugal which respectively registered a consumption per capita of 50 and 62 liters (EUSME Centre, 2021).

Regarding consumers’ perceptions, the Chinese consider wine as a symbol of wealth, social status, and prestige. Generally, they drink wines to celebrate important events, for example during the Chinese New Year or Mid-autumn Festival. <sup>229</sup>

Moreover, as already noticed, wine contributes to show generosity and richness in front of guests, a concept that is strictly related to the Chinese traditional value 面子 *mianzi* (see par. 2.3).

The research by García- Cortijo, Villanueva, Castillo-Valero, and Li (2019) showed which factors, both traditional and sociodemographic, positively influence wine

<sup>229</sup>García-Cortijo, M.C., Villanueva, E.C., Castillo-Valero, J.S., Li, Y. (2019). Wine consumption in China: profiling the 21st century Chinese wine consumer. *Ciência e Técnica Vitivinícola*, 34(2), 71-83. <https://doi.org/10.1051/ctv/20193402071>

consumption in China. Following the theory of demand, traditional factors of demand are price, income, and price of a substitute good, which in this case is represented by beer. Concerning the secondary factors, the study considers age, gender, marital status, level of education, geographical area, and tourism activities as relevant sociodemographic factors. The research highlighted that all the traditional factors, excluding the price of beer, have shown significant results. The higher price of wine does not stop consumers from buying the product, while higher prices can be a demonstration of high social status and purchasing power. In addition, the income variable demonstrated that an increase in wine consumption is due to an increase in disposable income. The only traditional factor that has revealed a negative sign because wine is not a real substitute for beer.

Concerning sociodemographic factors, wine buyers are mainly the younger generations, while for the gender, men do not drink more wine than women, actually many experts argued that recently, due to the diffusion of gender equality issues in China, women have increased their wine consumption,<sup>230</sup> so that they have been designated as a promising segment for wine marketers.

Marital status is also a key factor in wine consumption, married people are more likely to drink wine as a means for a happier marriage.<sup>231</sup>

The level of education, in contrast with what researchers argued previously (Liu et al., 2014), is not an indicator of wine consumption in China, meaning that Chinese wine consumers are not all necessarily well-educated with university studies.

As for the gap between rural and urban areas, people living in big cities are more inclined to consume wine. However recently wine consumption has witnessed a decrease in first-tier cities, meanwhile, second-tier cities have been gaining relevance in the market (EUSME Centre, 2021). Finally, wine tourism has also affected the increasing wine consumption.

Wine has become popular among the Chinese for several reasons.

In the first place, an increase in wine consumption is surely given by the fact that living standards and people's lifestyles in China have been changed significantly. As a result,

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<sup>230</sup> Liu, H.B., McCarthy, B., Chen, T., Guo, S., Song, X. (2014). The Chinese wine market: a market segmentation study. *Asia Pacific Journal of Marketing and Logistics*, 26(3), 450-471. <https://doi.org/10.1108/APJML-07-2013-0089>

<sup>231</sup> Mercer, C. (2016, Aug.). Drinking wine could be secret to happy marriage – study. *Decanter*. [https://www.decanter.com/wine-news/drinking-wine-happy-marriage-study-323039/#ZwBmQERtDVk5Ei3B.99%20\(accessed%20on%202015.7.2018\)](https://www.decanter.com/wine-news/drinking-wine-happy-marriage-study-323039/#ZwBmQERtDVk5Ei3B.99%20(accessed%20on%202015.7.2018)).

rising disposable incomes have allowed Chinese people to spend more on discretionary goods, such as luxury products, leisure activities, high-end apparel, restaurants, hotels and so. Wine, especially imported, is perceived as a luxury good, and for this reason a product of higher quality.<sup>232</sup>

Second, Chinese wine consumers prefer to drink ‘red wine with medium or lower acidity and tannin levels, plus some sweetness’, this is particularly true when talking about Chinese consumers lacking experience of wine.<sup>233</sup>

An analysis of the taste preferences of Chinese wine drinkers showed interesting aspects of Chinese consumers' behavior. First, the Chinese prefer wines with a fruity aroma because they give a feeling of happiness and cheerfulness. Second, the Chinese prefer to drink wine with lower levels of acidity and tannin. Last, Chinese wine drinkers have demonstrated a preference for full-bodied wines, which are red wines with a percentage of alcohol above 13.5.<sup>234</sup>

Among the other reasons, Chinese consumers prefer red wine also because in the Chinese culture red is associated with good fortune and prosperity.<sup>235</sup> During national festivals and social celebrations, Chinese cities’ streets are entirely embellished and adorned with red.

Looking at the consumption by type (fig. 17), it can be noticed how much red wines have a preponderant position in the Chinese market (75%), followed by still white wine (22%), Sparkling wine (2%), and still rosé wine (1%).<sup>236</sup>

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<sup>232</sup> Agnoli, L., Capitello, R., Begalli, D. (2014). Geographical brand and country-of-origin effects in the Chinese wine import market. *Journal of Brand Management*. 21(7/8), 541-558.  
<https://doi.org/10.1057/bm.2014.27>

<sup>233</sup> Wu, S. (2018, Nov.). The consumption behavior of Chinese wine consumers – part one. *Decanter China*. <https://www.decanterchina.com/en/news/understanding-the-consumption-behaviour-of-chinese-wine-consumers-part-one>

<sup>234</sup> Vicky, (2020, Aug.) The myth of the ‘‘Chinese taste preference’’: what actually makes a wine popular in the Chinese market. *Cellar Asia*. <https://cellar.asia/wine/what-wine-is-popular-in-china/#:~:text=Chinese%20consumers%20tend%20to%20like,at%20a%20rate%20of%2033.5%25>.

<sup>235</sup> Pearly, N. (2020, Mar.) China wine trends: symbolism of fortune and prosperity will ensure red’s dominance. *Food Navigator Asia*. <https://www.foodnavigator-asia.com/Article/2020/03/17/China-wine-trends-Symbolism-of-fortune-and-prosperity-will-ensure-red-s-dominance>

<sup>236</sup> Di Faustino, E. (2019). *Incognita Cina, il vino in Cina: consumi e consumatori*. Forum Wine Monitor 2019, Wine Monitor Nomisma.

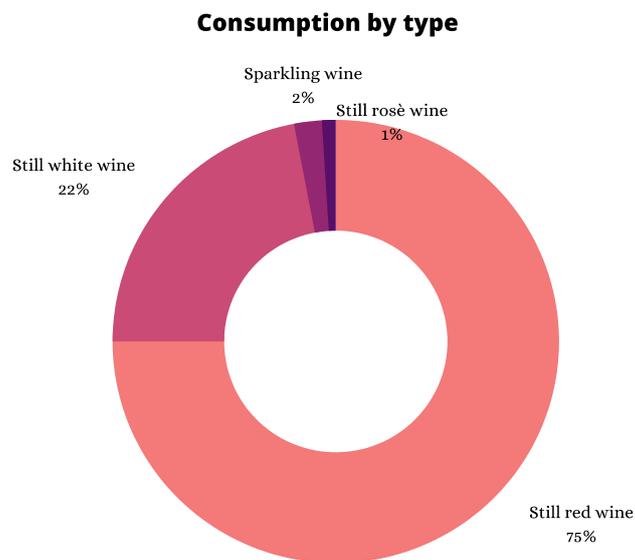


Figure 17 - Chinese wine consumption by type (Di Faustino, 2019)

According to data from Wine Monitor Nomisma report (2019), among the latest trend in wine consumption by Chinese consumers, online sales are booming, so that in 2018 online sales in value reached US\$ 1.030 billion. As stated by Wine Intelligence, in China wine consumers are 38 million, 88% of these make use of the Web to buy wine.<sup>237</sup>

The pandemic situation has surely increased the use of online platforms for consumption, the number of online shoppers in March 2020 was 710 million, among which 707 million are mobile shoppers (IWSC, 2021).

Besides buying online, the web is also a means for looking for information to support purchase decision-making. As mentioned previously in the second chapter, the Chinese culture is a collectivistic society, this means that people are more likely to follow their peers.

Thus, it is not surprising that Chinese people usually search online information and feedbacks about every category of product to reduce the perceived risk coming from the purchase of an unknown brand or product/service. For this reason, many influencers with wine education and a wide audience have been selected to raise awareness and build knowledge among Chinese followers (IWSC, 2021).

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<sup>237</sup> East Media (2020, May). Wine Market in China.

Another important aspect worth attention is the development of wine tourism, which includes activities such as wine and food tasting, grape picking, and other interesting experiences. As a result, thanks to wine tourism, Chinese people have been becoming more and more knowledgeable about wine production, variety, and quality.

Regarding production, variety, and quality, it is appropriate also to note a recent trend that is changing the wine industry in the world as well as in China. Consumers around the world are increasingly focusing on both the well-being of nature and the health of their bodies and souls. Thus, a growing percentage of consumers, especially millennials and Gen-Z have been capturing by the concept of *natural wine*, which is defined as ‘low intervention wine’. In detail, the production of natural wine is carried out without the use of additives, chemicals, pesticides, and herbicides.<sup>238</sup>

Following this shift towards natural wine, many bars in first-tier cities have started to offer natural wine to satisfy the growing demand of Chinese younger consumers.

For example, in Shanghai bars like Vinism, RAC, and Wine Universe have been receiving high attention from Chinese consumers for their natural and artisanal wines.<sup>239</sup>

### **3.4. Segmentation of Chinese wine consumers**

To understand customers in the wine industry, specialists need to develop a comprehensive segmentation of the market, which aims to better satisfy different customers’ needs and expectations. As written by Keller (2013), “segmentation divides the market into distinct groups of homogeneous consumers who have similar needs and consumer behavior, and who thus require similar marketing mixes”.

According to the research conducted by Yu and Ruimei<sup>240</sup>, who have used Kernel fuzzy c-means (KFCM) and one-way ANOVA analysis on 3420 respondents, there are four consumers groups:

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<sup>238</sup> Lawati, N.S. (2021, Aug.). Natural wine is winning over China’s young drinkers, here’s why. *Vino Joy News*. <https://vino-joy.com/2021/08/28/natural-wine-is-winning-over-chinas-young-drinkers-heres-why/>

<sup>239</sup> Boyce, J. (2019, Oct.) The natural wine craze hits China. *Wine Business International*. <https://www.wine-business-international.com/wine/news-events/natural-wine-craze-hits-china>

<sup>240</sup> Yu, H., Ruimei, W. (2019). A clustered-based segmentation of Chinese wine consumers by means of Kernel fuzzy c-means. *Italian Journal of Food Science*, 31(4), 764-781 <https://doi.org/10.14674/IJFS-1512>

1. Health sippers (39%): they are health-conscious consumers with a higher level of knowledge and involvement in wine purchasing.
2. Balanced consumers (38.7%): they are more sensitive to intrinsic and extrinsic cues of wine, such as recommendations from peers, health benefits, and price.
3. Experiential consumers (15.1%): they prefer sensory attributes which can be experienced only after purchase or during usage.
4. Credulous consumers (6.9%): they are influenced by extrinsic cues such as merchandising, peer-to-peer recommendations, and sales promotions.

Having this kind of segmentation help marketers in the identification of each group's purchase behavior, so that they can develop an effective marketing program allowing them to catch consumers' attention. For example, winemakers that want to capture Health Sippers should include more nutrition information on the labels, while for Experiential Consumers it may be appropriate to organize more wine tastings, and/or conduct market research to ensure a comprehensive understanding of the consumers' needs.

Another possible segmentation is given by Wine Intelligence (2021, Aug.), which has defined two different markets within the Chinese wine sector.

One is represented by regular wine consumers, who drink wines both in-home and out-of-home, Richard Halstead, COO of Wine Intelligence, defined these consumers as "urban, educated, affluent and international in their outlook, and their behavior has clear similarities with consumers in developed wine markets".

The other one, which is much greater, is represented by consumers who are strongly influenced by the latest fashion trends, politics, or circumstances. They usually buy wine for important social occasions, or as a gift for friends or guests.<sup>241</sup>

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<sup>241</sup> Aswani, S. (2021, Aug.). China's wine market enters its third age. *Wine Intelligence*. <https://www.wineintelligence.com/chinas-wine-market-enters-its-third-age/>

However, the most interesting segmentation is provided by East Media analysis on the wine market in China, which has developed a segmentation of Chinese wine drinkers according to their lifestyles.<sup>242</sup> Chinese wine consumers are divided as follows (fig. 18):

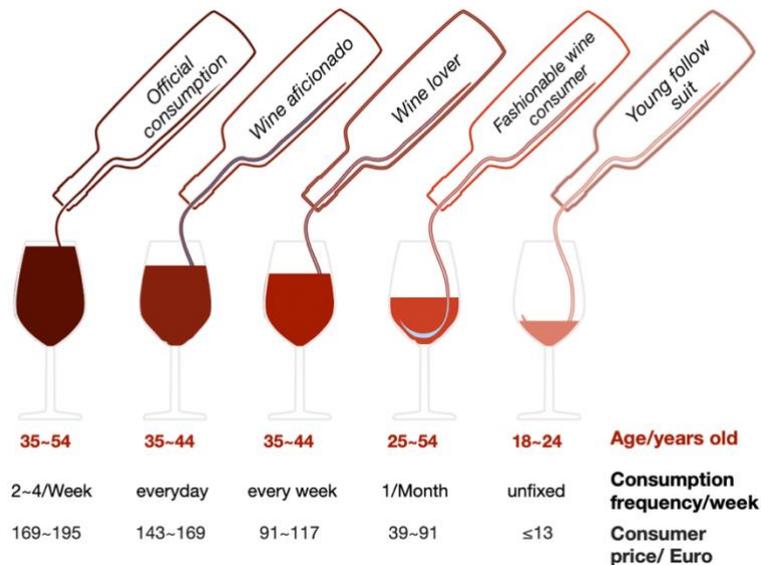


Figure 18 – Lifestyle segmentation of Chinese wine consumers (East media, May 2020, Wine Market in China)

1. Official consumption, which is represented by people who drink wine during social occasions and prefer high-priced wines.
2. Wine aficionado, which includes consumers who drink wine to relax and enjoy.
3. Wine lovers, that are people drinking wine alone at home or with friends.
4. Fashionable wine consumer, who drinks wine on public occasions to show off and have fun with peers.
5. Young follow suit, which is composed of people drinking wine just to follow trends, they have poor knowledge about wine and prefer cheap and affordable products.

<sup>242</sup> East Media. (2020, May). *Wine Marketing in China*.

As the other segmentation, the one related to consumers' lifestyle is highly sought by companies that try to analyze the market, identify different types of consumers, and choose to deliver different offerings according to their wants and needs.

Furthermore, since wine culture and wine education are weaker in China than in western countries, both wine companies and the Government of China are trying to establish a wine culture in the country to increase the knowledge of wine among Chinese consumers. As reported by the Wine & Spirit Education Trust (WSET), China is the second-largest wine market in the world, counting 18,206 candidates in 2018-2019 for WSET certification<sup>243</sup>, which provides a comprehensive set of qualifications on wines, spirits, and sake.

Despite the high number of Chinese candidates for WSET courses, in February 2021 the Wine & Spirit Education Trust has announced that all its activities in China have been suspended. The WSET's statement disclosed that such suspension is due to administrative issues.<sup>244</sup> As stated in a post on the Chinese media Weibo,<sup>245</sup> WSET has not received approvals for delivering education services from competent authorities such as China's Ministry of education, Ministry of Culture, and Ministry of Civil Affairs. Thus, today WSET is handling the situation to resume its projects in China as soon as possible. So that, thanks to WSET courses, Chinese wine passionate will be able to learn more about wine, appreciate different varieties, and develop a refined palate.<sup>246</sup>

### **3.5. Made in Italy: definition and origin**

Before discussing the presence of Made in Italy wine in the Chinese market, it would be appropriate to give a general introduction about the term and its history.

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<sup>243</sup> Chen, Y. (2020, Jan.). Wine lovers develop a thirst for knowledge. *China Daily Hong Kong*. <https://www.chinadailyhk.com/article/118684>

<sup>244</sup> Wang., N. (2021, Jan.). Breaking: WSET suspends operation in China. *Vino Joy News*. [https://vino-joy.com/2021/01/30/breaking-wset-suspends-operation-in-china/#:~:text=The%20WSET%2C%20the%20largest%20global,organization%20\(NGO\)%20management%20law.](https://vino-joy.com/2021/01/30/breaking-wset-suspends-operation-in-china/#:~:text=The%20WSET%2C%20the%20largest%20global,organization%20(NGO)%20management%20law.)

<sup>245</sup>Weibo, (2021, Jan.) WSET 被要求暂停在中国课程及考试, 或与未获官方批准有关| WBO 突发 <https://mp.weixin.qq.com/s/ouDFoosOXFeKQnDYFt0GZw>

<sup>246</sup> Wine & Spirit Education Trust. *What we do*. <https://www.wsetglobal.com/about-us/what-we-do/>

The 'Made in Italy' is a label designating that a product is entirely designed, manufactured, and packed in Italy.

The origin of the label 'made in' goes back to 1887, when England introduced a law to make clarity on the origin of products that were sold in the market. In particular, the law was instituted for foreign companies, mostly German, which were accused to produce copycat British products and thus selling imitation goods. However, at the end of the nineteenth century, German manufacturing has achieved big results in terms of quality; the key success of German labels was represented by the attention to detail, as stated by the British historian Ernest Edwin Williams in 1896.

Although during the First and Second World War Germany's economy has been extremely damaged, its ability to produce well-made goods has remained a steady point for German manufacturers.<sup>247</sup>

As a result, the 'made in' label, that is the indication of origin, was imposed by European importers who wanted to know where products were made.

Regarding Italian products, they have always had a certain prestige due to their quality, elegance, and fine manufacturing processes, starting from the 1980s Italian makers used the 'made in Italy' mark to distinguish their products from counterfeiting ones and thus exploit competitive advantages related to that position.

Regulations related to the 'country of origin' label were established in 1891 with the Madrid Agreement, whose aim was that of repressing false or misleading indications of origin, and approved in Italy in 1967. Since 1999 the Made in Italy started to be promoted by several organizations and institutions such as the Institute for the protection of Italian Manufacturers, the Italian government, and the Chamber of Commerce.<sup>248</sup>

Furthermore, in September 2009 the Law Decree no. 135 art.16 concerning the made in Italy label and Italian products has been enacted to protect the trademark. Compared to other countries' labels, the Italian one is stricter as the law allows the use of the label only for products that are entirely planned, manufactured, and packed on the Italian territory.

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<sup>247</sup> Rayasam, R. (2013, Aug.). What does the 'made in' label mean anymore?. *The New Yorker*. <https://www.newyorker.com/business/currency/what-does-the-made-in-label-mean-anymore>

<sup>248</sup> Made in Italy: the official portal of Italian manufacturers. *Made in Italy*. <https://madeinitaly.org/en/made-in-italy/made-in-italy.php>

<sup>249</sup>Ibidem

The main sectors in which the ‘made in Italy’ have without exception reached top levels are fashion, food, furniture, and mechanical engineering. As an example, Italian shoes were the first products exploiting the ‘made in Italy’ mark. However, today the ITPI’s certification <sup>250</sup> is widely used in several sectors, such as fashion accessories, handbags, furniture, food, clothing, and cosmetics. <sup>251</sup>

As mentioned before, made in Italy products have achieved high success throughout the world for their elegant design, exquisite taste, and fine manufacturing procedures.

Many experts argue that cultural, social, and historical factors have greatly contributed to the extraordinary development of the so-called ‘four A’s’, which in Italian are *Abbigliamento*, *Arredocasa*, *Alimentari*, and *Automazione*. As a matter of fact, in 2014 the trade surplus<sup>252</sup> of these four flagship sectors reached 128 billion euros, as stated by Marco Fortis, vice-president of Edison Foundation and professor of Foreign Trade at Cattolica University of Milan. According to the data provided by GEA Observatory-Edison Foundation, in 2013 Italy ranked first, second or third in the world for best trade balance with foreign countries in 928 products out of about five thousand, recording a total value of 195 billion dollars of trade surplus. <sup>253</sup>

Although due to the 2020 lockdown exports fell by double-digit in sectors of fashion, furniture, and cosmetics, compared to 2019 figures, the trade balance still reveals a positive result. <sup>254</sup>

The research published in July 2021 by the Italian Trade Agency (ITA)<sup>255</sup>, a governmental agency that gives support to Italian companies abroad, has reported that 2020 total

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<sup>250</sup> ITPI stands for *Istituto Tutela Produttori Italiani*, which is the Institute for the protection of Italian Manufacturers, which aims to preserve and promote authentic Italian productions. [https://itpi.it/istituto\\_en.php](https://itpi.it/istituto_en.php)

<sup>251</sup> Made in Italy: the official portal of Italian manufacturers. *Made in Italy product*. <https://madeinitaly.org/en/made-in-italy/made-in-italy-product.php>

<sup>252</sup> “Trade surplus occurs when the value of goods a country exports is greater than the value of goods it imports”. <https://dictionary.cambridge.org/it/dizionario/inglese/trade-surplus>

<sup>253</sup> Biondi, A. (2015, July). Quattro A che spingono il made in Italy. *Il Sole 24 ore*. <https://st.ilsole24ore.com/art/impresa-e-territori/2015-07-15/quattro-che-spingono-made-italy-063627.shtml?uuid=ACG5poR>

<sup>254</sup> Pambianco News. (2021, Feb.). *Bilancia commerciale 2020, reggono i settori del Made in Italy*. <https://www.pambianconews.com/2021/02/18/made-in-italy-regge-la-bilancia-commerciale-2020-310947/>

<sup>255</sup> The Italian name is *Istituto nazionale per il commercio estero (ICE)*, also known as *Agenzia per la promozione all’estero e l’internazionalizzazione delle imprese italiane*.

imports recorded 370 billion euros compared with 433,6 billion of exports.<sup>256</sup> Thus, the Italian trade balance has continued to achieve overall quite positive results.

Another important aspect that is relevant in understanding the reason behind such great success of Italian companies selling Italian products abroad is the strong sense of entrepreneurship which seems to be a natural inclination in the Italian mindset. A study carried out by Growth from Knowledge (GFK) and Technical University of Munich (TUM) in 2015 shows that considering the three variables of the Amway Entrepreneurship Spirit Index (AESI), Italians have a high score in terms of desirability to start a private enterprise.

Compared to other Europeans, 42% of Italians are more willing to start their own business against 38% of the European average. What drives Italians to undertake this path is the desire to be independent of the employer, the achievement of self-realization, and the possibility to gain bigger profits.

One of the obstacles holding back Italians' desire of starting a new business is the fear of failure along with the threat of the economic crisis.<sup>257</sup>

Furthermore, the overall uncertainty derives from a complex bureaucracy and institutional barriers pushing away entrepreneurs from the idea of being independent and innovative.

### **3.6. Made in Italy appeal and COO**

Nevertheless, Italians' entrepreneurship of the last decades of the twentieth century has favored the development of sophisticated knowledge about handcraft combined with a taste for aesthetics and beauty. Thus, that spirit for entrepreneurship has given birth to companies having taste and quality as the focus of their production.<sup>258</sup>

Moreover, the great demand for Italian products is the result of a strong appeal for Italian heritage. As highlighted by Nicola Squicciarino (1986), author of a book on the psychological considerations of Italian apparel, the charm of Italian products is given by the great contribution of the cultural heritage that Italy can benefit from. The constant

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<sup>256</sup> Italian Trade Agency. (2021). *L'Italia nell'economia internazionale: rapporto ICE 2021-2021*. [https://www.ice.it/sites/default/files/inline-files/Rapporto%20ICE\\_2020%202021\\_0.pdf](https://www.ice.it/sites/default/files/inline-files/Rapporto%20ICE_2020%202021_0.pdf)

<sup>257</sup> Amway. (2015). *Amway Global Entrepreneurship Report 2015*. [https://www.amwayglobal.com/wp-content/uploads/2017/09/ager\\_2015\\_report.pdf](https://www.amwayglobal.com/wp-content/uploads/2017/09/ager_2015_report.pdf)

<sup>258</sup> Bellandi, M., Dei Ottati, G., Sforzi, F. (n.d) *Giacomo Beccatini e il made in Italy distrettuale*. Approfondimenti Ice.

contact over the centuries with breathtaking natural landscapes and artistic masterpieces, which are a consistent reality in Italy, has led Italian people to have an innate sensitivity for everything concerned with aesthetics and beauty.<sup>259</sup>

The incredible taste for beauty and quality together with the passion for sharing has resulted in a strong desire to bring such beauty outside the Italian barriers and let the world experience the Italian lifestyle, which is synonymous with ‘living well’ in every aspect of daily life.

Therefore, purchasing a product with the made in Italy label means living, eating, and wearing as Italians do.

In this regard, we might consider the effect of the country of origin (COO) on consumers’ behavior. The COO is an important factor in consumer choice behavior, it is seen as an intangible product attribute as the price, brand name, or warranty (Aichner, 2014). Consumers are more likely to spend more money buying a product with a positive country image, for example, Italy has a strong competitive advantage in the manufacturing of leather shoes and purses, Germany for cars, Switzerland for watches, France for perfumes, and so on.<sup>260</sup> In this case, when buying a product, the COO is often considered to be a signal of quality, reliability, durability, and optimum performance.<sup>261</sup>

As a result, the country of origin (COO) can be a consistent competitive advantage for companies that want to enter new markets. It has been studied that consumers strongly rely on the origin of a product in their purchasing decision.<sup>262</sup>

By understanding which country-related information affects consumer behaviors, managers can develop an effective marketing strategy to better persuade foreign consumers to purchase a brand or a specific product. For this reason, recently the concept of COO has gained significant importance in the international marketing context as consumers associate specific characteristics to products and services related to the image and reputation of the country from which they originate.

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<sup>259</sup> N. Squicciarino (1986) *Il vestito parla: considerazioni psicologiche sull’abbigliamento*. Armando.

<sup>260</sup> Keller, K.L. (2012) *Strategic Brand Management: building, measuring, and managing brand equity* (4<sup>th</sup> ed.) Pearson, p. 266-268.

<sup>261</sup> Aichner, T. (2014) Country-of-origin marketing: a list of typical strategies with examples, *Journal of brand management*, 21, 81-93. <https://doi.org/10.1057/bm.2013.24>

<sup>262</sup> Kumura, P.A.P.S., Canhua, K. (2010) Perceptions of country of origin: An approach to identifying expectations of foreign products. *Journal of Brand Management* 17(5), 343-353 <https://doi.org/10.1057/bm.2009.28>

In particular, the COO is relevant when customers do not have access to other kinds of information about products and services, thus it plays an important role in the pre-purchase evaluation reducing perceived purchase risks.<sup>263</sup>

It is remarkable how Italian products reach a high acceptance and desirability throughout the world. Although European countries still represent an important share of Italian exports, emerging countries are more and more characterized by a rising generation of young customers with a middle-high income willing to spend more for high-quality products. Thus, Italian products, which are popular for their exclusive design, fine care of materials, and workmanship, have a big potential in those countries.<sup>264</sup>

A survey conducted by the Research Centre on Made in Italy (MADEINT) and the University of Sannio about consumer's perception of Italy and Italian products has highlighted which are the affective attributes associated with the country in emerging countries like Brazil, China, India, Indonesia, Russia, South Africa, and Turkey. To be precise, literature on the country of origin has shown that COO is not just a cognitive cue, but it also regards affective associations, which are related to symbols and emotions, and normative cues, related to the policies and practices of a country.<sup>265</sup>

As found in the survey across seven emerging countries, respondents are more sensitive to affective attributes such as *exciting country*, *high quality of life*, and *friendly population*. Regarding the Italian culture, the survey has reported a high score for attributes like *beauty and aesthetic*, followed by *painting* and *architecture*, and *culinary traditions*. These peculiarities can be found in consumers' perception of Italian products, defined as exclusive, aesthetical, and of quality. Among product categories, the main product types are *shoes*, *leather goods*, *wines*, *clothing*, *home furniture*, and *food*, which is the most preferred.<sup>266</sup>

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<sup>263</sup> Qu, M., Quach, S., Thaichon, P., Frazer, L., Lawley, M., Arli, D., Weaven, S., Roberts, R.E. (2021) Understanding Chinese consumers' pre-purchase value expectations: the role of country of origin effect. *Asia Pacific Journal of Marketing and Logistics*, 33(8) 1861-1877 <https://doi.org/10.1108/APJML-06-2020-0388>

<sup>264</sup> De Nisco, A., Mainolfi, G. (2016) Competitiveness and perception of Italy and made in Italy on the emerging markets. *Rivista Italiana di Economia, Demografia e Statistica*, LXX (3), 15-28

<sup>265</sup> Roth, K.P., Diamantopoulos, A. (2009) Advancing the country image construct. *Journal of Business Research*, 62, 726-740 <https://doi.org/10.1016/j.jbusres.2008.05.014>

<sup>266</sup> De Nisco, A., Mainolfi, G. (2016) Competitiveness and foreign perception of Italy and Made in Italy on the emerging markets. *Rivista Italiana di Economia Demografia e Statistica*, LXX (3) pp. 15-24.

This research is particularly useful for understanding the overall perception of Made in Italy products across emerging countries so that companies that operate overseas can better define which relevant attributes can be exploited.

Moreover, companies using the ‘made in Italy’ label in their communication strategy can positively contribute to the final evaluation of the product and differentiate themselves from the competition.<sup>267</sup>

### 3.7. Made in Italy in China

As described in the second chapter of this work, China is one of the fastest-growing markets with a big portion of the middle-class population willing to pay premium prices for valuable products. In this regard, Italian products have great potential in the Chinese market. If we look at the export value of goods from Italy to China from 2014 to 2019 in fig. 19, we can see how products coming from Italy are greatly appreciated by Chinese consumers.

Export value of goods from Italy to China 2014-2019	2014	2015	2016	2017	2018	2018 Jan-Sep	2019 Jan-Sep
	(in 1,000 euros)						
Exports	10.493.670	10.412.969	11.057.187	13.488.623	13.127.137	9.647.202	9.412.790

Figure 19 - Export value of goods from Italy to China 2014-2019 (in 1,000 euros). Source: ITA and ISTAT

During the last decade, the export value of goods has registered good results, however, the peak happened in 2017 registering 13,5 billion euros.<sup>268</sup> Due to the pandemic crisis, in January 2020 the export value to China decreased around 12% compared to the previous year, but according to ISTAT data, in the first quarter of 2021 Italian exports to

<sup>267</sup> Qu, M., Quack, S., Thaichon, P., Frazer, L., Lawley, M., Arli, D., Weaven, S., Roberts, R.E. (2021) Understanding Chinese consumers’ pre-purchase value expectations: the role of country of origin effect, *Asia Pacific Journal of Marketing and Logistics*, vol. 33 no. 8, emerald, p. 1864  
<https://doi.org/10.1108/APJML-06-2020-0388>

<sup>268</sup> Italian Trade Agency. (n.d.). *Interscambio commerciale dell’Italia per paesi: Cina*  
[https://www.ice.it/it/statistiche/Short\\_stat\\_view.aspx?TipoReport=1&paese=Cina&anno\\_fine\\_periodo=2019&anno\\_fine\\_serie=2018&mese\\_fine=09](https://www.ice.it/it/statistiche/Short_stat_view.aspx?TipoReport=1&paese=Cina&anno_fine_periodo=2019&anno_fine_serie=2018&mese_fine=09)

extra EU countries recorded a great booster, especially exports to China recorded double-digit growth of about 55%.<sup>269</sup>

Therefore, Italian export is once again above the levels seen before the Covid-19 emergency, as stated by the report on Italian international trade published by the Italian Trade Agency.<sup>270</sup>

It is also interesting to mention that even though exports signed a rebound in all the main sectors of made in Italy, made in Italy food export has seen the most extraordinary upturn, recording an increase of 130%.<sup>271</sup>

This upturn is even more important given the entry into force of the agreement between EU and China on the protection of geographical indications, which “protects around 200 iconic European and Chinese agri-food names against imitation and usurpation, bringing mutual trade benefits and introducing consumers to guaranteed, authentic products”.<sup>272</sup>

The list of geographical indications (GIs) regarding Italian products includes balsamic vinegar of Modena, Asti, Brunello di Montalcino, Chianti, Parmigiano Reggiano, pecorino Romano, Parma ham, Nobile di Montepulciano wine and many others. According to the Coldiretti association, the protection of geographical indications avoids the risk of counterfeiting and imitation of tricolor products in China, a country that is ranked first among world consumers of red wines.<sup>273</sup>

The reason behind this favorable attitude toward Western food, especially the Italian one, is particularly strong in Chinese who lived, studied, or worked abroad. These consumers have developed a great taste and knowledge of Italian food, and when coming back to China they want to bring the Italian lifestyle with them.<sup>274</sup>

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<sup>269</sup> Carli, A. (2021, July) Per l'export italiano +19.8% nel primo quadrimestre 2021, Cina primo mercato di sbocco. *Il Sole 24 ore*. <https://www.ilsole24ore.com/art/per-l-export-italiano-198percento-primo-quadrimestre-2021-cina-primo-mercato-sbocco-AEAXCQX#U40343679702IgF>

<sup>270</sup> Italian Trade Agency. (2021). *L'Italia nell'economia internazionale, Rapporto ICE 2021-2021* [https://www.ice.it/it/sites/default/files/inline-files/Rapporto%20ICE\\_2020%202021\\_0.pdf](https://www.ice.it/it/sites/default/files/inline-files/Rapporto%20ICE_2020%202021_0.pdf)

<sup>271</sup> European Food Agency News. *Doubles the made in Italy food in China*. <https://www.efanews.eu/item/18383-doubles-the-made-in-italy-food-in-china.html>

<sup>272</sup> European Commission News. *EU-China agreement protecting geographical indications enters into force*. [https://ec.europa.eu/info/news/eu-china-agreement-protecting-geographical-indications-enters-force-2021-mar-01\\_en](https://ec.europa.eu/info/news/eu-china-agreement-protecting-geographical-indications-enters-force-2021-mar-01_en)

<sup>273</sup> European Food Agency News. (2021, Mar.). *Historic record for made in Italy food in China*. <https://www.efanews.eu/item/17413-historic-record-for-made-in-italy-food-in-china.html>

<sup>274</sup> China eats Italian. (2016, Dec.) *Italian Food News*. <https://news.italianfood.net/2016/12/14/china-eats-italian/>

The rank of the most requested Italian food products sees first the bakery products, followed by processed and preserved fruit and vegetables, and dairy products as third.<sup>275</sup> However, in April 2021 the European Food Agency reported that Italian wine is the most purchased food product in China.

Although Italy is the first country in the world to produce wine, it is the fourth market from which China buys wine, perhaps because of the complexity of Italian wine grapes, China prefers to buy wines from the New World enjoying less expensive value-added taxes (VAT).<sup>276</sup>

### 3.8. Italian Wine in China

The growing demand for Italian products in emerging markets such as China is given by the fact that lately Chinese consumers have become more and more demanding and sophisticated. Thus, when purchasing products, instead of looking at the price and the quantity, consumers have started to value quality.<sup>277</sup> Considering that Chinese consumers have recently shown a great inclination towards drinking wine not just on social occasions, but also at-home to relax and enjoy a glass of good wines, it is not surprising that consumers have been learned about wine production processes, wine varieties and its quality.

Since consumers are becoming more knowledgeable about wines, their consumption of wine is not just for satisfying gastronomic needs, but drinking wine is enhanced with symbolic and hedonistic factors.<sup>278</sup> If in the past, Chinese consumers were more inclined to buy cheaper wines from New World such as Australia and Chile, nowadays Chinese

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<sup>275</sup>Wine News. (2020, Oct.). *Italian food & beverage exports in the first half of 2021 at 22 billion euros*. <https://winenews.it/en/italian-food-beverage-exports-in-the-first-half-of-2020-at-22-billion-euros-428206/>

<sup>276</sup> Danni, Z. (2019) *How Italian wine entered the world's most attractive wine market*. CGTN. <https://news.cgtn.com/news/2019-11-01/How-Italian-wine-entered-the-world-s-most-attractive-wine-market--LgHHttL1kl/index.html>

<sup>277</sup> Daxue Consulting (n.d.) *Chinese wine market 2.0: how COVID-19 and politics have reshaped the landscape*. <https://daxueconsulting.com/chinese-wine-market/>

<sup>278</sup> Crescimanno, M., Galati, A. (2014) Competitiveness of Italian wine in the international market. *Bulgarian Journal of Agricultural Science*, 20(1), 12-22. <http://hdl.handle.net/10447/103905>

consumers are more likely to buy wines from France and Italy because of their well-known quality and prestige.<sup>279</sup>

Regarding the perceptions of Italian wine abroad, a study conducted by the Italian Research Center for Social Studies (CENSIS) and presented as part of the program #IoStocolMadeinItaly, argue that the three main concepts associated with Made in Italy are ‘lifestyle’, ‘product’, and ‘emotions’. Foreign consumers value Italian products for their quality, beauty, authenticity, and evocative power.<sup>280</sup>

In this context, Italian wine perfectly represents the Italian culture and lifestyle characterized by sharing experiences and emotions.

Due to the growing interest in Italian food and wine, Chinese consumers have started developing knowledge about the gastronomic sector through training courses organized by Vinitaly International Academy.<sup>281</sup> The mission of Vinitaly International Academy is to rethink the perception of Italian wine, whose complexity and uniqueness must be seen as strengths instead of weaknesses.<sup>282</sup>

Since 2018 Vinitaly, one of the most famous international wine and spirits expos, organize “Vinitaly China Roadshow”, a tour that brings the excellence of Italian wine in the biggest Chinese cities.<sup>283</sup>

The reason why Italian wine companies seek to enter China is that Chinese consumers, especially the young generation of consumers, are ambitious and motivated to live a sophisticated and luxurious lifestyle.<sup>284</sup> Indeed, as stated by Jean-Charles Viens, Franciacorta representative in China, the key to the success of Italian wine in China is its

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<sup>279</sup> Danni, Z. (2019) *How Italian wine entered the world's most attractive wine market*. CGTN. <https://news.cgtn.com/news/2019-11-01/How-Italian-wine-entered-the-world-s-most-attractive-wine-market--LgHHttL1kl/index.html>

<sup>280</sup> Made in Italy is product (high quality), lifestyle (appealing) and emotions (perception). *Wine News*. [https://winenews.it/en/made-in-italy-is-product-high-quality-lifestyle-appealing-and-emotions-perception\\_405678/](https://winenews.it/en/made-in-italy-is-product-high-quality-lifestyle-appealing-and-emotions-perception_405678/)

<sup>281</sup> Wine News. *The “Vinitaly roadshow” restarts in China to promote Italian wine around the world*. <https://www.vinitaly.com/en/news-archive/wine-news/the-ldquovinitaly-roadshowrdquo-restarts/>

<sup>282</sup> Zeca, R. (2021, May). How to turn the complexity of the Italian wine into a plus point. *Wine Meridian*. [https://winemeridian.com/english\\_news/how\\_to\\_turn\\_the\\_complexity\\_of\\_the\\_italian\\_wine\\_into\\_a\\_plus\\_point.html](https://winemeridian.com/english_news/how_to_turn_the_complexity_of_the_italian_wine_into_a_plus_point.html)

<sup>283</sup> Astarita, C. (2018, July). China: why Italian wine is becoming more and more popular. *Panorama*. <https://www.panorama.it/italy-today/china-italian-wine-becoming-popular>

<sup>284</sup> Liu, Y. (2018, Oct.) ‘Cin, cin, China!’ as Italian winemakers eye ambitious millennials. *China Daily*. <https://www.chinadaily.com.cn/a/201810/23/WS5bcecab8a310eff3032840c6.html>

relationship with luxury. As noticed before, Chinese consumers are highly motivated to purchase Italian luxury products because they believe that Italian products may improve the quality of their lifestyle.

So that from their perspective, wine is not a need, as it could be for western consumers, but it is a want, a desire for the evocation of deep emotions.<sup>285</sup>

For what concern variety of wine, Chinese consumers have developed a great knowledge of Italian wine denominations. According to a survey carried out by Wine Monitor on 1000 middle-class consumers aged 18-55 from the first-tier city, the most known Italian wine is Amarone della Valpolicella (13,7%), followed by Chianti Classico (10,9%), third Barolo (10,5%), Montepulciano d'Abruzzo (10,2%), Brunello di Montalcino (10,1%), and Prosecco (9,0%).<sup>286</sup>

Indeed, as stated by Giorgio Centineo, who works at VM Fine Wines in Guanzhou, Chinese wine consumers prefer to drink a wine that embraces the palate with its roundness (bǎo mǎn 饱满), while they would not prefer wine with strong acidity. Great attention is also given to the aroma (fāng xiāng 芳香), which should be preferably fruits and red flowers.<sup>287</sup>

That's why Chinese wine drinkers appreciate much more wines such as Amarone, which thanks to the high level of sugar due to the grape drying it leaves a sweet aftertaste (huí wèi 回味).

Moreover, it is interesting to know that due to the increase in wine consumption, consumers have started to combine Italian wine with Chinese cuisine. On the website *Chinese cuisines meet Italian wines* it is possible to select a dish among many recipes ordered by categories (cuisine, course, chef, and featuring), and the system will provide users with the right pairing of Italian wine. For example, the traditional Beijing roast duck matches with Amarone della Valpolicella Classico, the Foie Gras Xiao Long Bao, which

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<sup>285</sup>Zeca, R. (2021, June). Italian wine: a symbol of Made in Italy lifestyle in China. *Wine Meridian*. [https://www.winemeridian.com/english\\_news/italian\\_wine\\_a\\_symbol\\_of\\_made\\_in\\_italy\\_lifestyle\\_in\\_china.html](https://www.winemeridian.com/english_news/italian_wine_a_symbol_of_made_in_italy_lifestyle_in_china.html)

<sup>286</sup>Di Faustino, E. (2019). *Incognita Cina, il vino in Cina: consumi e consumatori*. Forum Wine Monitor 2019, Wine Monitor Nomisma.

<sup>287</sup>Fatticcioni, C. (2021, Jan.) Dumplings & Chianti: come il vino italiano è apprezzato in Cina. Per quel che ne so io. <https://perquelchenesoio.com/2021/01/28/dumplingschianti-come-il-vino-italiano-e-apprezzato-in-cina/#:~:text=Quali%20sono%20i%20vini%20italiani,i%20vini%20italiani%20pi%C3%B9%20conosciuti>

is a typical dish of the Shanghainese cuisine, can be paired with Pinot Nero Toscana, while bittersweet spicy shrimps are well-matched with Fiano di Avellino, white wine with a fruity aroma and smell of toasted hazelnut.<sup>288</sup>

### 3.9. Strategies for the future of Italian wine in the Chinese market

Given the discussion about the wine market, it comes without saying that wine has a huge potential in the Chinese market. There are just a few challenges that Italian companies might face to efficiently deliver high-value offerings to Chinese consumers.

Wine companies should consider not only the potential of entering the market as a foreign company but also the potential of promoting and bolstering communication activities on Chinese media and e-commerce platforms. Thus, the digital world is an extremely important issue in China and managers should be aware of the opportunities that Some famous French wineries have indeed created their own social media accounts where they have gained thousands of Chinese followers and where they can be connected with them.

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Here are some instructions provided by Fondazione Italia China (yì zhōng jī jīn huì 意中基金会) in the XI annual report, which has a special section concerning digital marketing in China:<sup>290</sup>

The website should have local hosting, ‘Chinese-friendly’ content, and responsive layouts. Local hosting will allow users to open the website faster and will lead to a good positioning on Baidu. Regarding the contents, they should be in line with Chinese culture and should be designed for mobile screens since more than 90% of web access are made with a smartphone.

The name of the brand should be translated into Chinese so that consumers may easily remember it. When translating the name, managers can decide to translate it by sound or by meaning, rarely a name can combine both sound and meaning.

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<sup>288</sup>Chinese cuisines meet Italian wines. *Home Page*. <https://chinesecuisines-itwines.com/home?lang=en>

<sup>289</sup>Boquen, A. (2021, Aug.) Chinese wine market industry – Strategies and Recommendations. *New Horizons*. <https://nhglobalpartners.com/chinese-wine-market/>

<sup>290</sup> Centro Studi per l’Impresa Fondazione Italia Cina (2020) XI Rapporto Annuale. *Cina 2020: scenari e prospettive per le imprese*.

To be among the first results on Baidu, which is the first search engine in China, it is suggested to optimize the website's SEO and SEM with Chinese selected words.

For what concern social media, Weibo is the most used platform whose characteristics can be compared to a mix of Facebook, Instagram, and Twitter. Chinese use Weibo to search for information, stay updated on the latest trends and follow their favorite influencers. This means that Weibo plays an important role in the promotion of branded products.

Wechat represents a good opportunity as well. Its functionalities include instant messaging, social media platforms, customer care, newsletter, and e-commerce thanks to its integrated payment system. Have an official account on Wechat is as important as having a company website.

A relevant aspect of the digital marketing strategy is the type of content that companies should design to meet Chinese consumers' needs. In China, people spend three to four hours per day watching videos, so that live streaming and short videos have been incredibly increased in the last few years.<sup>291</sup> As a result, storytelling in China has become essential for communicating the company's vision and boosting the brand. As an example, through storytelling, a company may share the history of the brand and the brand's mission with the use of imagery and design.<sup>292</sup> This digital-centric environment strongly affects the way by company develop their communication strategies. Since Chinese consumers pay great attention to the online brand image, companies should create contents that are suitable to them, such as rich content with graphic vivacity.<sup>293</sup>

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<sup>291</sup> Daxue Consulting. (2020, Mar.). *How do companies produce marketing video content in China?* Podcast transcription No.89 <https://daxueconsulting.com/how-companies-produce-marketing-video-content-china/>

<sup>292</sup> Digital Crew. *The importance of storytelling for building brands in China.* <https://www.digitalcrew.com.au/blogs-and-insights/importance-storytelling-building-brands-china/#:~:text=Storytelling%20in%20Chinese%20culture%20has,forms%2C%20drama%2C%20and%20music.>

<sup>293</sup> Centro Studi per l'Impresa Fondazione Italia Cina (2020) XI Rapporto Annuale. *Cina 2020: scenari e prospettive per le imprese.*

Cynthia Yang, Vice President of Sunlon, has reached million people by posting live streams and shorter videos about wine. Her contents comprise presentations of wines, labels, grape varieties, vineyards, and food. <sup>294</sup>

However, besides digital presence, offline channels are also relevant for companies that want to break into the Chinese market, as stated by Leon Liang, CEO and chief wine educator at Grapea & Co., trade fairs, events, and festivals are also useful to create and share content for reaching current consumers and potential new ones. <sup>295</sup>

### 3.10. The case study of San Marzano Wines

San Marzano Wines is an Italian southern wine company founded in a small Apulian town, named San Marzano, in 1962. Thanks to its position in the heart of the Apulian region, San Marzano Wines produces a great variety of wines that are typical of the Apulian tradition, such as Primitivo di Manduria, Negroamaro Salento, Salice Salentino, and so forth. <sup>296</sup>Strong of its traditions, heritages and quality of products, the company sells its wines worldwide to gain more profits and to help the diffusion of Apulian wine culture.

To better analyze the case of the Italian winery, through an open-end questionnaire, the export manager of San Marzano Wines has provided more detailed information about the position of the company in foreign markets.

The answers to the survey are listed below, whereas at the end of this paragraph there are interesting insights that resulted from the interview with the company.

1. What is the strength that has made it possible to open up to foreign markets?

*“Certainly, the first step was to have our bottling plant, which was purchased in 1996. Before then, our foreign business was focused on the sale of bulk wine to international buyers, mainly French. The second step was represented by the production of our iconic wine, the ‘Sessantanni Primitivo di Manduria DOP’, bottled for the first time in 2003. This wine has changed the perception of Primitivo at an international level, as it mainly*

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<sup>294</sup> Vinality News. (2020, Nov.). *Digital and off-line: the two wine sector strategies needed to conquer China*. <https://www.vinality.com/en/news-archive/world-wine-news/webinar-cina-video/>

<sup>295</sup> Vinality News. (2020, Nov.). *Digital and off-line: the two wine sector strategies needed to conquer China*. <https://www.vinality.com/en/news-archive/world-wine-news/webinar-cina-video/>

<sup>296</sup> San Marzano Wines. *Products*. <https://sanmarzano.wine/en/products/>

*reflected its taste. Today, our competitive advantage in foreign markets is to produce wine with an excellent quality/price ratio, with modern and attractive packaging, which tells the story of Apulian region, now appreciated by tourists and international celebrities”.*

2. To which Western countries does San Marzano Wines export?

*“Currently, San Marzano Wines exports to about 80 countries around the world. In Europe the main markets are Germany, Switzerland, UK, Benelux”.*

3. Which are the most purchased products from Western markets?

*“Unfortunately, it is not possible to generalize, as each market has its characteristics. There are wine-producing countries such as France, Spain, Portugal, etc. where market trends are different from those in Germany, Benelux, North America, or Northern Europe. Just to give an example, in continental Spain rosé is much more consumed than in the Canary Islands, wherein accompaniment to the aperitifs it is preferred beer”.*

4. To which eastern countries does it export?

*“We export a little to the Far East (Japan, China, South Korea) and South East Asia (Vietnam, Singapore, Thailand, etc.) since 2011”.*

5. What is the main difference between Western and Eastern markets?

*“The main difference lies in the fact that, while in Europe and North America we distribute the products of the San Marzano range more evenly in all price ranges (entry level, medium, premium), in Eastern markets - or at least in emerging markets – we mainly sell very high or very low range products. This situation fully reflects an unbalanced distribution of income, typical of those countries”.*

6. What role does China play in the export of your company?

*“China does not currently have a very significant influence on our export turnover”.*

7. To what extent is China an export market for your products?

*“Today it is certainly less relevant than other countries where the San Marzano brand is now consolidated. But we are convinced that it will soon be more relevant. China is competing for the title of world’s first economy with a pool of high-spending consumers constantly growing. Beijing has a market of unparalleled size and expansive potential, and it aims to create a society of distributed well-being. We can certainly benefit from that”.*

8. How did the company approach the Chinese market?

*“I would define our strategy in China as a real investment. In recent years we have hired among a Chinese country manager who follows (from Beijing) our customers. Therefore, San Marzano has "chosen" to be present in China, a truly complex market that needs to be managed in a capillary manner, with so much professionalism and patience”.*

9. How long have you been exporting to China?

*“The first exports date back to 2011”.*

10. What are the most purchased products from Eastern markets?

*“In general, Eastern markets are characterized by higher consumption of red wines, followed by sparkling and muscat. However, our range of products is highly appreciated throughout Asia”.*

11. Which of your products is most in demand by Chinese consumers? Why?

*“Almost all our products are very successful in China, because fruity red wines, soft, with a pretty high alcohol content match well with the Chinese cuisine. For sure, among our native varieties, Primitivo is the one that goes for the most. This is also because it is often associated with his brother overseas - the Zinfandel - therefore it is also easier to remember among the many Apulian varieties. Therefore, I would say that the most popular products are ‘Sessantanni Primitivo di Manduria DOP’ and ‘Anniversario 62 Primitivo di Manduria DOP Riserva’. However, in the last two years, we have also seen a growing interest of Chinese consumers for our white wines, ‘Edda Bianco Salento IGP’ and ‘Timo Vermentino Salento IGP’”.*

12. Which distribution channel does the company use to bring products to the Chinese market?

*“The sales channel is long: importer - distributor - retailer. We rely on local distributors, that manage distribution in their province of residence. Obviously, we concentrate major efforts in cities/areas where the consumption of wine is higher, therefore first-tier and new-first-tier cities”.*

13. How do you manage the sale and communication activities of your products in China?

*“Sales management to final customers is entrusted to our distributors or retailers. We do not have an official website in Chinese that allows them to buy directly from us. Moreover, having an Italian website in Chinese language that is not specifically indexed on Baidu is equivalent to not having one. Anyway, our distributors have their online channels. For online purchases in China, they rather use marketplaces such as Tmall. Nevertheless, e-commerce and marketplace are more and more often replaced by Wechat Mini-program and other social networks that integrate in-app payment systems or direct links to flagship stores, that is the so-called ‘social-commerce’. Regarding communication, we rely on an agency, and we are currently present on two of the most used social channels in China: Wechat (including its Wechat Channel extension) and DouYin. Since we don’t have a Chinese website, our presence on those social channels is our business card. Indeed, the Chinese consumer always tends to check the reliability of a foreign brand on the channels it uses, and Wechat is the most used”.*

14. What are the main difficulties encountered in approaching a market like the Chinese one?

*“Certainly, the vastness of the market, which does not allow easy control over the flow of goods and the final price of the product. China is so vast geographically and there is still no legislation regulating, for example, the flow of wine from one province to another. Secondly, it is difficult to find reliable partners with whom to build a long-term project. Chinese businessmen are much more “flexible” and tend to switch from one business to another based on profitability. Finally, the lack of knowledge about Apulia by the Chinese is a deterrent, along with the more general difficulty of understanding the Italian wine landscape”.*

15. Does the company use cross-border e-commerce sites?

*“No, we never believed in cross-border selling. The Chinese consumer, more than anyone in the world, is used to buy online and receive goods in a very short time. China is the first market in the world for online sales as well as a reference country for uses and trends related to the digital world. The cross-border mode provides shipping times that are too long for Chinese standards (10-14 days). To be efficient and competitive on the market it is necessary to have a distributor with a warehouse in China, that payments are made in local currency, and shipments are arranged quickly”.*

16. Do you organize activities to promote wine culture in China?

*“Not directly. We take part in events organized by our distributors and retailers, sometimes through sponsorships. In addition, we participate in events planned by various trade organized by Gambero Rosso, Vinitaly International, ICE, or even by various Chinese bodies such as Interwine, G100, etc.”.*

17. What are the main characteristics of Chinese wine consumers?

*“Wine in China is certainly not a product embedded in the Chinese tradition, like other types of alcohol produced with rice, sorghum and other cereals. Anyway, we can distinguish two categories of consumers: the Chinese of the first-class cities, who approach the world of wine to join a metropolitan lifestyle choice and who are habitual wine consumers; and then there are the Chinese who buy wine as a gift or for special occasions. If we want to divide them by age group, the Chinese consumer group 35-55 is the one with the greatest spending capacity and that makes purchases of greater importance and value. The under-35s, on the other hand, consume wine more usually, but of cheaper quality. In addition, they are very sensitive to fashionable products and the trends launched by influencers of the industry. Finally, there are those over 55 who drink wine only on certain occasions and consider it mainly a way to socialize. But they would never replace it with a more traditional glass of Baijiu to conclude a negotiation!”.*

18. How important are the younger generations in the wine market in China? What does San Marzano Wines do to attract this market segment?

*“They are very important. We believe that the Chinese Millennials continue to be interested in the world of wine because they are increasingly wealthy, overseas travelers, and passionate about fashion, design, and luxury made in Italy. This generation of young Chinese is more educated about the culture of wine since they find this product in their*

*daily life, in TV programs, in TV shows, and in the most glamorous places of their cities. More and more young Chinese come to Italy to study enology, this suggests that a class of wine experts is being formed in China, a factor that will be of great help for the spread of wine consumption. But what is difficult for Chinese consumer is to understand the vastness and ampelographic heritage of the Italian wine landscape.*

*To reach this segment of the market, our company tries to be actively present on Chinese social channels. Our future goal is to open official San Marzano accounts also on Weibo, Xiaohongshu, Kuaishou, etc. In addition, we would like to start some collaborations with KOC or KOL because it would be the quickest way to attract young Chinese consumers, even though the most expensive investment”.*

19. Would the company consider opening stores in China?

*“At the moment, our company would not open points of sales in China. The reason is that the fixed costs of a physical shop are too high for a wine shop that offers a wide selection of products from different regions and countries. It would be even more difficult for a company that produces wines from a single region that is still not well known. However, we would consider having a legal office in China since it would allow us to move much more easily on the Chinese territory”.*

Thanks to this interview, it has been possible to confirm the main trends previously explained in the previous paragraphs.

First, the growing importance of the younger generations that are reshaping the wine culture in China, second, the relevant role of the digital world not only for the purchase process but also for the spread of the wine culture.

By looking at the Wechat account of San Marzano Wines, it can be noticed how the company has developed a targeted approach to build awareness across Chinese consumers.

First, on the Wechat account, there are both the English and Chinese versions of the company name, which was translated through phonetic adaptation. The sound of the words ‘San Marzano Wines’ is given by the combination of four characters: 森美赞诺 *sēn měi zàn nuò*. As stated by the company, the aim was to find a name able to reproduce the sound of ‘San Marzano’, however at the same time the Chinese characters somehow could reflect the meaning of the company, whose payoff is *Whine Sharing Beauty*.<sup>297</sup> Having a Chinese name is an important factor that help Chinese consumers to easily recognize and remember it, thus a Chinese name allows the company to reach a greater visibility and presence in the Chinese market.

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<sup>297</sup> The name 森美赞诺 *sēn měi zàn nuò* is composed by 森 ‘tree’, 美 ‘beauty’, 赞 ‘praise’, and 诺 ‘promise’.

What is also worth noting is the attention with which the Wechat account is managed and curated. As any Chinese company on its social channel, San Marzano Wines periodically posts articles about its production, collaboration, and initiatives. This is an effective way to communicate its mission and vision in the wine industry.

Moreover, the company's Wechat account has a section, called *San Marzano team* 森美赞诺团队 *sēn měi zàn nuò tuán duì*, where it is possible to read about the story of the company, of its founder, and employees, leading to create a deeper connection with Chinese consumers, a way to tell the passion behind the production of wine. As a matter of fact, this page is titled 传承历史, 创造未来 *chuánchéng lìshǐ, chuàngzào wèilái*, which means 'inherited story to create the future'.

Besides the information of 'company's people', there are also a page dedicated to the range of products that the company offer to customers along with description and related information.

Another important section presents all the activities and event to which San Marzano participate in, not just event in the Chinese territory such as Vinitaly China Roadshow, but also event overseas, such as the collaboration with the Japanese chef Nakamura Koumei, who created an *ad hoc* menu combining food and San Marzano Wines.

Among all sections, the one that perfectly match the tradition of the company and the strategy in the Chinese market is the *about* section, which tell the values that matter to San Marzano Wines: tradition, quality, elegance, and beauty. These values are perfectly represented in the video posted on the section, which shows glimpses of Apulian tradition, landscape, lifestyle, and uniqueness.

In this way, San Marzano Wines is following the suggestion of J.C. Viens, Franciacorta representative in China and ambassador for Vinitaly International Academy, who believes that instead of selling products, Italian wineries should 'sell' stories and emotions by sharing what Italian art of living represents.<sup>298</sup>

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<sup>298</sup> Zeca, R. (2021, May). How to turn the complexity of the Italian wine into a plus point. *Wine Meridian*. [https://winemeridian.com/english\\_news/how\\_to\\_turn\\_the\\_complexity\\_of\\_the\\_italian\\_wine\\_into\\_a\\_plus\\_point.html](https://winemeridian.com/english_news/how_to_turn_the_complexity_of_the_italian_wine_into_a_plus_point.html)

## Conclusions

This dissertation focused on the internationalization of Italian wine companies in the Chinese market, which presents big opportunities for those that can tap into this prosperous market through the development of strategic decisions.

Given the importance of strategic decisions within an organization, no matter at which level, managers should carefully analyze every factor that contributes to the success of a company, such as innovation both at the industry and organizational level and knowledge of business frameworks. As we have seen, many are the frameworks that were developed to help companies undertake strategic decisions and achieve their objectives. Besides the analysis of the company's business model and other analytical tools, this dissertation explained the various strategies that guide companies through the internationalization process. Among the different strategies a company can apply for accomplishing its mission, internationalization is certainly one of the most complex ones, as it involves several decisions that should be deeply analyzed to avoid the risk of failure and waste of economic resources. These decisions include first the analysis of the external environment, organizational capabilities, and then the selection of suitable markets and viable entry modes.

It is not surprising that many companies want to reach the Chinese market, a market characterized by a huge population and growing spending power. In fact, during recent times, the world has witnessed China's transformation from a poor and undeveloped country to a modern economic power with an incredible potential for foreign companies. However, companies should analyze the differences of the Chinese market in terms of consumption patterns and means by which connect with consumers.

Through this dissertation, it is possible to notice also that cultural differences still influence Chinese consumption. Despite differences in terms of history and culture, what has emerged is Chinese consumers' desire to improve their lifestyle. For this reason, thanks to its fine manufacturing of quality products, Italy can play an important role in the Chinese market by exploiting its national advantages. Besides being characterized by excellent quality, made in Italy products represents the Italian art of living abroad, that is that lifestyle that many Chinese are now considering as wealthy and sophisticated. Italian

wine is one of the many Italian products that have received great attention from Chinese consumers recently. Although Italy is far from being the first exporting country of wine in China, recently Chinese imports of Italian wine have been increasing. Thus, Italian wineries should develop a comprehensive strategy to move into the Chinese market and let consumers know their products but also, and perhaps more important, transmit the meaning of the Italian lifestyle.

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