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**Italian wine market in China: Defining
the right approach – A study on
levers and criticalities to set up a
winning strategy for Italian wineries**

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ABSTRACT

This dissertation has been developed with the aim of investigating the first market in the world, China, in one of the sectors that best represents the Italian style and the Made in Italy: the wine market.

The Chinese wine market has a huge prospective for the Italian wine producers, since in the last few years it has been having an extremely relevant development. However, just a few are the Italian wineries that consider China as an opportunity and contemplate the Chinese market as a market where Italian wine has to participate in.

Going through the paper, the reasons why China is for Italian producers a great opportunity, especially in terms of profits, will be investigated and brought to light.

In order to do so, an introductive analysis of Chinese wine market will be presented, in order to provide the lector with an idea of the context and all the tools he needs to understand the matter of debate.

Furthermore, case studies of Italian wineries which have or had contacts with the Chinese wine market will be presented. Some of them are present in China with their wines, someone else are not present, whereas others are still trying to penetrate it.

Using such case studies' results and experts' in the fields opinions as references, the reasons for which China still remain an extremely tough market for Italian producers and Italian wine will be explained. The main criticalities and strategic drivers will be disclosed, in order to endow Italian wineries with a reference background that they can use to perfect their approach to the Chinese wine market and to set up a successful strategy.

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INTRODUCTION

This dissertation originates from some passions that I cultivated during the academic years at Cà Foscari. The first one concerns the interest toward China and its culture. This interest was firstly born thanks to a marketing and communication project for China I had to develop in collaboration with a company for the Cross Cultural Marketing course. In this occasion I had an initial approach and insight into the Chinese world, which immediately struck me. By that moment a deep curiosity born in me, which led me directly to China.

I wanted to actually experience what I have studied, so I took the opportunity and I left Italy for spending two months in the capital of China, Beijing, working in a Chinese company as intern. Day by day China grew on me and I came back totally in love with this Country, its people and its culture, being deeply attracted by their charm. I kept cultivating this passion, being interested in everything concerning China. For this reason the first topic of my final dissertation, which can be considered as the final output and the recap of these two years spent at Cà Foscari, had to be related to China.

The other passion originated from the Chinese experience, and was then made stronger by the other experiences I took abroad, which were made possible thanks to the Cà Foscari University. Living abroad the strong sense of belonging to my home Country, Italy, strengthened a lot, as well as a deep appreciation for Italy and all you can find abroad as Italian, which is typically identified as the “Made in Italy”. I have been developing a deep esteem and respect for all those Italian realities which have the courage to face the international scenario, even in difficult circumstances, and that are able to create successful cases and stories. They become our representatives abroad and contribute to spread out the Italian culture, to disseminate the Italian spirit and the appreciation for our beautiful Country and the Made in Italy, all over the world.

Matching these two passions, came out the object of my work: Italian wineries’ stories in China.

I choose the wine industry because I consider wine as one of the most representative Made in Italy products and symbol of Italy. In addition, wine market in China still has to be explored and developed, as wine is still facing difficulties in being associated to Italy by Chinese people and Italian wineries still face difficulties in approaching this market, which is instead widely considered a great opportunity. I came to these considerations once I get in touch with an entrepreneur, who recently funded a society of wine commercialization. He introduced me his issue: entering the Chinese wine market. Therefore, I get involved in this matter, and tried to figure out a possible solution. My dissertation has this staple will, being helpful for all those Italian firms which decide to enter the Chinese wine market.

GAIO VALERIO CATULLO (Verona, 84 - 54 a.C.)

from "Poesie"

*"Ragazzo, se versi un vino vecchio
riempine i calici del più amaro,
come vuole Postumia, la nostra regina
ubriaca più di un Acino ubriaco.
E l'acqua se ne vada dove le pare
a rovinare il vino, lontano,
fra gli astemi: questo è vino puro,"¹*

*"Boy, if you deposit an old wine
fill the glasses of the most bitter,
how wants Postumia, our queen
drunk more than a Berry drunk.
And the water go wherever it likes
to ruin the wine, far away,
among abstainers: this is pure wine"*

¹ Gaio Valerio Catullo in "La storia del vino", from "Poesie".

CHAPTER 1

INTERNATIONALIZATION OF ECONOMIES: THE WINE INDUSTRY

TASTING ITALIAN WINE

Wine is one of the most representative product of Italian agri-food stuffs. It has a positive trade balance, its raw materials are almost entirely native, and it shows great recognition abroad as an Italian product.²

The Italian wine production landscape has always been characterized by the strong presence of small and medium-sized enterprises, often family-owned estates producing limited amounts of high quality wine. The link between the family and the land is strong and each brand has distinctive notes that make it unique.³

Nevertheless, because of the globalization process, these medium-small realities are enlarging their horizons, assuming, year after year, a more global structure. The exploitation of our agricultural heritage is, like the artistic, cultural and environmental, a great potential for economic development of the entire country.

Therefore, Italy is today the world leader in the production of wines. The Country does not limit its supremacy to this record. In fact, Italy is also a leading producer of quality wines.

The quality of Italian wine is guaranteed by strict regulations which certify that the wine is conforming to the required standards of quality. This is called: the Italian wine appellation system.

² Anna Carbone, Roberto Henke, "*Performance e competitività del vino italiano sui mercati internazionali*", 2010.

<http://www.agriregionieuropa.univpm.it/content/article/31/22/performance-e-competitivita-del-vino-italiano-sui-mercati-internazionali>

³ EUROMONITOR INTERNATIONAL, "*Wine in Italy*", Country Report 2015.

<http://www.euromonitor.com/wine-in-italy/report>

THE ITALIAN WINE APPELLATION SYSTEM



Figure 1: Italian wine label

Source: Made-in-italy.com

Italy can claim a distinction between European Union countries, as the number of products recognized with the status of Protected Designation of Origin (PDO), Protected Geographical Indication (PGI) and Traditional Speciality Guaranteed (TSG). Through the protection of appellations of origin agricultural production and producers are encouraged

because their product names are protected against imitations and abuse. On the other hand, consumers are helped to recognize and choose the quality in the agrifood sector.

In order to guarantee the authenticity of wine and so its quality Italians have established over centuries a system able to control the origin of wine, protecting its name.

Even starting from Romans, who defined the geographic area of production of certain type of wines.

A precedent for the modern legislation was first settled in 1716, when the Grand Duchy of Tuscany delimited the zones for important wines.⁴

Then, in 1963, the first official Italian system of classification of wines was launched.

It was progressively developed over years, through modifications and additions.

The last of those, in 2010, has established four basic categories of official denominations, which are last EU regulation in matter of wine (2008-09).

The categories, from the bottom level to the top one, are:

1. Vino da Tavola (VdT) - Table wine:

These are wines without appellation. They do not have a specific indication of geographic area of origin nor of the grape variety used, nor of the vintage year. The label is not named with the wine region or vintage but it only reports the color of the wine. They can be produced anywhere in Italy.

This is the lowest category in quality of wines from Italy. VDTs are inexpensive wines because they are made with grapes from multiple regions. This kind of wine is targeted for mass production and local consumption.⁵

4 Burton Anderson, *The wines of Italy*, The Italian Trade Commission, Montreal 2004.

http://www.italytrade.com/site2005/anglais/images/produits/wines_guide.pdf

5 Casa Italia, *Italian Appellation System (Italian Wine Classification)*, in Blog, February 3rd 2014.

<http://www.casaitalia.com.au/article/italian-appellation-system-italian-wine-classification#.VzLxuWXBw>

2. Vini Varietali (Varietal Wines):

These are generic wines that are made either mostly (at least 85%) from one kind of authorized 'international' grapes (Cabernet Franc, Cabernet Sauvignon, Chardonnay, Merlot, Sauvignon Blanc, Syrah) or entirely from two or more of them. The grape(s) and the vintage can be indicated on the label, whereas the prohibition to indicate the geographical origin is instead maintained.⁶

3. Indicazione Geografica Tipica (IGT) - Typical Geographical Indication:

This classification was introduced in 1992 to allow a certain level of freedom to Italy's winemakers. The IGT classification focuses on the region of origin, rather than the grape varieties or wine styles.⁷

It is reserved to wines produced in a specific Italian territory, which is still larger than for DOC and DOCG. This area may correspond to an entire region, as in the case of Toscano in Tuscany, or be limited to a valley or a range of hills.

The label must declare the key attribute, that is the region of origin and the wine, in order to acquire the IGT status, has to follow a series of specific and precise regulations. These, for example, concern authorized varieties, viticultural and vinification practices, organoleptic and chemico-physical characteristics and labeling instructions. On the other hand, the IGT classification does not define the wine's composition or production method.

They are wines of a higher standard than the VDT but not as regarded as the DOC and DOCG wines, because IGT wines do not conform to the strict wine laws for their region.⁸

⁶ Wikipedia, "*Italian wine*".

https://en.wikipedia.org/wiki/Italian_wine

⁷ Casa Italia, "*Italian Appellation System (Italian Wine Classification)*", in Blog, February 3rd 2014.

<http://www.casaitalia.com.au/article/italian-appellation-system-italian-wine-classification#.VlzLxulWXbw>

⁸ <http://www.yourguidetoitaly.com/italian-wine-appellation-system.html>

IGT does not necessarily refer to a lower-quality wine. Some Italian wine producers purposely do not subscribe to the DOC or DOCG regulations because they want to remain free to produce the wine of their choice with their own selection of grapes.

Properly thanks to the type of classification winemakers have the freedom to experiment with various grapes, creating some interesting tasting wines.

IGT classification is focused on the region of origin, instead of grapes conformity to the variety or styles of the wine into question.

Currently (2014) exist 118 IGTs.

Vini DOP (Wines with Protected Designation of Origin): This category includes two sub-categories, i.e. Vini DOC (Controlled Designation of Origin) and Vini DOCG (Controlled and Guaranteed Designation of Origin).⁹

4. Denominazione di Origine Controllata (DOC) – Appellation of Controlled Origin:

DOC was introduced in 1963 to encourage wine producers to focus on making quality wines, in order to foster and to protect the reputation of Italian wines on the international trade scenario. To be qualified for the DOC status the wine must have been IGT wine for at least 5 years. Moreover, it must be made with permitted grapes approved by authorities and it must also have a minimum natural alcoholic content. The wine has been aged and bottled in agreement with existing regulations and cannot be sold to consumers until it has reached an acceptable level of maturation. The process is strictly assessed throughout the various stages by Italian authorities, who take random samples during the various phases of production, which are analyzed in order to check that the wine is in compliance with standards. Penalties are taken seriously with heavy fines or prison terms depending on the quality of wine involved.¹⁰

⁹ Wikipedia, “*Italian wine*”.

https://en.wikipedia.org/wiki/Italian_wine

¹⁰ Casa Italia, “*Italian Appellation System (Italian Wine Classification)*”, in Blog, February 3rd 2014.

<http://www.casaitalia.com.au/article/italian-appellation-system-italian-wine-classification#.VzLxuIWXbw>

The label of a DOC wine has to indicate the name and place of origin of the wine, as well as the area, the year of production and the techniques used. It may also indicate the variety of authorized grapes, production per hectare, aging period and organoleptic characteristics.

Italy counts 332 DOC typologies.

5. Denominazione di Origine Controllata e Garantita (DOCG) – Appellation of Controlled and Guaranteed Origin:

DOCG is country's most prestigious designation. It is the highest classification for Italian wines. It is used to ensure that a wine is controlled and mainly follow a fixed pattern of production and seeing this on the label of your wine bottle means that the wine producers followed the strictest regulations possible to make that wine out of which it no longer receives the designation indicated above, which is guaranteed by the initials as a higher quality index.

Firstly, a DOC wine can be promoted to DOCG if it has been a DOC for at least 10 years. Then, producers have to conform to the strict rules governing the production of DOCG wines. These are most relating to the type of grape admitted to production, the limits of performance, the ripening of the grapes, the wine-making procedures and specifications aging. Each wine DOCG is subject to substantially tasting official. To prevent counterfeiting, the bottles have a numbering that seals the neck of the bottle.

The quality of wines in these classifications is 'guaranteed' by the Italian Government by passing a 'blind' tasting test. The guidelines have been made even more stringent since 1992, when had been introduced additional limitations on permitted yields and natural alcohol levels and on the kind of bottles with which the wine can be sold, which must not exceed a certain size. In addition, each bottle must show a seal of guarantee and are numbered showing the name of appellation which can only be issued by the government. All these precautions are taken to

ensure that the wines that meet the criteria for this prestigious category are undoubtedly the best that Italy has to offer.

Before commercialization DOCG wines must pass stricter analyses, including a tasting by a specifically appointed committee.

DOCG wines have different colors according to the different type of wine: Light pink is for sparkling wines; Light green is used for white wines; Magenta identifies red wines.

Currently there are only a few Italian wines that qualify for DOCG status. Among these the three "Killer B's": Barolo, Barbaresco (Piedmont) and Brunello di Montalcino (Tuscany).

The first DOCG wine to be sold in Italy was *Vino Nobile di Montepulciano* from Tuscany.

The main difference between a DOC and a DOCG is that the latter, in order to be designated as a wine from the area in question, must pass in-depth chemical analyses and a quality blind taste test in addition to conforming to the strict legal requirements.

The 73 DOCG (2014) wines are located in 15 different regions but most of them are concentrated in Piedmont, Veneto and Tuscany.

Super Tuscan: The term "Super Tuscan" emerged for the first time in 1970, to describe a particular set of Tuscan wines. These wines were of particularly high quality, but they were left out of the common designations like DOC or DOCG. This because they ran away from Italian rules, because were produced using sometimes foreign grapes, or new small oak barrels to produce mature wines (something to avoid, because the new bottle does not create quality wines as it could change the bouquet of the wine contained). Regardless of that, these wines managed to earn the world respect and recognition of their quality, reaching also astronomical prices. From here was born the appellation "Super Tuscan".

Today, Tuscan wines more "Super" must respect the rules of production regarding the IGT category.¹¹

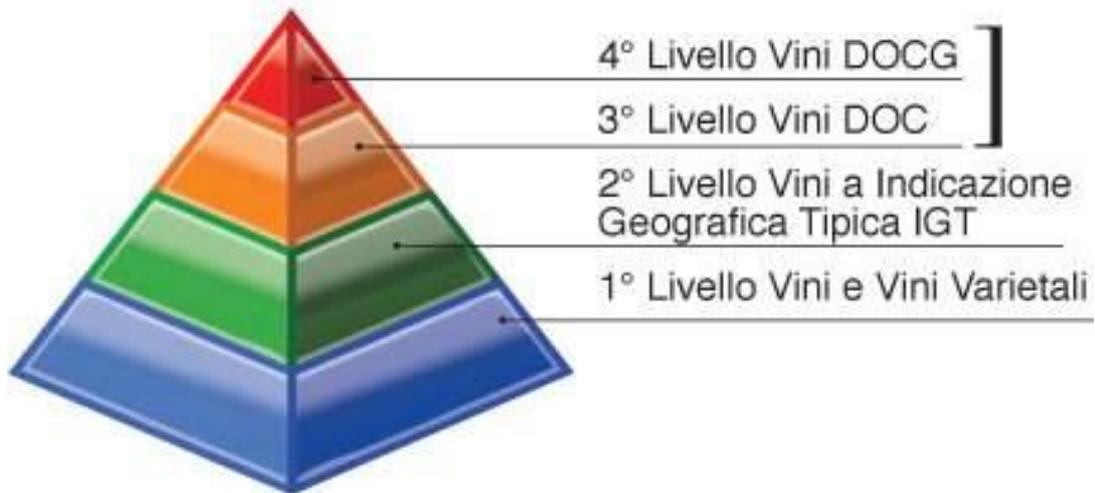


Figure 2: Pyramid of Italian wines

Source: *Vino Vini*

The Italian Classification system also holds various 'special' acronyms which have been introduced by the European Union Laws to designate quality wines and should be written on the bottle of every DOC and DOCG wines.

These are:

VSQPRD (Vino Spumante di Qualità Prodotto in Regione Determinata) Quality Sparkling Wine Produced in Determined Region – It is a quality sparkling wine produced in a specialized determined area.

VLQPRD (Vino Liquoroso di Qualità Prodotto in Regione Determinata) Quality Fortified Wine Produced in Determined Region – It is a quality fortified wine produced in a specialized determined area.

¹¹ *Vino Vini*, "Clasificazione vini italiani".

<http://vinovini.it/classificazione-vini>

VFQPRD (Vino Frizzante di Qualità Prodotto in Regione Determinata) Quality Slightly Sparkling Wine Produced in Determined Region – It is a quality slightly sparkling wine produced in a specialized determined area.¹²

A further sub classification is made within the DOP category.

- **'Classico' (Classic)** is a wine produced in the historically oldest part of the protected territory.
- **'Superiore' (Superior)** is a wine with at least 0.5 more alc%/vol than its correspondent regular DOP wine and produced using a smaller allowed quantity of grapes per hectare, generally yielding a higher quality.
- **'Riserva' (Reserve)** is a wine that has been aged for a minimum period of time, depending on the typology (red, white, Traditional-method sparkling, Charmat-method sparkling).

Sometimes, 'Classico' or 'Superiore' are themselves part of the name of the DOP (e.g. Chianti Classico DOCG or Soave Superiore DOCG).¹³

Italy has several private initiatives which also contributed to the definition of a more precise appellation system because Italy, differently from France, has never had an official classification of its best 'crus'.

In 2007 the Barbaresco Consorzio was the first to introduce the *Menzioni Geografiche Aggiuntive* (additional geographic mentions) also known as *MEGA* or *subzones*; there were 65 subzones vineyard areas, with one more approved in 2010 which brought the final number to 66. The main goal was to put official boundaries to some of the most storied crus in order to protect them from unjustified expansion and exploitation.

¹² Casa Italia, "Italian Appellation System (Italian Wine Classification)", in Blog, February 3rd 2014.

<http://www.casaitalia.com.au/article/italian-appellation-system-italian-wine-classification#.VzLXuIWxbw>

¹³ Wikipedia, "Italian wine".

https://en.wikipedia.org/wiki/Italian_wine#Italian_appellation_system

The Barolo Consorzio followed suit in 2010 with 181 MEGA, of which 170 were vineyard areas and 11 were village designations. Following the introductions of MEGA for Barbaresco and Barolo the term Vigna (Italian for vineyard) can be used on labels after its respective MEGA and only if the vineyard is within one of the approved official geographic mentions. The official introduction of subzones is strongly advocated by some for different denominations, but so far Barolo and Barbaresco are the only ones to have them.

Private initiatives like the Comitato Grandi Cru d'Italia (Committee of the Grand Crus of Italy) and the Istituto del Vino Italiano di Qualità - Grandi marchi (Institute of Quality Italian Wine - Great Brands) try to show and represent the Italian wine excellence, selecting and advertising a selection of renowned top Italian wine producers.¹⁴

ITALIAN WINES CLASSIFICATION

Italian wines can be divided into six main categories:

- Italian White Wine,
- Italian Red Wine,
- Italian Sparkling wine,
- Italian Rosé wine,
- Italian Dessert wine,
- Natural Italian wine.

The production of Italian white wines in Italy is really thriving: from Veneto to Sardinia, from north to south.

Red Italian wines are the most classic but also the most renewed.

¹⁴ Wikipedia, "*Italian wine*".

https://en.wikipedia.org/wiki/Italian_wine#Italian_appellation_system

The Italian sparkling wine tradition is unique in the world for quality, variety of wines and processing types.

The rosé wine is gaining greater interest for the great quantity and quality of the Italian production.

The production of dessert wines takes place throughout Italy, with types, production techniques and grape varieties that make unique every single product.

A production philosophy is consolidating between producers: produce naturally working in respect of the land, the territory and the cycles of nature. Outside the logic of certifications winemakers who undertake the natural production philosophy not to use neither chemical nor in the vineyard nor during the production process.¹⁵

Italian wines can be further divided according to the use criterion. Here three main categories can be found:

- WINES “DA TAGLIO” (wines for cut);
- WINES “DA PASTO” (wines for meal);
- WINES “SPECIALI” (special wines)

These three categories can be then divided into subgroups, as it is summarized in the following table:

WINES “DA TAGLIO” (WINES FOR CUT)

Is a wine that has the aim of correcting some features of other wines, especially the alcohol content and the color. The blending wines often are not marketed as a beverage for the final consumer.

More precisely, *wines for cut* are used to correct more features of a wine at the same time; whereas *wines for half cut* which are used to carry out the correction of a single characteristic of a wine, for example the alcohol content, the color, or the wine extract.

¹⁵ Vini e Vino, “*Vini Italiani*”.

<http://www.vinievino.com/vini-italiani.html>

- “DA TAGLIO” (for cut)

They are rich extract, color, and alcohol. I'm almost all red. (Wines Barletta, Cerignola, Lecce, Squinzano, Pachino and the Vulture);

- “DA MEZZO TAGLIO” (for half cut)

They are the ones rich in one of the three above - mentioned factors, but poor in one or both of the remaining (the wines of Salerno, in Puglia, Milazzo and Raboso Piave).

WINES “DA PASTO” (WINES FOR MEAL)

- COMUNI (Common)

They are regional denomination wines produced in the year, without special requirements and with alcoholic gradation around 10 - 11%;

- FINI (Fine)

These are D.O.C. wines with well defined organoleptic characters and with alcohol content of 11.5 to 12.5%;

- SUPERIORI (Superior)

These wines are characterized by greater body, always aged over a year because they improve with time.

These are D.O.C. wines and some of them D.O.C.G., with alcohol content above 12.5%.

WINES “SPECIALI” (SPECIAL WINES)

- SECCHI (Dried) : Vernaccia dry type reserve;

- DOLCI (Desserts): artificial aromatic dessert (Aleatico, Moscato, etc.); Natural aromatic dessert (Vinsanto, Passito, etc.);

- CONCIATI (Tanned): Marsala type;
- AROMATIZZATI (Flavoured): Vermouth type;
- SPUMANTI (Sparkling) :Natural: fermentation in autoclaves (Charmant);
fermentation in the bottle (Champenoise); Artificial: artificially carbonated.

Moreover, Italian wines can be divided according to the region of origin, which means the geographic location of production.

Italy's twenty wine regions correspond to the twenty administrative regions, for an overall of 640,000 hectares of vineyard areas. Italy is the number three in the ranking which sees Spain firmly in first place with almost 1 million hectares, followed by France.

Here you have a simplified list by region, introducing some recurring names of the main grape varieties scattered across Italy.



Figure 3: Main grape variety across Italy

Source: Made-in-italy.com

According to Luigi Torriani, author of *Universofood* (the reference point for the food & beverage for Italian food), the top ten Italian wines are:

- 1) **Amarone della Valpolicella Classico 2005**, Bertani (Veneto);
- 2) **Passito di Pantelleria Ben Ryé 2010**, Donnafugata (Sicily);
- 3) **Sagrantino di Montefalco**, 2008, Arnaldo Caprai (Umbria);
- 4) **Franciacorta Rosé Extra Brut Cuvée**, Annamaria Clementi Riserva 2004, Ca' del Bosco (Lombardy);
- 5) **Terra di Lavoro**, 2010, Galardi (Campania);
- 6) **Torgiano Rosso Rubesco**, Vigna Monticchio Riserva 2007, Lungarotti (Umbria);
- 7) **Barbaresco Camp Gros Martinenga**, 2008 Tenute Cisa Asinari dei Marchesi di Grésy, (Piedmont);
- 8) **Verdicchio dei Castelli di Jesi**, Classico Riserva Villa Bucci 2009, Bucci (Marche);
- 9) **Cepparello**, 2009, Isole e Olena (Tuscany);
- 10) **Brunello di Montalcino**, 2007, Poggio di Sotto (Tuscany).¹⁶

The best wines are selected through an in-depth tasting selection.

In tasting occasions, the taste of a wine it is examined according to some characteristics. These are acidity, sweetness, harmony, alcohol, age, body, softness, persistency, tannin. All these features will be explained in the *Figure 4*, where for each characteristic is provided an explanation and a classification ordered by increasing level (of the feature considered).

¹⁶ "I Migliori Vini Italiani: Guida Gambero Rosso", *Vino.it*.

<http://vinoit.it/i-migliori-vini-italiani-guida-gambero-rosso/>

Features of the Wine	Explanation	Low ☹️	Normal 😊	High ☹️
Acidity	Acidity is always present in wine	Weak, Flat, Soft	Fresh, Wiry	Acid, Aggressive, Tart
Sweetness	The very first impression of a wine is its level of sweetness	Intense, Robust	Dry, soft, sweet	-
Harmony	It indicates the right balance between the various components	Balanced	Neutral	-
Alcohol	The classification , for the same level of alcohol, depends on the type of wine	Cold, weak	Light, warm	Alcoholic
Age	Take into account the evolution of the Wine	Premature	Young, ripe	Old
Body	Body is a snapshot of the overall impression of a wine	Empty	Tender	Heavy
Softness	Ratio between sweetness and acidity/Tannin	Scanty	Soft	Pasty
Persistency	Indicates how long the flavor lasts in the mouth after swallowing	Brief	Medium	Lasting
Tannin	Is the presence of phenolic compounds that add bitterness to a wine.	Thin	Tannic	Heavy

Figure 4: Wine features classification

Source: Own representation on web information¹⁷

¹⁷ <http://web.tiscali.it/baccodivino/Web/lastoriadelvino.htm>

A PANNING SHOT OF THE WINE INDUSTRY

Wine represents, within the overall agribusiness sector, one of the most globalized product. It has had a great spread and today it is consumed and sold almost everywhere. The wine trade has risen from less than 7 billion in the late '80s to over \$ 34 billion in 2013. The wine trade has increased of +390% in the considered period, more than both agricultural commodities that are the basis for Food such as cereals (+ 260%), meat (+ 370%), milk (+ 285%) and other luxury and "globalized" products such as bananas (+ 356%) and coffee (+ 240%).¹⁸

THE HISTORY OF WINE THROUGH AGES

The origins of wine are so much ancient to sink into the legend. Some of that trace the origin of the vine even until Adam and Eve, saying the forbidden fruit of paradise was the succulent grapes and not the anonymous Apple. Others tell that Noah having invented the wine thought well to save the screw from the great flood reserving a safe place in his ark. Because of its nature, its appearance and its metamorphic qualities, wine has constantly lent to various meaning, becoming at the same time a symbol of abundance and well-being, consolation and happiness, knowledge and artistic inspiration, regeneration and immortality, refinement and culture and human conviviality and holy communion.

Although the documentary sources are not able to determine precisely the time and place where the wine has received its first adoption, some evidence of archaeological provenance appear situate the origin in the Neolithic era, in the Eurasian region corresponding to current states of Georgia and Armenia.¹⁹

18 Denis Pantini, "*La competitività del vino italiano nel mercato mondiale*", 2014.

19 E. Di Renzo (a cura di), "*Strategie del cibo*", Roma, Bulzoni, 2005, pp. 83-101

http://www.uniroma2.it/didattica/trad-pop-/deposito/Simboli,_valori_e_pratiche_del_vino.pdf



Figure 5: The geographic areas of the Near East, where they originated the early development of viticulture

Source: E. Di Rienzo, "Strategie del cibo"

Coming to more recent times, there are many who say that the vine is native to India, and from here, in the third millennium B.C., it was spread first to Asia and later in the Mediterranean basin.

Thus, to have absolute certainty about the use of wine as a beverage, it is necessary to wait for the IV-III millennium B.C. and to consider the entire area between the territories of Turkey, Jordan, Iraq and Iran. In these areas of the Near East agricultural societies exercised winemaking practices and it is amply confirmed by a large number of archaeological evidences (vats, presses, wine amphora) and documentary (think, for example, the epic of Gilgamesh). They show how the wine was integral of eating habits of the aristocratic and priestly elite (the population drank basically barley or other grains beer), as well as ritual practices related to magical-religious sphere.

In the Mediterranean, however, even before Greece – unanimously recognized as the true cultural home of the "nectar of the gods" - it has been Egypt to provide historically evidence that in the third millennium B.C wine It was already produced by "modern" and "sophisticated" processes. In the frescoes found at some burial sites are reproduced different stages of winemaking, from harvest operations, leading to transportation of musts along the Nile to be placed in the circuits of urban consumption.

From Egypt the practice of wine making spread among the Jews, Arabs and Greeks. These dedicated to the wine a deity Dionysus, God of conviviality.

At the same time, in the heart of Mediterranean, the screw began his journey from Sicily to Europe, spreading first among the Sabines and then the Etruscans who became skilled growers and winemakers and widened the cultivation of grapes from Campania until the Po Valley.

Among the ancient Romans winemaking assumed considerable importance only after the conquest of Greece. The love for wine encouraged Romans to let Bacchus enter in the ranks of the gods and to become promoters of the spread of viticulture in all provinces of the empire.

The birth of Christianity and the consequent decline of the Roman Empire, marked the beginning of a dark period for wine, charged with lead intoxication and ephemeral pleasure. To this was added the spread of Islam in the Mediterranean between the eight hundred and fourteen hundred AD with the banning of viticulture in all occupied territories. On the other hand were the monks of that period, together with Jewish communities, to continue, almost clandestinely viticulture and winemaking practice to produce wines for use in religious rites.

Then it was necessary to wait for the Renaissance to find a literature that confers the wine its lead role of Western culture and get back to praise its qualities. In the seventeenth

century was refined the art of coopers, bottles became less expensive and the spread of corks all contributed to the preservation and transport of wine, facilitating trade.

The nineteenth century saw the consolidation of a distinctive and extraordinary position that wine occupies in Western civilization. The agricultural tradition started to cooperate with the contributions of distinguished scholars who strive for the realization of best quality and goodness wines. Wine becomes the object of scientific research. In 1866 L. Pasteur in his written *Etudes sur le vin* said "Wine is the most healthful and hygienic of all beverages."

Then, the countless varieties of white grapes, black, red and mottled cultivated for centuries, begin to shrink. The great biodiversity of which the farming world was then guardian, in the nineteenth century had to recede. In fact was the nineteenth century which known the fungal infections and after 1877 saw the arrival of iodine (also called white evil) and the phylloxera (*Phylloxera vastatrix*), insect coming from America that destroyed vineyards in Spain, Catalonia, France, Sardinia.

On the other hand, wine established itself as a part of the social life, as evidenced by the works of art: a bottle stands on the table of *The Card Players* by Paul Cezanne or *Breakfast in the studio* Edouard Manet.

Recent medical studies have shown that among those who go traveling in countries where food-borne infections are frequent, visitors who drink wine are less prone to attacks of diarrhea than those who consume water even the bottled one. And this is because regardless of the cause of the contamination, many bacteria survive in the water and sometimes proliferate while in the wine die because of certain characteristics such as acidity concomitant presence of alcohol and tannins. Most of these same characteristics make wine a healthy drink for humans, provided it is taken in moderate amounts (one glass per meal). Medical studies show that moderate wine consumption has positive effects on the cardiovascular system by reducing the risk of heart disease. The reason is not yet entirely clear, but according to some this is due to the presence of small amounts

of substances with properties which reduce the level of cholesterol in the blood, which are originated from the tannins contained in red wines.²⁰

GLOBAL WINE INDUSTRY OVERVIEW

The global wine market has been affected by deep structural changes, due to a series of circumstances and evolutions which have been characterized the last few decades.

What triggered these changes was basically the phenomenon which today inevitably affects all markets as well as the everyone life: Globalization.

The evolutions were mainly driven by the increase in the level of foreign trade and international level exchanges and by the creation of a worldwide market, even more uneven and complex compared with the one of thirty years ago and were the success on the market is primarily due to the country capability of effectively manage its exports.

In fact, the volume of export as a percentage of world wine production experienced an increase from 15% to 32% between 1988-90 and 2009, despite a much slower increase in world consumption²¹

The changes occurred in the global wine market were mainly of two different types.

The first one concerns the increase in competition wine producing countries have to face.

In fact, beside the traditional “Old World” of producers, composed by the pioneers of France, Italy and Spain, other countries started to act as main players in this market. New regions of production emerged, such as Australia, New Zealand, USA, South Africa,

20 Gabriele Archetti, con la collaborazione di Angelo Baronio, Roberto Bellini e Pierluigi Villa, “ *La civiltà del vino - Fonti, temi e produzioni vitivinicole dal Medioevo al Novecento*”, CENTRO CULTURALE ARTISTICO DI FRANCIACORTA E DEL SEBINO, Brescia 2003.

http://cont.ubibanca.it/cont/3/downloads/franciacorta_compl.pdf

21 Eugenio POMARICI, Flavio BOCCIA, Daniela CATAPANO (2012) “*The wine distribution systems over the world: an explorative survey*”.

http://www.iamb.it/share/img_new_medit_articoli/462_23pomarici.pdf

Argentina, Chile and, not least, China. These countries were called “The New World of Wine”. These countries did not have a long and rooted wine production tradition, but they were able to apply the new technologies and competencies to their lands, accomplishing good results and imposing themselves as competitors in the global wine market.

Secondly, a change occurred also in the geographic configuration of the demand.

The traditional countries registered a fall in demand and, as a consequence, in consumption, whereas a boost in demand was recorded in non-traditional countries.

The demand fall occurred in the traditional markets is partially explained by an evolution of consumption patterns and habits.

In fact, the more conscious and expert consumers started to ask for more quality wines, preferring the quality in spite of the quantity.²²

In addition, more recently, the global wine market is facing a new issue, which is going to change even more the global wine production map.

Global warming is a recent phenomenon but it is having a strong impact on geographical production configuration. The forecasts are assuming an average temperature increase of about 2,5 degrees, as a likely scenario, and of about 4,7 degrees, as a worst scenario (predictions made by climate scientists of the Intergovernmental Panel on Climate Change which is part of the United Nations). Regardless of the outcome, Europe will be the main victim of the negative effects of the global warming, which will cause a drop of 85% of the production. Even though these changes will take time, the forecast talks about the next 50 years, what is to understand is that the global wine market is changing, and that wine is no more a product linked to the traditions and the culture of a country and its spirit.²³

22 M. CRESCIMANNO and A. GALATI, 2014 “*Competitiveness of Italian wines in the international market*”, 2014.

<http://www.agrojournal.org/20/01-05.pdf>

23 Tommaso Perrone, “*How global warming could transform the world’s wine map*”, October 26th 2014.

<http://magazine.expo2015.org/cs/Exponet/en/sustainability/how-global-warming-could-transform-the-world-s-wine-map>

Therefore, the scenario of international wine market is characterized by deep changes in the geography of production, consumption and trade.²⁴

Taken into consideration the analysis just completed, what we have understood is that today the global wine market is facing geographic changes, in terms of both production and consumption. These changes that are offering new opportunities for wine producers, who must be able to exploit their capabilities of commercial strategies adaptation to market condition which are country specific.²⁵

WORLD WINE PRODUCTION BY COUNTRY (1)	2011	2012	2013	2014	% OF WORLD TOTAL 2014	% CHANGE 2014/2011
WORLD	26.543.800	27.629.000	27.885.400	28.230.400	100%	6,4%
FRANCE	4.432.200	5.075.700	4.107.500	4.670.100	16,54%	5,4%
ITALY	4.673.000	4.270.500	5.402.900	4.473.900	15,85%	-4,3%
SPAIN	3.535.300	3.370.900	3.123.300	3.820.400	13,53%	8,1%
UNITED STATES (2)	2.692.400	2.981.100	3.114.600	3.021.400	10,70%	12,2%
ARGENTINA	1.547.000	1.177.800	1.498.400	1.519.700	5,38%	-1,8%
AUSTRALIA	1.109.000	1.187.000	1.250.000	1.200.000	4,25%	8,2%
SOUTH AFRICA	1.046.300	1.055.000	1.097.200	1.131.600	4,01%	8,2%
CHINA (3)	1.156.900	1.381.600	1.170.000	1.117.800	3,96%	-3,4%
CHILE	966.500	1.254.000	1.282.000	1.050.000	3,72%	8,6%
GERMANY	697.300	922.300	910.200	849.300	3,01%	21,8%
RUSSIA	635.000	640.000	680.000	720.000	2,55%	13,4%
PORTUGAL	561.000	630.800	630.800	623.800	2,21%	11,2%
ROMANIA	405.800	331.100	331.000	511.300	1,81%	26,0%
GREECE	275.000	311.500	311.500	334.300	1,18%	21,6%
OTHERS	2.811.100	3.039.700	2.976.000	3.186.800	11,29%	13,4%

(1) Ranked by Quantity 2014.
(2) See Appendix 4. "US Wine Production, Processing and Inventories, 2011-2014."
(3) Quantity indicated for China does not include production of Chinese yellow wine

Figure 6: World wine production by Country, updated to 2014

Source: Own representation on Wine Institute data

24 Eugenio POMARICI, Flavio BOCCIA, Daniela CATAPANO, "The wine distribution systems over the world: an explorative survey", 2012.

http://www.iamb.it/share/img_new_medit_articoli/462_23pomarici.pdf

25 Rabobank, "Wine is business", Rabobank International, Food & Agribusiness Research, 2003.

Looking at the table, it is possible to draw some general considerations and to understand the main market trends.

The overall wine production remains almost stable, with a variation of 6,4% in four years (between 2011 and 2014).

France is still the main producer at worldwide level, even though it must be noticed that Italy in 2013 surpassed France, becoming the first world producer.

The world wine production has been increased of 6,4% in the last four years (between 2011 and 2014), and it reaches in 2014 (the last year) 28 million hectoliters (Mhl).

In spite of this positive data, some countries have registered a reduction in production between 2013 and 2014.

The situation of fluctuating production in some European countries (France, Italy, Spain, Germany) occurred during the period taken into consideration, which recorded annual downturn in production, was in part due to bad weather conditions in those countries (we explained this trend previously) The main concern is that if this trend continues, according to statistics, Europe will no longer be the world's premier source of wine by 2030.²⁶

Only few countries have seen their domestic production increasing over years, and these are United States, South Africa, Chile and Russia, the "New World of Wine".

The climate changes are no lonely responsible for the development which are occurring in the geography of wine production areas.

In fact, are at least three the parameters which affect the development of wine supply scenario.

The first is the one we have already spoken about.

Climate changes will impact on production areas and grape varieties, leading to a shift of both from traditional areas to new areas. In order to face and adapt to global warming, changing climates and environmental challenges producers will be forced to change the planting and the production methods, introducing new agricultural techniques and

²⁶ Per Karlsson, "State of the World wine production and grape growing 2014: France back on top for wine", in BKWineMagazine, November 11th 2014.

<http://www.bkwine.com/features/more/state-world-wine-production-grape-growing-2014-france-back/>

technologies (second factor). These new methods may imply more modern irrigation systems, which fill the gap given by water deficiency, the implementation artificial viticulture on a large scale or employment of GMOs. Applying technology to agriculture, will lead to an expansion of countries able to produce wine.

The third and last parameter concerns the evolution of the industry, which will enter a concentration process and large international brands will develop. Thanks to globalization wine producers will be able to be more close to their final consumers, and so they will manufacture “market” wine to match consumers’ tastes with an adapted packaging from grapes, grape must or wine purchased in bulk from other producers in other countries.

As consequence, competition will no longer exist solely among wine producers/exporters, but among them the one hand and on the other among wide-reaching operators capable of manufacturing “market” wine.

These three major changes will contribute in allocating the production to 3 main typological areas: **Europe** (traditional Latin and Northern Europe), the “**New World**” (South Africa, Argentina, Australia, Chile, the United States) and the “**New New World**” (Brazil, China and India on the one hand, North Africa, Bulgaria, Georgia, Hungary, Ukraine on the other).²⁷

The *Figure 7* shows the countries’ subdivision, which is made according to each country’s stage of maturity as wine market.

²⁷ The Wines & Spirits Committee of National Committee of French Foreign Trade Advisors (CNCCEF), “*Wine in the world as we approach 2050 – the 21th market challenge*”.

MATURE	ESTABLISHED	GROWTH	EMERGING	NEW EMERGING
Markets where wine has reached its potential with stable or declining volumes	Markets with strong historical growth which is tailing off	Markets where wine is becoming a mainstream product and experiencing growth	Markets where wine is experiencing growth and shows potential from a relatively low base	Markets where wine is still a relatively new and unknown beverage, but showing potential
Germany France Austria Italy Spain Hungary Portugal Romania Greece Slovenia Chile Argentina	United Kingdom The Netherlands Sweden Denmark Belgium & Luxembourg Finland Ireland Switzerland Australia Norway New Zealand	United States Japan Canada Hong Kong South Africa	Poland Czech Republic China South Korea Singapore Russia United Arab Emirates Brazil Mexico Taiwan Slovakia Colombia Peru Angola	Malaysia Turkey India Vietnam Philippines Thailand Indonesia Nigeria

In blue: EU markets

Figure 7: Country wine market maturity

Source: Wine Intelligence Compass model 2015-16

Assuming that wine consumption rises with wellness and so with the raise of the economic level and that Western food consumption would be spread and extend to other countries, the centre of global demand is expected to move and expand to three main areas of consumption: China and India, bringing along South-East Asia (excluding Muslim countries); North America, Latin America with Brazil, Argentina and Mexico as leaders; Mediterranean Europe, which will have halted its decline, Northern Europe (Germany, the Nordic countries, the UK) and Russia. Let's find out if data confirm this hypothesis or not.²⁸

²⁸ The Wines & Spirits Committee of National Committee of French Foreign Trade Advisors (CNCCEF), "Wine in the world as we approach 2050 – the 21th market challenge".

WORLD WINE CONSUMPTION BY COUNTRY (1) (2)	2011	2012	2013	2014	% OF WORLD TOTAL 2014	% CHANGE 2014/2011
WORLD	24.686.245	24.945.409	24.579.072	24.701.440	100%	0,06%
UNITED STATES	3.163.300	3.159.500	3.117.600	3.217.500	13,03%	1,7%
FRANCE	2.932.200	3.026.900	2.818.100	2.790.000	11,29%	-4,8%
ITALY	2.305.200	2.263.300	2.179.500	2.040.000	8,26%	-11,5%
GERMANY	1.970.700	2.000.000	2.030.000	2.020.000	8,18%	2,5%
CHINA	1.520.300	1.773.700	1.747.100	1.580.000	6,40%	3,9%
UK	1.412.600	1.343.000	1.230.400	1.386.700	5,61%	-1,8%
SPAIN	989.400	930.000	910.000	1.000.000	4,05%	1,1%
ARGENTINA	980.900	1.005.100	1.033.700	990.000	4,01%	0,9%
RUSSIA	1.127.600	1.039.400	1.050.000	960.000	3,89%	-14,9%
AUSTRALIA	462.000	458.000	453.000	540.000	2,19%	16,9%
ROMANIA	388.500	436.900	524.300	530.000	2,15%	36,4%
CANADA	470.000	488.000	498.000	506.000	2,05%	7,7%
PORTUGAL	455.000	460.000	455.100	450.000	1,82%	-1,1%
SOUTH AFRICA	353.000	361.000	368.000	360.000	1,46%	2,0%
OTHERS	6.155.545	6.200.609	6.164.272	6.331.240	25,63%	2,9%

(1) Ranked by Quantity 2014.
(2) Quantity (Liters 000).

Figure 8: World wine production by Country, updated to 2014

Source: Own representation on Wine Institute data

The global wine consumption is essentially stable. It is fluctuating for over a decade between 240 and 245 million hectoliters, with a light contraction the last year (2014) of almost 2 million.

These numbers confirm that wine consumption is increasingly driven by “new” wine countries. In 2014 about 39% of the world wine consumption was outside Europe. In 2000 it was only 31%.

Consumption is instead decreasing in the traditional producing countries, even if still more than 60% of all wine is consumed within Europe.

While consumption drops for example in France, Italy and Spain, it is instead growing in countries such as China, Russia, Australia, and USA.

The US represents the biggest consuming country and the only one with growth quantitatively interesting (0.5-1 million hectoliters more each year for several years).

The second thing to note is that France seems to have taken the path of decline, a few years later Italy. French market undergoes a downturn of 3% (between 2013 and 2014), falling to 27.9 million hectoliters. Compared to 2011, wine consumption in France fell by 4,8%.

The third is that China appears to have suffered a decline in wine consumption very significantly.

The setback of China, already seen so slight in 2013 was made explicit in 2014, with a loss of more than 1 million hectoliters to 15.8 million. Nevertheless, China remains the fifth largest market.

Lastly, Italian market remains the number 3 in the world in 2014 but Italy suffered of a consistent contraction in consumption. Italian wine consumption dropped by 6% in 2014, to 20.4 million hectoliters, a record low and worst performance along with Russia and China. Italy has now reached the level of Germany, which most likely will take the place of Italy in 2015.

Russia registered a structural decline in consumption, further aggravated in 2014 by the devaluation of the ruble. We're at 9.6 million hectoliters, 8% in the year and -1,5% per annum.²⁹

The evolution of consumption of the first seven countries by rank is presented in the graphic below. What it shows is that the situation is quite stable in the sense that the rank does not present changes over the time slot considered (4 years, from 2011 to 2014).

The only relevant change is that Italy is losing its third rank position in favor of Germany, because (in the interval considered) it is the unique country affected by a linear path, registering a constant reduction of consumption, for an overall decrease of -11,5% in four years.

²⁹ I Numeri del Vino, "I consumi di vino nel mondo 2014 – aggiornamento OIV", May 15th 2015.

<http://www.inumeridelvino.it/2015/05/i-consumi-di-vino-nel-mondo-2014-aggiornamento-oiv.html>

World Wine Consumption Evolution

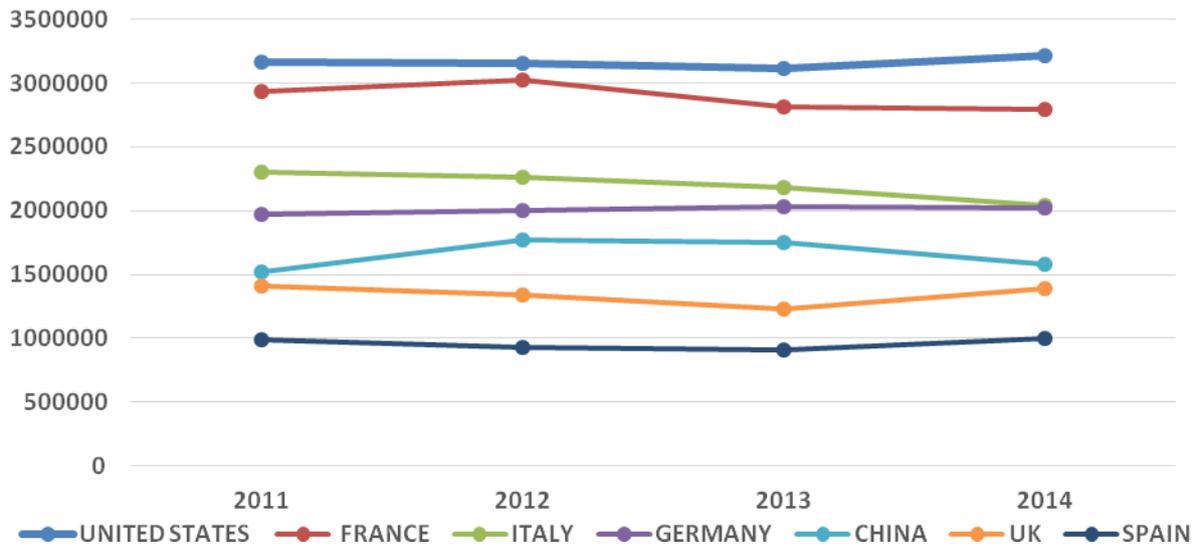


Figure 9: World wine consumption evolution, updated to 2014

Source: Own representation on Wine Institute data

When broken down into consumption per person, Europe imposes its strong and clear superiority. Looking at the more recent data, updated at 2015, nine out of the top ten wine consuming countries per capita are European, the one exception being 10th-ranked Norfolk Island, near New Zealand.

The Vatican dominated wine consumption per capita, with each citizen consuming an average of nearly 74 liters of wine every year.

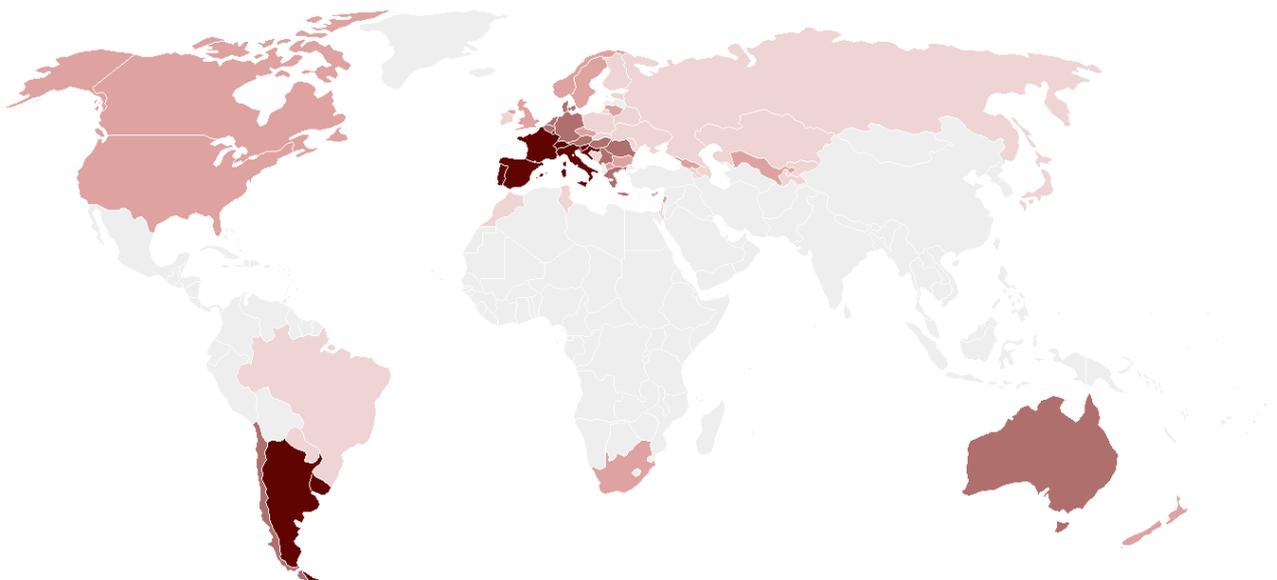
US, which are the first wine consuming country, concerning the per capita consumption falls to the 56th position.³⁰

To give a valid meaning to data, it is necessary to figure out how they are calculated. Per capita consumption is given by the ratio between the country



30 <http://www.usnews.com/news/blogs/data-mine/2014/10/02/drinking-data-shows-us-at-the-top-by-volume-but-europe-dominates-per-capita>

consumption and the total of the population. For this reason it is not so surprising that Vatican State occupies the first place in the international rank. In fact, it is a very small state, with a modest population. What may be relevant is to observe the position of the countries listed among the firsts in the world wine consumption rank, comparing the data among them (US, France, Italy, Germany, China, UK, Spain). The first in rank is France, followed by Italy, Germany, UK, Spain, US and China. Therefore, the trend is more or less the same, with the only difference that China is among the last positions and US is 56th as we have seen, but this is easily explained by the fact that the first is the most populated country in the world, while the latter is the number three.



Annual pro capita wine consumption: - less than 1 liter - from 1 to 7 liters - from 7 to 15 liters - from 15 to 30 liters - over 30 liters.

Figure 10: Annual pro capita wine consumption

Source: Wikipedia

Coming to recent years, the main evident trends in global wine market are:

- Exports have doubled over the past 20 years, with Europe maintaining its position as the global leader, exporting 58% of its annual production;
- The newer wine-producing countries (New Zealand, Chile, Australia and South Africa) have increased their export volume by 370%;
- The United States has overtaken France as the world's foremost wine consumer, with average annual consumption of 1.2 liters per person;
- Europe still accounts for 50% of wine consumption worldwide;
- 84 of the 100 most famous wine brands in the world are French.³¹

The wine industry's best bet for future global growth will be in Asia, and especially in China. According to forecasts, Asia will command 30% of the global spending power by 2030, up from 11% today.

ITALIAN WINE IN THE GLOBAL SCENARIO: INDUSTRY CONSIDERATION AND FUTURE EVOLUTIONS

Italy is today facing a dualistic scenario: a national market which shows a drop in consumption is in structural contrasts with a foreign market which is facing significant growth rates and prospects of further increase.

³¹ BPN Paribus, "*New producers, new consumers: The revolution of the global wine market*", Press release, April 20th 2015.

<http://www.bnpparibas.com/en/news/press-release/new-producers-new-consumers-revolution-global-wine-market>

ITALY WINE Consumer by Age slots % over the total population								
Age groups	2014	2013	2012	2011	2010	2009	2008	2007
11 - 15	3,3	4,4	3,2	4,8	4,4	5,3	4,7	6,9
16 - 17	16,1	16	14,1	18,2	17,9	22,9	19,3	23
18 - 19	28,9	32	29,4	33,3	34,5	33	29,1	35,7
20 - 24	40,4	41,9	43,3	41,5	42,5	41,8	43,1	41,8
25-34	52,1	53,1	52,2	54,9	52	54,7	53,1	55,5
35 - 44	54,6	55,9	57	58,3	57	58,2	57,9	58,7
44 - 54	56,5	57,7	58,9	61,2	61,8	62	63,9	64,9
55 - 59	59	62,2	61,5	64,1	64,8	64,1	62,4	64,8
60 - 64	59,7	60,6	62,4	63,2	64,6	63,8	64,8	65,2
65 - 74	58,3	59,7	60,5	60,2	61,4	62,1	61,1	60
> 75	51,2	49,7	50,5	51	52,8	53,7	53	53,5
Tot	50,5	51,6	51,9	53,3	53,3	54	53,4	54,4

Figure 11: Wine consumption by age slots - % over the total of population, updated to 2014

Source: Own representation on "I numeri del vino" - ISTAT data

This table shows the main trend of Italian wine industry, which consists in a decade in consumption of wine, which is decreasing year by year.

It is possible to define some long-term trends, on the basis of the last years' data.

Some Italian regions are not affected by the downturn in consumption and these are basically Lombardy and Trentino-Alto Adige maybe because these are quite rich areas with a better than average economic performance.

Doing the seam reasoning for age slots it emerges that between 2007 and 2014 the largest drop in consumption was registered by the slot composed by young people under 20 years, maybe because of policies to reduce alcohol abuse among young people. The slot better performing is that of 20-24 years, where the last data of 2014 (40,4%) does not differ so much from the past, where the peak was around 43%.

The proportion of heavy drinkers is fading to 2.4% (of the total in 2014) with levels of 1-2% among young people and 4.5-5% of the elderly, data which lead to the assumption that in a few years this category will be almost disappeared.

The category of sporadic drinkers is instead growing, in all age groups.

But even though the domestic consumption is decreasing, the production is not following this trend.

As we have already seen Italy is the second wine producer in the world.

In fact, our country has confirmed its leadership in the field of world wine production although slightly lower than in France.

Therefore, the produced but not consumed wines must be placed somewhere else.

In 2014 Italian wineries have reached a record of quantities exported bringing to 20.4 million hectoliters, up 0.8%, and the value of 5.11 billion euro, up 1.4% on 2013.

Italy has always disputed with France the scepter wine exports. The strong point in favor of Italy when compared to the French is in the quality / price ratio.

Looking at the graphic below it is possible to notice that the export trend is in sharp contrast with the consumption trend.

The export is raising over years, not just for the aggregate measure but also by each wine category.



Figure 12: Italian wine export, EUR, updated to 2014

Source: Own representation on "I numeri del vino" data

Where is this huge export volume directed? Which is the main destination of Italian wine?

The major exports of wine "Made in Italy" flying in the America, the undisputed kingdom of beer. According to statistics of Coldiretti, Italy is the main supplier of wine to the USA with a quantity of approximately 2.4 million hectoliters.

In US consumers are mainly young people and women in particular and about 60% consume wine Italian. Prosecco was a great success drunk as an aperitif but particularly appreciated are also the Pinot Gris, Barolo, Chianti, Brunello di Montalcino.

The United States maintains high turnover in exports of Italian wine, but it is not the only relevant market for Italian wine.

The second place is taken by Germany with a market estimated at around 14% of the total with a slight negative variation of 4.37%, due to the decrease of bulk wine purchases. It follows the UK where the star is the Prosecco and there is registered a strong growth, with an increase of 20.3% in the sector.

Canada is the fourth largest importer of Italian wine that in this region is particularly pleasing. However in 2014 there was a negative decrease by 3.2%.

In China, the Italian wine marks a + 0.9% despite our producers are late arriving on the Chinese market. Here are particularly sought our Barbaresco, Barolo, Chianti, Brunello di Montalcino.

Other target markets for Italian exports are Switzerland, Japan - where the Italian wine was chosen by 90% of consumers - and Russia, where the most popular Italian wines are those from Piedmont and Tuscany. The podium is won by Barolo from Piedmont.

Another surprise, the Italian wine seems to be entering the eating habits of the countries of Northern Europe. Denmark is seventh among importers of Italian wine although the Danish population is made up by only 5 million inhabitants.

Denmark is also the only North European state to do not have monopoly on wine and regardless of that it prefers Italian wine to the French. It is easily understandable that the

northern Europe markets have the potential to become a reference point for the Italian producers in the near future.³²

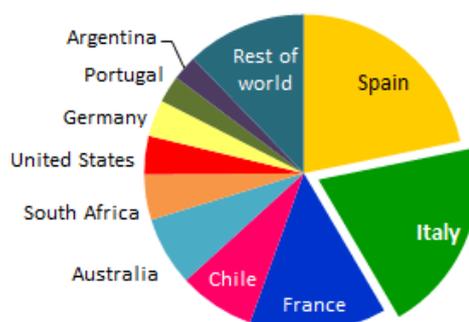
Paese	Litri			Euro			Euro/litro		
	2013	2014	Var. %	2013	2014	Var. %	2013	2014	Var. %
Stati Uniti	188.621.761	184.666.853	-2,1	682.668.429	699.974.789	2,5	3,62	3,79	4,7
Germania	194.364.890	199.377.949	2,6	514.126.397	529.419.149	3,0	2,65	2,66	0,4
Regno Unito	161.733.497	150.796.405	-6,8	325.610.690	314.637.624	-3,4	2,01	2,09	3,6
Canada	46.395.438	43.941.652	-5,3	192.573.753	182.566.719	-5,2	4,15	4,15	0,1
Svizzera	28.682.278	29.951.865	4,4	169.043.364	173.086.742	2,4	5,89	5,78	-1,9
Giappone	26.007.877	25.588.628	-1,6	91.512.935	91.735.828	0,2	3,52	3,59	1,9
Danimarca	20.389.320	21.047.865	3,2	77.535.217	81.077.205	4,6	3,80	3,85	1,3
Paesi Bassi	27.578.952	26.738.648	-3,0	71.220.267	72.402.677	1,7	2,58	2,71	4,9
Francia	29.296.034	30.327.283	3,5	64.096.475	66.785.796	4,2	2,19	2,20	0,7
Svezia	18.501.175	16.146.781	-12,7	67.522.955	64.064.592	-5,1	3,65	3,97	8,7
Belgio	14.895.858	15.609.290	4,8	47.187.794	49.932.388	5,8	3,17	3,20	1,0
Russia	19.926.748	19.715.254	-1,1	43.482.649	45.163.678	3,9	2,18	2,29	5,0
Norvegia	9.910.954	9.533.612	-3,8	42.251.004	42.715.883	1,1	4,26	4,48	5,1
Austria	16.522.963	17.328.610	4,9	41.902.655	42.106.765	0,5	2,54	2,43	-4,2
Cina	12.720.071	12.732.466	0,1	43.144.377	39.809.333	-7,7	3,39	3,13	-7,8
Spagna	10.741.511	11.459.342	6,7	20.298.763	21.881.920	7,8	1,89	1,91	1,0
Irlanda	8.090.905	8.550.636	5,7	19.621.269	20.659.312	5,3	2,43	2,42	-0,4
Brasile	5.750.602	6.170.347	7,3	18.219.260	18.430.228	1,2	3,17	2,99	-5,7
Polonia	5.270.353	6.140.284	16,5	15.064.204	17.529.294	16,4	2,86	2,85	-0,1
Hong Kong	1.992.934	1.756.062	-11,9	14.878.681	14.985.792	0,7	7,47	8,53	14,3
Finlandia	3.440.054	3.466.374	0,8	12.446.672	12.782.476	2,7	3,62	3,69	1,9
Corea del Sud	2.741.465	2.522.152	-8,0	12.091.718	12.526.088	3,6	4,41	4,97	12,6
Repubblica Ceca	6.042.622	5.683.661	-5,9	12.669.412	12.480.675	-1,5	2,10	2,20	4,7
Singapore	909.018	985.726	8,4	6.626.860	7.915.243	19,4	7,29	8,03	10,1
Ucraina	2.120.525	2.228.444	5,1	7.382.736	6.266.585	-15,1	3,48	2,81	-19,2
Ungheria	784.951	784.339	-0,1	1.617.715	1.875.961	16,0	2,06	2,39	16,1
Altri	36.939.395	40.426.274	9,4	119.725.493	128.208.837	7,1	3,24	3,17	-2,2
Totale	900.372.151	893.676.802	-0,7	2.734.521.744	2.771.021.579	1,3	3,04	3,10	2,1

Figure 13: Italian wine export by country, updated to 2014

Source: "Il corriere vinicolo" on ISTAT data

Italy is the second worldwide larger exporter of wine. With its 20,540 thousand hectoliters of 2014 Italy is positioned immediately after Spain, first in rank with its 22,560 (thousand hectoliters), and before France, third with 14,387 thousand hectoliters (*Figure 14*).

World Wine Exports, 2014



32 Wine2Wine, "Vino italiano nel mondo: quali sono le tendenze?", 2015.

<http://www.wine2wine.net/vino-italiano-nel-mondo-quali-sono-le-tendenze>

Country	2010	2011	2012	2013	2014
Spain	17,685	22,549	19,472	18,530	22,560
Italy	21,841	23,238	21,200	20,319	20,540
France	13,504	14,194	14,992	14,542	14,387
Chile	7,333	6,666	7,517	8,790	7,999
Australia	7,811	7,205	7,349	7,111	7,301
South Africa	3,786	3,752	4,128	5,256	4,794
United States	3,965	4,218	4,009	4,149	4,045
Germany	3,929	4,151	3,960	4,006	3,863
Portugal	2,557	3,076	3,386	3,060	2,854
Argentina	2,744	3,171	3,647	3,115	2,626
<i>Rest of world</i>	<i>10,745</i>	<i>6,824</i>	<i>9,373</i>	<i>12,422</i>	<i>12,631</i>
World import/export trade	95,900	100,726	99,033	101,300	103,600

Volume in thousands of hectoliters

Figure 14: World wine exports rank by country, updated to 2014

Source: Italian Wine Central

The last thing to point out is that Italian wine represents 1/5 of the global wine trade, as it is shown in the graphic below, positioning itself as second in rank after France (Figure 15).

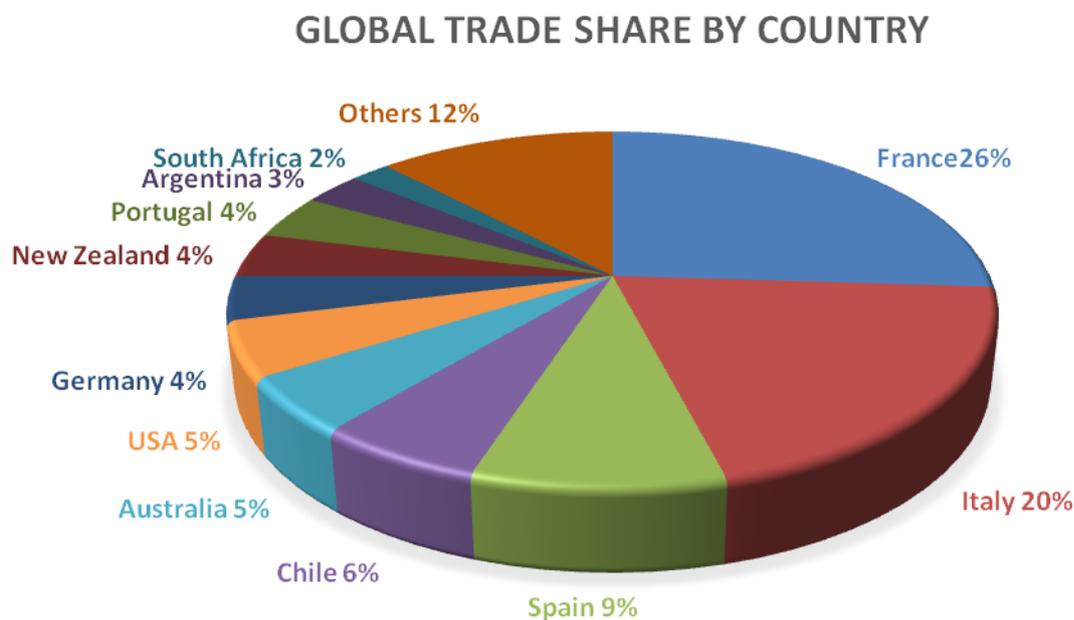


Figure 15: Global trade share by country, updated to 2014

Source: Own representation on "Il corriere vinicolo" data

INTERNATIONALIZATION: A THEORETICAL FRAMEWORK

As we have seen, internationalization is becoming one of the most important strategic driver for companies. But, why a firm decides to become a global firm?

Firms can decide to internationalize their operations mainly because of two motivations.

- Firms can decide to exploit at an international level an already acquired competitive advantage.
- Firms decide to go global in order to gain a competitive advantage.

Considering the first scenario, the firm aims to get the new market opportunities provided by the internationalization process, leveraging upon winning products, distinctive competencies, superior technologies or a well - known brands.

The second scenario is a little bit more complex.

The prevalent motivation here is to gain high competitive factors, which can ensure, for example, a saving in production costs (in labor costs) or privileged access to raw materials.

Another motive, lies in the desire of reducing operational risk and market risk, through the construction of a diversification strategy concerning outlets and supplies.

Moreover, in certain cases internationalization is the obligatory path to access in protected markets, which require a certain amount of "local content".³³

33 Vladimir Nanut, Andrea Tracogna (2011), "*Processi di internazionalizzazione delle imprese: vecchi e nuovi paradigmi*".

INTERNATIONALIZATION PROCESS DETERMINERS AND FACTORS

Entry mode decisions are classified according to the different level of control over:

- The foreign activities
- The risk sharing
- The use of resources and flexibility ³⁴

Once a firm has to face entry mode decisions, it is influenced by some factors. These factors connoting entry mode decisions will be discussed referring to the theory developed by Franklin R.Root.

The factors are distinguished into external and internal.

EXTERNAL FACTORS

The external factors are more specifically related to environmental determiners, which are tied to the characteristics of the market in terms of geographical size, abundance, dispersion of demand, level of development, characteristics of the product, intensity of competition, the structure distribution of the foreign market.

Those factors, concretely, originate from the internationalization of the market and the production chain; the possibility to expand the number of main customers; the reaction to a competitive behavior of other companies (bandwagon effect; exchange of threats), the presence of services supporting the internationalization process and the presence of significant business opportunities (customer or broker stimulate the internationalization).³⁵

34 ANDERSON E., GATIGNON H. (1986), "*Modes of Entry: A Transaction Cost Analysis and Propositions*", Journal of International Business Studies, Fall, pp. 1-26.

HILL C.W.L., HWANG P., CHAN K.W. (1990), "*An Eclectic Theory of the Choice of International Entry Mode*", Strategic Management Journal, vol. 11, n. 2, 117-128.

35 ROOT F.R. (1994), "*Entry Strategies for International Markets*", D.C. Heath, Lexington, USA.

Target Country Market Factors.

It concerns firstly the size of the target market, both present and projected. The size is crucial to have the volumes required to catch the brake-even points with sales.

Moreover, it concerns also the competitive structure of the target market, which can be atomistic (many non-dominant competitors) or oligopolistic (a few dominant competitors).

Finally, it concerns the availability and the quality of local marketing infrastructures.

Target Country Production Factors.

These are related to the quality, the quantity and the cost of raw materials, labor, energy and other productive factors in the target country. In addition, also the quality and the cost of economic infrastructure (such as port facilities, communications and transportation) impacts on entry mode decisions. Firms will be attracted by countries with low production costs, whereas will take distances from high production costs countries.

Target Country Environmental Factors.

The environmental factors are related to political, economical and socio-cultural character of the target country. The government policies and regulations will affect firm practicality.

For this reason, firms will avoid countries with, as example, restrictive policies on imports, on foreign investments and with a strict taxation regulations. Geographical distance also matter because it impact costs with shipment and transportation costs. Therefore, a too far away country would not be taken into consideration. Finally, the size of economy, its absolute level of performance, its external economic relations and its cultural distance are further aspects to consider.

Home Country Factors.

The company's choice of entry mode to penetrate a target country is finally influenced by home country factors, which consist in market, production and environmental factors. If the domestic market is big, it means that the firm will become a large firm before moving into a foreign market. This will impact on entry mode decision, because a large firm would more likely opt for an equity mode of entry (in spite of the small ones which decide for exporting

entry mode). In addition, also the level of competition of the home country matters. If a firm faces high completion in its home country would more likely expand its presence in foreign markets.

INTERNAL FACTORS

According to *Caroli (2011)*, the internal factors are tied to the competitive position of the firm. They depend on how the company responds to external factors in choosing an entry mode (*Root, 1994*).³⁶

Product Factors.

It concerns the level of products differentiation, pre- and post-purchase services, technological level and level of adaptation. High product differentiation favors export entry, whereas low differentiation leads to local production. If the array of pre- and post-purchase services is high, it would be difficult for a firm to market them in a foreign country.

Technology-intensive products give firms an option to license technology in the foreign country as entry mode choice. Finally, products that require highly adaptation lead the company to a close proximity with the foreign market, favoring exports through a local branch/subsidiary, otherwise the settlement of a local production.

Resource/Commitment Factors.

The more abundant are the firm resources (marketing skills, management skills, capital and technology), the more numerous are its entry mode choices. On the contrary, a firm with a limited availability of resources, will be constrained in entry mode choices which require only a poor resource commitment.

A synthetic scheme of entry mode influential factors is provided by the *Figure 15*.

36 ROOT F.R. (1994), "*Entry Strategies for International Markets*", D.C. Heath, Lexington, USA.

CAROLI M. (2011), "*Gestione delle imprese internazionali*", seconda edizione, McGraw-Hill, Milano.

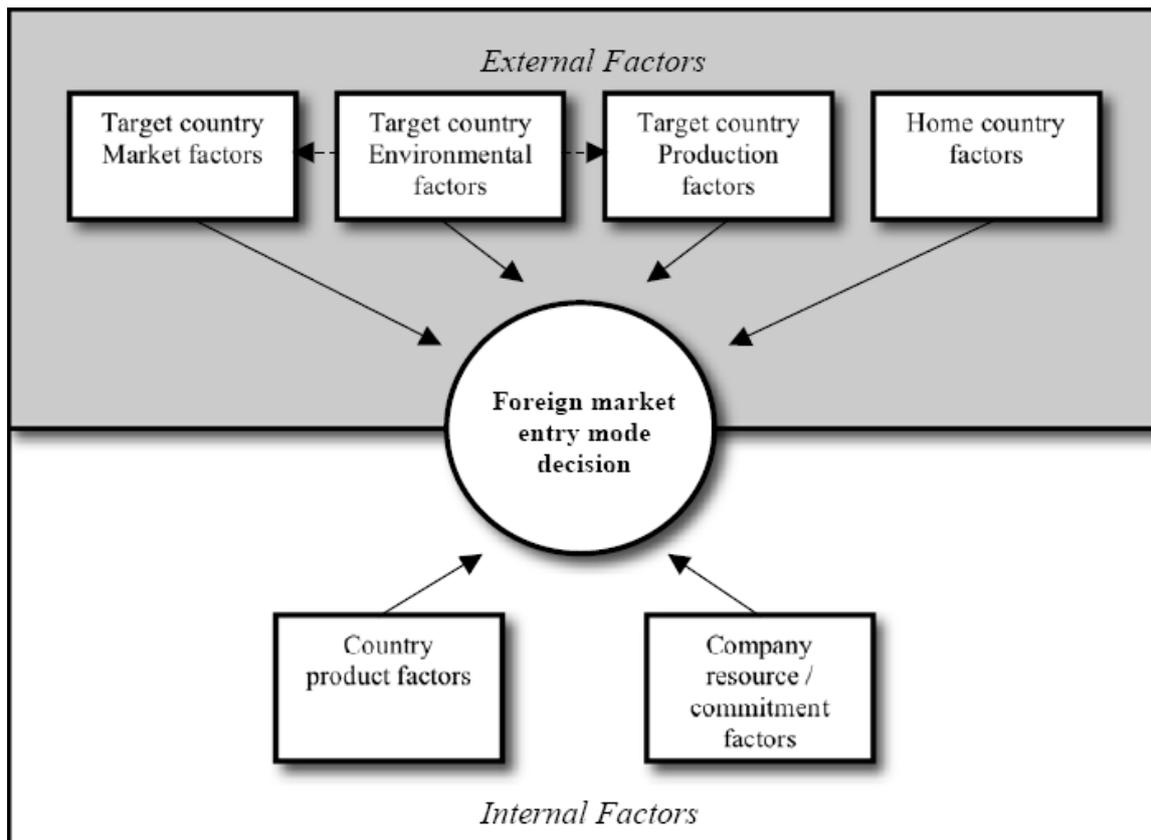


Figure 15: Factors influencing entry modes decisions

Source: R.Root (1994)

In order to identify the most suitable entry mode method, companies usually resort to one of the following decisional approaches:

- NAIF APPROACH

According to this approach the company simply chooses a specific entry mode and applies it in all markets in which it seeks to enter. Otherwise, the company imitates the choices made by other companies that have already penetrated the market in question, assuming that the mode adopted by other companies and the results they have achieved are the best indicators of the validity of the decision.

The main risk associated to this approach is that it is not based on a comparative assessment of the opportunities provided by alternative entry modes. It does not take into account the fact that differences between countries may be inappropriate to the mode chosen uniformly for different market areas.

- **PRAGMATIC APPROACH**

The main aim of this decision-making process is to select the entry mode according to the risk that this decision exposes the enterprise. In fact, this approach reduces the involvement and the transfer of resources and skills abroad, preferring the modality of indirect export. It is adopted when the company wants to explore the opportunities offered by international markets. The approach in question it is not useful to select the more coherent modality with respect to resources and expertise of the company and to the characteristics of the foreign market selected.

- **STRATEGIC APPROACH**

This is the more rational approach. It recognizes different needs: to invest or immobilize resources, to gain skills and specific competitive advantages and to have control over foreign operations. According to this approach the entry mode analysis is accomplished by comparing the characteristics and specificities of the foreign country/market with the objectives pursued by the company, the resources and skills needed to perform input using the different mode, the control of the foreign market, the business and financial results achieved and the method chosen for entry into other countries.

FOREIGN MARKETS ENTRY MODES

Entry modes can be characterized as institutional arrangements for how to organize and conduct business transactions when a firm enters a foreign country (Root, 1987).

The definition includes the three main strategies that a firm can adopt to enter in a foreign market:

1. Exports: direct or indirect;
2. Strategic alliances (Contractual): Franchising and Licensing;
3. Foreign Direct Investments (FDI): Joint Ventures (JV) and Wholly Owned Subsidiaries

(WOS) which can take the form of Merger & Acquisitions or Greenfield Investments.³⁷

Each strategy is accomplished pursuing different operating modes, which depend on three factors. These are the intensity of relations with the actors operating in the geographical context, the degree of control over competitive variables in the target market, and the spillover of the financial results and strategic operations abroad. These three variables mixed together disclose the degree of entrenchment of a firm in a foreign market.

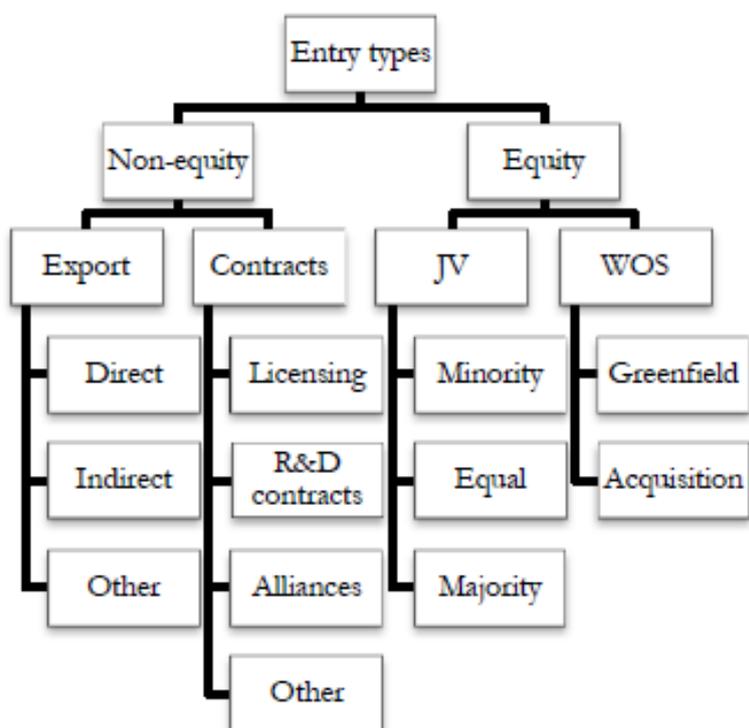


Figure 16: Entry modes scheme

Source: Adapted from Pan and Tse (2000) and Root (1987)

EXPORTING

The export method refers to the exporting of goods and services which are produced in one country and are marketed in another country, directly to the final customer.

³⁷ Vladimir Nanut, Andrea Tracogna (2011), "Processi di internazionalizzazione delle imprese: vecchi e nuovi paradigmi".

It can be managed in a direct way, which means that the company undertakes the export transaction itself rather than relying on another specialized firm; or it can be managed in an indirect way, when the company does not have sufficient competencies on the foreign market so that it requires the mediation of a market expert, who is embodied by an intermediary.

With the direct exporting method, the company arranges for the shipment of goods, provision of service across borders or transfer of technology from one country to another directly to the end customer. The seller of such goods, services and technology is referred to as an “exporter” who is based in the country of export whereas the overseas-based buyer is usually referred to as an “importer”.

DIRECT EXPORTS

Direct exports represent the most basic mode of exporting a company may adopt. It is undertaken in order to capitalize on economies of scale in production concentrated in the home country and to afford better control over distribution. Direct export works the best if the volumes are small, because large volumes of export may trigger protectionism. The main characteristic of direct exports entry model is that there are no intermediaries.³⁸

Direct exports are implemented through a sales network established specifically for foreign markets.

This network can be formed by employee’s enterprise, or by independent staff company linked to specific contracts collaboration.

- Sales representative:

Generally he is a firm’s employee. He represents the company in the foreign market. He takes care of negotiating on behalf of the firm and acts as vehicle to connect the firm with the foreign customers.

38 Root F.R. (1994), “*Entry Strategies for International Markets*”, D.C. Heath, Lexington, MA.

- Commercial representative offices:

The establishment of a commercial representation occurs in three situations: when the company's presence in that country becomes significant; when the characteristics of the business require a structured presence of the company (typically in markets where demand is formed by public or by entities Large); when the company wants to reach significant growth results.

- Logistic head offices:

The exporting firm may set up in certain areas a foreign logistic head office with the function of favoring a faster distribution of products in the foreign market. In some cases, at the central logistics are also carried out some work on the product, essentially aimed at its adaptation the specific needs of end users.

- Foreign sales branch:

In the most advanced form, exports in a certain country are made through constitution of company operations (foreign subsidiary). To this subsidiary are transferred a large part of the strategic functions previously performed organizational unit for exports; it then it operates with a degree of autonomy strategic than the parent.

- Electronic trade:

Electronic trade is an export mode particularly effective for those companies operating in niche markets, with productions very specialized. In these cases, in fact, it is more immediate and less costly for the company to give adequate visibility to their products over the Internet, managing to establish contact with their foreign customers which can be significant in commercial terms.³⁹

39 Tattara, G., Corò, G., Volpe, M. (2006), "*Andarsene per continuare a crescere*", Carocci, Roma.
Micelli, S., Corò, G. (2006), "*I nuovi distretti produttivi*", Marsilio, Venezia.

INDIRECT EXPORTS

Alternatively, a company can use the method of indirect export which is the process of exporting through domestically based export intermediaries. The exporter has no control over its products in the foreign market.⁴⁰

As in the case of direct export, also with the indirect export there are different configurations.

These are⁴¹:

- Importer/distributor:

Importing distributors purchase product in their own right and resell it in their local markets to wholesalers, retailers, or both. Importing distributors are a good market entry strategy for products that are carried in inventory, such as toys, appliances, prepared food.

- Sales agent:

Sales representative are normally identified directly in the foreign country where the organization intends to work. They represent foreign suppliers/manufacturers in their local markets for an established commission on sales. They provide support services to a manufacturer regarding local advertising, local sales presentations, customs clearance formalities, legal requirements. Manufacturers of highly technical services or products such as production machinery, benefit the most from sales representation.

40 Wikipedia, "Foreign market entry modes".

https://en.wikipedia.org/wiki/Foreign_market_entry_modes

41 Antonio Foglio (1984), "La strategia di marketing internazionale – Tecniche di ricerca e politiche di commercializzazione nei mercati esteri", Franco Angeli, Milano, Italia.

41 Demattè C., Perretti F. (a cura di), "Strategie di internazionalizzazione", Egea, Milano, Italia.

- Buyer:

The buyer is an independent actor (can be even a single individual), which resides in a given country and represents a number of foreign companies interested in having a direct and continuous contact with potential suppliers operating in the same geographical area. The large retail chains (retail and wholesale), franchisors are the typical commercial economic entities that use buyers for their international purchases.

- Broker:

The broker is a person who acts with the aim of connecting the producer with potential foreign buyers and he provides any consultancy support required to facilitate the transaction between the two entities. It is usually specialized on certain types of products, most frequently commodities.

- Export trading companies (ETCs):

These provide support services of the entire export process for one or more suppliers. They act as intermediaries between foreign customer and manufacturer, providing all the necessary measures to move the goods: locate overseas trading partners, present the product, quote on specific enquiries, etc. Acting on behalf of the manufacturer, and are concerned with the distribution of the product in an area where they have obtained exclusive.

- Export management companies (EMCs):

These are similar to ETCs in the way that they usually export for producers. Unlike ETCs, they rarely take on export credit risks and carry one type of product, not representing competing ones. Usually, EMCs trade on behalf of their suppliers as their export departments.

- Export merchant:

Export merchants are wholesale companies that buy unpackaged products from suppliers/manufacturers for resale overseas under their own brand names. The advantage of export merchants is promotion. One of the disadvantages for using export merchants result in presence of identical products under different brand names and pricing on the market, meaning that export merchant's activities may hinder manufacturer's exporting efforts.

- Confirming houses:

These are intermediate sellers that work for foreign buyers. They receive the product requirements from their clients, negotiate purchases, make delivery, and pay the suppliers/manufacturers. An opportunity here arises in the fact that if the client likes the product it may become a trade representative. A potential disadvantage includes supplier's unawareness and lack of control over what a confirming house does with their product.⁴²

⁴² Wikipedia, "*Foreign market entry modes*".

https://en.wikipedia.org/wiki/Foreign_market_entry_modes

AGENT VS DISTRIBUTOR			
AGENT		DISTRIBUTOR	
Advantages	Disadvantages	Advantages	Disadvantages
Firm has greater control over the terms of sale and methods of marketing	If the agent's work is not reviewed on a regular basis → firm sales may not increase	The supplier (company) can pass a greater degree of risk to the distributor	Loss of control over activities of the distributor;
Freedom to choose customers with whom to deal	Controlling the agent's work needs a lot of communication	The distributor has greater incentives in selling the product	An exclusive distributor focuses the supplier's entire
The agent will report on the competition and will advise firm on new products to be launched	The cooperation may turn into competition	Avoids the need for the supplier to have an established place of business in the territory	
The agent will focus on firm best selling products → highest margin	Maintaining stock inventory can be costly	The supplier only needs to monitor the accounts of several distributors rather than for each customer	
The manufacturer is able to retain risk of stock	An agent may sell similar products		
The commission paid to an agent is typically lower than the margin of profit a distributor will make			

Figure 17: Agent vs Distributor - Advantages and Disadvantages

Source: Own representation on EU SME Centre information

STRATEGIC ALLIANCES

The collaboration agreements are medium/long term understanding which are signed among firms. They represent a mode of foreign market entry which allows firms to achieve benefits otherwise not available, if the firm would approach the market as a single enterprise. In fact, the collaboration with a foreign company takes some advantages originated by the sharing of investments required for the development abroad, the immediate access to the resources and complementary competencies, the faster achievement of adequate levels of efficiency and, ultimately, the achievement of cost advantages and risk sharing.

Among the various types of collaboration agreements here are the most important: Franchising and Licensing.

FRANCHISING

Franchising is a method of distributing products or services. At least two levels of people are involved in a franchise system:

- The franchisor, who lends his trademark or trade name and a business system;
- The franchisee, who pays a royalty and often an initial fee for the right to do business under the franchisor's name and system.

Technically, the contract binding the two parties is the "franchise", but that term is often used to mean the actual business that the franchisee operates.⁴³

A franchise agreement is generally valid for no less than 3 years, unless it is otherwise agreed upon by the franchisee. A franchisee may terminate the agreement if the franchisor holds back relevant information from or provided false information to the franchisee.

43 Kenneth A. Reinert (2012) "*An introduction to international economics*", Cambridge University Press, New York.

Main contents that must be included in a franchise agreement include:

- Basic information of franchisor and franchisee;
- Contents and term of the franchise;
- Type, amount and payment method of franchise fees;
- Provisions of operational guidance, technical support and training;
- Quality and standards requirement for product or service and guarantee provisions;
- Promotion and advertising of products or services;
- Protection of consumer interest;
- Amendment, rescission and termination of franchise contract;
- Liability breach of the contract;
- Dispute resolution mechanism;
- Any other matters agreed between the parties.

In general, the franchise agreement at the international level has aspects of particular specificity regarding the contract that may be concluded between companies the same country.

In the international arena, however, two problems inherent in franchise system become complex:

- The Management of the flow of products from the franchisor to the franchisee;
- The franchisees' network organization uniformity and behavior in the various countries in which the company operates.⁴⁴

LICENSING

⁴⁴ HILL C.W.L (2008),” *The Convergence of Corporate Governance: Promise and Prospects*“, International Business, Hoepli, Milano.

Licensing is a permission granted by an exclusive owner of Intellectual Property Rights (i.e., technology/patents, trademarks, copyrights etc.) to another party to use such IPR on agreed terms and conditions (including, for example, the payment of royalties), while the IPR owner continues to retain ownership of the IPR.

As a company grows and develops its reputation for quality products and services, its intellectual property becomes more valuable.

Licensing is a common method of international market entry for companies with a distinctive and legally protected asset, which is a key differentiating element in their marketing offer. This might include a brand name, a technology or product design, or a manufacturing or service operating process.⁴⁵

In general, a licensing contract should include these basic elements: quality control, royalty rate, choice of currency and law, length of contract, product and territorial coverage, grant back and cross licensing (Onkvisit & Shaw, 2004).⁴⁶

FOREIGN DIRECT INVESTEMENTS (FDI)

Foreign Direct Investments (FDI) are investments made by a company or an entity based in a home country, into a company or an entity based in another country. FDI does not imply the sole ownership transfer but it even undertakes the transfer of complementary factors, required for the practicality of the business and complementary to capital. These factors are management, technology, organization through operations establishment or the acquisition of tangible assets.⁴⁷

45 David Arnold (2003), *"Mirage of Global Markets, The: How Globalizing Companies Can Succeed as Markets Localize"*, Pearson, United Kingdom.

46 Onkvisit Sak and Shaw J. John, (2004), *"International Marketing-Analysis and Strategy"*, 4th edition, Alden Group, Oxford, United Kingdom.

47 Investopedia, *"Foreign Direct Investment – FDI"*, Dictionary.

FDI are mainly directed toward open economies with skilled workforces and good growth prospects tend.

Strategically FDI can be divided into three different types:

- Horizontal: occurs when the company duplicates its home country-based activities in a foreign host country, at the same level of the value chain. An example is provided by Toyota, when it assembles cars both in Japan and UK.
- Vertical: happens when different activities' stages are added abroad, having as result that the firm moves upstream or downstream. Forward vertical FDI occurs when, thanks to the FDI, the firm is taken closer to the final consumers market (for example, when Toyota acquires a car distributorship in America). Whereas Backward Vertical FDI occurs when international integration moves the firm back towards raw materials (for example, when Toyota acquires a tyre manufacturer or a rubber plantation).
- Conglomerate: refers to an investment directed from a source country into another country with the aim of exporting into a third country. Because of the complexity and the fact that it is necessary to overcome two barriers simultaneously (entering a foreign country and a new industry), this is the most unusual form of FDI.⁴⁸

According to R.Root, companies may decide to invest in foreign countries for three main reasons: to obtain raw materials, to source products at a lower cost or to penetrate local market (as we will see, in some markets particularly closed this is the only way to have access to the market).

These three reasons result in three different investment categories:

<http://www.investopedia.com/terms/f/fdi.asp#ixzz3tdCQ7fvy>

48 Financial Times, "Definition of Foreign Direct Investment".

<http://lexicon.ft.com/Term?term=foreign-direct-investment>

1. Extractive investors: occur when a firm decides to establish foreign subsidiaries in order to have access to raw materials, gaining the access to natural resources. The raw materials can be then used within the firm own industrial operations (backward vertical integration) or for sale in world markets.

Classic industries examples are the ones of steel, aluminum and petroleum.

2. Sourcing investors: occur when a firm decides to establish foreign operations to manufacture products that are entirely or mainly exported to the home country or to third countries (Root 1994). In this way the firm can cut off costs of parts, finished good or components, gaining also qualified labor, energy and other inputs which are found in the host country.

A clear example of this strategy is provided by the electronic industry.

3. Market investors: this is the more frequent modality in use. The objective of the firm here is to penetrate a target market through setting a local production.

This group of investors regards the investment as a foreign market entry mode.⁴⁹

Investment entry mode are divided into Joint Ventures and Wholly owned subsidiaries.

JOINT VENTURES

The Joint Venture is verified when are joint together of two or more business partners from separate jurisdictions to exchange resources, share risks and divide rewards from a joint enterprise. The new independent entity created is called co-venturer (also known as incorporated joint venture). However, a joint venture is like any other general partnership, which means it does not have legal status, it is not a separate legal entity. Consequently, revenues, expenses and asset ownership usually flow through the joint venture to the participants.⁵⁰

49 ROOT F.R. (1994), "*Entry Strategies for International Markets*", D.C. Heath, Lexington, MA.

50 Milton R. Stewart, Ryan D. Maughn, "*International Joint Ventures, a practical approach*", 2011.

Parties enter Joint Ventures to gain individual benefits, usually a share of the project objective. This may be to develop a product or intellectual property and to enter new and foreign markets (Beamish, 2008), rather than joint or collective profits, as is the case with a general or limited partnership.⁵¹

The Joint Ventures validity starts when the parties sign it, specifying their mutual responsibilities and goals. The JV contract is prearranged in order to avoid later troubles. The parties specify their intents and their understanding on rights and duties, committing themselves to fully respect them. The parties have a mutual right to control the enterprise, a right to share in the profits, and a duty to share in any losses incurred. Each joint ventures implies a fiduciary responsibility, a standard of care to the other members and the duty to act in "Good Faith" in relation with matters that concern the common interest or the co-venturer. A fiduciary responsibility is a duty to act for someone else's benefit while subordinating one's personal interests to those of the other person.

The Joint Ventures can end in a natural way, when it reaches the time limit specified in the contract, upon the accomplishment of its purpose. Otherwise, it can be released when with the death of an active member or if a court decides that serious disagreements between the members make its continuation impractical.

Joint Ventures are of two types: Equity JV or Cooperative JV.

The Equity JV is a contract that is characterized by the regulation of the activity of the joint enterprise, the relationship between the members and the distribution of profits.

Differently, the Cooperative JV does create a joint company but only an agreement between the parties to manage a joint initiative to then divide the profits later.

The Joint Venture has both pro and cons sides.

On the one hand, as we have already seen, the JV gives to companies the opportunity to gain new capacities and expertise, having access to resources, knowledge and technology, which are provided by the entrance in related businesses and markets. JV

51 Beamish, P. W. (2008). *Joint venturing*. Charlotte, NC: Information Age.

allows firms to share the risk with a venture partner and it also offers companies a way to exit from a non-core business.

On the other hand, JV takes time and effort to build a strong and mutual trusted relationship and partnering with another business can be sometimes difficult and even challenging.

A great communicative effort is required as well as the involvement and commitment of everyone. A poor quality management styles result in poor integration and co-operation.

The Joint Venture has elements of a partnership, but is typically formed for a defined purpose or specified project, and, therefore, is usually limited in purpose, scope and duration. In order to be successful and long-lasting, a JV requires continuous interaction between parties.

Roughly 80% of all joint ventures end in a sale by one partner to the other.

STRATEGIC ALLIANCES	
LICENSING & FRANCHISING	
Advantages	Disadvantages
Branding/reputational impact	Potential IPR infringement risk
Risks are spread by multiplying the number of locations through other people's investments	No contact with end customers
Lower costs of market entry (as example no need to build a distribution network)	Initial investment in terms of training staff, technical assistance
Increased business opportunities: Franchisee provides local knowledge which might help in reaching new markets and finding new partners; Increased revenues in the form of royalty payments from the company to whom the licence/franchise is granted ("licensee"/"franchisee")	Lower control over the business model. It is important to ensure that there are proper control provisions in the licence
Wider exposure/advertising for the licensing/franchising company's brand/technology/work	Risk that trade name will be spoiled by dubious partners
Uniformity of procedures in case of franchise, which reflects on consistency, enhanced productivity levels	Franchisor has to have solid business model and one year of operation of at least two outlets
Franchisee is usually self-motivated since he has invested much time and money in the business	By disclosing your business model you are opening doors for franchisees to "amend" the model and establish their own business
A larger and more powerful licensee in a new market can provide instant market access and	In the long term, royalty payments from a licence may not provide the maximum for a licensor
A licence can be used to enable products to be supplied locally where there is no opportunity to manufacture in the locality deter competitors and imitators	It could be that setting up locally can generate better profits in the long run

Figure 18: Franchising & Licensing Advantages and Disadvantages

Source: Own representation on EU SME Centre Report

WHOLLY OWNED SUBSIDIARIES

A wholly owned subsidiary is a complete ownership of an (acquired or developed) entity located in a host nation by a firm located in the home nation, called the parent company or holding company, to manufacture or perform value addition or sell goods/services in the host nation.⁵²

Wholly owned subsidiaries may be part of the same industry as the parent company or a part of an entirely different industry.

Merger & Acquisition

Acquisition is a suitable method when the company wants to have a rapid entry to the targeted market and wants to retain maximum control and direct investments.

A firm can decide to acquire a foreign company for several different reasons. These may include: raw materials sourcing, financial (portfolio) diversification, product diversification, specific assets acquisition (technology, management, workers, distribution channels and more) and market diversification.

The resulting acquisition can be classified as: horizontal, if the product lines and markets of acquiring and acquired firms are similar; vertical, when the acquired firm becomes a supplier or customer of the acquiring firm; concentric, if the acquired firm has the same market but different technology, or vice versa; conglomerate, when the acquired firm belongs to a different industry with respect of that of the acquiring firm.⁵³

If, on the one hand, firm benefits from the acquisition of these conditions, on the other hand it can face drawbacks. Firstly, locating and evaluating acquisition candidates can be extremely difficult. Moreover, possible drawbacks are related to insufficient quality level of plants and other facilities that will require substantial investments to bring them up to

⁵² Study.com, "Wholly Owned Subsidiary: Definition, Advantages & Disadvantages".

<http://study.com/academy/lesson/wholly-owned-subsiidiary-definition-advantages-disadvantages.html>

⁵³ ROOT F.R. (1994), "Entry Strategies for International Markets", D.C. Heath, Lexington, MA.

standards, and poor geographical conditions in the target country. Finally, problems are related to the host country which welcomes foreign investment that builds up a new enterprise because of the employment increment and tax benefits. The acquisition, however, fails to meet this. Thus, there will be many legal hurdles for the companies to overcome, moreover, determining a fair price, and dealing with the cultural differences and geographic distances. All of these make acquisition complex, risky and expensive (Very & Schweiger, 2001).⁵⁴

Greenfield investments

Greenfield investments are a type of foreign investments in which a parent company will begin a new venture in another country (usually a developing country), by constructing new operational facilities from the ground up. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees. These companies are typically offered tax breaks and other incentives for setting up green field investments.⁵⁵

Coca Cola, McDonald's and Starbucks are great examples of US firms that have invested in green field projects around the world.

The main reasons companies undertake Greenfield investments have to be found in the advantages provided by this foreign market entry mode. Firms have a greater control over all the aspects of the business, being geographically close to the final market, as well as over the brand and the staff, which endowed the firm with the capability of implementing long-term strategies (being the commitment in the market really solid). Moreover, the firm can work with the relevant authorities from the beginning, taking advantages also from press opportunities (to expand its visibility). Finally, the firm achieves economies of scale

54 Schweiger D. M., & Very P. (forthcoming), "*Managing acquisitions: Predicting critical issues according to strategic objectives and integration types*". In C. Cooper & A. Gregory (Eds.) *Advances in mergers and acquisitions*, (Vol. 2), Greenwich, CT: JAI Press.

55 http://www.investorwords.com/11625/green_field_investment.html

and scope in production, marketing, finance, research and development, transportation and purchasing.

On the other side, there are some factors which oppose the entire process. The firm can face difficulties in overcoming competition and governmental regulations. Moreover, the entire process, which can be very costly and may take years.

The *Figure 19* depicts all the entry mode described until this point, according to the trade-off dimension of Cavusgil et al. (2011), namely *Control, Resource commitment, Flexibility and Risk*.⁵⁶

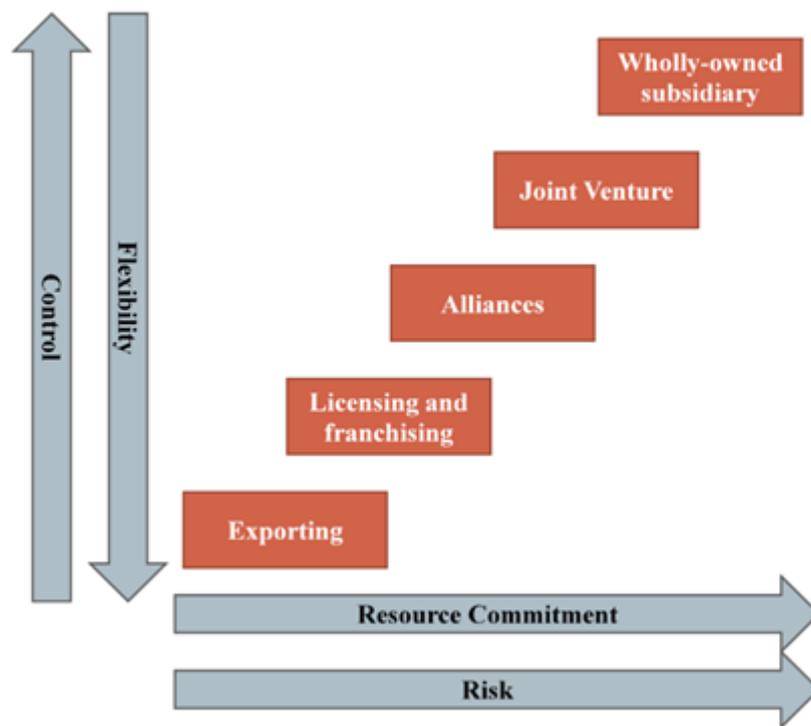


Figure 19: Entry modes and trade-off dimensions

Source: Adapted from Jhonson and Tellis (2008) and Cavugil ae al. (2001)

⁵⁶ Henrik Arnstorp (2013), "Foreign market entry strategies in developed and emerging economies", NTNU – Trondheim.

CHAPTER 2

WINE IN CHINA

INSIDE CHINA WINE MARKET

China is worldwide known as a famous tea producer and consumer country. What is less known is that China has a long tradition of alcohol consumption too and that their spirits have always been a key component of culture and cuisine.

Alcoholic beverages may be grouped into three main categories: Spirits made from grain; the rice wine and Beer.

Among the first category, we can find one of the most famous and ancient Chinese liquor: the Mao Tai Jiu, made through a special process of distillation and fermentation of wheat and sorghum.

In recent years there has been a significant growth in the consumption of another alcoholic drink: the wine.

The causes must be found in significant economic and cultural changes occurring in the country. The wine industry in China benefits from increase in resident income, changes of lifestyles and consumption concepts driven by economic development. As health concern increases, it stimulates the consumption of wine in China, which is prospering. In fact, in most cases, Chinese drink wine just because it is considered healthier and less harming than beers and other spirits.

The Chinese market is starting to have a bias for a product that represents a new international status, more projected towards the Western way of life and, nevertheless, the desire to experiment with new habits.

Today in China we can find wines, beers and spirits both locally produced and imported. The interest in wine is amazing considering that in China this is a quite new drink: according to historians various alcohol derived from the fermentation of grapes were

produced in China already thousands of years ago, but the first Westerners wines arrived only at the end of Nineteenth century, with French.⁵⁷

Thus, wine is just the latest arrived, in a tradition made predominantly of rice wine, liquor (with alcohol content between 30° and 78° alcohol) and beer. In this context and in the tradition of alcohol consumption, the organoleptic quality characteristics of the product found space especially among the social medium - high and high.

China Alcohol has always been a symbol of good luck. It is associated with the representation of happiness. Drink for Chinese people is not just a source of pleasure, but it is something much deeper, bound to respect, conviviality and traditions. Just consider that one of the most important function of alcohol concerns medical purposes. The symbolism in China has a great importance. It is so relevant for Chinese people that it becomes a leading criteria for purchase decisions. Because of the symbolic meaning of the color red, which is associated to good luck, wealth and health, Chinese have a bias toward the red wine, which turns out to be the most purchased wine type.

- *The auspicious color of the drink and the benefits it can bring to health are two of the fundamental aspects that have contributed to the significant increase in the consumption of wine in China*

WINE CONSUMPTION PATTERNS IN CHINA

A recent study of the Italian trade agency (formerly ICE) points out how China is still at an early stage, considering that wine accounts for just the 4% of all alcohol consumed. However, China is the country which has recorded in recent years higher growth in wine consumption (**almost exclusively red wine, which accounts for 80% of total consumption**). From 2000 to 2010 there had been an increase of about the 290%. In 2013, with 1.865

⁵⁷ Michele Penna, "Cina, la produzione e i consumi di vino fanno boom", in Inns' Bruck, June, 1st 2015.

http://www.lettera43.it/economia/aziende/cina-la-produzione-e-i-consumi-di-vino-fanno-boom_43675170611.htm

trillion bottles sold (including Hong Kong sales), the Chinese did better of both the French (150 million) and Italians (141 million) in the consumption of red wine.⁵⁸

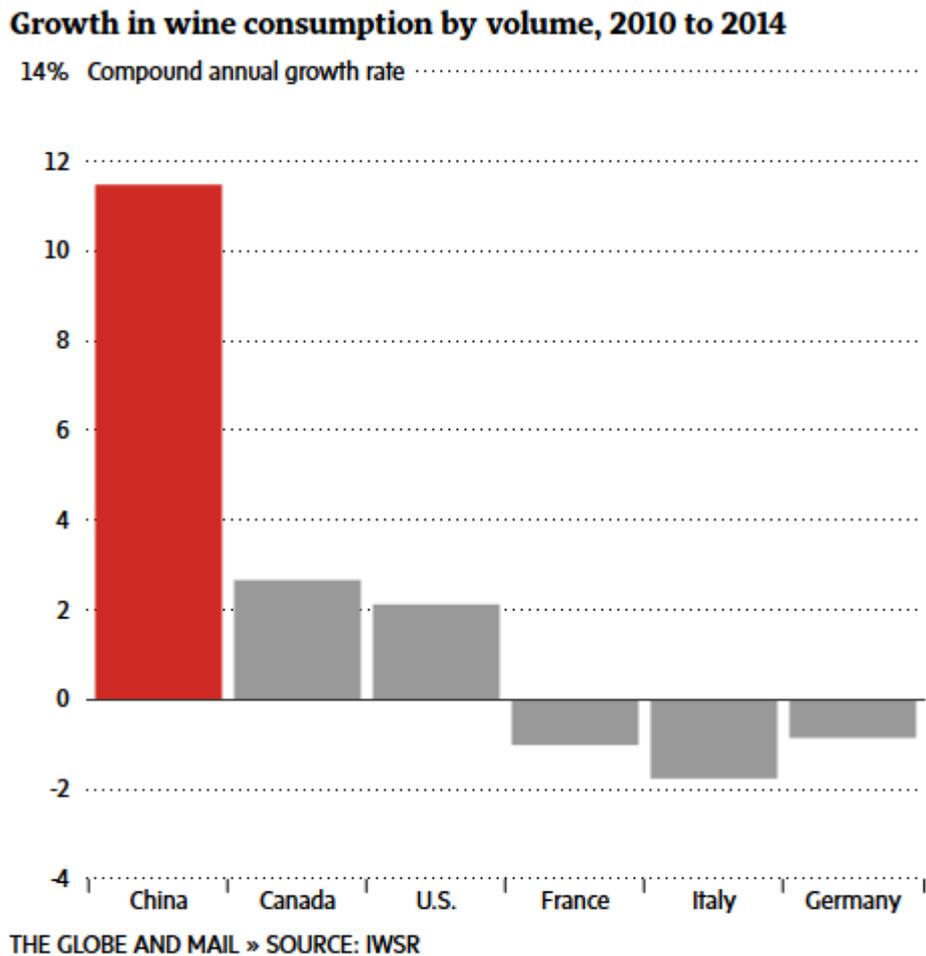


Figure 20: Growth in wine consumption by volume, updated to 2014

Source: IWSR

(The IWSR is the world's most trusted wine and spirits information source).

Already today China (as we have seen in the first chapter) is the fifth country in the world for wine consumption and its growth is estimated at 15 % per year.⁵⁹

58 Alessandra Biondi Bartolini, "Cina pianeta da scoprire", in VQ (Vite, Vino & Qualità), June 2014.

<http://www.vitevinoqualita.it/files/2014/06/Cina-pianeta-da-scoprire.pdf>

59 Cecilia Attanasio Ghezzi, "Dopo la moda, il vino: la Cina è il settimo produttore mondiale. Crescono i consumi", in China Files of Il Fatto Quotidiano, January 2nd 2015.

<http://www.ilfattoquotidiano.it/2015/01/02/cina-esplode-produzione-vinicola/1305495/>

If we cast a glance at the *Figure 21*, the first thing that appears contrasting with all the reasoning made is the data that points out the 2014-2013 ratio. According to it, China suffered a contraction in consumption of almost -9,6%. This data can be explained with the austerity campaign imposed by the President Xi Jinping. This campaign had the aim of banning excesses and wastes from the boards of government officials. Even if this is the “official version”, the real motivation of this campaign consists in the antidumping procedure powered up by the Chinese government and started in the second semester of 2013. It was settled with the precise intent of damaging European Union wines. It was the Chinese government response to the European decision of tightening up the duties for the Chinese solar panels sold within the EU, increased from 12% to 47.6%. The anti-dumping policy was lifted in March 2014.⁶⁰

Thus, the light setback seen in 2013 in China, was made explicit in 2014, with a loss of 1.67 million hectoliters, registering 1.58 million hectoliters in 2014, an evident contraction with respect to the 1.74 million hectoliters of the previous year (2013). Anyways, China remains the **fifth largest market in the world for wine consumption**.

WORLD WINE CONSUMPTION BY COUNTRY (1)	2011	2012	2013	2014	% CHANGE 2014/2013
WORLD	24.686.245	24.945.409	24.579.072	24.701.440	0,50%
UNITED STATES	3.163.300	3.159.500	3.117.600	3.217.500	3,2%
FRANCE	2.932.200	3.026.900	2.818.100	2.790.000	-1,0%
ITALY	2.305.200	2.263.300	2.179.500	2.040.000	-6,4%
GERMANY	1.970.700	2.000.000	2.030.000	2.020.000	-0,5%
CHINA	1.520.300	1.773.700	1.747.100	1.580.000	-9,6%

Figure 21: China position in the World wine consumption rank, updated to 2014

Source: Own representation on Wine Institute data

⁶⁰ Gianluca Ferraris, “Vino italiano, perché la revoca dei dazi cinesi non basta”, in Panorama Economia, March, 28th 2014.

<http://www.panorama.it/economia/opinioni/vino-italia-cina/>

In spite of the last year of downturn, there is a good expectation for the coming years, because of the consumption trend that has been emerged. According to Euromonitor (the London-based market intelligence firm, providing market research, business intelligence reports, and data to industry), China is now ready to become the first market in the world for consumption already in 2017.

In fact, the number of wine lovers has risen now up to 38 million (twice than three years ago). They have been drinking in total 17 million hectoliters of wine (2014), as revealed by the report of Wine Intelligence "China Wine Market landscape".⁶¹

Unlike the huge volume of consumption, per capita consumption remains decidedly contained. If the total consumption of wine in China is in fact risen by 136% compared to 5 years ago (a further increase of 33,8% is expected between 2015 and 2017) it is only of 1,2 liters the individual consumption recorded in 2014, which is decidedly low compared to the more than 44 liters of France, first in the standings.

Although this figure may seem daunting, in reality the Chinese market potential is huge, because of the rising income levels and the increase in culture and knowledge about wine. According to forecasts in 2015 the pro capita consumption of wine will raise to 1,9-2 liters, raising even more within the next 3 years, when it will reach 2,1 liters.⁶²

61 DGO News, "*La Cina sarà il primo importatore mondiale di vini nel 2017*", June, 9th 2015.

<http://www.gdonews.it/2015/06/09/la-cina-sara-il-primo-importatore-mondiale-di-vini-nel-2017/>

62 Bacca, "*Cina – importazioni di vino 2014*", June, 16th 2015.

<http://www.inumeridelvino.it/2015/06/cina-importazioni-di-vino-2014.html>

Country	Population	Consumption	Pro Capite Liter
WORLD	7000	240	3,4
FRANCE	63	27,9	44,4
PORTUGAL	11	4,6	42,5
ITALY	60	20,4	34
ARGENTINA	40	9,9	24,5
AUSTRALIA	22	5,4	24,3
GERMANY	83	20,2	24,2
ROMANIA	22	4,7	21,8
SPAIN	46	10	21,7
NETHERLANDS	17	3,6	21,6
UK	62	12,6	20,3
UNITED STATES	303	30,7	10,1
CANADA	34	3,4	10
SOUTH AFRICA	50	3,7	7,3
RUSSIA	145	9,3	6,6
BRASIL	199	3,5	1,8
CHINA	1348	15,8	1,2

Figure 22: China position in the World wine consumption per capita rank, updated to 2014

Source: Own representation on Wine Institute data

But how much is relevant the imports share on the total of the consumption outstanding volume that has been recorded?

Let's find it out.

CHINA BETWEEN LOCAL PRODUCTION AND IMPORT

Wine production was introduced in China for the first time in 1892. The vines were imported from California and final customers were western citizens. Today, the Chinese middle class increases and with that the consumers.

DOMESTIC PRODUCTION

About 90 % of the wine consumed in China is produced domestically.

Numbers states that the wine production tripled between 2000 and 2013, that the area of vines grown in the same period by 127% and that China is the second country in the world for vineyards with its 799,000 hectares (data from the International Vine and Wine), right after Spain first in rank.

Due to the restriction of weather and geographical conditions, the wine production in China demonstrates high regional concentration.

Wine production in China and divided into three regions (each comprising one or more province): Western China, Central China and Northern China. Each region has its own characteristics and brands.

The majority of the wine production in China is concentrated in the Central and Northern provinces. This area has a huge production, with an annual output of over 100 million liters. Among the provinces, the largest wine producers come to Shandong (the Bohai Bay area) and Jilin (Tonghua), with the combined output in 2013 amounting to 712 million liters, which is the 64% of the national production. In Shandong, Chardonnay, Carbernet Sauvignon, Merlot, and Carignane are major wine varieties.

Planting bases of homegrown wine producers like Changyu, Great Wall and Dynasty, the three top Chinese producers, are located in Shandong.⁶³

63 Researchmoz, "*China grape industry report*", 2013-2016.

<http://www.researchmoz.us/china-grape-wine-industry-report-2013-2016-report.html>

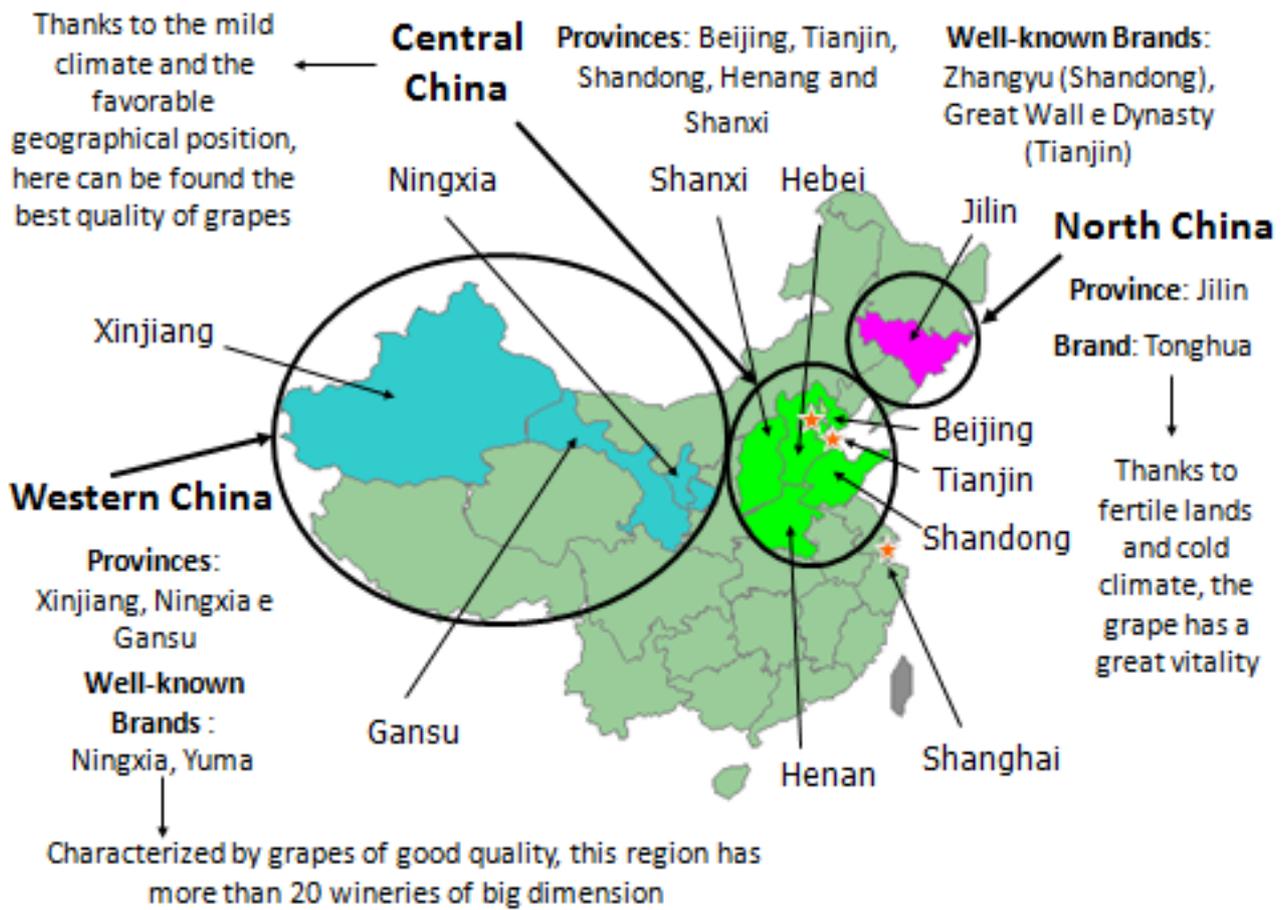


Figure 23: Regional distribution of wine brands and output in China

Source: Own representation

The wine industry has exploded in China only in recent years. The wineries have doubled compared to just ten years ago and thanks to the development of peripheral areas such as Ningxia and Shendong, entirely dedicated to the cultivation of vines, in 2014 China became the seventh world producer, surpassing Australia.

Local production has become so important that some wineries of Ningxia, Liaoning and Xinjiang have already begun exporting to Britain and the United States. Today the Changyu Pioneer Wine Company is one of the most important wineries in China. However, despite a growing local production, the interest in the foreign wine, especially from Europe, continues to be strong. Witness the fact that the main manufacturers, including Great Wall, Dynasty, Changyu and the giant of the Chinese food

industry COFCO are by years buying wineries, vineyards and properties around the world, preferring France.⁶⁴

The top four domestic companies, which are Changyu (Shandong), Great Wall (Shandong) e Dynasty (Tianjin) control almost the 70% of the entire grape wine market in China. In general each company has nationwide distribution, high brand recognition, customer loyalty, and a well-defined niche market.

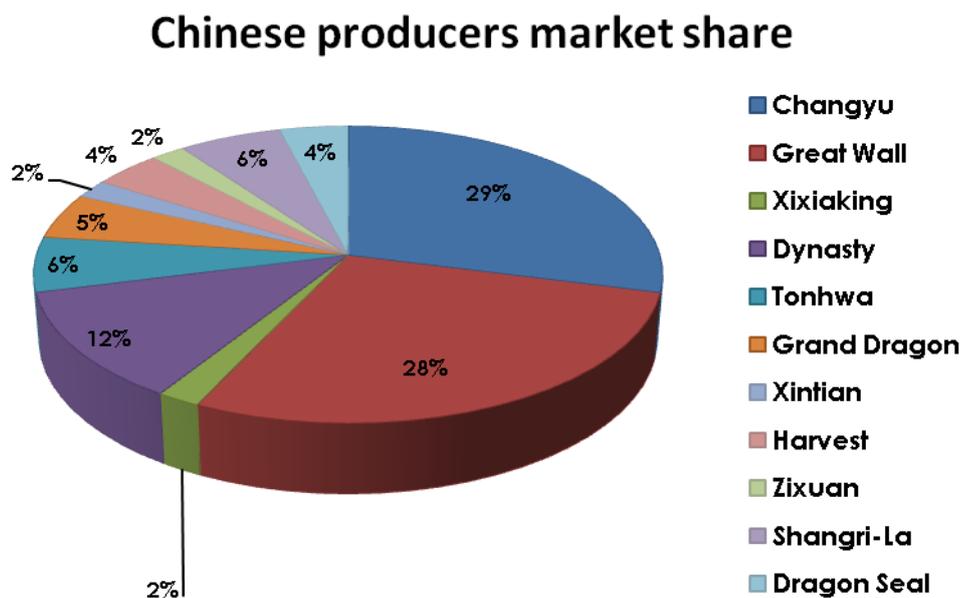


Figure 24: Chinese wine producers' market share

Source: Own representation on web data

IMPORTS

The fact that the wine market in China is, in small steps, changing it is now known. After the phase when only luxury wines for important business opportunities were imported, the market is today moving towards the creation of market dynamics similar to those of more mature markets. According to the China Wine Market Landscape Report of Wine Intelligence (research compiled through a survey of about a thousand Chinese consumers

⁶⁴ Maria Teresa Moschillo, "Vino in Cina. Analisi e prospettive future del mercato", in Les Chaires, November 3rd 2014.

<http://www.lescahiersfm.com/vino-in-china-analisi-e-prospettive-future-del-mercato-wine-china/>

of imported wine between April 2014 and March 2015) the consumption of imported wine is still growing.⁶⁵

Currently, there are over 2.000 brands of wine in China. About 1.500 of them are imported wine brands. There are 24.137 wine importers (direct and indirect) in China and **the main markets of imported wine are Shanghai, Beijing, and Guangzhou**. According to statistics from China Customs, the annual growth rate of imported wine is around 30%, and over 0.2 billion bottles of wine have been imported into China. It is estimated that up to 200.000.000 liters of wine will be imported in the future.⁶⁶ The boom of the imported wine has also been fostered by the China's accession into the WTO, which had as consequence that China's import tariff on wine was reduced from 65% to 14%, bringing a large inrush of foreign wines into the Chinese market. Imports represent a market share of only 10% (2014), with an absolute predominance of the French (46% of imports) followed by Spanish, Argentines and Chileans producers. The result is that nearly one out five bottles uncorked in China, comes from abroad.⁶⁷

Wine Import in China - Countries market share (except cask wines)

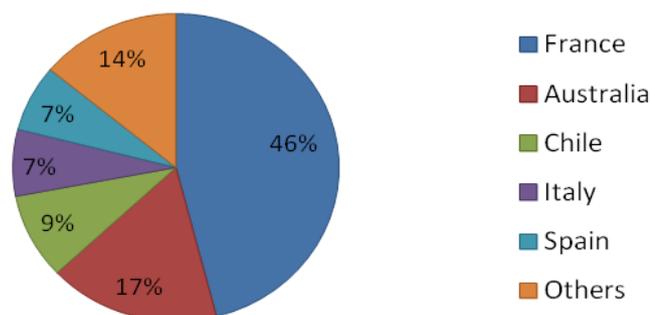


Figure 25: Country market shares for wine Imports in China, 2014

Source: Own representation on "I numeri del vino" data

65 Unione Italiana Vini, "Cina, spazio ai vini di fascia media", July, 27th 2015.

<http://www.uiv.it/cina-spazio-ai-vini-di-fascia-media/>

66 Direct China Chamber of Commerce, "Wine Distribution in China- four modes account for 95% total sales", July 2013.

<http://www.dccchina.org/2015/07/wine-distribution-channels-in-china-four-modes-account-for-95-total-sales/>

67 Maria Teresa Moschillo, "Vino in Cina. Analisi e prospettive future del mercato", in Les Chaires, November 3rd 2014.

<http://www.lescahiersfm.com/vino-in-china-analisi-e-prospettive-future-del-mercato-wine-china/>

After the setback of last year, which has been discussed before, China's demand for wine has started to run again. ISMEA and UIV data calculations on China Custom point out an increase in imports by volume of 48%, for a total value of 1.3 billion within the first nine months of 2015 (+60% on the same period of 2014). The protagonists of this success are undoubtedly packaged wines, representing 73% of the volume and over 90% of the value. The bubbles, however, result in braking, with a -7%.⁶⁸

“Il Corriere Vinicolo” published, updated to 2014, a report, which summarizes the data on imports of wine for the Chinese market.

The macro-trends that emerged from the analysis can be summarized as follows:

- China is a market where **bottled wines** remains the main category of imported wines, increasingly at the expense of bulk wines, and where sparkling wines remain a marginal category. Even though, they are strongly growing in last years. The bottled wines value for 1.36 billion dollars, that means the **90%**, while the remaining part is divided more or less in a similar way between bulk wines and sparkling wines;
- In 2014, China imported 1.51 billion dollars of wine, 2.5% less than in 2013. Although the five - years trend is very strong (+ 27%), the trend is "broken". In volume, the trend is going better, since it has been recovery (+ 2%) to 3.8 million hectoliters;
- From 2011 the average price of imported bottled wines has been decreased. Today it is around 4.7 dollars per liter, 10% less than the peak of 2011. The sharp increase in sparkling wines (which have high prices) and the decline in bulk wines (very low prices) has rebalanced things, so that the total average during years do not change a lot, remaining among 4 dollars per liter;

68 Claudia Cataldo, “Cina: 1,3 miliardi di euro è l'import di vino nel 2015 (+60%)”, in *igrandivini.com*, October 2015.

<http://www.igrandivini.com/cina-13-miliardi-di-euro-e-limport-di-vino-nel-2015-60/>

- France dominates the market share of sparkling and bottled wines with a 46%, although in structural decline, while Australia is firmly second with 17%. Italy and Spain are at 7% after Chile, which jumped to third place with 9%.⁶⁹

Summing up.

Who are the players in China wine market today?

90% of Chinese market is led by Chinese producers. Among these 3 brands trust most of the market: Dynasty, Great Wall and Changyu. Only 10% of the market is reserved for imported wines (*Figure 26*). Even if it seems small, this 10% is really huge and actually, this part is due to grow. Chinese producers, because of the evolution of the market, will leave more place to imported wines.

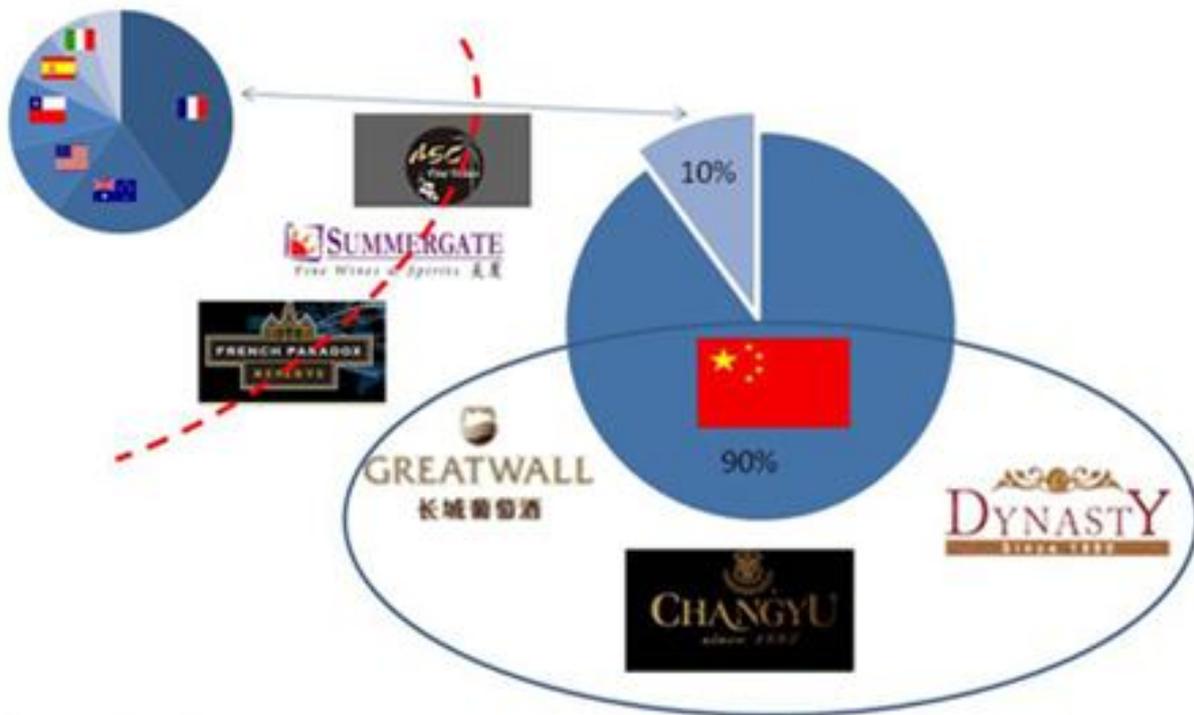


Figure 26: Players in China wine market, updated to 2015

Source: Zhongguo Wine

69 I Numeri del Vino, “Cina – importazioni di vino 2014”, June, 16th 2015.

<http://www.inumeridelvino.it/2015/06/cina-importazioni-di-vino-2014.html>

TAKE STOCK

Although the share of imported wine remains minimal considering the total consumption (10% as we have seen), the growth and the attractiveness outlook of the Chinese wine market are extremely interesting.

This is mainly due to some positive trends:

- **The increase in consumption.** Both total consumption with a +15% per year, and per capita, expected to double within three years.
- **The growth in imports.** They are growing with an average of 65% per year and with a 2.611% increase in 10 years (2004/2014), the highest in the world.
- No one can afford to ignore a market with **378 million potential consumers**, where the number of captive wine consumers exceeds 38 million, and almost twice are occasional users.
- According to all forecasts the 38 Million Chinese **consumers** of today can reach a level between **60** and **130 Million** in the coming years.
- ISMEA and UIV's calculations on China Custom data report for the **first nine months of 2015 show an increase of imports of 48%** by volume, for a value of 1.3 billion Euros (+60% on the same period of 2014). Packaged wines are undoubtedly acting as a flywheel. They represent the 73% of the volume and over the 90% of the value. The bubbles, however, result in braking, with a -7%.

BUREAUCRATIC AND ADMINISTRATIVE ASPECTS: REQUIRED DOCUMENTS

In order to give start to an export procedure to China, a long series of documents and administrative procedures are required.

For carrying out the export procedure, three conditions must be satisfied:

- The importer must be in possession of a business license or authorization to carry on business activity;
- The holding must be registered with the State Certification and Accreditation Administration;
- Labels must be inspected and verified (by champions) at the Entry-Exit Inspection and Quarantine Bureau.

Chinese law requires the arrangement and the submission of a series of documents, among which the certifications concerning health are particularly problematic. The body responsible for checking the incoming goods is the AQSIQ, which is the General Administration for Quality Supervision, Inspection and Quarantine of the of the Popular Republic of China. This is the ministerial body which check up quality, measurement units, inspection of goods (in and out), quarantine, control of foodstuffs for both imports and exports, certification and accreditation, standardization and even the application of administrative laws. It also controls the labeling and concerted practices relating to the labeling itself.⁷⁰

⁷⁰ Italia Trade Commission, "*Il mercato cinese dei prodotti agroalimentari e del vino*", Market Report 2010.

<http://www.ice.gov.it/paesi/asia/cina/upload/174/Rapporto%20di%20Mercato%20Agroalimentare%20Cina%20%20201004.pdf>

The evidence that must be presented to the authority, in order to have access to the Chinese market, are:⁷¹

- Sales contract or confirmation order;
- The shipping notice (from the freight to the importer);
- Commercial Invoice (2 copies);
- Insurance Certificate;
- Official production and sale permit Certificate issued by the country of origin, or the Certificate of Origin;
- Original list of load (Cargo Manifest);
- Customs Value Declaration;
- Consolidated Wine Export Certificate;
- Bill of Lading;
- Packing list;
- Request for verification of the labels;
- License for conducting business of both producers and distributors;
- Originals of front and rear labels, the rear label must be in Chinese;
- An original and a copy of the Health Certificate for export, from the manufacturer, with its Chinese translation;

71 MG Mercato Globale, "Esportare vino in Cina: norme etichettatura".

http://www.mglobale.it/Settori/Agroalimentare/Vino/Esportare_Vino_In_Cina_Norme_Etichettatura.kl

Newsmercati, "Caso concreto: norme etichettatura per esportare vino in Cina", Newsletter n. 109 - 17 febbraio 2011.

http://www.newsmercati.com/Caso_concreto__norme_etichettatura_per_esportare_vino_in_Cina

- An original and a copy of the process of wine production and its translation into Chinese (simple wine production process, with the company stamp and signature of an authorized person);
- List of ingredients provided by the manufacturer, Certificate of Authenticity or health license of the manufacturer;
- The Phytosanitary Certificate (required for wooden packaging).

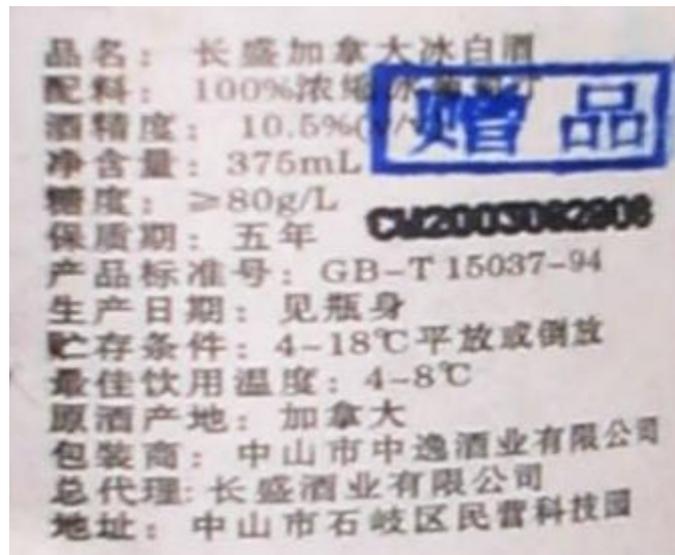


Figure 27: Example of rear Chinese label

Source: Vincenzo enologo prodotti

PACKING LIST

The Packing List is the document that allows the carrier and customs to identify the products inside the load.

It is one of the most useful documents on the dispatch of goods as shows the list of packages containing the goods shipped, identifying the contents of each of them and attesting the gross weight, tare and net weight. Its function is to describe the type, nature (boxes, cartons, crates, boxes, pallets, bags) and the number of packages containing the goods to be shipped, and the content of each one.

It is a document of maximum utility for all parties involved in a shipment of goods and in particular for the preparation of the export declaration and transport documents issued by the staff of the warehouse and the shipping agent.⁷²

Requirements:

- Number of bottles;
- Number of boxes;
- Gross weight (weight of the load is complete, consisting of pallets, containers, boxes, etc.);
- Net weight;
- Manufacturer general information.⁷³

HEALTH CERTIFICATE

The health certificate to the Chinese authorities is often equivalent to the analysis certificate, so the wine can be accompanied by a certificate of analysis, rather than by a health certificate issued by an accredited laboratory attesting that, in the country of origin, the microbiological and physical-chemical analysis have been made. The Chinese authorities accept certificates issued by an accredited laboratory in the country of origin of the goods.

⁷² Luca Garruba, "Esportare prodotti alimentari in Cina: Etichettatura e controlli doganali", in Cinalsportazioni.com, August 27th 2014.

<http://cinaimportazioni.it/blog/esportare-prodotti-agroalimentari-in-cina/#packinglist>

⁷³ BAROLI GROUP, "Guida ai documenti per l'esportazione del vino in Cina".

<http://www.baroligroup.com/wp-content/uploads/2013/09/Guida-ai-Documenti-per-lesportazione-del-Vino-in-Cina-BaroliGroup.pdf>

The information required can be in Chinese or in English and must have the following minimum content:

- Date of analysis;
- Name, address and stamp of the laboratory that performed the analyzes;
- Name, trade name and description of the samples and their characteristics, including lot numbers, if applicable;
- Test methods and maximum permitted levels;
- Results of chemical and physical analysis;
- Results of microbiological tests, if applicable;
- Name and signature of the responsible accredited laboratory.

It is noted that the analysis certificate must highlight the presence and content of phthalates, as China has established strict limits.⁷⁴

Imported alcoholic products must have a phytosanitary/health certificate signed, stamped, and dated by the competent authority from the producer's country. The Chinese government does not accept certifications of phytosanitary/health issued by supplier or manufacturer. The statement of Origin, however, can be self-generated, or done by a competent authority.

74 MG Mercato Globale, Infoexport (in collaborazione), "*Esportare vino in Cina: norme etichettatura*".
http://www.mglobale.it/Settori/Agroalimentare/Vino/Esportare_Vino_In_Cina_Norme_Etichettatura.kl

LABELING REQUIREMENTS

In order to market wine in China, in addition to the original label of the exporting country is required an additional rear label in Chinese characters, usually prepared by the importer.

Chinese back label requirements:

- The label format cannot have a height less than 10 cm and a width of less than 7 cm;
- The size of the Chinese characters cannot be less than 2 mm; the words "net weight" and "name of the wine" must be stated on the labels in characters whose dimensions cannot be less than 4 mm;
- The label must be barcode printed.⁷⁵

General Norms for the Labeling of Pre-packaged Foods (General Rules of Pre-Packaged Food Labeling, 2004), state that the label must include:⁷⁶

- The name of the product: every word, image, brand or description that identifies the product;
- Wine name in Chinese and English (or Italian);
- All the ingredients, substances and additives used in the preparation;
- Net volume (ml), this should be marked as 'net content xxx ml (ml)' for bottle sizes under a liter, or 'net content x Liters (l)' for bottle sizes over a liter. For packages up

⁷⁵ Newsmercati, "Caso concreto: norme etichettatura per esportare vino in Cina", Newsletter n. 109 - 17 febbraio 2011.

http://www.newsmercati.com/Caso_concreto_norme_etichettatura_per_esportare_vino_in_Cina

⁷⁶ BAROLI GROUP, "Guida ai documenti per l'esportazione del vino in Cina".

<http://www.baroligroup.com/wp-content/uploads/2013/09/Guida-ai-Documenti-per-lesportazione-del-Vino-in-Cina-BaroliGroup.pdf>

Newsmercati, "Caso concreto: norme etichettatura per esportare vino in Cina", Newsletter n. 109 - 17 febbraio 2011.

http://www.newsmercati.com/Caso_concreto_norme_etichettatura_per_esportare_vino_in_Cina

to (and including) 200ml the minimum print height is 3mm. From 200ml up to (and including) 1 liter, the minimum print height is 4mm. For packages greater than 1 liter the minimum print height is 6mm;

- Alcohol contents (%) in xx.x% vol' format;
- Sugar content (for a classification of the type: dry, semi-dry, sweet, etc.).
or (sugar contents: 7.0 g / L);
- Wine type (dry, sweet or other types);
- Amount of raw material used in the total (%): indicate the amount of raw material used compared to the total, that is the content of fruit juice original used in the product (for example, "grape juice"). It must indicate as follows: the percentage contained in parentheses immediately after the name of the wine;
- The Country of Origin and the Region of Origin;
- Expiration date or indications of the period of guaranteed longevity. Wines with an alcohol content of 10% or less are required to include a minimum durability date.
- The bottling date: date on which the food became the final product (yy / mm / dd);
- Year of grapes;
- Product type. For example: Grape Wine, 'red', 'white', 'sparkling', 'semi-sparkling', 'fortified', 'sweetened fortified', etc.
- Sugar content (g/L);
- Storage conditions;
- The dates and instructions for storage;

- Configuration: The ratio of net weight and units that make up the pre-packaged food in case it is composed of more pre-packaged food;
- Mandatory Warning Statements. The following and other warnings must be on the bottle in Chinese: "Excessive drinking is harmful to health" or "Pregnant women and children shall not drink". For beer in glass bottles also add "Do not hit; it might cause explosion of the bottle".
- Code of the standard product and quality grade: (enter the code and the numbered order of the standard, commercial and national or enterprise standard for the product bringing the level in brackets after the code and order number of the standard product.

In addition to these items, the Standard General labeling for pre-packaged food for special dietary uses (General Standards of Labeling for Pre-packaged Food of Special Dietary Use, 2004), has added further elements that the label must contain:

- The manufacturer's name and address. The name and address of the producer is not mandatory, however, if included, does not need to be translated into Chinese characters;
- The name and address of the Chinese partner. The name and address of the Chinese agent, importer or distributor must be shown on the label.

If the label and the product pass the checks of the China Inspection and Quarantine, will be issued a certificate stating that the product may enter the country as it complies with Chinese law. Otherwise, it is ordered the destruction of goods or is given the option to return it back to the exporter.

It is good to remember that from 1 October 2012 all exporters of food products and wine to China are required to register on the website of China for Quality Supervision, Inspection and Quarantine (Administration of Quality Supervision, Inspection and Quarantine -

AQSIQ), which is also available in English. Registration involves filling by Export company an online form with information about the company and its importers / authorized agents in China.

It is preferable to prepare the back label according to a model made available by the Chinese customs authorities.

It is no longer expected the procedure of approval of the label by the Chinese Inspection and Quarantine Bureau (CIQ), which, however, still proceed to carry out the inspection of product quality, which is done at the same customs clearance. The goods will be released by Customs after the issuing of the certificate of authorization from the CIQ.⁷⁷

QUALITY INSPECTION AND CERTIFICATE OF AUTHORIZATION

The quality inspection and customs declaration are conducted simultaneously. The goods will be issued by Customs after the issuing of the certificate authorization by the CIQ. The goods must also be inspected to CIQ.

The controls made by CIQ include:

- An examination of the documents relating to goods, including the health certificate, a certificate of origin and a certificate of quality issued by the exporting country;
- Verification that the packaging conforms to the standards allowed;
- The verification that the goods have followed all the formal procedures for the registration in China;
- The sampling inspection. To ensure that the goods are in compliance with health standards of the PRC for imports of wine. For each shipment are selected from 4 to 6 bottles for each label. The entire inspection process takes about a week.

⁷⁷ MG Mercato Globale, Infoexport (in collaborazione), "*Esportare vino in Cina: norme etichettatura*".

http://www.mglobale.it/Settori/Agroalimentare/Vino/Esportare_Vino_In_Cina_Norme_Etichettatura.kl

For shipping, it is recommended the use of wooden healthy and treated according to ISPM15 standards. It is necessary to present a phytosanitary certificate.

A recent innovation for export to China is the obligation to register the exporter of food products at the AQSIQ, the Chinese authorities for the quality.⁷⁸

Import Commodity Inspection.

When a shipment arrives at a Chinese port, the consignor or its agent should first declare it to the local inspection and quarantine authority (China Inspection and Quarantine Service, CIQ). CIQ officials will conduct on-site inspection and may take samples from each shipment for health safety measures. The large entry points of Shanghai are more experienced and familiar with the importation of alcohol beverage products. Beverage alcohol imported in bottles must bear Chinese labels which comply with the relevant Chinese legislation and standards. All imported products must meet China's Compulsory Mark (CCC).

The possible outcomes of the control are two:

a) Positive result: if the label complies with the provisions and standards of the Chinese regulations and the product exceeds the quality controls, the CIQ will release the commodities and will issue a certificate of approval based on sanitation which states that the product complies with Chinese standards and bearing the text "Label approved";

b) Negative result: if the label does not comply with the provisions of Chinese laws and where laws and administrative regulations do not provide otherwise, the CIQ may order the destruction of imported goods; otherwise, the exporter may notify a declaration of return (return notice) to the Customs in writing form so that it takes care of the formalities

⁷⁸ Newsmercati, "Caso concreto: norme etichettatura per esportare vino in Cina", Newsletter n. 109 - 17 febbraio 2011.

http://www.newsmercati.com/Caso_concreto_norme_etichettatura_per_esportare_vino_in_Cina

for the dispatch of goods which have not passed customs control, thus avoiding the destruction of the same.⁷⁹

CUSTOMS DUTY

After the entry into the WTO, tariff barriers are significantly decreased. Despite this, for imported bottled wines, tariff barriers appear to be still high, and therefore a factor of discouragement and surrender for many medium - small Italian producers.

In the case of **bottled wine taxes** must be calculated in this way:

- 14% Custom duty: CIF (Cost, Insurance, Freight) Price x 14%
- 10% Tax on consumption: $((\text{CIF} + \text{Custom duty}) / 1 - 10\%) * 10\%$
- 17% VAT (Value Added Tax): $(\text{CIF} + \text{Custom duty} + \text{Tax on consumption}) * 17\%$

Description	Import duty (% MFN)	VAT (%)
Bottled wine (≤ 2 Lt)	14	17
Cask Wine	20	17

Figure 28: Customs duty in China

Source: Italia Trade Commission

In addition to the duties and the value added tax (VAT), it is also applied to a consumption tax of 10%. Duties, taxes and mark-ups result in large increases in wine taxes from producers to consumers with mark-ups are also sometimes 7-8 times the value of origin.⁸⁰

Let's make a concrete example.

⁷⁹ Luca Garruba, "Esportare prodotti alimentari in Cina: Etichettatura e controlli doganali", in Cinalsportazioni.com, August 27th 2014.

<http://cinaimportazioni.it/blog/esportare-prodotti-agroalimentari-in-cina/#packinglist>

⁸⁰ Italia Trade Commission, "Il mercato cinese dei prodotti agroalimentari e del vino", Market Report 2010.

<http://www.ice.gov.it/paesi/asia/cina/upload/174/Rapporto%20di%20Mercato%20Agroalimentare%20Cina%20%20201004.pdf>

If the price of a Red wine in Italy is 56,61 Euro.

This price, in the Chinese market turns into:

- *Custom duty* = $56,61 \times 14\% = 7,93 \text{ Euro}$
- *Tax on consumption* = $(56,61 + 7,93)/0,9 \times 10\% = 6,45 \text{ Euro}$
- *VAT* = $(56,61 + 7,93 + 6,45) \times 17\% = 12,07 \text{ Euro}$

Total: $56,61 + 7,93 + 6,45 + 12,07 = \underline{83,06 \text{ Euro}}$

The price increase of 26,45 Euros, that means an increase of about 46,72%

Adding the customs duty, the VAT and the tax on consumption, taxes for the imported Italian wine come to affect almost 50%.



Figure 29: Importing wine to China - Scheme

Source: EU SME Centre

THE CHINESE WINE CONSUMER

In China alcohol is a key component of the culture and the cuisine. However, wine consumption in China is changing: whereas before it was strongly connected to the "gift giving" culture, especially among governments, and to the "show off", today we see that in the Country the "wine lovers" are increasing. Sales are even more driven by the "Real" consumer, who enjoys the wine for the product's own features. Therefore, those who buy wine now drink it.⁸¹

The development of the Chinese middle class and the rising income level have allowed many consumers to access foreign-made alcoholic beverages, certainly more expensive than the local ones. Even the change of cultural and social factors has strengthened the potential of the Chinese spirits market. For example, the spread of the pub culture in China has also led to an increase in places and occasion of wine consumption. Consumers themselves are shifting their consumption preferences towards different types of alcoholic beverages. Among them, special attention is given to wine, considered by many Chinese a fashionable western way of drinking.

- *The increase in the population's income increases consumers curious and thirsty for good wine, they themselves are also increasingly health conscious and consider the wine a "healthy" liquor and a more sophisticated choice compared to beer.*

81 Unione Italiana Vini, "Cina: da acquirenti a consumatori reali. Secondo il CEO di Wine Intelligence, a tre anni dalla stretta anticorruzione, il mercato cinese sta assumendo un carattere di positiva normalità. Chi compra il vino ora lo beve", November, 27th 2015.

<http://www.uiv.it/cina-da-acquirenti-a-consumatori-reali/>

AVERAGE PROFILE OF WINE CONSUMER IN CHINA

The average wine consumer in China is between 25 and 45 years old, they are almost exclusively males and prefers red wine with a sweet (berries, fruits) and woody flavor (pine, oak).

According to the Wine Intelligence Report, male wine consumers can be divided by age groups as follows:

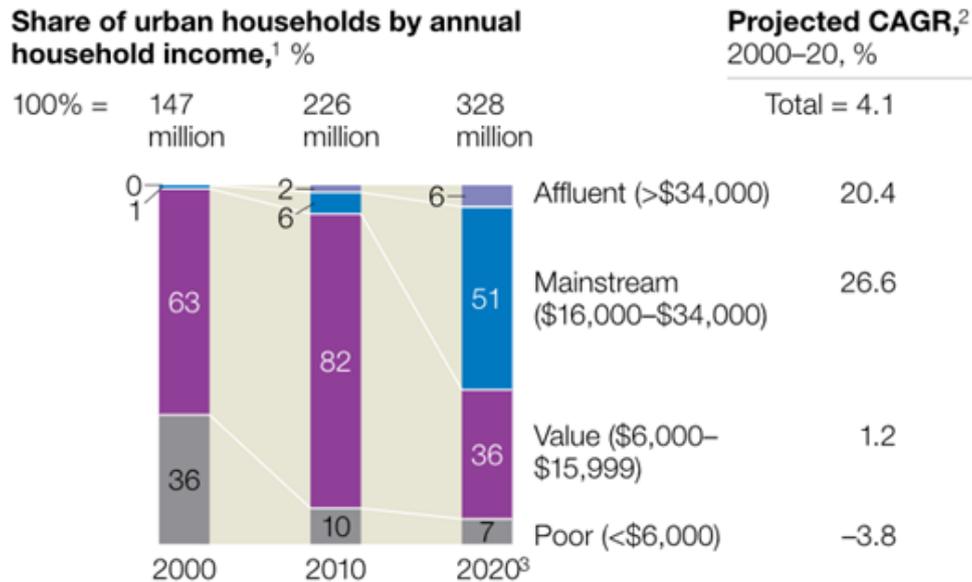
- 42% are people between 30 and 39;
- 32% between 18 and 29;
- 26% between 40 and 49.

These young consumers are receptive to the influence of the Western lifestyle and purchase mainly to draw prestige in terms of image rather than pleasure from the mere consumption of the product, because wine is considered a product of culture and luxury.

In China, the main consumers of wine are people living in large urban centers, with an even greater concentration in the major cities of Guangzhou, Shanghai and Beijing in particular. Geographically we can say that, in general, in Northern China people tend to consume larger quantities of alcohol than the Southern, precisely because the big cities are located in the North-East of the Country.

Currently, the largest group of consumers is composed by young people from wealthy families (the rise of the Middle class), who tend to spend more on wine, both in quantity and quality.

Looking at the *Figure 30*, it comes out immediately.



¹In real 2010 dollars; in 2010, \$1 = 6.73 renminbi.

²CAGR = compound annual growth rate.

³Forecast.

Figure 30: Share of urban households by annual household income

Source: McKinsey Asia Pacific Insight

The figure shows that the share of Chinese households in each income level will shift dramatically by 2020. The current vast differences in income levels will persist, however, although the numbers at each level will shift significantly. At present, the great majority of the population consists of “value” consumers, who are those living in households with annual disposable incomes between \$6,000 and \$16,000 (equivalent to 37,000 and 106,000 Renminbi), which is just enough to cover basic needs. “Mainstream” consumers, relatively well-to-do households with annual disposable income of between \$16,000 and \$34,000 (equivalent to 106,000 and 229,000 Renminbi), form a very small group by comparison. China has fewer than 14 million such households, representing only 6% of the urban population. A tiny group of “affluent” consumers, whose household income exceeds \$34,000, accounts for only 2% of the urban population, or 4.26 Million households.

According to the McKinsey Global Institute, the middle class is composed by these two sub-segments: the segment mass middle class, characterized by an income between 60.000 and 106.000 RMB; and the upper middle class, represented by those with an income between 106.000 and 229.000 RMB. Research conducted by the "McKinsey & Company" shows that probably in 2022 more than 75% of the urban population will gain 60.000 to 229.000 RMB becoming part of the upper middle class, whose members could get to be more than 50% of residents in the urban areas. This outcome is coherent with what has emerged from the *Figure 31*.

This statistic shows the per capita disposable annual income of urban households in China from 2008 to 2014. In 2014, per capita disposable income of urban households in China amounted to 28.844 RMB.

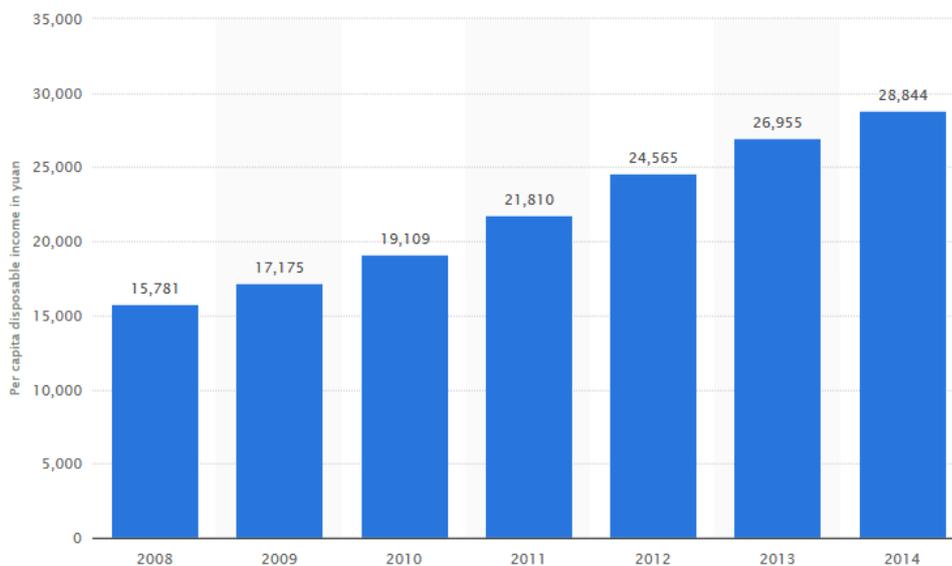


Figure 31: Per capita disposable income of urban households in China from 2008 to 2014 (in Yuan)

Source: The Statistic Portal

- *Chinese consumers are becoming more mainstream → their disposable income is raising.*

CHINESE WINE CONSUMERS CATEGORIES

Categorizing according to the primary appreciated attributes.

The Zhongguo Wine, the market research firm specialized in the wine industry in China, developed a classification of Chinese wine consumers. It identifies three categories.

These categories represent the primary attributes appreciated by Chinese consumers: price, prestige, culture significance and quality.

The first is made up by young rich Chinese, particularly concerned with their image and who want to be fashionable. Zhongguo called this first group **“The Fashion socialites”**. These are young Chinese, typically between 25 and 30 years old, who do not know anything about wine and do not even have a sophisticated palette. They buy exclusively expensive wine only for displaying their sophistication and high status, especially during their night-life. Because of the fact that they look for prestige, with no concerns for the quality, they use to prefer imported American and French wines, which guarantee a high recognition as renowned western products.

The second large group is represented by **“The businessmen and government functionaries”**. They are usually between 35 and 55 and their main wine consumption occasions occur during the official dinners and banquets, where the positive connotations associated with red make it an ideal drink for toasts and celebrations.

Because of the austere regulations of the president Xi Jinping, suppliers faced a slight decrease in sales over the last years. Nevertheless, government officials and businessmen still remain valuable high-end customers. Even though they reduce their consumption, they are experienced drinkers and consider wine as an appropriate gift.

The last group is composed by the small but growing number of wine **“Connoisseur consumers”**. These are wealthy and expert consumers, ranging between 30 and 40 years old, who embrace wine drinking as a hobby and as a natural evolution of their traditional tea drinking habits. They can afford to spend a lot on wine purchases, even because their

focus is on select high-end vineyards. They are able to have an in-depth discussion about vintage, grape types, different vineyards and so on.⁸²

Categorizing consumers according to the knowledge of wine.

In terms of wine knowledge, consumers can be classified into three different profiles. The first is the Chinese who have **limited knowledge about wine**. To drink imported wine for them is synonymous of good taste and therefore are attracted to wines easily recognizable as Bordeaux or Burgundy. The second group is composed by **more experienced wine drinkers**, who come from first-tier cities, such as Beijing and Shanghai, which have definitely increased exposure to events and promotions of wine. The last profile is composed by those **who have studied or worked abroad and have extensive knowledge about wine**. This type of consumer is able to select difficult to find vintage wines for private collections or simply for entertaining guests.

A new category: the developing drinkers.

According to **Wine Intelligence's** China Portraits 2015 report, a new wine consumer segment has emerged since its last study in 2012: **Developing Drinkers**. **Those are typically younger and less involved consumers who tend to buy wine at mainstream or entry-level prices.**

These people are more likely to be graduates, they work in high-earning professions and are in their late **20s or early 30s**. They have picked up the wine-drinking habit during business dinners, but are now drinking wine in their social lives too.⁸³

The study of just over 2.000 urban upper middle class imported wine drinkers suggested that Developing Drinkers **account for about 19%** of the country's imported wine drinking population.

82 Oliver Vierot, "*Who is the Chinese wine-drinker?*", in Zhongguo Wine, November, 25th 2015.

<http://www.zhongguo-wine.com/2014/11/25/who-is-the-chinese-wine-drinker/>

83 Neal Baker, "*Chinese wine market sees huge power shift*", in The Drink Business, May, 15th 2015.

<http://www.thedrinksbusiness.com/2015/05/chinese-wine-market-sees-huge-power-shift/>

This younger group is predominantly living in Tier 1 cities such as Shanghai and Guangzhou, but it is increasingly found in vibrant, growing Tier 2 cities such as Shenzhen, Hangzhou, Shenyang and a slew of other cities with 500,000 – 1 million inhabitants (especially in the south of the country).

*'Over the past three years, the Chinese market for imported wine has begun a fundamental transformation. We are moving from the era where prestige wine was only bought as a face-enhancing gift towards a world where consumers care more about how it tastes – because they will be drink it themselves – and how much it costs, because they are more likely to pay for it themselves as well.'*⁸⁴

Women as wine consumers.

What is the role of women in this scenario? We have seen that wine consumption is tied almost exclusively to a male audience. Yet even here, things are changing. Thanks to a change in social conditions, in recent years there has been wide acceptance of a woman who consumes alcohol. The increase of the number of female consumers is an interesting and worth considering fact, since it contributes to the strong growth of the Chinese wine market. Men and women participate more equally to events where it is common to drink alcohol.

Women from all alcohol prefer the wine for its health benefits. In particular, they appreciate the antioxidant wine that turns out to be good for skin beauty.⁸⁵

- *Women are starting to prefer lighter and sweeter white wines.*
- *Stevie Kim, managing director of Vinality International, explained how, just women, could give a decisive impetus to the growth of wine consumption represents a kind of "wildcard work" for Italian wineries. Italian wines, in fact, taking advantage of this*

84 Wine Intelligence COO Richard Halstead in DecanterChina.com

<http://www.decanter.com/wine-news/young-chinese-wine-drinkers-driving-fundamental-change-378/#tPldGvplPAHdyz8b.99>

85 Saritha PINGALI, "Opportunities in China's alcoholic beverage market", in China Business Review, July 1st 2011.

<http://www.chinabusinessreview.com/opportunities-in-chinas-alcoholic-beverage-market/>

aspect, could get more success, abandoning the inferior position compared to French wines.

THE CINESE WINE CONSUMER OF THE FUTURE (2020)

According to a graphic representation created by Visual Trends that compares the consumer of 2010 with that of the near future of 2020, within 2020 the male wine consumers will be 13 million more than women (between age of 25 and 34). The consumers of the tomorrow middle class represent 60% of the population, live in big cities, have an average age of 37, are on the network to buy (15% of sales transactions will be online), they have more disposable income (per capita disposable income will double in 2020, from 4000 to 8000), they have a higher level of school education (college enrollment rates rise from 25% to 40% in 2020) and are strongly influenced by the public opinion as well as by the price.⁸⁶

Summing up of the present trends and the future provisions, the Chinese wine consumer of the future will have the following features:⁸⁷

- ❖ **25 – 45 years old**
- ❖ **Male**
- ❖ **More mainstream (51% in 2020 vs 6% of 2010)**
- ❖ **Prefers imported wine**
- ❖ **Preference for red wine (70-90% delle vendite di vino ogni anno)**
- ❖ **High education level (travel overseas and stay in tune with western customs)**
- ❖ **Tier 1 resident = Beijing, Shanghai, Guangzhou, Shenzhen**

86 Cronache di Gusto, “*I consumatori cinesi del 2020, una infografica spiega il target*”, in Scenari, July 8th 2015.

<http://www.cronachedigusto.it/archiviodal-05042011/325-scenari/13739-i-consumatori-cinesi-del-2020-una-infografica-spiega-il-target-.html>

87 Maria Teresa Moschillo, “*Vino in Cina. Analisi e prospettive future del mercato*”, in Les Chaires, November 3rd 2014.

<http://www.leschahiersfm.com/vino-in-china-analisi-e-prospettive-future-del-mercato-wine-china/>

- ❖ Consumption occurs mainly at restaurants, hotels or bars
 - ❖ Considers wine as a Status – symbol
 - ❖ Select the wine according to the price and the origin
- *Officials, wealthier classes of the population and young urban couples attracted to Western consumption patterns are preferred targets for imported wine in China: they are – with Western expats based in China – the largest consumers in the local market.⁸⁸*

CONSUMPTION OCCASIONS AND TASTE PREFERENCES

Consumption of alcoholic beverages is predominantly sporadic. Most Chinese will drink it only a few times a year. The Chinese drink mostly in sociability occasions, while domestic consumption is very low. Usually, wine is drunk on important occasions, such as holidays or Chinese New Year, when the red color is particularly auspicious.

Chinese New Year and Mid-Autumn Festival account for around 60% of annual wine sales in China. Holiday season sales account for about 60% of annual sales in supermarkets. The significant increase in wine sales during the holiday season is primarily due to family and business gatherings during these festivals. Gift boxes are popular during the festival periods while off-trade sales are mainly for gift giving and family visiting. The top 11 cities are estimated to account for 76% of imported wine sales and 60% of domestic wine sales by volume.⁸⁹

⁸⁸ Oliver Vierot, “*Who is the Chinese wine-drinker?*”, in *Zhongguo Wine*, November, 25th 2015.

<http://www.zhongguo-wine.com/2014/11/25/who-is-the-chinese-wine-drinker/>

⁸⁹ Tatiana Bouzdine-Chameeva, Wenxiao Zhang “*Wine distribution channel systems in mature and newly growing markets: Germany versus China*”, April 2013.

<http://academyofwinebusiness.com/wp-content/uploads/2013/04/Zhang-Bouzdine-Chameeva.pdf>

According to Raymond Paul Noppé, author of “Rise of the Dragon”: The Chinese Wine Market”:

- *“The majority of wine purchases are made during the major holidays: Chinese New Year, Spring Festival and the mid-Autumn Festival. Most of these purchases are destined as gifts for people.”⁹⁰*

Reporting the results of a survey, included into the Wine Intelligence 2015 market report, according to the 75% of Chinese respondents for the same price they would prefer to buy an imported wine rather than a locally produced wine. This is an increasingly frequent phenomenon to be traced back to the fact that foreign wines are increasingly present in the mid-range and low-end Chinese wine market.

Most food experts recommend white wine for Chinese cuisine, but reds still comprise between 70-90% of wine sales every year, and 85% of wines consumed.

Chinese prefer fruity, softer and less irritating wines. They drink almost exclusively red wine, because they believe it is healthy and because according to Chinese symbolism red is associated to a good omen.

In recent years, red wine has even been supported as an alternative to baijiu during holidays. The most famous variety of red wine is Cabernet Sauvignon. For white wine, which consumption is increasing (thanks to women as seen), the Chardonnay is the most known. Other varieties such as Sauvignon Blanc or Riesling are also highly appreciated by Chinese consumers, and can be found easily in the area.⁹¹

The wines that get the best results on the Chinese market are definitely red wines, while for white and rosé market, although interesting and restless, the consumption is limited to the first tier cities such as Shanghai and Beijing. Even bubbles wines are more

90 Raymond Paul Noppé (2012), “*Rise of the Dragon: The Chinese Wine Market*”.

<http://www.digitalintheround.com/chinese-wine-market-digital-strategy/>

91 Maria Teresa Moschillo, “*Vino in Cina. Analisi e prospettive future del mercato*”, in Les Chaires, November 3rd 2014.

<http://www.lescahiersfm.com/vino-in-china-analisi-e-prospettive-future-del-mercato-wine-china/>

appreciated, among which the French champagnes with their very famous brands are established themselves as top wines.

In general, full-bodied but easy to drink reds, not too acid and with moderate tannin, with a certain sweetness and softness to the palate are the best in class. A significant proportion of consumers, including non-experts, research instead the reputation of wine, famous brands such as Barolo and Bordeaux, to show their social status. But the market is changing very fast and fashions are plaguing so many new consumers, in many other less well-known Chinese cities.

The COO (Country of Origin) effect is in general important when Chinese consumers evaluate wines. Chinese consumers confer more importance to it than to brand as indicator of quality. It is even more important when evaluating wine for gift giving and public consumption than for personal consumption.

Whereas, when consumers evaluate wine there are no significant difference between the importance of COO and price as indicators of quality.⁹²

- *62% of consumers have a bias for sweet wines, and among all these the 73% prefer red wines → so that the most evident preference is for **RED SWEET WINES**.*

ARE CHINESE WINE EXPERTS?

In order to find out the knowledge of Chinese consumer in matter of wine, the Fortune Chinese Character Magazine ran a survey interviewing almost 679 wealthy Chinese consumers. According to the results, 27% of Chinese wine consumers claimed to do not know anything about wine. Just around 50% has shown to have a limited knowledge about it, while only 9% said they were passionate wine connoisseur. When asked to indicate the

⁹² Raymond Paul Noppé (2012), "Rise of the Dragon: The Chinese Wine Market".

<http://www.digitalintheround.com/chinese-wine-market-digital-strategy/>

reasons why they buy wine, 27% of consumers responded that they buy wine mainly as a gift, while 18% said they had bought wine to be "in step" with the latest trends market.⁹³

In the end upper middle class there are about twenty million people who buy wine regularly and which correspond to 5.67% of the urban population.

Among these, there is a poor understanding of the most popular international varieties like Cabernet Sauvignon (60%), Chardonnay (40%), Sauvignon Blanc (39%), Riesling (38%), and Pinot Noir (35%). More than half of the population of Chinese consumers is interested and curious to experiment with new flavors and products of new brands, although a third of them are not able to read a label on a bottle written in a foreign language and about a quarter still fails in distinguishing the flavors and the types of wine.

Nevertheless, the wine culture begins to be spread. Today are heard the names of the top Chinese sommeliers and of local wines that can compete internationally. The nouveaux riches of a few years ago probably would not have been able to distinguish between an Amarone from a Tavernello, but those of today, who travel, spend long periods in Europe and cultivate the taste, become able to do it.⁹⁴

CHINA: SPACE FOR MIDRANGE WINES

The market is divided between the large majorities of low-end wines (60% of total consumption), mid-range wines (30% of total consumption) which are experiencing strong growth, and premium wines (10% only the total consumption of wine) whose sales have been relatively stable for several years.⁹⁵

93 Shiyang Huang, "Wine knowledge extremely limited among China's wealthy elite", in The Drink Business, September 4th 2013.

<http://www.thedrinksbusiness.com/2013/09/wine-knowledge-extremely-limited-among-chinas-wealthy-elite/>

94 Cecilia Attanasio Ghezzi, "Dopo la moda, il vino: la Cina è il settimo produttore mondiale. Crescono i consumi", January, 2nd 2015.

<http://www.ilfattoquotidiano.it/2015/01/02/cina-esplode-produzione-vinicola/1305495/>

95 Maria Teresa Moschillo, "Vino in Cina. Analisi e prospettive future del mercato", in Les Chaires, November 3rd 2014.

<http://www.lescahiersfm.com/vino-in-china-analisi-e-prospettive-future-del-mercato-wine-china/>

According to the latest market report of Wine Intelligence (2015) there is today more space for wines from entry level to mid-range.

In fact, one over ten among those interviewed said that the high price is still the main obstacle to the purchase of imported wine. As a direct result of this consumer predisposition, the average price paid for a bottle of wine is decreasing, both in retail and in restaurants. Chinese consumers are increasingly attracted to wine quality but at affordable prices.

In this context they have, and will have more and younger people space.

Today, **four out of ten consumers of imported wine are aged between 18 and 29 years**, and the possibility that people of this age group will buy wine at the supermarket is almost double that of people aged between 40 and 54 years.

Moreover, according to a statement of Richard Halstead, CEO of Wine Intelligence, the ongoing enlargement of the consumer base (today there are 40 million people in China who drink wine at least twice a year) opens the way for the spread of brands.

- **In a market that is changing, opportunities arise for quality products at affordable price. 40% of imported wine drinkers have less than 29 years and the broadening of the consumer opens the dissemination of brands.⁹⁶**

Local wines have prices around 16 to 39 RMB. The average price of a mid-ranged bottle of wine in Beijing or Shanghai is around 77 RMB.

Thus, wineries should consider targeting **mid-priced wines at 51-120 RMB** sales price rang. While they have to target mid-priced wines for those living in the Top 1 Tier cities (Beijing, Shanghai, Shenzhen and Chengdu) at a higher sales price range, because these Chinese are willing to pay more.⁹⁷

96 Unione Italiana Vini, “*Cina, spazio ai vini di fascia media*”, in Dai Mercati, July 27th 2015.

<http://www.uiv.it/cina-spazio-ai-vini-di-fascia-media/>

97 Li Kun, “*Chinese sip stronger taste for imported wines*”, in CCNTV.com, November 13th 2015.

<http://english.cntv.cn/2015/11/13/ART11447405481395779.shtml>

The Chinese wine market has a structure of an “Egg Timer”, with two distinct market spaces. The bottom one, where Chinese producers are unbeatable because of the low prices of their wines. A foreign winery cannot afford to purchase wines on the market with such price because it will not even recover the shipment costs. The high up market is dominated by French Bordeaux and expensive wines sold out before production. Between these two markets, there is a smaller space where medium priced wines can find their place. This would be the next years challenge for imported wines.

Even today trade companies are creating or adding the wine business import to their portfolio. They import wines from abroad and it will then be sold to wholesalers, wine bars, hotels, restaurants, wine stores, supermarkets.⁹⁸



Figure 32: Chinese wine market structure – The “Egg Timer”

Source: Zhongguo Wine

But, which is the Chinese consumer willingness to pay for imported wine?

The answer is provided by the Figure 33. It shows how many Chinese consumers are willing to pay for purchase a single bottle of wine.

⁹⁸ Zhongguo Wine, “The wine market in China”.

<http://www.zhongguo-wine.com/wine-in-china/>

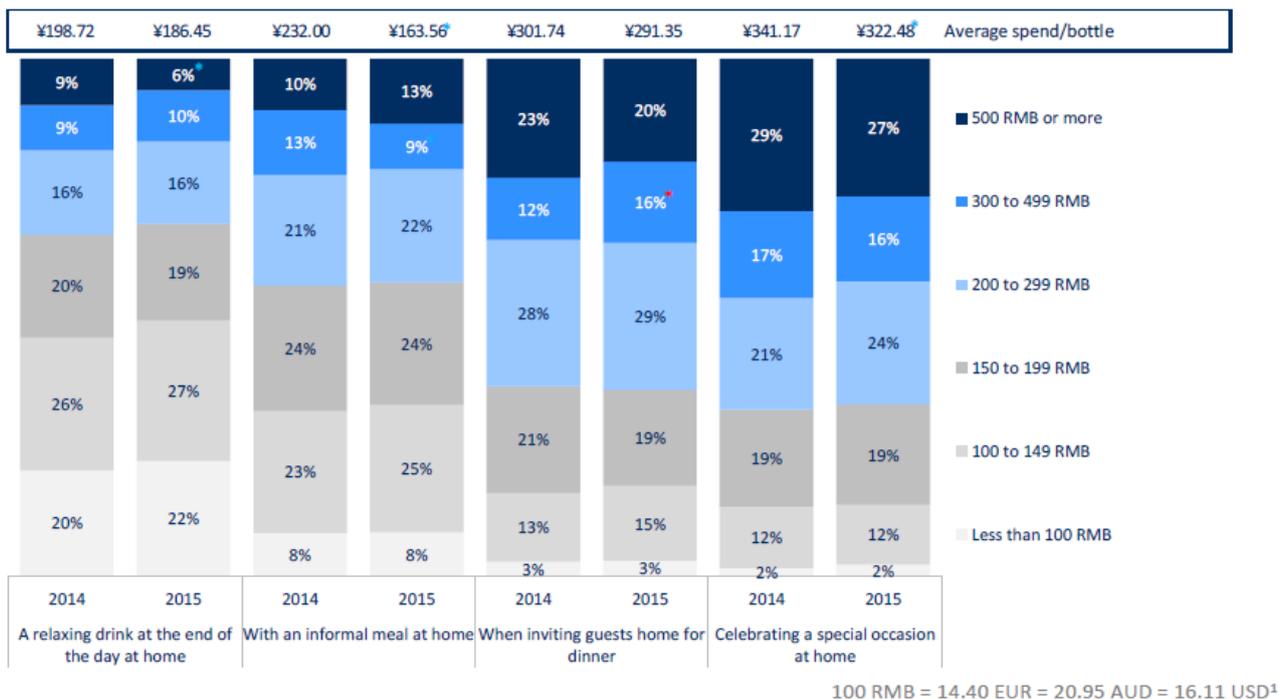


Figure 33: Chinese consumers Willingness to pay for a single bottle of wine

Source: Wine Intelligence

IN-DEPTH ANALYSIS

HOW TO SET UP AN EFFECTIVE COMMUNICATION TOWARD CHINESE WINE CONSUMERS

As we have seen, China is not Chinese consumers need clearer and simpler messages.

To communicate the idea of quality:

❖ SYMBOLS AND NUMEROLOGY

One element of the Chinese culture to not underestimate is the importance and the power of symbols. A clear example is provided by the Chianti and its emblem: a black rooster, which in the Chinese culture is a symbol of good luck and it is the tenth animal in the twelve-year cycle of the Chinese zodiac.

Another example of a “good auspicious” is the **number 8** which can be incorporated in the bottle label in order to provide an idea of “good luck”. This element, further combined the color red, considered auspicious by Chinese, will definitely increase sales. This leads many Chinese to buy the expensive bottles of wine not with the aim of drinking or enjoying its taste but rather for investment, especially in cosmopolitan cities such as Beijing and Shanghai, or, simply, as if it were a final fashion accessory. Two is a good number because it symbolizes balance. To avoid instead the number four, which is associated with death.

❖ CAPPING

As for capping wine, respondents were asked to express their own opinions about four different types of cork: natural cork, screw cap, synthetic cork and glass stopper. The 85 % of respondents consider the **closure of wines through the cork, synonymous with high quality**, resulting, thus, the type of stopper best known among Chinese consumers.

❖ SHAPE OF BOTTLE

The shape of the bottle is identified with the type of wine required: **classic shapes**, such as Bordeaux, and the **color green are the best selling**, as they **give the idea of a prestigious wine**, while bottles are poorly researched oddly shaped or well designed.

❖ LABELING

The label must contain the right information, preferably in Chinese characters, being careful not to give the idea to have a bottle in front counterfeit.

The important attributes of a wine label according to consumers in Hong Kong are: origin of the wine, vine. A three-way tie between the brand name, the wine and food pairing, and vintage, and finally the alcohol content.

❖ PRICE

The sensitivity to the price factor is often due to the fact that the Chinese consumer has difficulties in identifying the product and, therefore, the only way to be able to judge is the cost. **High price is associated with high quality.**

❖ COLOR

Gold represents **wealth** and green sometimes represents the vitality and other times the infidelity of a woman. The color red is related to good luck, while the color white is associated with bad luck and funerals.

Purple tends to be linked to sadness.

Finally, beige and yellow are well seen as reminiscent of antiquity (the color of parchment).

According to a dossier appeared on Vitisphere, the **criteria** that **determine** the **choice of purchase** are dictated primarily by:

- **The brand (44%);**
- Taste (28%);
- Price (16%);
- Origin (8%);
- The packaging (4%).

➤ *As for the price, often for the Chinese consumer a product very famous (with a famous brand) can be synonymous with quality.*

*The rich Chinese, in fact, go in search of high **quality brands with a higher price.***

A recent Nielsen study shows that friends, **family and relatives** are the most important **source of information**, with **83% of buyers** who rely on such reliable information and more

than 23% who believe that the value and recognition of brand are more important than the price of the product.

ONLINE IN CHINA

The online presence of the Chinese population has had over the last year an unprecedented growth.

Macroscopically, the three main factors that have driven the online population growth in 2014 are the follows:

- Government. The Guiding Opinions on Promoting Integration of Traditional Media and New Media was adopted at the 4th meeting of the Central Leading Group for Comprehensively Deepening Reforms held in August 2014, with the aim of boosting the development of the Internet and other new media, creating a modern communication system, and enhancing the influence of the Internet on non-netizens. Moreover, in order to strengthen network security and Internet governance, the Central Government established the Office of the Central Leading Group for Cyberspace Affairs in February 2014.
- Operators. The process of 4G commercialization in China was initiated in 2014. According to the Operation Situation of the Communications Industry released by the Ministry of Industry and Information Technology, by December 2014 China's 4G users had increased to 97.284. Today, operators are broadly promoting their products and are catching more fixed and mobile Internet users through a series of promotions and equipment Internet use combinations.
- Enterprises. Internet application was promoted and innovated even more when, in 2014, Micro-blog, Jingdong, Alibaba and other well-known Internet companies were listed in the US. Numerous published reports on online shopping, Internet management and related topics were really useful to deepen non-netizens'

cognition and understanding of the Internet, enhancing in this way their willingness and curiosity to try using the Internet.⁹⁹

SIZE OF INTERNET USERS

In December 2014 China had 649 million Internet users (the equivalent of all the Europe and North America users together), up 31.17 million over the previous year. The Internet penetration rate was 47.9%, up 2.1 percentage points.

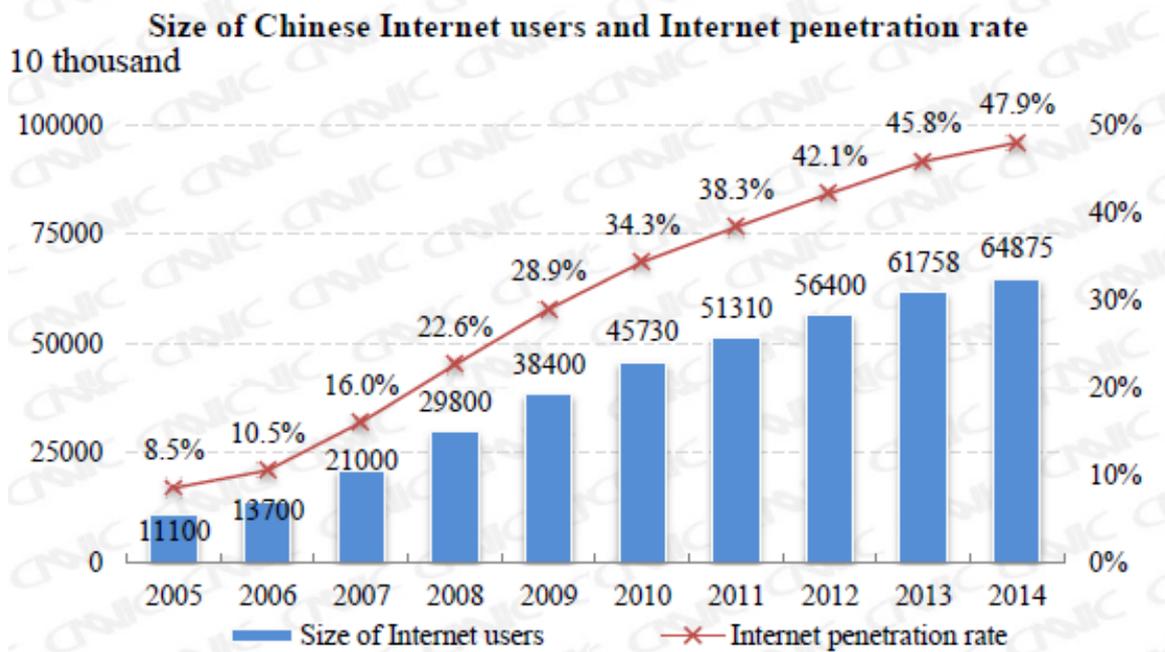


Figure 34: Size of Chinese Internet users and Internet penetration rate

Source: CCNIC (China Internet Network Information Centre)

A survey conducted by the CNNIC (China Internet Network Information Centre), reports about the Chinese Internet equipment used to access the Internet. The results are shown in the *Figure 34*. The use of devices such as desktop and laptop remains substantially stable, up to 1,1%% for desktop (from 69,7% of 2013 to 70,8% of 2014) and down of – 0,9% for laptop (from 44,1% of 2013 to 43,2% of 2014). Conversely, a relevant growth is registered in the categories of mobile phone, Tablet PC and TV. The first one (mobile

⁹⁹ CCNIC, “Statistical Report on Internet Development in China”, January 2015.

phone) registered a light growth of almost 5%, whereas a significant increase occurs for the latter two categories. Tablet PC grew of 6,5%. With higher ratios seen in well-educated (university or above) groups and high-income (RMB 5000 or above per month) groups, 51.0% and 43.0% respectively.¹⁰⁰

Finally, the TV started to be used for the first time (in 2013 Chinese do not use TV as device for access the Internet). Thanks to the development of network and broadband technologies, network TV as a combination of the network and traditional TV has gradually become an emerging mode of home entertainment with the advantages of being shareable, controllable and smart. By the end of 2014 its utilization ratio had risen to 15.6%.¹⁰¹

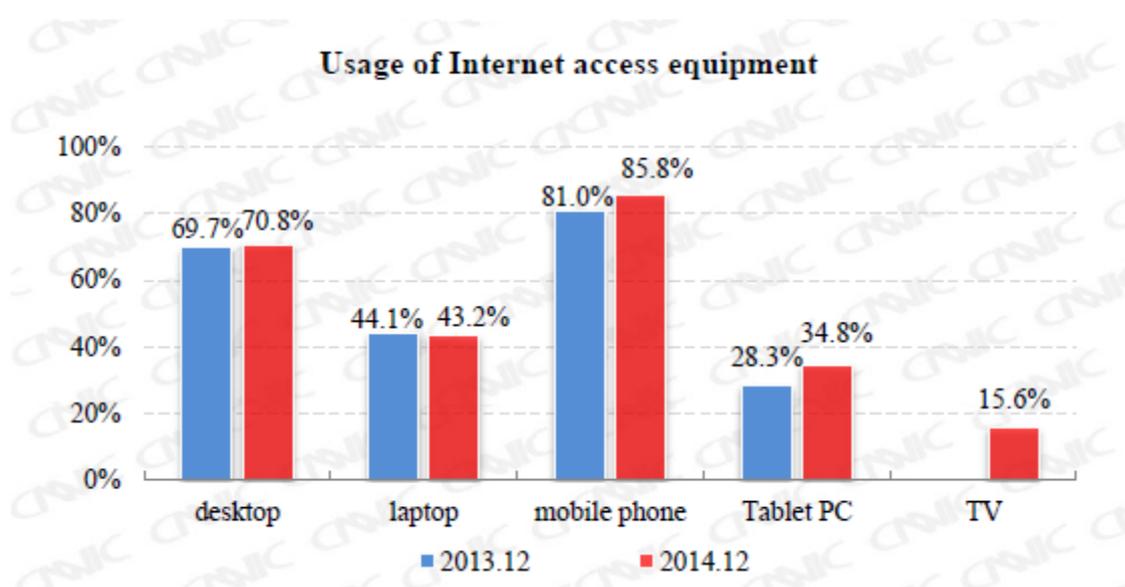


Figure 35: Usage of Internet access equipment

Source: CCNIC (China Internet Network Information Centre)

According to analysts' forecasts, by 2016 more than one over two Chinese (52%) will be online. A figure lower than expected in the US (83%) and near Japan (72%).

100 CCNIC, "Statistical Report on Internet Development in China", January 2015.

101 CCNIC, "Statistical Report on Internet Development in China", January 2015.

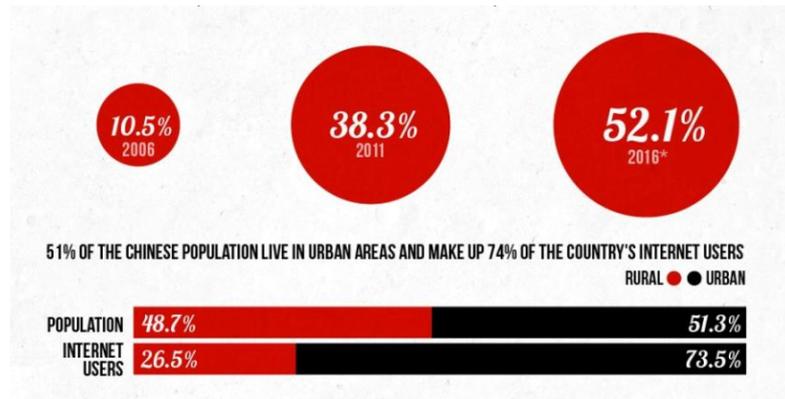


Figure 36: Chinese population and Internet users

Source: Statista / Mashable

As far as equipment use to access the Internet is concerned, the mobile phones still keep the top one rank as equipment used to surf the web.

SIZE OF MOBILE INTERNET USERS

As previously seen (also in the *Figure 35*), mobile Internet users accounted for 85.8% of the total netizen population, while this percentage was 81.0% in 2013. This means that in 2014 the size of mobile Internet users in China had reached 557 million, having an annual increase of 56.72 million, as it is shown by the *Figure 37*.

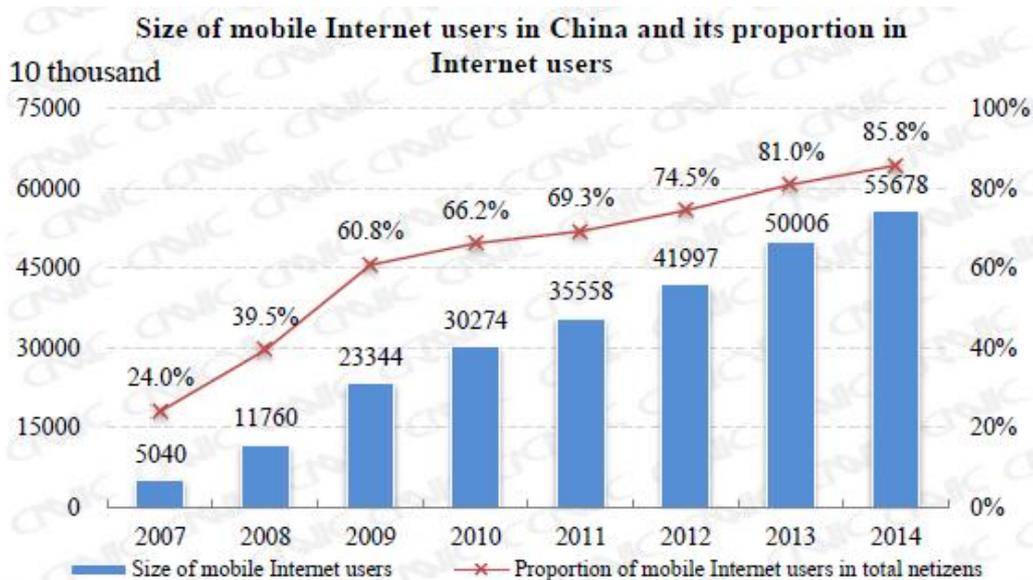


Figure 37: Size of mobile Internet users in China and its proportion in Internet users

Source: CCNIC (China Internet Network Information Centre)

During the overall period of the 2014, China's mobile penetration rate increased from 90.8% to 94.5%. The situation today is that almost everyone in China uses the mobile phone because of the widespread of these devices. As a direct result, the space for further growth becomes really tiny.

Generally speaking, the issue of the Internet development in China has been transformed from an "increased penetration of internet access" to a "intensification" of its use, evolving, somehow, from a quantity to a quality issue.

In 2014, internet applications like blogging, social networks and forums, had an utilization percentage lower than applications related to instant messaging that have developed steadily with the achievement of **532** Million users.

Verified that Chinese spend a lot of time online, it comes spontaneous to wonder what Chinese do and like to do online.

Here as follows are listed the top 5 favorite applications.

1. **Instant Messaging** (467 Million users)
2. Engine search (451 Million)
3. Online music (435 Million)
4. Blog (372 Million)
5. Online Video (371 Million)

Figure 38 provides with a bird's eye view of the popular online services in China.

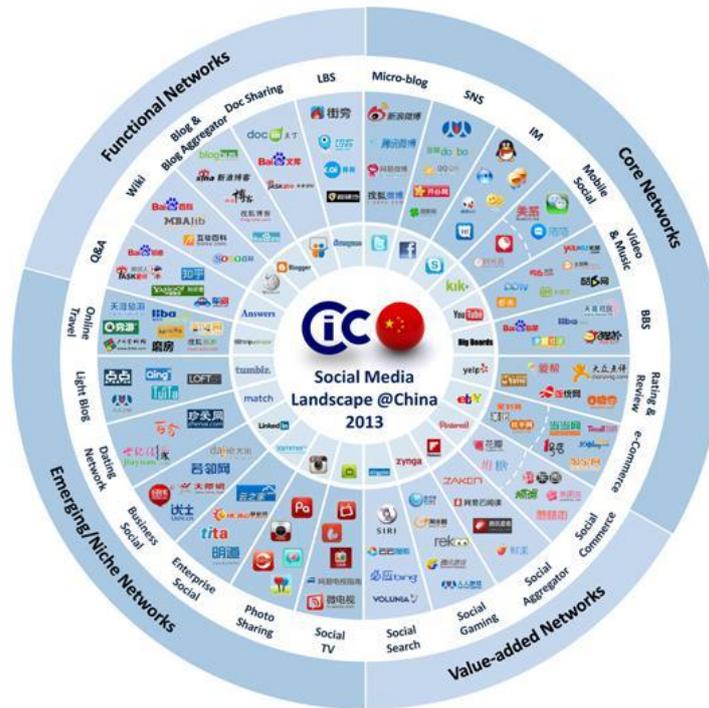


Figure 38: Chinese Social Media Landscape

Source: Resonance

The high speed of online development is particularly evident in online shopping. In December 2014 China registered a total of 361 million online shoppers, with an annual increment of 59.53 million (19.7%). The utilization ratio boosted of 6,8%, becoming from 48.9% of 2013 to 55.7% in 2014.

This incredible development is due to several factors. The first is the improvement of services of enterprises e-business. The second one is the progress in the security of payment systems. The latest one is related to the laws and regulations concerning online purchases, which have been refined: the new "Law on protection of rights and interests of consumers of the Republic of China" included the protection of personal data.

ONLINE SHOPPING

By 2020, the Chinese e-commerce boom will reach a volume of between 420 and 650 Billion Dollars.

The number of Chinese who have made an online transaction is increased by about 27% from December to a total of 276 Million. The growth is registered also in the number of customers who have made at least one purchase over the year, which has increased by 14.5%, amounting to around 270 Million. Moreover, in the first six months of 2015, the web has had a big role in the stock market that has now seen more than 56 Million Chinese newcomers jump in buying and selling shares online. According to the deputy director of the China Internet Network Information Center (CNNIC), Jin Jian, the Chinese e-commerce has a value of 331 billion Yuan (47.4 Billion Euro) in the first ten months of 2014. Retail sales online grew from January to October of 55.6% over the same period 2013. The e-shoppers are usually university students, aged from 20 to 30 years and with an average income of 2.130 RMB per month (around 250 Euros).¹⁰²

Recently, KPMG interviewed more than 10.000 people, with the aim of creating a survey report about "luxury" shopping in China. One of the most interesting information emerged from the survey is that the average price paid for items depend on the age of the buyer and that it increases as age increases. Consumers in the end under-20 use to spend on average 726 RMB. For consumers between 25-29 years the average price rises to 1.657 RMB, while the nearly fifty arrived to spend 2.108 RMB for goods considered luxury. The analysis has also revealed that although women are more accustomed to buy luxury items online and in general spend more than men, the latter, however, are willing to pay a lot more on individual products than women. Considering the ease of obtaining direct comparisons online sites selling, one of the main reasons that drives consumers to shop online is the price. 51% In addition, today in China consumers prefers the automatic payment online toward the cash payment. This because they believe that when you buy on

¹⁰² Camera di commercio Italo-Cinese, "Mezzo miliardo di click al giorno. Il consumatore cinese è online".

<http://www.china-italy.it/it/mezzo-miliardo-di-click-al-giorno-il-consumatore-cinese-%C3%A8-online>

the net you feel safer about the country of origin of the product (according to 51% of them).¹⁰³

The success of e-commerce in China is due to its efficiency and its ability of anticipating the traditional shops in the choice of products. In addition, another point in its favor is provided by the extensive logistics network, which is able to deliver products on a very large geographic basis, maintaining competitive prices. Chinese web users are over half a billion and the number is expected to rise, especially thanks to the improved accessibility to the navigation devices and broadband.¹⁰⁴

- *6 trillion is the number of e-commerce transactions that take place in China in a year. At least one user in four Chinese online shoppers (42.9% - equivalent to 242 million users). 44% do so at least once a week.*



Figure 39: Chinese online shopping

Source: Meet the Media Guru

103 AsiaBriefing, "E-commerce in Asia: il mercato online in Cina, India e Vietnam", Numero 1, Giugno-Agosto 2014.

<http://www.asiabriefing.com/store/book/e-commerce-in-asia-il-mercato-online-di-cina-india-e-vietnam-472>

104 Camera di commercio Italo-Cinese, "Mezzo miliardo di click al giorno. Il consumatore cinese è online".

<http://www.china-italy.it/it/mezzo-miliardo-di-click-al-giorno-il-consumatore-cinese-%C3%A8-online>

The phenomenon of e-commerce in China is far from transitory and the reasons are different.

1. It increases the purchasing power of the middle class and purchasing decisions become more sophisticated.

Because of the recent governmental policy in support of the labor market, Chinese population has seen their disposable income increase. In fact, as a direct consequence of the policy, the payroll wages increased by 10-15%.

The increase in the disposable income leads to a general improvement of middle class living standards. Middle class members look for branded products, which are used to “Show off” and to point out the well-being status.

2. Online Chinese can find products not yet distributed in stores within the country.

Chinese are innovators people, who want to buy exclusive products, still unavailable domestically the country.

But where to buy these products if they are not yet distributed in traditional retail chains? Easily acquiring them online.

Moreover, even though physically present, the majority of foreign brands limit their physical presence to the First-tier cities in China. Therefore, the Internet has allowed foreign retailers to place their products in the cities less exposed to the retail trade, without having to bear the costs of an exercise on site.

3. The rural areas inhabitants can shop like city inhabitant.

E-commerce is also a valid and excellent opportunity for those who live far away from Chinese main cities. Thanks to the government's decision to spread the broadband across the country even the inhabitants of the small towns of the province can have access to Internet, having the same purchase possibility as a resident of Beijing or Shanghai.

4. Convenience: no queue, no traffic, no smog.

Over 300 Million Chinese prefer to shop from the comfort of home rather than having to face the traffic, the smog or the line at the cash. One reason for the success of online shopping consists in its convenience and time savings: with a simple click of mobile phone, tablet or computer it is possible to buy anything.

More and more often it happens that those who live close to urban centers prefer to shop online to avoid the stress of the city traffic, the search for a parking and loss of time to hours and hours spent in queues at checkouts.

5. Rapid deliveries, efficient customer support and more favorable policies.

The boom of e-commerce in China is also fostered by the improvement of the practical aspects relating to him, especially the speed of delivery, customer service and efficient policies made more flexible to attract more and more Chinese.¹⁰⁵

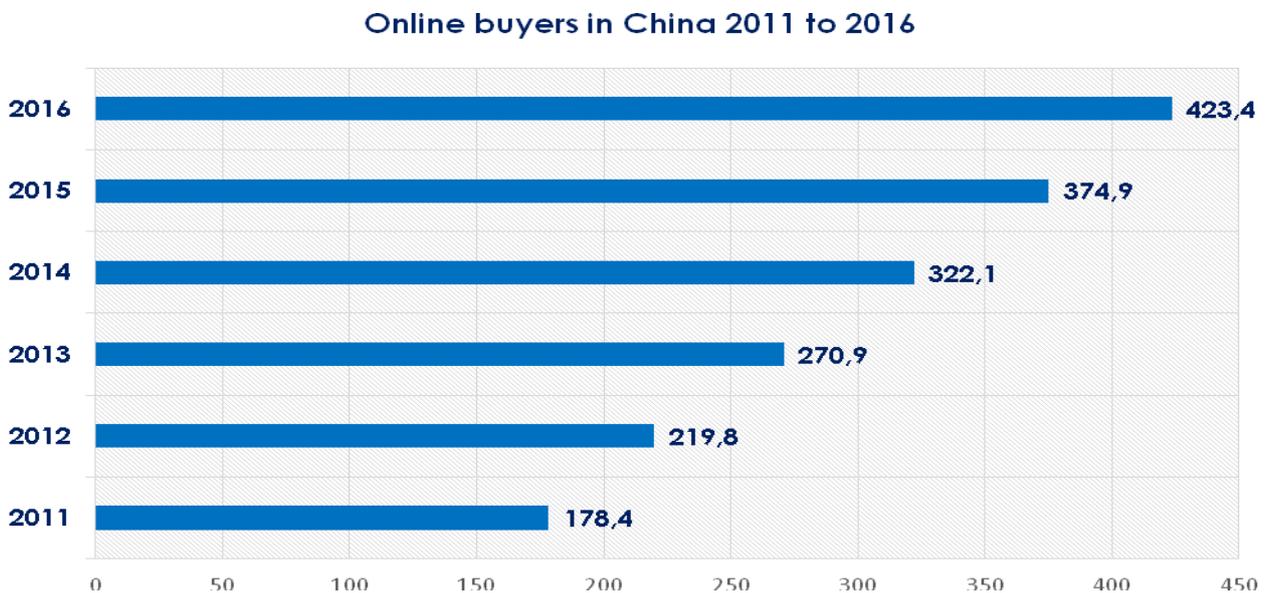


Figure 40: Projected number of Online buying in China from 2011 to 2016

Source: Own representation on Vinitaly International data

105 Giorgio Nicoli, "E-commerce in Cina: perché i cinesi vanno matti per gli acquisti online?", in yourbiz.it, September 2nd 2014.

<http://blog.yourbiz.it/e-commerce-in-cina-perche-i-cinesi-vanno-matti-per-gli-acquisti-online>

- *Every minute, through the millions of computers and smart phones located throughout China, 48.000 products are sold online.*

THE E-COMMERCE AND THE WINE – THE MAJOR PLATFORMS

A significant amount of wine is purchased online. 47% of Chinese imported wine drinkers say they have bought wine via the Internet in the last 6 months. However, since Chinese consumers overwhelmingly prefer to buy vintages already tasted in a shop or in a wine tasting event, the large majority of these were almost certainly already known to customers. Currently, in the articulated panorama of Chinese e-commerce, are four main platforms of electronic trade where it is possible to buy wine.

These platforms are:

- Tmall (Alibaba Group);
- Vinehoo;
- YesMyWine;
- Cantine M1NT.

TMALL

Tmall is the consumer platform of the Alibaba Group. It has 57% of B2C market penetration and sells 500.000 bottles in one day, with a peak during the Chinese New Year. The biggest increase in volume has been registered between 2011 and 2012, when the volume of wine sales grew from \$15 million to \$ 56 million with a percentage increase of 376% (*Figure 41*).¹⁰⁶

¹⁰⁶ Vinality International, seminario "*Digital Media Technology & Wine Series*", "E-Commerce: breaking down the great wall of China (Yesmywine)", Vinality 2013.

[http://www.vinalityinternational.com/images/pdf/slide_share/Seminar1/Seminar1\(a\)Tmall_Intro2013\(Vinality\).pdf](http://www.vinalityinternational.com/images/pdf/slide_share/Seminar1/Seminar1(a)Tmall_Intro2013(Vinality).pdf)

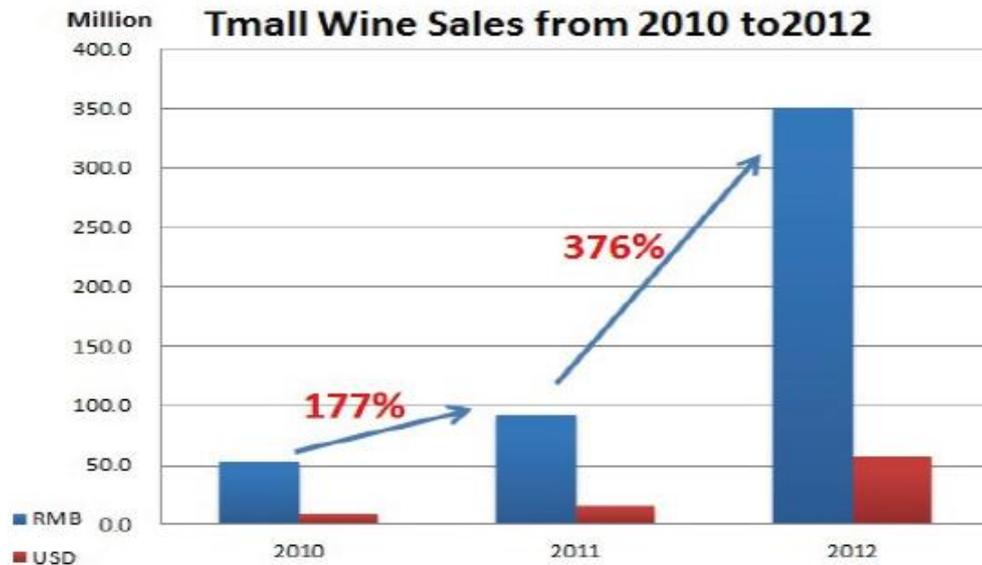


Figure 41: Tmall wine sales from 2010 to 2012, updated to 2013

Source: Vinitaly International

Tmall platform serves an overall of 500 Million users. Among these there is a prevalence of man, they represent the 60%, in spite of women (40%). The majority (60%) are young Chinese, with an age between 25 and 34.

The favorite wines are Red sweet wines, followed by Sparkling and White wine (third in rank). The most purchased wines are French wines, followed by Italians, Spanish and Australians. The average basket is of 299 RMB and the peak of purchases comes during the Chinese New Year. Also for this reason the preferred box is the gift-packing.

Summing up:

- 500 Million users
- Mainly young Chinese, the majority 60% is between 25 and 34 years old
- Prevalence of men (60%) in spite of women (40%)
- Preference for red sweet wines.
- Average basket: 299 RMB

- **Best sales: over the Chinese New Year**
- **Preference box: gift-packing**

Tmall is characterized as a LOW COST WINE SELLER, because the 80% of the bottles are between 50 and 100 Yuan (6,12 Euros), while only 5% of the bottles sold cost more than 174 RMB (25 Euros).

Users are attracted especially by campaigns to promote ad hoc advice on matching food and wine, sponsorship with famous faces and advice of the sommelier.

VINEHOO

Vinehoo.com is the B2C e-commerce site specialized in the sale of wine. Launched in 2008 in the form of online forums for wine lovers, in 2010 it became an e-commerce site immediately distinguishing itself from competitors thanks to specialization in the strategy of "flash sales", temporary sales of some labels only available online and in limited quantity. Social Flash Sales has wines in limited quantity and on limited time accessible to buyers online. Through guided wine promotion, forums, online-to-real-world wine tastings, group blind tastings, aggressive pricing policies and brand building the company sells wines directly to registered members. Surprisingly, Vinehoo does not have any marketing expenses. All the system is built upon its reputation.¹⁰⁷

Vinehoo.com today has over 100 thousand users and a constantly growing turnover.

Alvin Huang, founder and CEO of Vinehoo.com, in an interview with "Il Corriere Vinicolo", explained what a winery has to do to start working with this platform. The first step is to send a list about the export price. Then, after having reached an agreement on prices, it is important to work on the various details, including those related to the shipment of the goods and the terms of payment. Huang points out that an important element is that, unlike other portals, the company does not ask Vinehoo exclusive rights and does not put

107 Vinitaly International, "Vinitaly 2013 talk business with China", Press release, April 11th 2013.

http://www.operawine.it/sites/default/files/articlesoperawine/art22_eng.pdf

special clauses in contracts with their customers. The only support that is asked to the winery is that the price is the most beneficial, especially when the wine is not yet known on the Chinese market. **Italian wines that are currently facing greater interest among customers Vinehoo.com** are **Barolo**, for its **ability to match the food**, critical component to get the preference of the Chinese wine lover; **Moscato d'Asti**, a wine very popular especially among **women**, who appreciate the not cloying sweetness and the natural carbonation. Moreover, it is a wine that many buy to drink at parties and celebratory events in general. Huang believes that the Moscato d'Asti and all other Italian white wines can have a good perspective on the long-term in China, under the circumstances that it is explained to Chinese consumers the difference between a blend and the other.¹⁰⁸

Vinehoo is smaller than Tmall. The first has an overall of 100 thousand users in comparison with the over 500 Million of the latter. Nevertheless, Vinehoo users exhibit appreciation for Italian wine. As Tmall also Vinehoo is a low cost seller. This is made evident by the Flash Sales mechanism.

Sum up of the main features of Vinehoo are:

- Smaller: only 100 thousand users
- Interest for Italian wine
- Low cost wine seller: Flash Sales

➤ *80.000 bottles per day have been sold on Vinehoo during the holidays for the Chinese New Year.*

¹⁰⁸ Massimo Ceccarelli, "Vinehoo.com, ottima prospettiva a lungo termine per i bianchi italiani", Il Corriere Vinicolo N.19, June 16th 2014.

YESMYWINE

It is the **number 1 wine retailer in China**, with a dominant market share over 60% and nearly **6 Million registered members**. YesMyWine is dedicated to deliver **quality and lifestyle products** to **middle-class families** in China.

In addition, it is also the number 3 among all import wine retailers, as Jared Liu, Founder/CEO of YesMyWine, said they sell between 20.000 -120.000 bottles of wine per day. The company integrates a B2C approach to receive a judgment from Chinese on their tastes, pricing and promotion sensitivity and for testing new wines before selling them on the market. Consumers receive randomly wine at home to blind-taste it and take part in a comprehensive survey which is then used to gauge the market.¹⁰⁹

Going to **intercept** the growing **interest** in wine among the **Chinese middle class** YesMyWine has a winning strategy that combines competitive prices and offers training. The range of price of the products for sale is very wide and Yesmywine.com can count on highly qualified professional staff: a guarantee for Chinese consumers increasingly concerned by counterfeiting.¹¹⁰

The age targeted is Chinese between **25 and 45**.

Dixon Yuan, CEO of Yesmywine.com, told to "Il Corriere Vinicolo" that in order to work with this company, you can contact the Hong Kong and Shanghai offices. Subsequently, the staff responsible for Yesmywine.com, will verify the information on the various interested cellar and wine tours to verify that they have the right characteristics to be offered on the portal. The selection process of the wines offered on YesMyWine portal is very strict and composed by sequential phases.¹¹¹

109 Vinality International, "*Vinality 2013 talk business with China*", Press release, April 11th 2013.

http://www.operawine.it/sites/default/files/articlesoperawine/art22_eng.pdf

110 Vinality International, seminario "*Digital Media Technology & Wine Series*", "E-Commerce: breaking down the great wall of China (Yesmywine)", Vinality 2013.

[http://www.vinalityinternational.com/images/pdf/slide_share/Seminar1/Seminar1\(b\)YesMyWine\(Vinality\).pdf](http://www.vinalityinternational.com/images/pdf/slide_share/Seminar1/Seminar1(b)YesMyWine(Vinality).pdf)

111 Massimo Ceccarelli, "*Yesmywine.com. Se la Francia perde terreno, occupatelo voi*", Il Corriere Vinicolo N.20, June 30th 2014.

Unique selection system selects the killer products.

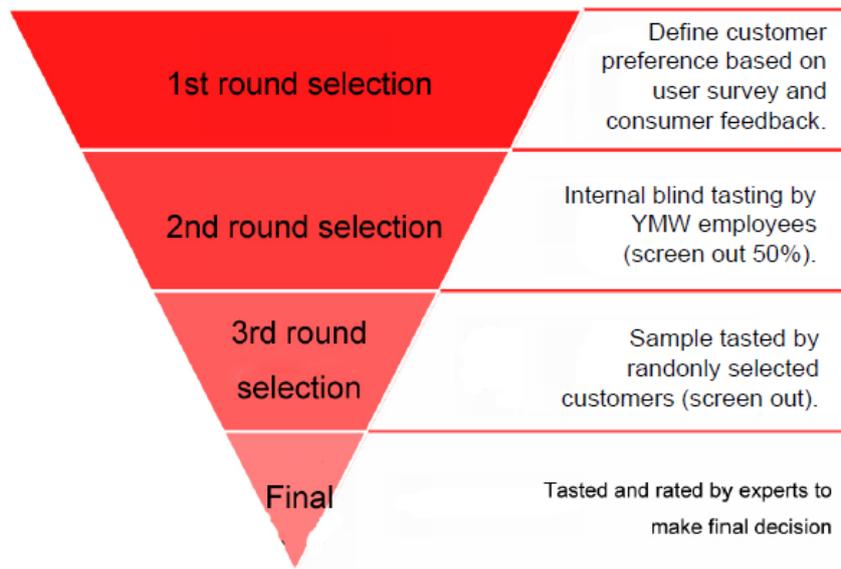


Figure 42: YesMyWine selection system scheme

Source: Vinitaly International

What distinguishes Yesmywine.com is a deep relationship with wine lovers in China. The platform periodically studies preferences and changes in taste. In addition to the site, there are also two TV channels and shop, for the promotion. Consumers are engaged on events both online and offline. These could be, for example, meetings with companies in partnership with agencies and organizations, on a monthly basis, which aim to stimulate participation users.¹¹²

According to Dixon Yuan, for increasing the market share of a winery in China, it is essential to work on the promotion and consolidation of its brand. In addition, the winery must be able to capture the interest and attention of experts and magazines, with the final aim of increasing the awareness and the visibility, boosting the sales of its products. That's

¹¹² Wine News, "Tmall, Vinehoo, Yesmywine e M1NT Cellars: la Cina si conquista anche grazie alle vendite online, ma una strada non vale l'altra, come dimostrano le case history del seminario "E-commerce: breaking down the great (E-) wall of China", in News, April 8th 2013.

<http://www.winenews.it/news/30688/tml-vinehoo-yesmywine-e-m1nt-cellars-la-cina-si-conquista-anche-grazie-alle-vendite-online-ma-una-strada-non-vale-laltra-come-dimostrano-le-case-history-del-seminario-e-commerce-breaking-down-the-great-e-wall-of-china>

not enough. Winery must keep an active presence within the territory through the participation in various wine competitions in China, because the Chinese are particularly attracted to wines that boast some prize. Finally, the winery should establish an annual budget to be allocated to marketing and promotional activities in China, especially the organization of wine dinners, tastings and media advertising.¹¹³

➤ *Chinese are particularly attracted to wines that boast some prize*

The company YesMyWine runs also "My Cellar" which is a service, similar to the social network "Twitter", aimed at wine lovers. There are events that take place in more than 40 Chinese cities, with an average of 15 receptions a week, all dedicated to wine. This approach gives the opportunity to the company to provide news about the wine throughout China and define all the best brands existing.

The portal encourages user participation with monthly events (such as the choice of the name with which to launch a wine in the Chinese market), promotions and blind tasting.¹¹⁴

M1NT

In late 2012, M1NTCELLARS.com was created as a platform catering to the Chinese market's tastes and interests by providing the best quality wines and spirits at the best prices in the Chinese online.

The strategy of M1NT is to take advantage from the well known luxury brand which is already famous among the high society of China. In fact, originally M1NT is a high-level club and restaurant chain which, thanks to its prestige and credibility, decided to aim for the top of the world wine production.

113 Massimo Ceccarelli, "Yesmywine.com. Se la Francia perde terreno, occupatelo voi", Il Corriere Vinicolo N.20, June 30th 2014.

114 The Drinks Business, "Wineries get wired for China", September 21st 2012.

<http://www.thedrinksbusiness.com/2012/09/wineries-get-wired-for-china/>

As a recognized lifestyle brand it guarantees the best personalized care to all its customers, it provides the most reliable nationwide distribution system and delivers only the highest quality genuine products.

The purchase of luxury products is linked to a specific way of life: "China cool", identified in the concrete with the main nightclubs and restaurants in Shanghai best employees by the brand.¹¹⁵

ONLINE: NOT JUST FOR BUYING

Chinese consumers do not use online websites just to buy wine online. Booming B2C wine sales, websites are going to educate Chinese consumers and increase their knowledge of grape wines and stimulate grape wine sales in the long term. Some B2C website such as **Womai** or **Yihaodian** do not specialize in selling grape wines, but list grape wine as one of their product types on their websites. Certain websites have evolved into grape **wine specialists**, such as **Yesmywine** and **Nicewine**. More wine information, such as wine and brand history and taste features, help consumers to select the wines. Therefore, people become more knowledgeable about grape wines. Frequent promotions on the websites have also an objective to attract and keep customers, and contribute into an increase of wine consumption in the future.¹¹⁶

A survey conducted by the wine research company, the Wine Intelligence, which surveyed more than 1.000 Chinese upper middle-class drinkers of imported wine, found out that 75% of them often go online to look for wine information, and that 62% of them frequently use social media as a source.

115 Vinality International, seminario "Digital Media Technology & Wine Series", "E-Commerce: breaking down the great wall of China (Yesmywine)", Vinality 2013.

[http://www.vinalityinternational.com/images/pdf/slide_share/Seminar1/Seminar1\(b\)YesMyWine\(Vinality\).pdf](http://www.vinalityinternational.com/images/pdf/slide_share/Seminar1/Seminar1(b)YesMyWine(Vinality).pdf)

116 Tatiana Bouzdine-Chameeva, Wenxiao Zhan (2013), "Wine distribution channel systems in mature and newly growing markets: Germany versus China".

<http://academyofwinebusiness.com/wp-content/uploads/2013/04/Zhang-Bouzdine-Chameeva.pdf>

According to BCG (the Boston Consulting Group), over 40% of online shoppers read and review products online.

New wine consumers were increasingly reliant on the digital world to learn about wine, with an “estimated 13 million Chinese adults frequently accessing information online.” This is a significant percentage of consumers searching for information online.

- *More wine information, such as wine and brand history and taste features, help consumers to select the wines.*

**E-commerce in China to
be worth 2.8 trillion Yuan
by 2016**

- *The highest figures in terms of sales remain Tmall, the consumer portal Alibaba Group, which sells around 500,000 bottles a day but, in terms of education, have the best QQIM, the largest web communities in the world for wine lovers, M1NT Cellars wine shop of the luxury M1NT, the famous nightclub in Shanghai and New Food Magazine directed by Leos Tian, one of the most important journalists of the sector.*

SOCIAL NETWORKS

Social network in China are an essential tool that ensures interaction and involvement. According to studies by the China Internet Network Information Center (CNNIC), the 91%

of Internet users have an account on at least one social network, while online sales move turnovers ever larger.

Even though, we have to pay attention at some issues, because the online Chinese world is not the same we are familiar with. The world of Internet in China is totally different.

Here some tips to pay specific attention at:¹¹⁷

1. There is no Google and websites prepared for Google are not reachable.

In Beijing if you write on your internet site '.com' is not obvious that it is reachable (as the '.it'). There are strong barriers to entry. Sites must be registered with a business profile and for political reasons some websites required a VPN in order to work. Google in fact is banned and to open its own page takes minutes and minutes (even if you are using a VPN) and nobody uses it. **Baidu is instead is the leading Chinese search engine, has 98% of the total searches.**

2. Facebook is banned, Twitter is banned and even Instagram is banned since last December after the riots in Hong Kong.

There are other popular social networks. **The collective dimension is very strong in Chinese society, therefore it is very important what they say friends and colleagues, we will do much influence.**

3. Today China has 650 million connected users, half of China's population. But by 2018 will be 80%.

In the coastal strip, which comprehends Shanghai, Beijing and Shenzhen, we can find the majority of Internet users. But a great opportunity for wine sellers is to be able to reach the inland areas. Today 85% of people access to the network via mobile.

117 Stefano Labate, "*Come vendere il vino in Cina senza Google e Facebook – con Emanuele Vitali di East Media*", in wineinternetmarketing.it, 2015.

<http://wineinternetmarketing.it/come-vendere-il-vino-in-cina-senza-google-e-facebook-con-emanuele-vitali-di-east-media/>

4. **The most popular place of the Internet in China: Wechat.**

Chinese use it as a chat. There is a huge use by consumers and businesses: you can share and post pictures but also the company can send messages and newsletter to people.

Actually Wechat is an e-commerce integrated into a platform. Once you have a credit card can go to your profile and you can shop with great speed and simplicity.

- *On Wechat you can find the friend with whom to chat, the company to follow, the e-commerce and customer care that speaks directly to consumers.*

5. **The consumers' predisposition to the use of the network for e-commerce is very strong.**

The higher spending person is much younger than we are used to. The director of a holding company is 30-35 years. He is accustomed in using Internet and this predisposition is also reflected on e-commerce. The Chinese lives in huge megalopolis. Beijing has an area as large as half of Lombardy. They have long shifts and little time and the network optimizes all their activities.

6. **In China people believe in advertising.**

According to China Internet Network Information Center one over two of users trust the advertising on the Internet. Then, it is a very different situation if compared to Western countries, where people have developed a strong resistance to advertising as consumers.

So, as we have seen: Google is banned, Facebook is banned, Twitter is banned and even Instagram is banned. But there are 650 million people who use the Internet to buy.

➤ **9.214**

Is the number of URLs blocked in China over the 66.024 monitored by the service GreatFire. These include: Facebook, YouTube, Blogspot, Twitter, WordPress, Nytimes, Dropbox, and Bloomberg.

So what are the main social media in China?

- **Wechat**
- **Weibo (the Chinese Facebook)**
- Vinography
- QQ
- Youku (similar to Youtube)
- Kaixi (similar to Facebook)
- Tudou (another video site)
- TencentWeibo SinaWeibo (microblogging platforms like Twitter)
- Qzone (reminiscent MySpace).

WINES ON WECHAT, WEIBO AND CHINESE SOCIAL MEDIA

Social platforms like Wechat and Weibo are now essential for any company that wants to sell its products in China. These platforms do not only allow free advertising, but also a direct contact and an in real time dialogue with the final customers. Thanks to social networks, the wineries can directly invite their "followers" to participate in their wine dinners or to update them on the news of the world of wine, creating, in this way, a closer and trusted relationship with their consumers.¹¹⁸

118 Massimo Ceccarelli, Stevie Kim: " *Con Web e social più interazione e coinvolgimento*", Il Corriere Vinicolo N.16, May 20th 2014.

One of the main reasons which explains the success of social networks in China is the cultural tendency to trust friends and their recommendations, a natural predisposition of Chinese that triggers the "word of mouth marketing". Because of the importance of word of mouth, social networks are essential for wine marketing in China. Providing an example, social network take an important role during the various wine fairs, when are regularly published updates and other interesting information about wines, through online documentary images and videos. In this way is possible to keep up to date and to follow in time real all the events.¹¹⁹

Therefore, a good strategy on digital channels is crucial in order to penetrate the Chinese market. Wineries that are looking to make an impact in China must create a strong digital strategy. Currently, wineries are using WeChat, Weibo, and other social media networks to engage with and educate consumers about wine and wine culture. Chilean wines are successfully leveraging Sina Weibo in order to help consumers in keeping up to date and they have attracted over 97.000 followers. They are by no means, however, the only wine organization leveraging Sina Weibo.

- *Do you know that 600 million people use Wechat in China as a showroom also pre-sales of wine? That's where the opinion of the peer, colleague and friend is crucial to make the decision to purchase, that will happen through the smartphone.*

- *Creating a digital strategy that includes social media is important because Chinese consumers are looking for information before making purchases in shops. Many consumers are weary of purchasing wine online because, as mentioned earlier, there are many counterfeit products.*

119 The Drinks Business, "Wineries get wired for China", September 21st 2012.

<http://www.thedrinksbusiness.com/2012/09/wineries-get-wired-for-china/>

- *A brand's digital strategy should be created to **provide official information** about the winery and the wine available in China and it should **drive traffic to distribution channels**, where consumers know they are buying the real product.*

DISTRIBUTION NETWORK

The improvement in living standards has shifted people's focus from satisfying basic needs to pursuing a higher quality of life. This, in turn, creates significant opportunities in the retail market.

Even though, the income gap is huge, because of the wide disparities among China's regions and the country's rural areas.

Therefore, China's retail market is highly fragmented and composed of many small and medium-sized retailers.¹²⁰

I am now going to analyze the distribution structure of the Chinese wine market, in order to understand the different types of distribution channels and their characteristics. This starting analysis will be essential for further understanding which are the most suitable channels for imported wine.

In China, there are basically four distribution channels:

1. Wholesalers

2. Off-trade (retail)

Divided into:

- International mass distributors
- Chinese mass distributors
- Chinese small distributors

120 Sheng Lu, "Understanding China's Retail Market", in China Business Review, 1st May 2010.

<http://www.chinabusinessreview.com/understanding-chinas-retail-market/>

- Convenience store
- Department store

3. On-trade (Ho.Re.Ca.)

- Western hotel chains
- International restaurant chains
- Chinese restaurant
- Bar, Cafè and club
- Karaoke and KTV

4. Direct sales (private or enterprise)

WHOLESALEERS

Wholesalers represented in 2012 the biggest market, with about 75% of wines distributed. Wholesalers are Chinese companies which are not devoted to the trade of wines. They exploit the popularity of imported wines in order to attract their clients. In addition, is very difficult to identify the actors operating in this market, and even more difficult to individuate the customers. For this reason this market is generally known as the “invisible market”.

Even though, it is possible to name some big operators, such as: C&D (based in Xiamen), Nanpu (based in Shanghai) and a few companies in Shenzhen.¹²¹

Before wines can arrive to wholesalers, they have to go through a sequence of intermediaries (who are many). For this reason, the wines' price is generally high. In addition, wholesalers in order to gain higher margins are inclined to buy at really cheap prices for then reselling at high prices. It may happens that table wines (the lowest category of wines for quality), are found in shops at expensive prices, such as 300 RMB

¹²¹ Lucas Botebol, “*Market and marketing of imported wine in China – Distribution Networks*”, in Zhongguo Wine, July 26th 2012.

<http://www.zhongguo-wine.com/2012/07/26/market-and-marketing-of-imported-wine-in-china-distribution-networks/>

per bottle, when at Carrefour it costs around 20 RMB. In this way margins are around 70%, making this business a very speculative business. In almost all cases, the clients of these wholesalers are companies or people connected because of the “Guangxi”

Substantially, this configuration of distribution channel is ideal for supporting sales volumes with low prices. As a consequence, it is not suitable for high quality products brands.

The brands which positively succeeded in this matter are substantially three: Carlo Rossi, Jacobs’ Creek and Castel Frères. The reasons explaining the success of these three brands have to be researched in some common characteristics that these brands present. The first is the deeply-rooted presence in China, which made them well-known by Chinese consumers. The second one is the enormous financial power and the availability of resources these brands have, which are fundamental in a market such as the Chinese is. In fact, they had the possibility of creating and implementing a team which assists wholesalers, which takes care of the advertising and so on. Finally they can exist and being participating in the Chinese market without incredible sales or having to be participants in GMS.

Let’s find out who are these successful brands and how they operate.

- Carlo Rossi. The brand is owned by Gallo (California), which is the first world wine producer. It is imported by Nanpu and distributed by over 200 wholesalers. The type of wine it brand is a Californian table wine, which is sold at very low average price. Carlo Rossi was able to identify a successful strategy, which consists in putting Off-Trade into perspective. It is present in supermarkets and hypermarkets, where it can sell very few amounts of wine if the mark is present.
- Jacobs’ Creek. This is an Australian brand owned by Pernod Ricard Group. Because of the fact that sales volumes in GMS are very small, even if the bottles are very well presented on the shelves (with beautiful outer layer), the Group takes care of the marketing and distribution of the wine in all the restaurants of province.

Pernod exploits its retail structure, associating the wine sales to the alcoholic beverage sales, which it runs in Second, Third and Fourth level cities.

In this areas competition do not really exists, because the large operators in the Ho.Re.Ca are located in major cities (Tier 1).

- Castel Frères. This is the largest wine sellers in China.

Cooperating with Walmart, Castel promotes French wine culture in China.

The brand has decided to sell exclusively via wholesalers. If you find Castel wines in the off-trade channels, this is due to two reasons. The first and the most optimistic one is that the wholesaler has its network. Therefore it was the wholesaler who sold the Castel bottles to the retailer. The other reason is that the Castel wine has been copied. In fact, the brand is facing this big problem because its wine is today copied almost everywhere in China, with counterfeiters who reproduce its labels and even a company that has registered the name Castel before Castel Frères.¹²²

To sum up, wholesalers buy some quantities of wine from importers. Then, distribute the bought wines to other retailers.

OFF TRADE DISTRIBUTION CHANNELS

The main off-trade channels are supermarkets. Supermarkets in China have revolutionized the ways of purchasing. Arrived in mid nineties, already in 2010 in Shanghai there were more than two thousand. Currently they are the most popular sales channel among the local population for the purchase of food because they can keep prices low. In fact, buying directly from the importer and so skipping several intermediaries generally present in the chain, they can dampen the inflationary effect.

122 Lucas Botebol, "*Market and marketing of imported wine in China – Distribution Networks*", in Zhongguo Wine, July 26th 2012.

<http://www.zhongguo-wine.com/2012/07/26/market-and-marketing-of-imported-wine-in-china-distribution-networks/>

The supermarkets are quite new players on the Chinese retail system. On December 11th 2004 China has opened the market to foreign investors, even if many retail and wholesale had already penetrated the Chinese market. These are, for example, Carrefour, Metro, W – Mart and Auchan. With these new policies, any foreign company, regardless of size, can register as a company operating in wholesale and retail anywhere in China.

The supermarkets and department stores typically purchase from importers and in some cases from distributors present in the area. Some chains, including Metro, are also beginning to import directly.¹²³

Supermarkets can be divided into two categories: Supermarkets of private enterprises in foreign capital or State owned supermarkets. To complete the off-trade configuration, to these must be added the convenience stores and the department stores.

As follows, will be analyzed in detail each of them.

- **Supermarkets of private enterprises in foreign capital**

These are present in China since the mid-nineties and have a widespread presence on the territory. The main chains are: Carrefour, Auchan, Sam's, Wal-Mart, Metro and Tesco. Carrefour is the leading brand for wine in China. Carrefour was the first to invest on imported wine and to develop the retail system for this product. Carrefour also gets the record for being the first in the creation and promotion of wine fairs with free tastings. All competitors imitate the business model of Carrefour.¹²⁴

123 Italia Trade Commission, "*Il mercato cinese dei prodotti agroalimentari e del vino*", Market Report 2010, <http://www.ice.gov.it/paesi/asia/cina/upload/174/Rapporto%20di%20Mercato%20Agroalimentare%20Cina%20%20201004.pdf>

124 Raymond Paul Noppé, "*Rise of the Dragon: The Chinese Wine Market*", March 2012. <http://www.capewineacademy.co.za/dissertations/Rise-of-the-Dragon-The-Chinese-Wine-Market-Raymond-Paul-Noppe.pdf>



Figure 43: Carrefour Wine Fair 2011 in China, depliant

Source: Zhongguo Wine

According to Charles Carrard, Commercial and Communications Director at French Paradox, the issue of building the brand for wine in China is solved having a presence at Carrefour. This because rich Chinese use to shop at Carrefour, as it is a symbol of richness and embodies the Western world, which they try in any ways to resemble way of life. In addition, the Off-trade channel helps to create brand awareness because as more Chinese consumers buy their wine in Carrefour, the more they become familiar with the different brands of wine. Moreover, mastering the off-trade channel is extremely helpful for gaining a foothold in the on-trade channel. Having a famous wine brand in the off-trade is a good selling point to be able to sell across to the on-trade.

Because of the fact that the brand is a key element for Chinese consumers if the brand is already famous in the off-trade channel, consumers prefer it to other unknown wines in the on-trade channel. Finally, having a strong presence at Carrefour implies that in-store representatives are of higher quality and more motivated to promote your wine in the supermarket. These sellers are able to

observe and report the buying patterns and behaviors of Chinese consumers, having a feedback directly from consumers on the wine.

In turn, international supermarkets create or reinforce the brand image of firms' imported wine.¹²⁵

Another supermarket present in China is the Auchan. Auchan, with its large stores has put priority on wine, offering a selection of cheap imported wines. In 2012 it counted almost 30 stores, among which 4 located in Shanghai.¹²⁶

Then, Sam's is the Cash and Carry business of Wal-Mart, with only seven stores in China, the company has made use of attraction of imported wines to develop a large radius. Finally Metro is the only chain that imports 99% of its wines in a direct way. It is also the only one whose sales stagnate. For professionals only (in theory). According to Zhou, the founder of Ruby Red Fine Wine, the China's leading boutique, fine and rare wine specialist located in Shanghai, supermarket chains in China are not offering a wider selection of wines with more competitive pricing for Middle Class consumers. "Supermarkets only work with one or two importers and ignore everyone else," he said.¹²⁷

- **Chinese supermarkets**

An example of state-owned supermarkets is the Bailian Group. It was founded in 2003, by merging some already existing groups. It is based in Shanghai and has a capital of 1 Billion RMB. The annual sales the group of about 60 Billion RMB.

125 Raymond Paul Noppé, "Rise of the Dragon: The Chinese Wine Market", March 2012.

<http://www.capewineacademy.co.za/dissertations/Rise-of-the-Dragon-The-Chinese-Wine-Market-Raymond-Paul-Noppe.pdf>

126 Lucas Botbol, "Market and marketing of imported wine in China – Distribution Networks", in Zhongguo Wine, July 26th 2012.

<http://www.zhongguo-wine.com/2012/07/26/market-and-marketing-of-imported-wine-in-china-distribution-networks/>

127 Li Kun, "Chinese sip stronger taste for imported wines", in CCNTV.com, November, 13th 2015.

<http://english.cntv.cn/2015/11/13/ART11447405481395779.shtml>

- **Convenience store**

A convenient store is a little corner shop, open 7 days a week and 24 hours a day. It provides everything, including imported wine. Examples of convenience store are: Family Mart, C-Store, Lawson, Keddi, Buddies and 7-Eleven.

Just to have an idea of the dimension of the business, consider that a convenience store offers about 15 different types of wine, in contrast with Carrefour or Auchan which offers respectively around 1.600. The majority of the convenience stores are owned by local operators, apart from a small number of chains belonging to foreign invested enterprises, such as the 7-Eleven. In the majority of instances the convenience stores are managed by large manufacturers of foodstuff, and they are mostly located in Shanghai and Guangdong. On the contrary, these stores are not so popular in Beijing, where it is possible to find just a few cases.

- **Department stores**

Department stores are type of stores shaped on the model of Galeries Lafayette. These shopping places have as target customers the wealthy Chinese, who elected department stores as their preferred place for shopping. The department stores, in China, can be found almost everywhere. They are located all around Chinese big cities, which is not surprising. What is surprising is that the department stores in China are located even in the small cities.

The biggest group is Yaohan. The Group has a widespread geographic presence being present almost everywhere and in all forms, which range from Hua Lian supermarkets to department stores. In Yaohan it is possible to find bottles of wines priced at more than € 15.000, which means that are sold very good in quality wines. Customers who look for these kind of bottles are well-off Chinese with no time to waste. Therefore it is not uncommon to see them paying more than 10 Million RMB

all in once. Finally, also Japanese companies are quite noticeable in this matter. An example is provided by Isetan, in Chengdu.¹²⁸



Figure 44: Chinese distribution channel – Off-trade configuration and composition

Source: Zhongguo Wine

ON TRADE DISTRIBUTION CHANNELS - Ho.Re.Ca

On Trade means that the place of consumption is “on site”, the same site where the wine is purchased.

The On-trade business is composed by 5* hotels, gourmet restaurants, clubs and high-end boxes, and the rest (small restaurants, small bars, the Chinese restaurant).

128 Lucas Botebol, “Market and marketing of imported wine in China – Distribution Networks”, in Zhongguo Wine, July 26th 2012.

<http://www.zhongguo-wine.com/2012/07/26/market-and-marketing-of-imported-wine-in-china-distribution-networks/>

- **Western Hotel chains**

Wines prices in hotels are always the most expensive, which leads to suppose that is because of the top quality of products and services they offer. Actually, hotels do not pay the right attention in evaluating the brands of the wines they sell. This is because in China is in force the “Guangxi” rule, which favors the good relationships at the expense of the good quality. Just few hotels’ owners know the wines that they offer at unreasonable prices. In fact, Hotels often have two wine lists: one “official” and the other informal, which allows them to insert the wine of their friends. In addition, The problem of big hotel chains is that they have a list of wines imposed at the global level by the groups they belong to (for example Accor or Starwoods) and one imposed at the country level, leaving the Food and Beverage director / manager a very limited space to manipulate. For this reason it is really difficult to enter in the business.

- **International Restaurants chains**

International restaurant scenario is dominated by U.S. companies. The big restaurants have a significant margin of decision, and their wine list provides a better rotation of wines.

- **Chinese restaurant**

The majority of clients of Chinese restaurants are local people. The biggest issue imported wines have to face here is the difficulty in combining foreign wine with Chinese food. This is one of the main challenges for Italian wines.

- **Bar, Cafè and Club**

These places are generally exclusive places, which attract international clients or young local clientele, more inclined to western consumption.

- **Karaoke & KTV**

Karaoke and KTV are very popular in China, and are the favorite place for Chinese leisure and entertainment. The consumption of alcohol and spirits in this type of rooms is very high.



Figure 45: Chinese On-Trade distribution configuration

Source: Zhongguo Wine

- *In China, the distributors tend to mark-up imported wine as much as 100 to 200 %, and restaurants and hotels typically add 250 to 300 % to the distributor price.*

CHINESE DISTRIBUTION CHANNEL SYSTEM

Chinese domestic wineries distribute their wine mainly using three channels:

1. Restaurants and liquor stores by securing deals with the help of agents. There are also some state-owned distributors who deliver nationally;
2. Supermarkets;
3. Large warehouse in big cities or agents or businesses who sell wines through the method of direct purchases.

The configuration of the distribution system in China is provided by *Figure 46*.¹²⁹

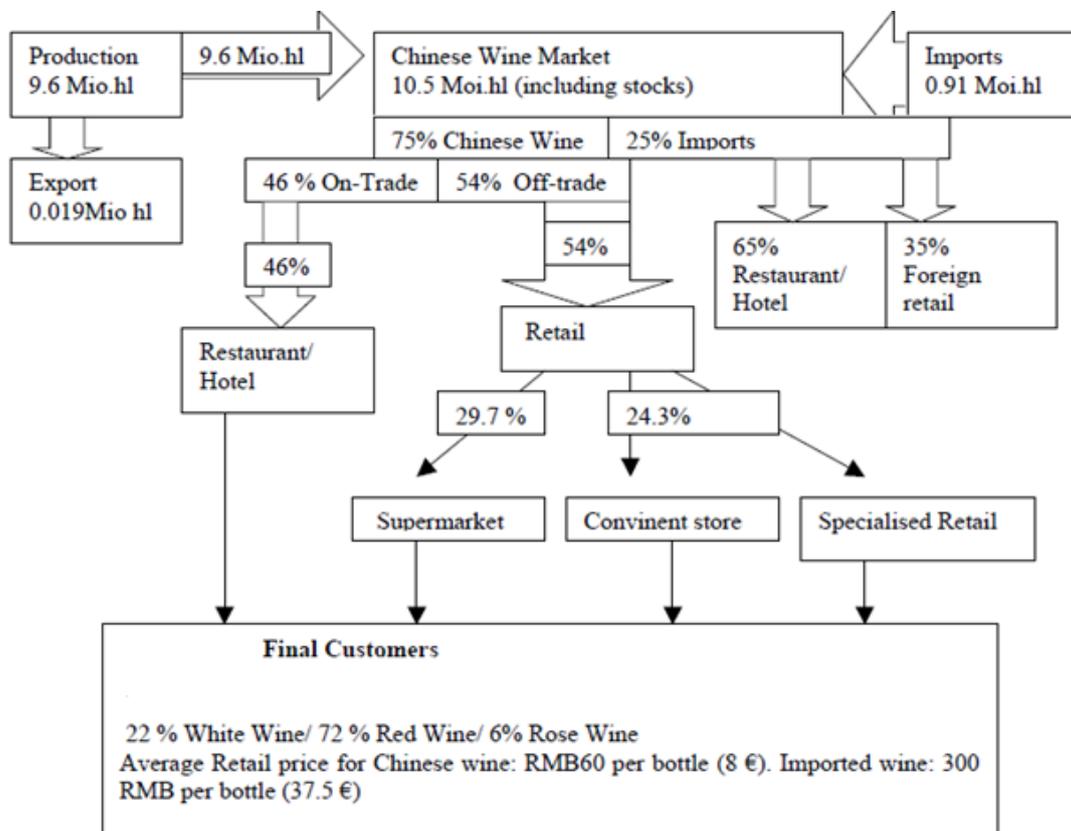


Figure 46: Distribution system for Chinese (local) wines, updated to 2010

Source: Data from Euromonitor, 2010 and Wine China online & Wines-info.com

129 Tatiana Bouzdine-Chameeva, Wenxiao Zhang, "Wine distribution channel systems in mature and newly growing markets: Germany versus China", April 2013.

<http://academyofwinebusiness.com/wp-content/uploads/2013/04/Zhang-Bouzdine-Chameeva.pdf>

IMPORTED WINE DISTRIBUTION CHANNELS

National distribution channels dedicated to imported wines are still at an early stage of development. Chinese imported wine goes through distribution channels totally different from those used for the local wines. If on the one hand the majority of local wines are sold in supermarkets, on the other hand, imported wines (which accounts for 19% of the Chinese total wine consumption) are sold mostly in hotels restaurants and international retail chains. Therefore the leading distributors of imported premium wine are still foreign companies.

According to the Wine Intelligence report of 2012, the major international retail chains (Auchan, Carrefour, and Metro) represent 35% of sales of imported wines.

These chains are particularly appreciated by Chinese consumers mainly because of the fact that they trust them. In fact, these international supermarket chains provide an idea of quality and authenticity, so that, Chinese can be sure of not finding here fake products or bottles. Nevertheless, the main advantage of the Ho.Re.Ca distribution channel is that restaurant and hotels can import directly the wines, provided that they sell it directly to consumers. Imported wine sales are concentrated in the Tier 1 cities of Beijing, Guangzhou, Shanghai and Shenzhen, which all together account for 80% of total sales.

In those cities competition in imported wine sector is increasing, leading to signs of saturation and over service already. Therefore the distribution configurations are gradually evolving into different and new retail systems and specialized shops. Looking forward, the Chinese wine market will have important evolutions. Because of the government's plan concerning the economic development of China interior regions, imported wine consumers of the future will also belong to Tier 2 cities. As these new wine consumers enter the market, price will be an important consideration in addition to packaging. However, Tier 1 cities will still remain the main market for imported wine.¹³⁰

130 Tatiana Bouzdine-Chameeva, Wenxiao Zhang, "*Wine distribution channel systems in mature and newly growing markets: Germany versus China*", April 2013.

<http://academyofwinebusiness.com/wp-content/uploads/2013/04/Zhang-Bouzdine-Chameeva.pdf>

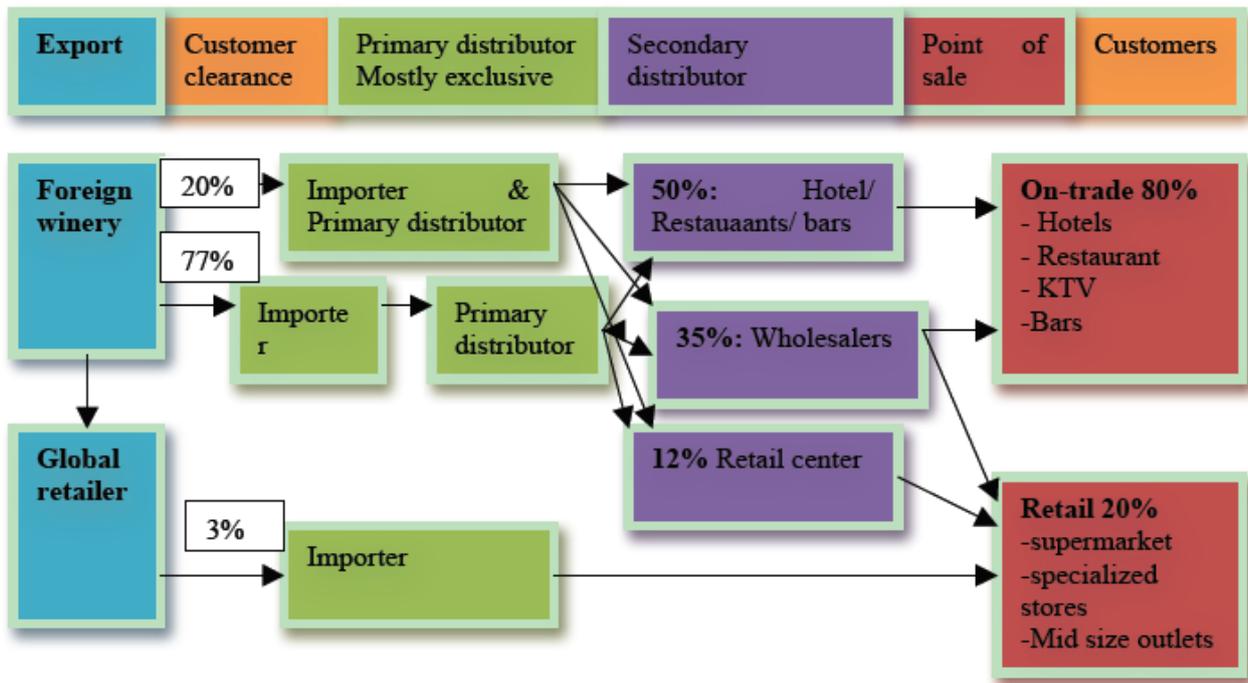


Figure 47: Distribution channel structure of imported wine in China

Source: Tatiana Bouzdine-Chameeva, Wenxiao Zhang (2013) on Rabobank data

The main trend to notice is that in 2010 on-trade (Ho.Re.Ca.) accounts for 80% of the imported wine sales in China. Whereas during the next two years the major foreign retail chains (Carrefour, Metro, Auchan) gain larger shares in wine sales. As said before, in 2012 they present 35% of sales of imported wines. This happens because the more mature market is, the more off-trade develops, and the shorter the channel becomes.¹³¹

WINE SHOPS

In recent years in the Tier 1 cities is growing the number of stores specialized in the sale of wines. These specialized shops are called Wine Shops and the majority of them are managed by the respective trading companies. In fact, the wines sold in these stores are imported through the trading companies. Even though, in order to widen the variety of

¹³¹ Tatiana Bouzdine-Chameeva, Wenxiao Zhang, "Wine distribution channel systems in mature and newly growing markets: Germany versus China", April 2013.

<http://academyofwinebusiness.com/wp-content/uploads/2013/04/Zhang-Bouzdine-Chameeva.pdf>

products, wine shops also distribute wines from other companies. The reasons why companies are starting to open these kind of shops are mainly two. First of all, the wine shop becomes a presentation window for imported wines. In fact, here consumers are sure to find wines, because of the fact that these shops are entirely dedicated to the sale of this product. Therefore, being sold in a wine shop a wine becomes more known by consumers, who increase their awareness and knowledge of wine. Moreover, these wine shops have the aim of being a form of targeted distribution for direct sale to the final consumer. The wine selected to be sold in those places have as a target a Chinese who look for and who appreciate wine. Thus, it is avoided the problem, instead present with the supermarket channel, of targeting every kind of consumer, incurring in the risk of make positioning and targeting mistakes.

In wine shops are organized courses and tastings that stimulate consumer in evolving from “drinking” to “tasting”. The wine shops provide for the education of Chinese consumers, educating them in recognizing and drinking good quality wine. In addition, they also provide for the need to find a new class of young professionals, who speak English, and who can become the new generation of Chinese sommeliers.

PRICE OF WINE IN CHINA

The price of wine varies a lot in China. Domestic wines are sold primarily at the lower end of the pricing spectrum, while imported wines are sold at the mid-to-higher end. The average retail price at the lower end ranges from 20 RMB to 30 RMB (2,50 € - 3,75€) per bottle. Mid-range wines are sold for 30 RMB to 80 RMB (3,75 € - 10 €) per bottle and are aimed at consumers with higher disposable incomes and more exposure to wine. Premium wines sell for 80 RMB (10 €) and up per bottle.

Imported wines typically range from 80 RMB to 400 RMB (12 € - 58 €) per bottle and are in direct competition with high-end domestic wines.

Medium price in RMB by price band			
TYPE	Low	Medium	High
Red Wine	60 -150	150-300	300 - 800
White Wine	60 -100	100 - 200	200 - 300
Spumante	70 - 200	200 - 400	480 - 500

Figure 48: Average price for imported wines in China

Source: Own representation on web data

To the price of the wine is usually associated the type of distribution channel. Quality wines, which are the ones sold at higher prices, cannot be found in supermarkets, which use to sell low end price wines.

APPLYING THEORY: WAYS TO ENTER THE CHINESE WINE MARKET

As we have seen, a company has different configuration strategies to choose among in order to enter a foreign market. These are schematized in the graphic below.

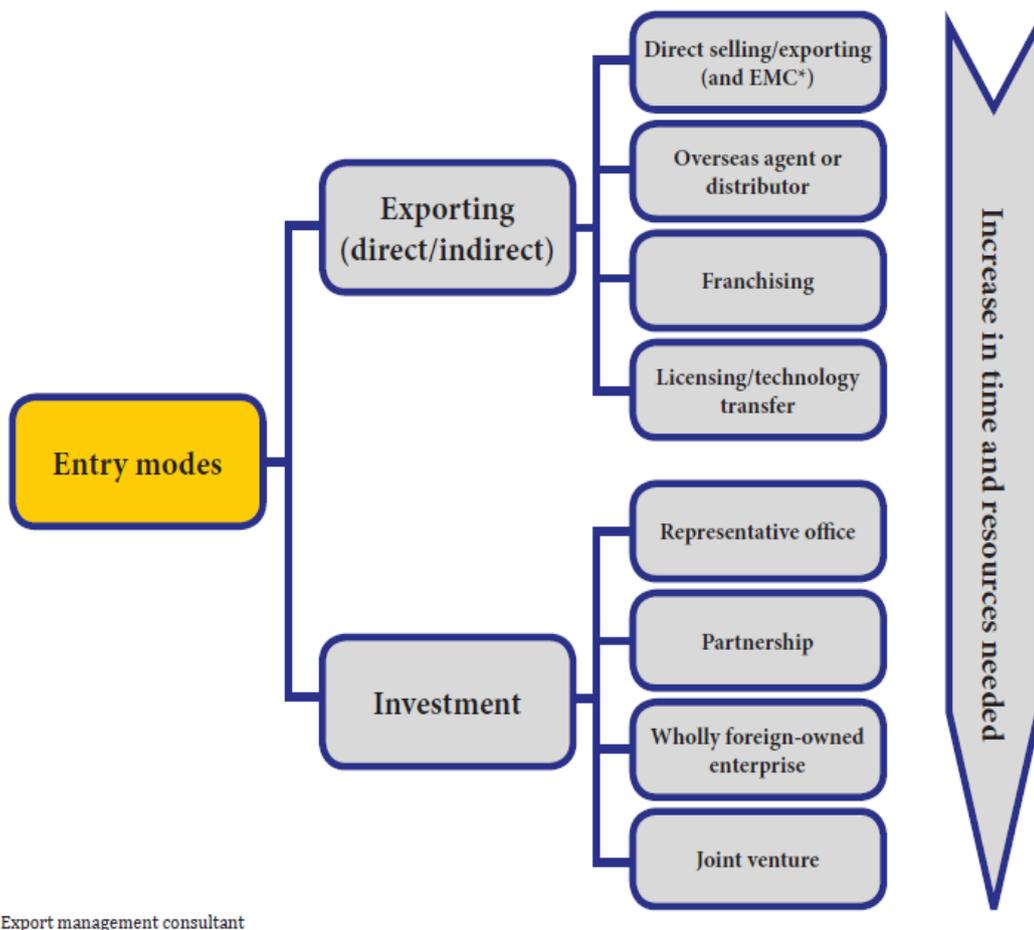


Figure 49: Entry modes with relation Chinese market

Source: EU SME Centre (is a project funded by the European Union)

Now we are going to analyze each of them with a focus on the market which is the object of this study.

EXPORTING IN CHINA

For companies that wish to do business with China, but without wishing to invest in the country directly, exporting offers the potential for high profit gains, but will also require considerable time investment.

According to the Chinese law, in order to export to China is required the engagement of a company which has the license for import or export goods. This company must be registered in China and it is called “importer” (a company registered in China with the license of import/export).

Such a company can be a buyer and thus importer in the general sense, but most often it is only a service provider/intermediary assisting with import (bringing the goods across the border and facilitating international payment).

Practically speaking, direct export is suitable for unique products of smaller quantity where a developed distribution network is not necessary (as wine), or for export of services or technology.

In addition, using this export configuration, the company is in charge of doing market researches, carrying out all the necessary administrative requirements, meeting standards and certification requirements and the necessary labeling requirements. All these procedures require times and money. On the other hand, the higher gains come from cutting out any middleman (intermediaries, agents and so on) and avoiding the costs of setting up in China. Finally, because of the huge commitment it requires and because of the direct presence on the market, the company will gain a deep understanding of the customers, processes and market itself, which is essential if the company is strongly vertically integrated.

ENTERING CHINESE WINE MARKET: THE CHINESE PARTNER

In China it is not possible to export directly. So that, it comes out a configuration of the supply system, which is depicted in the *Figure 50*.

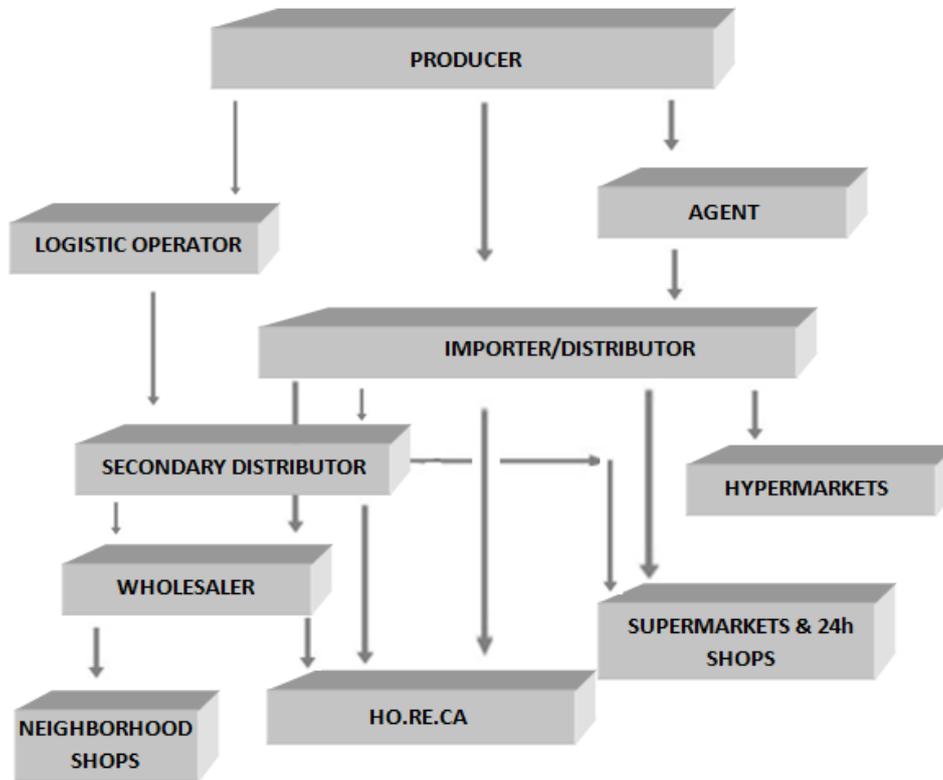


Figure 50: Chinese supply system configuration

Source: Own representation on Chamber of Commerce of Zaragoza

To be able to import their products in China foreign wine producers need to rely on a licensed importer and distributor (often both roles are performed by the same figure).

An importer is required to clear wine through customs. The importer can be an institutional intermediary or a private intermediary.

The institutional intermediaries are organizations which operate as a bridge between the foreign winery and the local Chinese market. They are extremely useful for all those small wineries which cannot support the huge investments required by Chinese market in terms of market and partner research. These institutional intermediaries could be private

organizations, if they are consulting firms, or public organizations, such as Enoteca Italiana.

On the other hand, the private intermediary is a single person. He could be a simple importer, or an importer/distributor, who is a distributor with a license for importing. Sometimes the importer/distributor is a restaurant. However, restaurants have restrictions on imports, so they usually engage a local distributor.

If the importer is not also a distributor, then the importer has to sell wine to local distributors, adding margin over margin.

For this reason, the majority of distributors in China have also the license as importer, in order to cut out all the useless middle-person, gaining in this way higher margins.

Importers and distributors can be classified according to their size and the country of origin. So that they are distinguished into: large international importer and distributor, large Chinese distributor, medium-small foreign importer, medium-small Chinese distributor.

The major large international importers which operate in the Chinese wine market are: ASC Fine Wines, Aussino, Torres, Mercuris Fine Wines and The French Paradox.



Figure 51: Main Chinese importers

Source: Zhongguo Wine

The problem in China is that distributors want to interface themselves directly with the wine cellar. This happens because in this way they have the impression of controlling better the relationship, precisely because there are no middle-person.

In a market such as the Chinese one, the presence of a local operator is quite essential, because of the diversity and the peculiarity of the market. The main problem of the Chinese market is that information is not fully transparent and available. Especially in Beijing, the seat of the antique regime, the free spread of ideas and information is still not possible.

The local operator for Italian wineries could be embodied by distributors or agents.

A distributor buys company's products. Then he sells them to customers directly or through a third party (this is the case of Ho.Re.Ca. channel).

Distributors are divided into large international distributors, large Chinese distributors or medium-small Chinese distributors.

Large International distributors are:

- **ASC Fine Wines**

ASC Fine Wines is China's leading wine import and distribution company, in particular for the Ho.Re.Ca sector, where it is present with brands such as Santa Rita (Chile), Penfolds and Wolfblass (Australia), Domaine du Baron de Rothschild (DBR). It was founded in 1996 by an American importer of Jeep in China. By that date, ASC Fine Wines has shaped the imported wine market in China, bringing great wine and wine culture to millions of people across the country each year. Having to face an extremely rapid changing market, ASC offers unparalleled access to the world's most exclusive brands, the best wine expertise and service, and established routes to market in every corner of the country.¹³²

132 ASC Fine Wines LinkedIn profile @ <https://www.linkedin.com/company/asc-fine-wines>

- **EMW Fine Wines (East Meets West Fine Wines)**

Created by two French and a Chinese girl, EMW is a small rising business. It specializes in family owned wineries from the most prominent regions in the world.

They are now exclusively distributing more than 400 labels from 10 different countries to Hotels, Restaurants, specialized wine shops, high-end retail chains and private customers all over China. It is focused on high quality wines, carefully selected and professionally marketed and distributed. They are today playing an active role in the market place, implementing and providing wine education programs in China.¹³³

- **Summergeate**

It is a US company, today one of the leading wine service providers in Greater China. Summergeate was founded in 1999 and today imports, distributes and markets a powerful line-up of carefully selected global brands that are best-in-class for reputation, quality and value. Summergeate's brand portfolio in Mainland China consists of more than 60 of the world's finest wineries, each carefully selected from 12 of the world's leading wine-producing countries.

Today Summergeate manages offices all around China, which are located in Shanghai, Beijing, Shenzhen, Guangzhou, Chengdu, Hangzhou, Qingdao, Shenyang, Xiamen, Sanya, Macau and Hong Kong. The company's value proposition is to offer classic but also novel cutting edge wines and to put wine knowledge and customer care at the centre of Summergeate's services.¹³⁴

133 EMW Website, "*Our story*".

<http://en.emw-wines.com/about-emw/our-story/>

134 Summergeate LinkedIn profile @

<https://www.linkedin.com/company/summergeate>

- Torres

TORRES CHINA was established by Miguel Torres in 1997 with the integration of Baron Philippe de Rothschild as a key shareholder in 2007. TORRES CHINA carries out the commitment and passion of these two legendary European wine families, placing it amongst the leading wine distributors in China, with offices in eight major cities and over 400 wines from 14 countries. The portfolio is composed by wines belonging to the most renowned wine-producing regions and from families that present the best inheritance of winemaking.

The Torres's team provides customers with wine expert advices and education, event planning and organization, wine accessories and preservation solutions.¹³⁵

Reminding the main Chinese importer it comes out how, some of them are also distributors (as previously said many distributors are endowed with the import license, to cut off middle-person and margins). On the one hand, the main advantage of using a distributor is that it is a cost-effective solution. Moreover, he offers foreign wineries a relatively easier way to enter the market. On the other hand, talking specifically about China, finding a distributor able to cover all Chinese territory is highly difficult, because there are only a few companies which have a distribution network so much spread that it covers all China regions. In addition, if the winery relies on a single distributor, it becomes completely dependent to a unique partner, having the market performance totally linked to the distributor's performance, which is highly risky. For these reason, the better configuration would be finding multiple small local distributors, who can guarantee a widespread geographic presence reducing the dependency risk. Differently, an agent is the local company's direct representative. In China, the agents of the Italian wineries promote (not sell) to distributors or importers as emissaries the cellar itself. If agents are distributors they are real salesman who signs orders from restaurants. Agents are normally paid with a fee and/or a commission and their main role is to help company in selling its

135 Torres LinkedIn profile @

<https://www.linkedin.com/company/torres-china-wine-trading-co.-ltd>

products and in creating relationships and networks. The agent, as already said before, is a person who has a deep knowledge of the market and its procedures, so that he has the capability to promote foreign products overcoming barriers such as language and cultural distances. In China, you cannot hire an agent as an employee from overseas but he can enter into a service contract if he has his own company. An agent works more closely with the firm whereas a distributor works more closely with customers. For small and medium-sized companies, entering the China market through a well-known agent or distributor is one of the easier ways to enter China. Sales agents and distributors provide all the assistance a firm may ask for. They keep track of policy and regulation updates, both locally and nationally, collect market data, and quickly respond to changes. They are effectively the eyes and ears on the ground. However, finding a dedicated, reliable, professional and credit-worthy agent/distributor requires work. Embassies and chambers of commerce are often contacted by agents who offer services. Likewise, many agents and distributors will advertise their services online and can be met at relevant trade shows.

CONTRACTUAL AGREEMENTS IN CHINA: FRANCHISING & LICENSING

FRANCHISING

The revised Regulation on Administration of Commercial Franchise was published in February 2007 by China's State Council. It sets up the rules legally binding for both domestic and foreign franchisors who engage in commercial franchising in China. In agreement with the new regulation, only enterprises may engage as franchisors. Which means that neither individuals nor other single entities, other than enterprises, may engage in the franchising business as franchisors. The new regulation sets up some rigid constraints for the franchisor. In addition to the restrictions on the types of entities that are allowed to engage in franchise activity, the franchisor is now required to possess a mature business model and the ability to provide long-term business guidance, technical support, business training and other services to the franchisee.

Moreover, in order to start a franchising activity the franchisor shall further have at least two direct sales stores and undertaken the business for more than one year. The law backs this requirement up with a fine of up to 500,000 RMB for violation of this provision.¹³⁶ Franchisors must be transparent with the franchisee, and he has to allow the franchisee to make an educated decision concerning investment in the franchise providing sufficient information, which includes also the text of the franchise contract, which has to be presented at least thirty days before the conclusion of the agreement. Then, talking about the documentation and the administrative procedures, within 15 days after executing his first franchise contract the franchisor has to register the franchise agreement with the appropriate authorities and submit the following documents:

- Business license or enterprise registration certificate;
- Sample of the franchise contract;
- Franchise operation manuals;
- A marketing plan;
- Written undertaking and evidence that the franchisor's qualification requirements have been met;
- Other documents and materials as required by the commerce department under the State Council.

The regulations additionally require foreign companies that intend to establish a franchise engaging in commission trade, wholesale, retail and franchising in China, to do so through a foreign-invested enterprise within China. The EU SME Centre, the project of the European Union to provide assistance to member states, in its report on Chinese market, provide some interesting and relevant tips which can be very useful for new-to-China franchisors. The advices are mainly related to the different stages of market penetration: from the initial entrance in the market, to the phase of setting up the business, to finally the

136 Bill H. ZHANG, "China's Commercial Franchising Regulation Protects Investors' Interests, Strengthen Franchisors' Liabilities", by China Sunbow Law Firm, in HG.org.

<http://www.hg.org/article.asp?id=7829>

phase of market presence consolidation. Firstly, once a firm is entering in China, the first thing it has to do is to register its name and its trademark with Chinese authorities. This can be very useful to avoid unpleasant situations with competitors which can try to steal the trademark registering it for themselves and so prohibiting the company to use it as its own one in the Chinese market. Then, it is important that the firm acquires a stable local position, engaging a franchise partner in the same industry with channels of distribution, industrial connections and good relationship with government organizations. The choice of partners is very important because they must be able to operate in the local business environment. Finally, it is fundamental to adapt the strategy to local requirements. China is extremely different from Europe and cultural differences become notable. Firms that accommodated their products and their offering to local cultural habits turn out to be successful, such as McDonalds, KFC, and Starbucks that have all developed products for the unique tastes of their Chinese customers.¹³⁷ In accordance with the Regulations on the Administration of Commercial Franchises, a commercial franchise usually exhibits the following 3 characteristics:

1. The franchisee is authorized through a license agreement to use the franchisor's business resources, including trademarks, patents, know-how etc.;
2. The franchisee undertakes business operations under the uniform business model;
3. The franchisee pays franchising fees to the franchisor.

When an arrangement satisfies the pre-requisites above, the franchise regulations are applicable.¹³⁸

¹³⁷ EU SME Center, "*Ways to enter the Chinese wine market*".

http://www.ccilc.pt/sites/default/files/docs/2eu_sme_centre_ways_to_enter_the_chinese_market_en.pdf

¹³⁸ Yu DO, "*Intellectual property licensing in China*", by MMLC Group, in HG.org.

<http://www.hg.org/article.asp?id=35379>

LICENSING

License arrangements in China include trademark licensing, patent licensing, copyright licensing, intellectual property licensing agreements for all types of IP, and technology/know-how licensing.

We will go through more in detail on trademark and patent licensing, because these are relevant for the wine market.

Trademark licensing is regulated by the Trademark Law and the Measures for Putting on Record of Trademark License Contracts.

Signing a trademark license agreement implies that the trademark registrant is authorizing other parties to use its registered trademark, which, in order to be registered, must indicate the name of the licensee and the origin of the goods. The license agreement should be registered with the Trademark Office within 3 months by the date of the signing of the agreement, even though today this is still not compulsory. The right to sub-license a trademark or service must be granted contractually with the authorization or the consent of the licensee because it does not exist statutorily.

Patent licensing is regulated by the Patent Law. Every type of patent including invention, utility model and design can be licensed by signing a license agreement. According to the Patent Law, the licensee has no right to authorize any entity or individual, other than that referred to in the agreement, to use the patent. The licensor should register the license agreement with the Intellectual Property Office.¹³⁹

The technology/know how licensing can be shaped in two ways:

- Licensing the technology to an unrelated Chinese company;
- Investment together with technology transfer: Some companies may wish to combine technology transfer with investment through a joint venture or through

¹³⁹ Yu DO, "Intellectual property licensing in China", by MMLC Group, in HG.org.

<http://www.hg.org/article.asp?id=35379>

WOFE. In the case of WOFEs, IP risk should be managed by reducing or preventing leaks by employees and business partners.

Licensing contracts must be approved by and registered with the Ministry of Commerce. Moreover, once a firm has to consider the licensing, it has also to decide among the different types of licensing, which differ from the exclusivity granted to licensee. They are divided in: exclusive, sole, or non-exclusive license. Exclusive license allows to use the licensed intellectual property within the geographic scope and during the term specified in the license at the exclusion of all others, including the licensor. Differently, a sole license does not prevent the licensor from using the intellectual property within the geographic scope and during the term specified in the license. In China, exclusive licensees obtain a right by law to initiate proceedings against infringers based on its license rights. Finally, a sole licensee, unlike an exclusive licensee cannot initiate an infringement suit entirely independent of the licensor. If sublicensing is permitted, the contract should clearly specify this. If a firm signs a non-exclusive license, it retains the right to license its intellectual property to more than one licensee. In China, the extensive, complex, and at times onerous licensing system at all levels of government can result in significant delays, added costs, and lost revenue for companies. A research ran by the US-China Business Council's (USCBC), observes that administrative licensing is listed as the third main concern companies have in China market. The report shows that companies frequently encounter problems in five broad areas: transparency, expert panel reviews, disclosure requirements, third-party consultant recommendations, and licensing associated with joint ventures. These problems occur during reviews at the central, provincial, and municipal levels. All these obstacles made licensing not such a good alternative to use for entering China market. Companies face problems particularly in relation to documentation requirements, regulatory implementation, and procedural timelines (due to the lack of transparency as we said before). Moreover, as has emerged from the depositions of Italian producers, there is a high risk of intellectual property theft. To help manage the licensing process, businessmen interviewed by the USCBC suggested that companies should

establish strong relationships with local government officials involved in the licensing and approval process.¹⁴⁰

SETTING A REPRESENTATIVE OFFICE IN CHINA

As we have previously seen, representative office is one of the direct export configurations. A representative office represents the foreign company in China. It has been traditionally used as a first step to gaining a foothold/presence in China. RO guarantees firms a physical presence in China and can be seen as the first step of a long-term entrance strategy. To register and establish a RO, a foreign company must register with the Administration of Industry and Commerce, a process that takes about three months. A RO is not a legal entity but rather a liaison office for the company's headquarters in the home country. As a liaison office, the RO is not allowed to engage in any profit making activities including manufacturing, production, sales and it is also prohibited to issue invoices. In addition, ROs may only undertake limited activities due to the fact that the foreign enterprise is responsible for all liabilities that may arise. For example, ROs cannot issue receipts or sign contracts on its own behalf since all legal actions are done on behalf of the headquarter. The compliance with the law is strictly ensured through annual inspection conducted by the local Administration of Industry and Commerce and tax authorities who control that ROs are taxed in accordance with relevant regulations. The main functions of a RO are to perform market analysis, promote products of its headquarter, coordinate marketing activities, liaise with European clients that have a presence in China, encourage technology exchanges, conduct research and provide data and promotional materials to potential clients or trading partners, act as a coordinator for the foreign enterprise's activities in China, make travel arrangements for the foreign enterprise representatives and potential Chinese clients. The lack of a minimum capital requirement to register an RO in China ensures the company will not engage in market

140 THE US-CHINA BUSINESS COUNCIL (USCBC), "*Licensing Challenges as Best Practices In China*", January 2014. <https://www.uschina.org/sites/default/files/Licensing%20Challenges%20and%20Best%20Practices%20in%20China-Jan%202014.pdf>

activities and only manage existing relationships. A Representative Office can employ Chinese citizens and up to 4 foreigners. Chinese should be hired through an employment service agency authorized by the government. This expedient can be useful to gain a deeper knowledge of the market, because the legislation allows foreign enterprises to have a Chinese as a staff member of the RO (a Chinese is supposed to have widespread knowledge of Chinese market and even in negative case, he surely has a network of connection to exploit). ROs might thus be useful for: Market research to explore the market and its opportunities, networking with Chinese companies, Quality control of products distributed in China.¹⁴¹

ROs in China are limited in their legal and operational status. The major advantages and disadvantages of setting up a RO are the follows:

REPRESENTATIVE OFFICE	
Advantages	Disadvantages
One of the quickest and easiest methods of establishing a presence in China	Taxed even though they cannot generate profits
No restrictions on type of business	Cannot easily be transformed into a WOFE
No minimum capital requirement	Must undergo annual inspection
	Limited to four foreign staff members

Figure 52: "Representative Office Advantages and Disadvantages"

Source: Own representation on EU SME Centre Report

141 ECOVIS (2014), "Doing business in China Guide", Beijing, China.

http://www.ecovis.com/fileadmin/countries/china/how_to_start_up_a_business_in_China.pdf

FDI IN CHINA: JOINT VENTURES AND WHOLLY OWNED SUBSIDIARIES

JOINT VENTURES

Legislation regulating JV in China is really extensive and comprehensive. This because for a long time, until China became a WTO member in 2001, Joint Venture was the only way for foreign companies to enter the Chinese market. Still today in some industries, for example in the automobile and energy industry, it is mandatory to set up a joint venture when entering the Chinese market. The most evident advantage of JV approach is that the foreign firm can take advantage of the familiarity, the knowledge and the established network of relations that the Chinese partner has tied with other businesses and local authorities. Moreover, the foreign firm can benefit from the use of local partner's existing workforce and facilities, exploiting its existing channels for sales and distribution. Even though, it is not so easy to find the right partner and to negotiate fair agreements (as we have seen fairness of partners is a crucial problem in Chinese market). JV though, implies also some difficulties, which are mostly given by the Liability associated with inheriting staff, the risks with technology transfer and intellectual property management and the conflicts with the partners due to different interests. Even if the main problem in setting up a JV in China is related to the cost and the complexity of the establishment. In fact, Chinese authorities carefully inspect all documents presented to them and may ask for clarification or changes.

There are two types of joint ventures: Equity Joint Ventures and Cooperative Joint Ventures.

Equity Joint Ventures

A Chinese-foreign equity joint venture is a JV structured in the form of a Chinese limited liability company, with a societal capital provided by both a Chinese enterprise and a foreign party and in which both parties agreed on management and the division of risk. The foreign investor's capital in an EJV must account for at least 25% of the registered capital (with exceptions). EJVs must have a two-tiered management structure made up of

a board of directors and a management team (general manager and deputies) that is contractually appointed and legally responsible for the daily operations of the company. The EJV structure is much more rigid than that of the CJV, particularly with respect to profit sharing. Parties share profits, risks and losses according to their contributions to the registered capital. Profit is distributed in the form of dividends to the parties in proportion to each party's respective ownership interest.¹⁴²

According to the Investment Catalogue, in some specific industries the Chinese party is required to have control over the JV. In this case the foreign party is not allowed to own more than 49%.

EJV approval process

The time needed to establish an EJV is usually longer compared to the establishment of a WOFE. This happens because in this case a Joint Venture contract is required.

If a firm applies for approval at central level, the competent body is the MINISTRY OF COMMERCE PEOPLE'S REPUBLIC OF CHINA (MOFCOM). Otherwise, a firm willing to propose an EJV at a provincial level may apply to the provincial bureau, providing documents which satisfy certain requirements. These are:¹⁴³

- Business scope is aligned with the encouraged categories listed in the Investment Catalogue;
- Total investment is less than 1 million RMB;
- The EJV is self-financed;
- It does not affect foreign trade quotas; and
- It does not require China to allocate additional raw material.

142 ECOVIS (2014), "*Doing business in China Guide*", Beijing, China.

http://www.ecovis.com/fileadmin/countries/china/how_to_start_up_a_business_in_China.pdf

143 EU SME Center, "*Ways to enter the Chinese wine market*".

http://www.ccilc.pt/sites/default/files/docs/2eu_sme_centre_ways_to_enter_the_chinese_market_en.pdf

Cooperative Joint Ventures

A Cooperative Joint Venture (CJV) is a partnership between a Chinese enterprise (or organization) and a foreign enterprise (organization or individual). A CJV can have a partnership based form or an incorporated arrangement form with a limited liability company or a non-legal person (similar to a partnership formed by contract), or as an unincorporated business, being based on contractual cooperation agreement (real CJV).¹⁴⁴

It requires the same two-tiered management as EJV's.

A Cooperative Joint Venture is similar in form but more flexible than an EJV.

In fact, CJVs are flexible with respect to capital injections, profit distribution and management structure. There is also a greater flexibility in the structuring of a cooperative venture is also permissible including the structure of the organization, management, and assets. There is no term for unlimited terms in cooperative ventures, but also no provisions for the term of the duration. CJV was a more common model in the past, when Chinese partners supplied land and labor, while the foreign partner supplied technology and capital. Ownership and profits or losses of a CJV are usually not shared based on equity or capital contributions but are handled on the basis of contractual agreement.

Wholly Foreign-Owned Enterprise

A Wholly Foreign Owned Enterprise (WFOE) is a limited liability company. It is 100% owned by one or more foreign investors and established entirely with foreign capital.

Today, the most popular entry option in China is to establish a Wholly Foreign-Owned Enterprise (WFOE). Over 80% of investors choose this investment vehicle when entering the Chinese market. This happens because the WFOE gives the company a higher level of independence, control, flexibility and security over its business activities. In fact, the

¹⁴⁴ EU SME Center, "*Ways to enter the Chinese wine market*".

http://www.ccilc.pt/sites/default/files/docs/2eu_sme_centre_ways_to_enter_the_chinese_market_en.pdf

foreign firm maintains the full (100%) control over the enterprise, its Intellectual Property Rights, trade secrets and technology are secured and the company becomes more flexible, acquiring a streamlined management systems. In addition, costs and time due to negotiating with the Chinese partner will be saved.

In china in certain industries such as high and new technology and equipment, development of new products as well as energy preservation, the government encourages foreign investors to set up a WFOE.¹⁴⁵

Entry Mode	Advantages	Disadvantages
Distributor or Agent	Cost-efficient and relatively easy to setup.	Little control over brand; often disappointing results unless support is provided by parent company. Risk of IP infringement.
Representative Office	Low-cost, easy way to establish a presence in China.	High running costs and cannot engage in profit-making activities. Difficult to disband and therefore not suitable if you want to expand operations. Not a viable method for product distribution.
Joint Venture	Able to benefit from Chinese counterpart's network and facilities; no steep learning curve; shared risks.	Less control; more receptive to IP infringements; high risk of failure due to culture, business and/or expectations mismatch.
Wholly Foreign Owned Company	100% control over operations; no third parties involved. Less risk of IPR infringements.	A long incubation period; difficult to disband; high initial costs; a steep learning curve.
Incubator / Support Platform	100% control over operations, low startup costs, access to local partner network, decreases risks and enables you to avoid common pitfalls.	Generally not suitable for very large MNCS, added value depends on incubators' industry expertise and experience, quality varies.

Figure 53: A strategic approach to market entry in China

Source: The Launch Factory

Theoretically speaking, firms have to follow consecutive steps in order to enter the Chinese market.

With the graphic presented below, it is provided a general framework concerning how to set up a strategic approach to enter Chinese market.

¹⁴⁵ CHINA.ORG.CN, "Guidelines for setting up a cooperative joint venture in China".

http://www.china.org.cn/living_in_china/abc/2009-07/15/content_18141054.htm

A strategic approach to market entry to China

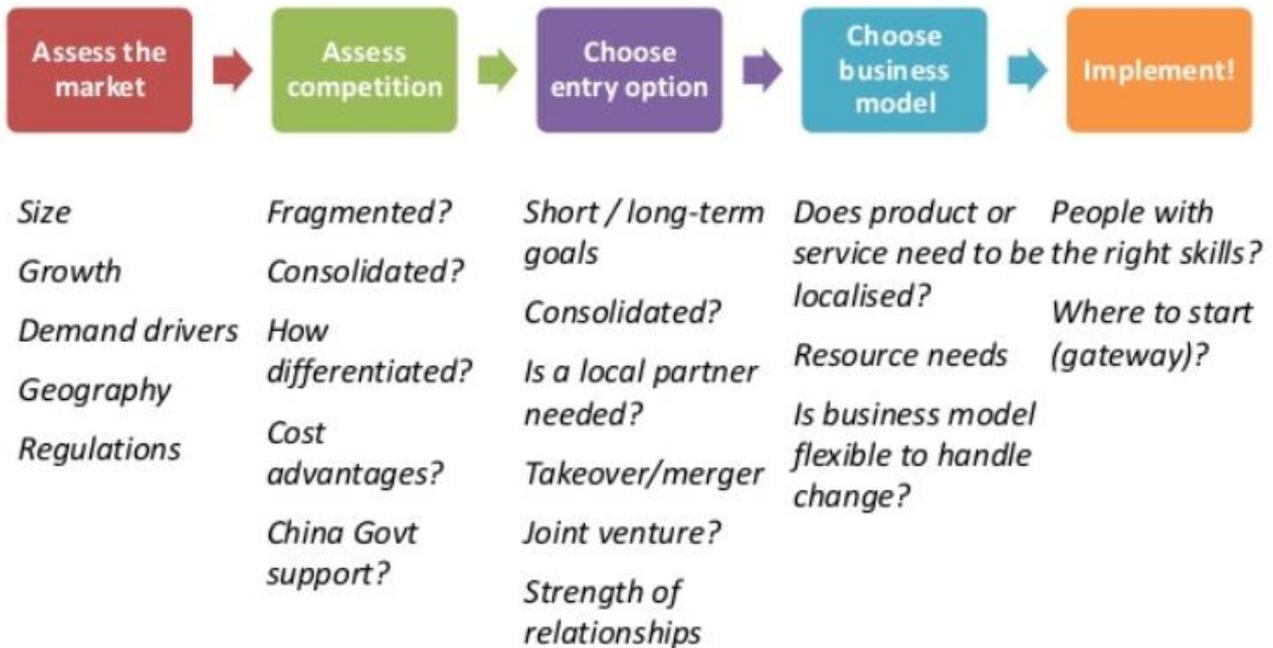


Figure 54: A strategic approach to market entry in China

Source: Slideshare

ONLINE AS A WAY TO ENTER CHINESE MARKET

In China, there are not many big wine distributors. But there are plenty of online wine distribution websites, such as WineNice.com, Jiuxian.com, Winekee.com, Wine9.com, Yemywine.com and so on. The website selling different kinds of wines ranging from the imported ones to domestic made ones with lower prices.

Many night clubs, wine stores and wine magazines have opened online stores where sommeliers from luxury hotels offer advices on choosing the wine for a fusion or for a special occasion. But most of these experts are French or English, knowing the French scene and not the Italian.¹⁴⁶

¹⁴⁶ Letizia Coccia, "Vino italiano in Cina, sfida "made in Italy", brindisi al successo", in China Forum, June 11th 2014. <http://www.cinaforum.net/il-vino-italiano-in-cina/>

INCUBATOR PLATFORMS: AN ATTRACTIVE ALTERNATIVE OPTION

In recent years in China alternatives entry modes have been developed. The most significant is provided by Incubator platforms. These are more cost-efficient methods that have opened up new opportunities, because they offers services and support to foreign firms for helping them in begin their business in China. Foreign firms would be supported with financial and legal advices. In this way, their entrance in the Chinese market will be made easier, and they have also the possibility of reducing the entrance risk engaging in sales under the host company's business license.

This entry mode method eliminates many of the disadvantages implied (as we have seen) by the previous approaches: there are no risks for intellectual property, it implies few resource investments and the commitment is not as rigid as in other method such as the Joint Venture. Nevertheless, foreign firm have to take care of selecting the right incubator platform, which is the one that is specialized in the industry of reference, so that it can provide firm with industry-specific advices, the needed resources and reliable partners or network.¹⁴⁷

Shanghai free Trade Zone (FTZ)

Another interesting development in China concerns the introduction of the Shanghai Free Trade Zone (FTZ). On 22 August 2013, the State Council approved the establishment of SFTZ. This is the first trial zone settled in China. The zone is being used as a testing ground for a number of economic and social reforms. Its main scope is to make easier for foreign firm to establish a presence in China, making, in the meanwhile, the business abroad easier for local companies. On the 1st March 2015 Chinese government has decided to extend the SFTZ, including other areas of Pudong district and replicating the experiment in the three municipalities of Guangdong, Fujian and Tianjin.

¹⁴⁷ Duco van Breemen, "*Distributing and Selling in China: The Best Entry Methods*", in Launch Factory, May 23rd 2014. <http://www.launchfactory88.com/distributing-and-selling-in-china-the-best-entry-methods/>

HONG KONG FOCUS and THE HOT ZONE OF SHENZHEN

Hong Kong is today the most mature wine market in Asia. This is made apparent by the consumption data. According to the statistics in fact, within 2017 the wine consumption in Hong Kong will reach 50 Million bottles per year. Moreover, the city maintains permanently the leadership for the highest annual per capita wine consumption. With the average of 5,4 liters, reached for the first time in 2012, Hong Kong drinkers consume wine almost twice as much as Japanese, whose average is three liters per person, and even more than Singapore drinkers, who consume 2,1 liters per year. In addition, the overall value of wine consumed will continue to grow by 18.6% between 2013 and 2017, reaching HK \$4.15 Billion (US \$535) by the end of the period considered. As for the Chinese Mainland, also in Hong Kong the most preferred type of wine is the Red, which accounts for the 83,6% of the total, whereas the Whites are gaining popularity, representing today the 13,7%. Sparkling wines hold a marginal presence, registering just a 4,2%.¹⁴⁸

Hong Kong represent a huge opportunity for imported wine, not only because it is a considerable market of wine consumption (as data report), but also because it is recognized as the wine market hub of Asia, due to no tariffs or taxes imposed on imported wines. Proof of this is the announcement made by the Minister Tsang, who officially announced the launch of the “Instant clearance”, a measure that allows distributors to Hong Kong to clear through customs the wine in the Chinese Mainland, in less time with respect to the time before required: three working days for those already distributed and less than seven for those who are not yet represented in China. Five ports are affected by this measure: Guangzhou, Shenzhen, Beijing, Shanghai and Tianjin.¹⁴⁹

In turn, Hong Kong remains a key strategic market for Italian wines. This is mainly due to two reasons. On the one hand, Hong Kong acts as a fast track for Italian producers

148 Vinexpo, “*The Wine and Spirits Market in Hong Kong with Prospects Until 2017*”, in Vinexpo Asia Pacific – Hong Kong, 2014.

http://www.vinexpo.com/media/cms_page_media/437/IWSR%20-%20Hong%20Kong%20-%20ANG.pdf

149 Wine Meridian, “*Più facile esportare in Cina grazie ad Hong Kong*”, April 2015.

http://www.winemeridian.com/news_it/piu_facile_esportare_in_cina_grazie_ad_hong_kong_872.html

exporting to the Chinese Mainland. On the other hand, given the high potential for internal growth, it represents an important outlet for the Italian labels. Imports of wine to Hong Kong recorded last year, an increase of 5,1%, with a total value of 984 Million Euro. In particular, the share of Italian wine in 2014 was 1,5% of total imports and, in the period between January and July 2015, according to ISTAT data, it recorded a further slight increase even though. These data confirm that Italy has both the numbers and the variety of production to gain the attention of consumers in Hong Kong, as long as Italy provides them with the tools to understand and appreciate the vast and varied wine scene of Italy.¹⁵⁰

Besides Hong Kong, today, many wine importers are indicating Shenzhen as best city for operations. This because it is close to Hong Kong and because it offers a valid alternative for importers, who are facing in Hong Kong an over-capacity crunch. Therefore, shipping the glut to Shenzhen appears the best option, making deliveries via cargo shipping, vehicles, rail and air freight. Once in Shenzhen, the bulk wine has to receive a customs' clearance. Then, it can be distributed anywhere in Mainland China, thanks to the numerous transport channels available. Nevertheless, the obstacles for choosing Shenzhen as a new hub for imported wine are due the recent enforcements on import regulations (which have been made stricter) made by the Chinese government. Jacky Shao, director of IT and Supply Chain - ASC Wines said: "The Customs-inspections-quarantine (QIR) documentation is much more difficult and time-consuming. To receive certification for distribution, more detailed information on received goods is required, while tax registration has gotten more complicated."¹⁵¹

150 Wine Meridian, "*La sfida di Vinitaly International all'Hong Kong International Wine & Spirits Fair 2015 per conquistare il mercato asiatico*", November 4th 2015.

http://www.winemeridian.com/news_it/la_sfida_di_vinitaly_international_all_hong_kong_international_wine_spirits_fair_2015_per_conquistare_il_mercato_asiativo__861.html

151 Li Kun, "*Chinese sip stronger taste for imported wines*", in CCTV.com, 13th November 2015.

<http://english.cntv.cn/2015/11/13/ART11447405481395779.shtml>

CHAPTER 3

ITALIAN POSITION IN THE CHINESE WINE MARKET

"For Italian wines the Chinese is a not so easy but very interesting market" says Camillo Cametti, Vice President of Verona Fairs. Italy's position in the Chinese wine market is still marginal. As it was said before the field of imported wines in China is dominated by French, followed by Australia and Chile. Italy, in a decade, has seen its market share falling, from 14.2% in 2001 to 6.5% in 2011.¹⁵²

Today Italy occupies the position number four with Spain for import market share and the number five for bottled wines (the wine category with the higher import share in China).

Thus, Italy has a stable export with a share of around 7%.

Nevertheless Italian wine, known and recognized as renowned and prestigious, has managed to carve a quite narrow niche. Italian wine in China is increasing its presence over the last years. Today Italy deploys over the Wall more than 50 brands from all regions. In addition, Italian wineries growth rates have increased, even if it is still lower than competitors such as France (+57%) and Spain (+37%). In the first 9 months of 2015, imports of Chinese wine tricolor grew by almost 20% in value (+14% of the amount).¹⁵³

The delay of Italy in the Chinese market is clamorous, especially taking into account the fact that Italy gained in 2013 the scepter of the world's largest producer of wine. In fact, Italian wine production represents 17% worldwide and 30% in Europe, with a total value of nearly 9 Billion Euros.¹⁵⁴

152 Il fatto alimentare, "Vini italiani in Cina: le premesse necessarie per entrare nel promettente mercato asiatico", February 13th 2015.

<http://www.ilfattoalimentare.it/vini-in-cina-mercato.html>

153 IGrandiVini.com, "Cina: 1,3 miliardi di euro è l'import di vino nel 2015 (+60%)", in News, October 2015.

<http://www.igrandivini.com/cina-13-miliardi-di-euro-e-limport-di-vino-nel-2015-60/>

154 Letizia Coccia, "Vino italiano in Cina, sfida Made in Italy, brindisi al successo", In china forum, June 2014.

<http://www.cinaforum.net/il-vino-italiano-in-cina>

This year (2015) the production of wine is estimated at 47 million hectoliters, 12% more than the 42 million established by ISTAT in 2014. The leap of Italy is confronted with a weakening of France, with an estimate of 46.5 million hectoliters (-1%), and Spain with about 43 million (-3%).¹⁵⁵

The hope for the Italian wine In China is all enclosed in the great results registered by all those who travelled to China to talk about Italy in terms of high quality and uniqueness, in the past two years. Thanks to that the Italian wine has in fact created an ideal space above competitors, ranking, together with the French wine, the top place in the wine industry, thanks to the recognition of its uniqueness, quality and exclusivity.¹⁵⁶

In addition, Italian wine is even more competitive in all the categories, from the entry level to the grand cru.¹⁵⁷ Taken prices fixed, Italian wines are really much better in quality than the majority of the other wines present on the market in China.

- *However, Italy has still much to do, especially in a market as complex as the Chinese is. Just think that Italian wine in China affects less than 80 million Euros, in a market of 1.5 billion Euros. Moreover, Italy is the third largest supplier of Beijing. Nevertheless, its market share is just 8 % of the market, unlike France that holds more than 50%.¹⁵⁸*

155 Emanuele Scarci, "Vino, Italia verso la leadership globale", in Il Sole 24ore, September 12th 2015.

<http://www.ilsole24ore.com/art/impresa-e-territori/2015-09-12/vino-italia-la-leadership-globale-081331.shtml?uuid=ACC2ubw>

156 Associazione Italiana Export, "Consumo vino in Cina: il calo positivo", in News, February 2015.

<http://www.associazioneeitalianaexport.com/main/consumo-vino-in-cina-il-calo-positivo-2/>

157 The scale of cru is an evaluation system on a percentage basis that recognizes the best product value of 100% and ranking the others, obviously less valuable, taking the best point of reference. The purpose of this classification is to give a price to the grapes of the grape harvest in the areas of single appellation.

158 Il Sole 24Ore, "A Pechino si brinda di nuovo col vino Ue", in Commenti e Inchieste, March 22nd 2014.

<http://www.ilsole24ore.com/art/commenti-e-idee/2014-03-22/a-pechino-si-brinda-nuovo-col-vino-ue-081820.shtml?uuid=AB8z3r4&fromSearch>

There are some trends concerning the Italian wines that have been emerged, once the historical data on exports of wine in China have been analyzed:

1) In the last 7 months of the year exports to China are speeding, going to resume a situation of slight stall lasts two years. This is even witnessed by the president of the Unione Italiana Vini, Domenico Zonin on the magazine Cronache di Gusto;

2) More and more bottled wines, less and less bulk wines. A trend evident that brought a sharp decline (-35.6% on the volume of sales in 2014 compared with 2013) of the sales of the latter for the benefit of the first.

3) Sparkling wines are registering a strong growth. Chinese really like sparkling Italian wines that stand behind the more famous French and Australian. The bubbles made-in-Italy grew by 27.2% (2014 of 2013, and more and more and for volume of sales) reaching a threshold of important notoriety.¹⁵⁹

INITIATIVES FOR THE PROMOTION OF ITALIAN WINE AND ITALIAN CULTURE IN CHINA

During the last years to a lot has been done as regards the spread of Italian wine culture, even in far away countries where the knowledge and the awareness of Italian regionalism and wine uniqueness is very limited, such as China is.

Some successful initiatives have been repeated, whereas new ones came to life.

'TASTE ITALY!'

Taste Italy! is a new company, which is born in 2015 with the aim of promoting Italian wine and Italian agribusiness in China. The new reality came to life when a Chinese reality already active in the world of wine trade signed an exclusive agreement with Business

159 InumeridelVino.it, "*Esportazioni di vino italiano – aggiornamento primo semestre 2015*", in *Mercati e Consumo*, September 13th 2015.

<http://www.inumeridelvino.it/2015/09/esportazioni-di-vino-italiano-aggiornamento-primo-semester-2015.html>

Strategies, an Italian company leader in the internationalization of Italian wine in the world which serves more than 400 labels. The general manager of Taste Italy! is Francesco Ye, a leading expert of Chinese and Italian food and wine already resident manager for Yishang Wine Business Consulting, a real gateway for Italian wine in Shanghai. The objective of Taste Italy! is both to act as interlocutor to the benefit of producers, public entities and Italian institutions and to organize events in China. An example is provided by the first major festival of Italian wines, which took place in autumn 2015 in four of the best restaurants in Shanghai, with the participation of forty carefully selected companies from all over Italy.

Moreover Taste Italy! collaborates with the Chinese edition of the *Revue du Vin de France*, who will make a monthly report dedicated to Italian wines. *Revue du Vin de France* is the first international magazine for wine sector and the most widely read in China, with a distribution of 160 thousand copies spread among kiosks, libraries, luxury hotels and international events industry.¹⁶⁰

FAIRS WITH ITALIAN PROTAGONISTS

SELLING ITALIAN WINE IN CHINA: THE OCCASION IS CALLED INTERWINE CHINA

The fair hosted by city of Guangzhou (also known as Canton) is one of the most anticipated wine showcase in the world, and it is called Interwine China. The fair became so much known over the years that it attracted, for each edition, importers, brokers over restaurateurs and operators of the Ho.Re.Ca world, always more and more interested in Italian products. With the official opening for this year, which occurred on the 15th of November 2015, Interwine had been held in three intense and fast paced days, during which there were managed meetings and competitions of wines from all over the world. The November exhibition (the other occurs in May / June) is the most important because it

¹⁶⁰ Anna Rubinetto, "*Taste Italy per promuovere il vino italiano in Cina*", March 2015.

<http://www.saporinews.com/2015/03/taste-italy-per-promuovere-il-vino-italiano-in-cina/>

is during this period that the exhibitors have the opportunity to present the new products for 2016.¹⁶¹



Figure 55: Interwine fair

Source: interwine.org

VINITALY INTERNATIONAL TO PROMOTE ITALIAN WINE IN CHINA

Vinitaly International organizes fairs in Hong Kong, Chengdu and Shanghai. These are the strategic levers of Vinitaly International, which aims is to embody the role of ambassador for the Italian wine, promoting its excellence all over the world and maintaining a direct control over the main strategic markets. In this way, Vinitaly acts as a bridge between Italy and the rest of the world, facilitating the collaboration between Italian wine producers and key players of the international wine markets. Vinitaly International is always committed in finding new ways to communicate the Italian wine culture, integrating traditional formats such as fairs, tastings and B2B programs, with the media and with various initiatives educative.¹⁶²

¹⁶¹ OCMVINO, “Vendere vino in Cina: l’occasione si chiama Interwine”.

<http://www.ocmvino.it/interwine-china-fiera-vino>

¹⁶² <http://www.vinitalyinternational.com/mission>

INTERNATIONAL WINE & SPIRITS SHOW in partnership with VINITALY INTERNATIONAL

The International Wine & Spirits Show, held from 25th to 28th of March 2014 in Chengdu, was the first time for Italy in the city that is the hub of alcohol distribution in the Mainland of China. The participation of Italy to this exhibition had two main motivations. The first was certainly to support the Italian wine production by promoting export activities. The second one concerned the promotion of the incoming of foreign operators in Italy. In particular, the investment of Vinitaly International was designed and realized in order to concretely catch the enormous potential of the Italian wine export growth in China. The potential of Italian wine export toward China was fostered through a targeted presence, through tools expressly designed to promote the awareness of the immense variety of Italian production and through the exchange and meeting among producers and importers belonging to the four cities of the first band: Beijing, Guangzhou, Shenzhen and Shanghai.¹⁶³

VINITALY INTERNATIONAL at the HONG KONG INTERNATIONAL WINE & SPIRITS SHOW

Vinitaly International participated for the sixth year at the Hong Kong International Wine & Spirits Fair 2015, occurred from the 5th to the 7th of November at the Convention and Exhibition Centre of Hong Kong. This is the most important exhibition dedicated to the wine and distillates in the Asian scene. This year in Hong Kong Vinitaly held 1.000 square meters of exhibition space, with more than 137 exhibitors and more than 800 wines for tasting.¹⁶⁴

163 Wine News, "*Vinitaly International a Chengdu (25/28 Marzo)*", Bruxelles, April 21st 2014.

<http://www.winenews.it/print/news/34472/la-guerra-del-vino-tra-cina-e-ue-finita-pechino-e-bruxelles-hanno-siglato-un-memorandum-d-intesa-per-mettere-fine-a-querelle-anti-dumping-at-traverso-la-cooperazione-focus-vinitaly-international-a-chengdu-dal-25-al-28-marzo>

164 Wine Meridian, "*La sfida di Vinitaly International all'Hong Kong International Wine & Spirits Fair 2015 per conquistare il mercato asiatico*", November 4th 2015.

http://www.winemeridian.com/news_it/la_sfida_di_vinitaly_international_all_hong_kong_international_wine_spirits_fair_2015_per_conquistare_il_mercato_asiativo_861.html

Hong Kong International Wine & Spirits Fair is part of the business promotion tour of Vinitaly International. The program aims to raise awareness of Italian wines in the world, and it also provide companies producing new business opportunities and relationships with buyer delegations, who are met directly into their markets of competence.

Hong Kong remains a strategic market for Italian wine for two reasons. Firstly, it acts as a fast track for Italian producers exporting to the Chinese mainland. Secondly, because of the high potential for internal growth, it represents an important outlet for Italian labels.

Further, will be presented a focus on Hong Kong to explain its strategic relevance for Italian wines in China.

TASTING OCCASIONS

ENOTECA ITALIANA

The ambitious project to form classes sommelier was started with the signed agreement which has seen as protagonists the Chinese University for Foreigners of Siena, the Italian Sommelier Association and Enoteca Italiana. This project has the main intent of affirming the values and the cultural quality of Italian wines in China. In fact, being coordinated by those highly competent institutions, the project will facilitate and foster the penetration of Italian wine in the most important Asian market.

Training centers have been created in China, where the associations provided Chinese consumers with “Made in Italy” sommelier courses, schools for technical and cultural training on Italian wine in Shanghai and Beijing, pre-courses of Italian language and technical words, educational materials and a final Sommelier certificate of Italian Sommeliers Association.

The Enoteca Italiana president Claudio Galletti said: “We, as Enoteca Italiana, bet a few years ago on China and we are really happy to have the possibility of talking about the future of Italian wine abroad. The industry of professional sommeliers in China is still at the beginning and this is why together with two partners, the University for Foreigners of Siena and Italian Sommelier Association, we decided to create a Chinese 'network of

sommeliers', which can hold specialization courses and help improving the network of the entire wine industry, also for export. A project born to fulfill the numerous producers' requests as well as to satisfy the ones of the consumers, because of the fact that we are in China since some years with our promotional activities".¹⁶⁵

VINITALY INTERNATIONAL ACCADEMY

Vinitaly International Academy is an important tasting project managed by Vinitaly International. It was launched in February 2014 and it was organized in collaboration with the best sommelier and associations belonging to "Educators of wine" in China. The project has the objective of explaining, disseminating and transmitting the characteristics of Italian wine, making great diversity of Italian wines easier to understand by consumers.¹⁶⁶

ADVANTAGES OF E-COMMERCE FOR ITALIAN WINERIES

As seen in the previous chapter, "Online in China", the e-commerce represents a strategic instrument for the promotion of Italian wine and as sale channel.

1. LUXURY SECTOR

For Italian companies, the luxury sector is certainly the **most lucrative** point of contact with the Chinese **e-shoppers**.

The luxury product is certainly more recognizable and the Chinese consumer, we know, buys in ever increasing quantities.

For example, in the wine industry, the site of e-commerce *Wangjiu* sells bottles of fine wine that reach **7.000 Euros**.

Italian companies can and must take advantage of the reputation of their products

¹⁶⁵ Enoteca Italiana, "Nascono i sommelier "Made in Italy" in Cina".

<http://www.enoteca-italiana.it/w2d3/v3/view/enoteca/enosito2/pubblica/attivita/iniziativa--175/esc.html>

¹⁶⁶ <http://www.vinitalyinternational.com/it/vinitaly-international-academy>

because even the lesser known ones, are open to a rapid entry into the Chinese market with e-commerce.¹⁶⁷ Moreover, the sales in e-commerce could allow the lesser-known labels to circumvent the problem of visibility and recognition, even though without proper communication it is difficult to break through.

2. ITALIAN GOVERNMENT-ALIBABA AGREEMENT

The Alibaba Group and the Italian Government signed an agreement on 11 June 2014, to facilitate Italian companies, opening the channels of commercial e-commerce platform Tmall. Alibaba Group will provide Italian companies with a space on its portal Tmall.com, offering to enterprises registration support, online marketing product and after-sales services. The agreement, lasting three years, is part of a Memorandum of Understanding signed between the Italian Ministry of Economic Development and the founder of Alibaba, Jack Ma. The latter aims to make Italian brands and products more available to the hundreds millions of online buyers and to mobile devices across China. At the same time he will provide an opportunity for Italian brands and companies to meet directly the insatiable demand of Chinese consumers. Tmall will take care of launching a promotion for the already existing (on the platform) Italian brands and of introducing an Italian dedicated page with the aim of placing more emphasis on Italian products.¹⁶⁸

On the other hand, the use of E-commerce platforms could also lead to some risks for Italian wineries. The most significant one concerns the protection of Intellectual property rights and the risk of parallel imports. The presence of counterfeit products on online platforms is concrete.¹⁶⁹

167 Italian Desk di Dezan Shira & Associates, Asia Briefing, "Mezzo miliardo di click al giorno. Il consumatore cinese è online", in Camera di Commercio Italo-Cinese, June 2014.

<http://www.china-italy.it/it/mezzo-miliardo-di-click-al-giorno-il-consumatore-cinese-%C3%A8-online>

168 Italian Desk di Dezan Shira & Associates, Asia Briefing, "L'accordo tra Tmall.com e le imprese italiane in Cina", in Camera di Commercio Italo-Cinese, June 2014.

<http://www.china-italy.it/it/1%E2%80%99accordo-tra-tmallcom-e-le-imprese-italiane-cina>

169 Letizia Coccia, "Vino italiano in Cina, sfida Made in Italy, brindisi al successo", In china forum, June 2014.

TODAY'S SITUATION – THE EXPERIENCES OF ITALIAN WINERIES

In this section, I reported the direct experiences of Italian wineries. To have a panning shot of the wineries analyzed, I created the table below (*Figure 56*). Among them, Zonin 1821 is the winery with the highest turnover, even if the highest production is registered by Cevico Group. In order to understand which winery is better performing at a worldwide level, I calculated a Performance Index (World). The index has been calculated normalizing the measures I consider relevant for evaluating each winery's world performance. These are: Turnover 2015 (Euros), Production 2015 (Bottles) and World Presence (Countries). Given a score of 100 to the top performer (for each measure), the other scores have been calculated as consequence. I attributed some weights to the three relevant measures, according to the relative importance of each of them. By this came out that Turnover has a weight of 0,5, Production has 0,3 and World Presence has 0,2. As a final result, matching all those normalized and weighted measures, I calculated the Performance Index (World). It scores the highest level for Zonin 1821 (88), which means that this winery is better performing at worldwide level, with respect to all the others taken into consideration. After Zonin, come Cevico Group (81) and Ruffino (50).

WINERY NAME	TURNOVER 2015 (EUROS)	NORMALIZED TURNOVER	PRODUCTION 2015 (BOTTLES)	NORMALIZED PRODUCTION	WORLD PRESENCE (COUNTRIES)	NORMALIZED WORLD PRESENCE	EMPLOYEES NUMBER	FUNDATION (YEAR)	PERFORMANCE INDEX (WORLD)	BETTER PERFORMER
BISOL	21.460.000	13	11.000.000	14	69	63	50	1875	23	7
ZONIN 1821	<u>168.000.000</u>	100	48.000.000	62	<u>110</u>	100	550	1821	<u>88</u>	<u>1</u>
MONCARO	24.600.000	15	12.000.000	15	30	27	70	1964	17	8
CANTINA TOLLO	37.500.000	22	13.000.000	17	40	36	80	1960	23	6
RUFFINO	80.000.000	48	25.000.000	32	90	82	150	1877	<u>50</u>	<u>3</u>
ALOIS LAGEDER	15.000.000	9	2.500.000	3	50	45	50	1823	15	9
BERA	800.000	0,5	140.000	0,2	15	14	-	1900	3	11
CEVICO GROUP	131.000.000	78	<u>78.000.000</u>	100	65	59	500	1963	<u>81</u>	<u>2</u>
FARNESE GROUP	50.000.000	30	14.000.000	18	80	73	100	1994	35	4
GIULIO COCCHI	2.000.000	1,2	400.000	0,5	19	17	7	1891	4	10
CANTINE SETTESOLI	54.000.000	32	25.000.000	32	40	36	40 permanent; 200 seasonal	1958	33	5
FATTORIA MONTE FASOLO	1.270.000	0,8	230.000	0,3	7	6	6	1967	2	12
Weights		0,5		0,3		0,2				

Figure 56: Wineries Performance Index (World)

Source: Own production



BISOL (VENETO): A SUCCESSFUL ENTRY STRATEGY

Bisol winery was founded in 1875 in Santo Stefano of Valdobbiadene, in the historical core area of Prosecco's production that is the territory called "Chartice", today the very prestigious Cartizze Hill. Already at that time the Bisol's activity was characterized by an orientation toward innovation, which even today distinguishes the winery and represents the unmistakable characteristic of Bisol's wines. Then Bisol, from a family-owned business, evolved into a large company. The first important step was made in the 1987, when Bisol and other seven Italian producers, belonging from six different Italian regions, decided to set up the first Italian Consortium for export: the "Great Wines Consortium".¹⁷⁰ The collaboration endowed the producers with the essential resources and image power to face the difficult foreign markets. In fact, in the eighties Italy was projected into first place in the production of high quality as well as quantity. Only the good combination of historical producers allowed to face the difficulties carried by an international competition. Starting from Europe, Italian producers gain later access to American markets, finally ended up in the Far East ones. At those times, acting individually, the big fairs of Vinitaly, Prowein and Vinexpo, as well as the voyages to the West and the East would not be possible. Therefore, the Consortium on the one hand has been a strong instrument for the growth of each single producer. On the other hand, the Consortium spread and increases the knowledge of "Great Wines" all over the world.

¹⁷⁰ BISOL WEBSITE, "The Story", last check on 02-01-2016.

<http://bisol.it/index.php?idSez=125>

Today, the brand of the Consortium and its associates are present in more than eighty countries around the world. Only the brand has changed and in recent years it is known as the "Great Wines of Italy Group" and the producers have become seven: Barolo and Barbera from Piedmont, Bardolino and Amarone, Prosecco and Cartizze from Veneto, the Romagna's Sangiovese and Chardonnay, the Tuscan's Chianti and Super Tuscans, the Verdicchio and Conero from Marche and finally the Maremma Morellino and Alicante are just some of the variety of producers' wines. Someone says that the success and longevity of the Consortium depends precisely on the diversity of its products.

The truth is that Michele Chiarlo, Franco Tommasi, Antonio Bisol, Umberto Cesari, Giancarlo Sacchet and Antonio Zaccheo, Gianfranco Garofoli and brothers Aleardo and Giuseppe Mantellassi are amazing people who understand what true friendship goes beyond personal interests. Then, the Consortium worked with the aim of creating a system for export, primarily directed toward the less known markets: Latin American and Asian markets. Therefore, Bisol was able to create the first contacts within the Chinese market, in order to figure out which kind of approach and entry strategy would be successful. After more than ten years of researches and negotiations aimed at understanding and defining who were the main importers and partners, Bisol finally set up a first collaboration, at the end of 90s, with an importer located in Shanghai. This importer, after two years, incurred in economic problems, thus he directed Bisol toward the collaboration with the today's partner, an importer located in Shanghai, with six offices in the Continental China (Beijing, Shanghai, Shenzhen, Chengdu, Hong Kong), with whom they are collaborating by ten years. This importer is called East Meet West Fine Wines (EMW), a medium-large French international importer present for fifteen years in China, who was elected the best wine importer during the China Sommelier Wine Challenge of 2011-2012.



Figure 57: Some of the Bisol's wines sold on EMW website

Source: EMW website

This importer was in line with the politics of Bisol, because it works only with family-run businesses, giving more importance to quality, in spite of quantity as the majority of the Chinese importers usually do. The EMW's experience and knowledge of Chinese wine market turn out to be a key element for the success of Bisol in China. EMW distributes Bisol's wines in the Ho.Re.Ca sector. Elisa Rossetto, the Bisol's export manager says: "Our wines are not distributed through supermarkets because the margins here are very low, they pretend high volumes and what mostly matter is the brand, and the Prosecco is not known by the majority of Chinese. Therefore our strategy is to take position on the Ho.Re.Ca, because our importer, EMW, has the exclusive rights for some hotel chains and restaurants, and he selects the wine according to the target customer, which depends on the style of the restaurant and the hotel. On average, 70% of the clients are Chinese, whereas the remaining 30% are expats, who are concentrated on the coast and whose consumption habits are different, because they are few with respect to Chinese consumers but they use to drink with a higher assiduity. Given our positioning on the Tier 1 cities

thanks to EMW, Bisol strategy aims at having a widespread presence in all China. For this reason we selected for Tier 2 and 3 cities some distributors who have the geographical exclusivity for the municipalities in which they operate. They take care of placing Bisol's wines on the on-trade".¹⁷¹ Bisol uses also the online channel to sell its wines. Its wines are sold on website completely dedicated to the purchase of wine, which are managed by Chinese people who take care of all aspects concerning orders. Therefore, the Bisol's presence in China is well-established and widespread. Moreover, in order to even strengthen Bisol's presence and the brand awareness and recognition by Chinese consumers, the winery implements several promotional activities. Even here the support of the importer is essential, because the promotional activities are decided with him, fixing a marketing budget and the initiatives to carry out. Some of them are the Wine dinners, Tasting events, Master class and seminars during which Bisol's representatives are committed in explaining who is Bisol, what Prosecco is and what the Bisol's Prosecco is. Elisa Rossetto adds "Our importer has wine educators as an element of his strategy. They provide the hotels and restaurants' staff with trainings, through which they teach the personnel on what they are selling (the difference among the White, the Red and the Spumante), what to suggest to clients, in order to have the awareness on what they are selling. It is fundamental the transmission of the message". This is a key element of the Bisol's success in China which Italian wineries have to particularly mind at in order to have success in China. Bisol takes also part in local fairs, among which the most important is the Kunming fair, which takes place in March. This is the reference fair for the local market, because the coast is overloaded of events, importers and o on, whereas the internal part of China is becoming more rich, also thanks to the government policies, and it is developing thanks to the investments directed here. Therefore, there is more space in the wine market and o it is a huge opportunity for Italian wineries. Bisol has understood this, thus it carefully oversees this area. Nevertheless, even Bisol faced some difficulties in dealing with Chinese market. The main one is related to the fact that the Chinese wine

171 Interview #1002, 18/12/2015, Bisol's Asia Pacific Export Manager – Elisa Rossetto.

market is still today a market strongly influenced by the price. Therefore, a winery must be aware of the fact that it must be ready at doing some prices efforts. Bisol did not faced problems related to culture and just sometimes has logistic issues. Finally, the winery does not observe preservation problem, once again thanks to its importer who is endowed with refrigerate containers which maintain the internal temperature stable, maintaining all the wine's features and peculiarities. Therefore, Bisol has been present in China for almost 20 years, improving its performance in this Country which in 2015 becomes the eight country in terms of relevance for Bisol's business, and the second in Asia, immediately after the more mature Japan. These progresses were achieved even though the winery export only Prosecco in China and this is a wine category already very served in the Country. The main competitors are Mionetto, Zonin and Botter. What distinguishes Bisol's offering and strategy are: the product differentiation and the marketing activity. In fact, differently to its competitors Bisol has in China three wine categories: DOC, DOCG and DOCG single vineyard, each of which is further subdivided into different categories. The DOCG category is the most expensive one and therefore it is also more difficult to sell (because the Chinese are really price sensitive consumers). In fact, the most sold Bisol's wine is the "Belstar" Prosecco Spumante DOC Brut, the cheapest one.



Figure 58 Bisol - "Belstar" Prosecco Spumante DOC Brut

Source: Bisol website

The success of Bisol in China arises from some elements the winery introduced in its strategy:

- ✓ Find the right partner, who collaborate with you and takes care of distributing your wines and promoting them, and who works to increase the brand awareness and recognition and the Chinese wine knowledge, through educational initiatives.
- ✓ Have a consolidated and widespread presence in China, being directly present in order to immediately catch the new trends and the new opportunities (essential in such a dynamic market).
- ✓ Transmit the message which tells about the heritage of Italy, the ancient family tradition of the winery and the craftsmanship attributes of the product.



ZONIN (VENETO): AMONG THE TOP THREE ITALIAN BRANDS IN CHINA

Casa Vinicola Zonin is one of the largest private Italian wineries and one of the first in the international arena. The Zonin's family for seven generations has been linked its name to the passion for the land and for the vineyard. 'Viticoltori since 1821', the story of the winery begins in Gambellara, a village surrounded by hills covered with vineyards in Vicenza, where wine was already cultivated by the Romans and appreciated since the time of the Doges of Venice. Guided by the principle "to each region its tradition, with all parts of its wine" Gianni Zonin since the late 60s has selected the lands of excellence bringing the reality of Casa Vinicola Zonin to the current dimension of about 2.000 hectares, conducted by a team of 32 winemakers and agronomists, on 9 seals located in 7 Italian regions finest wine-growing, where are located the 10 estates of Zonin family, each of which has its own brand. Zonin also has the holding American Barboursville Vineyards in Virginia (USA), as it shows the *Figure 59*.¹⁷²

Zonin markets and distributes fine and sparkling wines branded Zonin and the wines belonging to the other ten estates of Zonin family and the wines produced in Virginia.

Today Zonin is present in 110 Countries, with almost 550 employees.

The turnover 2015 is 165 Million Euros and the year production is about 40 million bottles.

172 ZONIN 1821 WEBSITE, "History", last check on 07-01-2016.

<http://www.zonin1821.it/chi-siamo/azienda/>



Figure 59: Zonin's estates

Source: Zonin 1821 website

Therefore, the territoriality configuration, the special climate and morphology of the areas of production, the experience and professionalism of agronomists and enologists and the

identification of dynamic trading strategies are the most important values that underpin the philosophy of the winery. Zonin firstly approached the Chinese market at the beginning of the 90s. It was one of the first Italian winery to approach this market. China was one of the stages of the internationalization process, which was required in order to be more competitive and which started between the end of 80s and the beginning of 90s.

Even though, the real internationalization of Zonin occurred in the last seven years, when the business structure changed, acquiring the today's configuration, with the 80% of the business revenues generated abroad and the remaining 20% belonging to Italy.

It was not so easy at the beginning, because the Chinese wine market at that time (90s) was even more immature. The main difficulty Zonin faced consisted in finding a partner, because the problem of counterfeiting, which today the government is trying to minimize and contrast, was at that time a really big and serious issue. At the beginning, between the 1993 and 2004, Zonin changed 3 or 4 partners, because they were not reliable, economically stable and product and sector competent. After these complicated starting years Zonin established the relationship with its today's importer, Torres, a relationship that lasts for more than ten years.

In March 2015 was opened Zonin China, which is today managed by Pierluigi Pollio. He is the spokesperson for Zonin who I interviewed. He says "Zonin China is a trading company which allows Zonin to directly distribute some of its wines in China, whereas some others brands are still distributed by Torres. We actually have a widespread presence in China, which we subdivided into four areas: East, which accounts for the 35%, North (30%), West (25%) and South (20%). All these regions are served with a network of about 35 direct distributors. We distribute our wines both in the on-trade sector and in the off-trade sector. In the off-trade we supply our wines through a hypermarket chain called RT-Mart. In addition to that, even though not directly, we distribute also through 114 outlets spread all around China, especially in the emerging cities where the new consumers are raising, a strategy which allow us to publicize the name of Zonin and to increase the brand awareness and recognition. These channels are required to have a mass market. The

price of our wine on shelves is 115 RMB (2 Euros) for White and Red wines and 138 RMB (2.50 Euros) for the Prosecco. Among Italian wines this is a quite competitive price, a medium price, even though it cannot compete with the Australian, Chilean and Chinese wines. We cannot compete with that because it would be necessary to have a wine with a price of 1.10 Euros. Zonin does not have anything below 1.70 Euros. To foster sales there are of course some campaign moments where for example some special promotions are activated, as take three ay two".¹⁷³

TORRES CHINA
 MORE THAN A WINERY

				
ZONIN SPARKLING ROSE	ZONIN PINOT GRIGIO DELLE VENEZIE IGT	ZONIN OGNIGIORNO LAMBRUSCO	ZONIN NERO D'AVOLA TERRE SICILIANE IGT	ZONIN COLLECTION NERO D'AVOLA
¥142.00	¥148.00	¥80.00	¥148.00	¥121.00

Figure 60: Some of the Zonin's wines sold on Torres website

Source: Torres website

In matter of promotion a lot has been made by Zonin. The winery works a lot with the social media. It does not sell on that but these are used to promote the brand and the wines. In addition, Zonin organizes small events in support of his sub-distributors and also big events as wine dinners with Zonin family, co-marketing with other brands, tasting events and wine parties with clients at best chain hotels, as the Shangri-La. Moreover, Zonin organizes launches with particular themes and customer experiences in Italy in the winery. Zonin as brand awareness for those who know the Italian wines is among the top three, with Gaja and Antinori. The most appreciated Zonin wines in China are the

¹⁷³ Interview #1003, 29/12/2015, Zonin 1821's East Asia Area Manager – Pierluigi Pollio.

Prosecco, the Reds of Chianti di Castello and the Asti DOCG, divided into two types of band price, a high and a lower one.

In 2011 Zonin developed a market research in collaboration with the Wine intelligence, the most valued world consulting company for wine. This research aimed at understanding the tastes and the preferences of Chinese in term of wine. Chinese were interviewed, mostly in Tier 2 and 3 cities, and were asked about what they expect from an Italian wine, which features the label must have and they were also asked to participate in tastings.

From this market research three wines came to life a new Zonin wines' line created and destined exclusively to China: "First Love", in Chinese "Yi Lian" o "意恋".

"First Love" is a line of wine (red Croatia, white Moscato and Prosecco) created by Zonin for the second-tier cities in the Chinese market. JacLeRoi oversaw the launch of the campaign, scheduled on different channels with digital calls on the offline store. The digital campaign has seen the creation of various instruments: btl and pop materials, B2B catalogs, B2B presentations, photo shoot and video back stage, social networks management (Sina Weibo, Qzone and Youku), the B2B Video "Lumen", the B2B video "Reverse love" and the website www.primoamore.com.cn. JacLeRoi was asked a strategic and creative support able to match the wine knowledge with the knowledge of the target market. Therefore the team worked with native Chinese professionals, in order to have a market insight and local culture mediation. JLR has developed communication activities both on Sina Weibo that on Qzone, to increase the visibility of the website [primoamore.com.cn](http://www.primoamore.com.cn). These communication activities were made implementing dialogues through site responsive and social channels, given the attention of the Chinese to mobile as navigation channel. Sina Weibo is the prevalent social network among influencers of Chinese society, professionals who live in the cities of the First but also Second Tier. The publishing plans that covered the end of 2014 saw the development of "smart adv" special post developed in three different lines that have successfully attracted the attention of users. Sina Weibo, in particular, is the most popular form of blogging in China. With over 500 million users it is one of the largest social network in the world. It represents a

synthesis between Facebook and Twitter. Thanks to ideograms, makes it possible to communicate a greater number of information while remaining within the characters contained. The project was realized also thanks to the contribution of the Italy-China Foundation in Milan, with a particular focus on the food- wine mating. First Love wines have a label with Italian references, a shape of bottle particularly captivating and the Chinese name (*Figure 61*). The campaign for the launch of the Zonin's "First Love" won the Award for Best Campaign Launch of the first edition of Drinks International Wine Marketing Awards 2015. The judges ruled unanimously winning campaign and were impressed by the level of detail research that has been presented. The campaign is the result of two years of research on the Chinese market by the company, with the aim of winning over Chinese consumers, keeping the Italian character of the brand. After 2 years of sales, First Love wines represent the 40% of the total Chinese turnover of Zonin. China is today the second most important Country for Zonin in the Asia Pacific region, with around one million of turnover.



Figure 61: First Love campaign

Source: JacLeRoi

The success of Zonin in China is due to some factors the company introduced in its strategy:

- ✓ Widespread presence, both in all areas of China and in all the distribution channels (on-trade, off-trade and online).
- ✓ Creation of something new: the “First Love” wines line created for China and in the basis of Consumers’ tastes and preferences.
- ✓ Presence on main social media, Wechat and Sina Weibo, not for selling but to informing and advertising Zonin brand and its products.



MONCARO (MARCHE): A MARKED BRAND STRATEGY

Moncaro was founded in 1964 and has always been characterized by the strong local roots in the Marche region and its environment. Moncaro is the expression of the culture of the brand. The brand expresses the beauty and goodness of Moncaro wines with personality and style. The winery has three production locations and its vineyards in the most important wine areas of the region: The Montecarotto Cellar in the traditional area of Castelli di Jesi; the Conero Camerano Cellar, on the slopes of Monte Conero and the Acquaviva Cellar, in southern Marche at the top of the Piceno. Moncaro is deeply established in its territory thanks to its farmers and its vineyards.

Committed in the research and in carefully gathering and preserving the biodiversity of the many microenvironments, Moncaro is an essential guardian of the memory of the territory.¹⁷⁴ Today Moncaro has 70 employees and is present in almost 30 Countries. It has an annual production of 12 million bottles, with a turnover 2015 of about 24,6 million Euros.

Moncaro approached China for the first time in 2005-06. The choice was fostered by the big numbers of the Chinese market. At the beginning the Moncaro's activity in China consisted in spot sales toward multiple importers. Then, in 2010 Moncaro established the Joint Venture with the today's partner, who was met during B2B events. By that moment Moncaro alcoholic beverage (Beijing) company Limited came to life. This is a company active in the Chinese territory for penetration and distribution of Moncaro's wines. Today, the distribution network of Moncaro is composed by 15 one brand shops (*Figure 62*) and different importers who sell to privates.

¹⁷⁴ MONCARO WEBSITE, "Territory", last check on 12-01-2016.

<http://www.moncaro.com/it/azienda/7-cantina-vinicola-nelle-marche>



Figure 62: Moncaro One Brand Stores in China

Source: Moncaro srl

Moncaro, with this configuration can reach almost all China. Its presence is concentrated mostly where the consumption is higher, which means in North and South-East China. The most sold Moncaro wines are the Red IGT, like Sangiovese and Marche Rosso, then Rosso Conero e Rosso Piceno (*Figure 63*).



Figure 63: Moncaro's most sold wines in China – Sangiovese, Marche Rosso, Rosso Cornero and Rosso Piceno

Source: Moncaro website

The brand is solidly built, and the brand awareness is made stronger thanks to the Moncaro's website which is completely in Chinese. Even though, this website is not used for sales, but just for promotion and for informing Chinese consumers. The promotion is also made through tasting occasions, set up inside the Moncaro's shops or inside restaurants, in addition to advertising on specialized magazines and fairs participation. The spokesperson for Moncaro is Luigi Gagliardini, the Export Manager. As far as Moncaro's success in China is concerned he says "In China you have to be always available for adjusting your product to their needs and requests, this is the main difficulty many Italian wineries are not able to deal with. You must reply and offer options and solutions in short times. This may concerns the label, the packaging, the wine type. In China you have to adapt yourself, you have to be flexible. This is even more difficult for small Italian wineries, because you have to adapt your product and make it different to the one you use to sell in Italy".¹⁷⁵

175 Interview #1004, 12/01/2016, Moncaro's Export Sales Director – Luigi Gagliardini.

The success of Moncaro in China is due to some factors, as Luigi Gagliardini said to me:

- ✓ The right partnership. It is fundamental to have a local Chinese partner who can speak Chinese, who knows about local culture and who can develop the network.
 - ✓ A stable and constant presence in China, which is made possible also thanks to the joint venture.
 - ✓ The ability to quickly provide with solutions and options, made possible thanks to the direct presence → FLEXIBILITY and ADAPTABILITY
 - ✓ Positioning on the high-end of the market:
 - Through a selected distribution → One Brand stores
 - Offering best quality wines at high prices
 - Customizing the product on customer's requests
- ➔ *What is unique in Moncaro's strategy is the work the winery has done on the brand.*



CANTINA TOLLO (ABRUZZO): AN EDUCATIONAL STRATEGY

Cantina Tollo was founded in 1960. Today the winery is among the most important and well-established reality of the Italian wine industry. Present in all countries of the European Union, North America and the Far East, exports 35% of its production, with a focus on emerging markets of Russia, India and China. The plant aging, located in Tollo, consist of barrels and large Slavonian oak barrels, in addition to the cement tanks, today considered the best for aging. Passion, commitment and shared values have guided Cantina Tollo in every joint of its history and continue to accompany the successes. Cantina Tollo awarded the title of Producer of the Year in 2010 (Mundus Vini) and, in the same year it was - designated Best European Coop-Winery by the German magazine *Weinwirtschaft*, awards that must be added to the dozens of awards earned by its wines.¹⁷⁶ Cantina Tollo is today present in almost 40 countries all over the world, with a staff of 80 employees. The 2015 production was of 13 million bottles. The turnover 2015 is 37,5 million Euros and for next year forecasts tell about an increase of 1,5 million of the turnover of bottled wine.

Cantina Tollo firstly approached the Chinese market in 2005, attracted by the huge growth of Chinese economy and market. The first contacts were found thanks to the participation at international wine fairs, both in China and Italy. At the beginning was not easy and the winery spent almost one year and half in finding the right partner and developing relationships. Then, it started to export in 2006. Today, Cantina Tollo has 3 or 4 partners, who are medium/small Chinese importers who distribute Cantina Tollo's wines through the Ho.Re.Ca channel and directly to private citizens. In addition to those 4, Cantina Tollo

¹⁷⁶ CANTINA TOLLO WEBSITE, "*The Story*", last check on 15-01-2016.

<http://www.cantinatollo.it/sample-page/la-storia/>

collaborates also with a small Italian importer (who collaborate with a Chinese partner) located in Shanghai who distributes through the Ho.Re.Ca and a European partner who places the wines in the International supermarket chains. Furthermore, Cantina Tollo's wines are sold also through the online channel, which is managed by the Chinese partner by an year and a half. The Chinese partner, who is one of the importer mentioned above, keeps a stock of wines already cleared through customs and takes care of distributing them as well as the administrative and bureaucratic issues. The distribution covers Tier 1 and Tier 2 cities, and since 2010 the winery is exploring also Tier 3 cities. The 90-95% of sales consists in Red wines primarily Montepulciano and San Giovese, whereas just a 10% of sales concern the White wines, mainly Trebbiano and Chardonnay (*Figure 64*).



**Cagiòlo Montepulciano
d'Abruzzo Dop Riserva**



**Montepulciano d'Abruzzo
Dop Riserva**



**Colle Cavalieri Trebbiano
d'Abruzzo Dop**

Figure 64: Cantina Tollo's some of the most sold wines in China

Source: Cantina Tollo website

Cantina Tollo in China sets up a very strong educational strategy. The winery focused its attention on divulgation and the diffusion of information concerning Cantina Tollo's history and its wines. In order to do so, Cantina Tollo sustains the action of importers in organizing dinners and tastings, which are used as occasions and moments to explain Cantina Tollo's wines and the heritage of the winery. Together they organize guided wine tastings and dinners at Chinese restaurants. Domenico Angeloni, the Area Manager for Asia explains the educational activity more in detail. "For us it is very important to explain our products and to educate both distributors and consumers. Usually the wine dinners take place at

Chinese restaurant, but not for combining wine with Chinese cuisine. This is too wide and talking about coupling dishes and wine would be too difficult. During these dinners we spend time not just in explaining the wines' features and characteristics but also in illustrating the history and the long tradition of our winery. In addition, the tasting occasions are used also to find new clients. We also actively participate at local fairs in order to find new clients and to monitor the market and its evolutions, in order to always be ready for finding new spaces and opportunities, and promptly catch them".¹⁷⁷ The promotion of the brand is in charge of the Chinese partners, because everything is communicated in Chinese. The main channel used is the one of the social networks, specifically Wechat and Weibo. Here the winery has its own page which is managed by the Chinese counterpart, who takes care of publishing photos of the wine dinners and technical wines datasheets. What determines the very good performance of Cantina Tollo has been revealed by Domenico Angeloni: "Our goal is to offer a product with a really high quality value, the quality/price ratio really matters for us. We are able to offer a very good quality product for all the price's slots. Today our wines in China are positioned both on the mid-range and on the high-end market, the latter are sold mainly to private Chinese at a price which ranges between 700 and 900 RMB. What is extremely important in China is to find the right partner. The partners who I consider clients today are those who have a background o wine, who are wine sector professionals and with whom we set a continuous work, we grow together with and we established a brand growth and product offering enlargement strategy. In addition, it is fundamental to be insistent and to take care of education of consumers. We spent a lot of time and energies in travels, fairs participations, even in those small Chinese cities, in order to understand how the market and consumers works, and in being directly present in China. Our work lasts for more than 10 years, and what we observe now, is that our brand is today recognized, which is more difficult for us because our wines are from Abruzzo. We are not talking about Barolo or Brunello, which are already very well-known in China. To increase the brand awareness this year we plan to

177 Interview #1005, 15/01/2016, Cantina Tollo Area Manager for Asia - Domenico Angeloni.

introduce a Chinese section of our website, where consumers can find technical datasheets”. Cantina Tollo good performance is linked to the distribution channel and the target customers it selected. In fact, the majority of sales relies on private Chinese consumers. The winery adapts its products according to their requests, for example creating labels with elements which remind Italy or creating a particular packaging.

“The only area where you can see a consistent volumes for Italian wines are sales to individuals. We are focusing on that and numbers say we are right. In China is easy to place products on supermarkets’ shelves, because you just need to pay the space. The problem is to make products rotate. All the large retailers in China are suffering today because all are gone there and they are experiencing an overload. So it happens that the products remain not sold. Also having a store is not so good, because first of all it is surely expensive, then you need to train the staff at transmitting the right message, but it becomes difficult to control”.

The elements of the Cantina Tollo’s strategy which determines the success are:

- ✓ Find the right partner. A person with whom to establish a long-lasting relationship and a continuous collaboration. A person who promote the brand, communicating in Chinese and using the social networks (Wechat and Weibo) to increase the brand awareness, for example publicizing images or videos concerning the wine dinners or wines datasheets. These social are so important because the winery can communicate directly with consumers.
- ✓ Use multiple partners. To have a widespread presence, to ensure high volumes and to differentiate the risk related to the single importer dependence.
- ✓ Positioning. The offer covers both the mid-range and the high-end market. The high-end wines are mainly the prizewinning ones and are sold to private Chinese consumers, in Cantina Tollo’s case at prices between 700 and 900 RMB.
- ✓ RIGHT CHANNEL. Ho.Re.Ca but most of all the private Chinese consumers.

- ✓ HARASSEMENT. Be directly present in China and spend time in understanding the market and consumers, and in developing relationships.
- ✓ EDUCATION. Both toward the sales personnel and consumers. It is important to transmit the right message, which must be coherent with the brand's positioning, and this is done through the sales personnel. It is also important to educate consumers in understanding wine and the winery's history, tradition and heritage. The instruments to do so are tasting occasions, wine dinners,
- ✓ COMMUNICATION. Advertising on social networks (Wechat and Weibo) and company's website with a dedicated section in Chinese.
- ✓ PRODUCT ADAPTATION. The wine labels or packaging are adapted according to customer's requests, because Chinese really care about the visual.
- ✓ Offer a good quality/price ratio.



RUFFINO (TUSCANY): AN HISTORICAL PRESENCE IN CHINA

Ruffino is an historic Tuscan winery founded in 1877 by Ruffino family in Pontassieve, outside Florence, in the Chianti region. Ruffino's philosophy is to "pass on the values of the land and its people through culture. Because wine is culture". The winery is made up by 6 estates in Tuscany, each of which produces unique wines, which maintain a deep territorial connotation. The six estates are all located in the main production and denomination areas of Tuscany: the Gretole and Santedame farms are in the Chianti Classico area, which produces Riserva Ducale Oro, and the medieval hermitage of Montemasso; the eighteenth-century Greppone Mazzi estate in Montalcino; the Renaissance Villa Poggio Casciano in Chianti Colli Fiorentini and the modern La Solatia in Chianti Colline Senesi, near the turreted Monteriggioni (Siena). Today, more than 138 years since its founding and over 88 since the first vintage of Riserva Ducale, a symbol of Italian wines, Ruffino continues to express, through every bottle produced, the history and tradition of its land of election, Tuscany.¹⁷⁸ Today Ruffino has almost 150 employees, exports toward 90 countries all over the world and produces 25 million bottles per year, reaching a total turnover of about 80 million Euros.

Ruffino established an export strategy since the beginning. Already in 1894 its wines were awarded in Chicago. Then, from 1913 the Follonari family was in charge of the winery. During this period the Follonari family used some agents to develop the business abroad. The agent for Asia, specialized in the Asian markets, founded the today's partner: ASC

¹⁷⁸ RUFFINO SRL WEBSITE, "*Our Story*", last check on 20-01-2016.

<http://www.ruffino.com/it/LaNostraStoria/index.htm>

Fine Wine, the China's leading importer/distribution company. Thus, since late 90s Ruffino is present in the Mainland China whereas before (80s) it exported only to Hong Kong. The configuration of the business then changed in 2011 when Ruffino was acquired by the American company "Constellation Brands", which today managed the Marketing & Sales. ASC distributes Ruffino's wines in all China, through the Ho.Re.Ca. The brand is positioned on the high-end market and the target customers are mainly Western people and rich Chinese consumers. The most sold wines are Chianti, Orvieto and Pinot Grigio delle Venezie (*Figure 65*).



			
<i>Orvieto Classico DOC</i>	<i>Chianti DOCG</i>	<i>Lumina Pinot Grigio IGT</i>	<i>Riserva Ducale Chianti Classico Riserva DOCG</i>
\$	\$	\$	\$
			
<i>Riserva Ducale Oro Chianti Classico Riserva DOCG</i>	<i>IL LEO Chianti Superiore DOCG</i>	<i>Modus Toscana IGT (Super Tuscan)</i>	
\$ \$	\$	\$ \$	\$ 0-300 RMB
			\$ \$ 300-800 RMB
			\$ \$ \$ 800-1500 RMB
			\$ \$ \$ \$ 1500-3000 RMB
			\$ \$ \$ \$ \$ > 3000 RMB

Figure 65: Some of the Ruffino's wines sold on ASC Fine Wines website

Source: ASC Fine Wines website

Ruffino's Distribution & External Warehouses Manager, Roger Rossini says: "Even if Ruffino is a pioneer in Chinese wine market, with almost 26 years of activity, it faced some difficulties mainly linked to entry barriers, high competition and the lack of knowledge of consumers. In this matter, Ruffino sets up an educational strategy, aimed at educating both the sales personnel and the consumers".¹⁷⁹

The elements of Ruffino's strategy which determine its success are:

- ✓ Have an historical presence in China, so that the brand and the wines are more easily recognized.
- ✓ Have the right importer, who has an historical presence in China, who knows very well the market and who have an established network of relationships.
- ✓ Educate both who sell the wines and who purchase them. Education is provided through wine dinners and promotional events.
- ✓ Communicate the heritage of Chianti, also through the Chianti Consortium.

¹⁷⁹ Interview #1006, 20/01/2016, Ruffino's Distribution & External Warehouses Manager – Roger Rossini.

FARNESE

GROUP

FARNESE GROUP (ABRUZZO-BASILICATA-PUGLIA-CAMPANIA-SICILY): A RIGHT COMMUNICATION STRATEGY

Farnese Vini officially was born in 1994. Farnese Vini is a young winery that in a few years, thanks to a careful policy devoted to the highest quality research and marketing, has become a leader among the companies exporting South Italy.¹⁸⁰

The great success of the productive and commercial system of the Farnese was then extended in Puglia, Campania, Basilicata and Sicily, with the creation of Farnese Group, which is today composed by the brands Fantini e Caldora (Abruzzo), Vigneti del Vulture (Basilicata), Vesevo (Campania), Vigneti del Salento (Puglia), Vigneti Zabù e Cantine Cellaro (Sicily). As main objective was maintained the one of producing highest quality wines that are able to meet the expectations of most demanding customers. Farnese Group's strategy focused on producing wines with an excellent quality-price ratio.

Farnese today produces 16 million bottles per year, 90% of which are exported toward 78 countries, with a turnover of nearly 50 million Euros and an increase in volumes in the last two years that has reached record rates.¹⁸¹

Farnese Group is present in China since 2009. At the beginning the agent for Asia established a relationship with one of the big international importer/distributor: ASC Fine Wines. Even though, the relationship did not last for long time, because of the fact that this importer (ASC), being already very well-established in China and having a wide product

180 FARNESE GROUP WEBSITE, "The Group", last check on 20-01-2016.

<http://www.farnesevini.it/scheda.php?id=12>

181 D'ORAZIO Giorgio, "Farnese e Benetton investono e puntano sul marchio Fantini," in Il Centro Edizione Pescara, Verona, March 25t 2015.

<http://ilcentro.gelocal.it/regione/2015/03/25/news/farnese-e-benetton-investono-e-puntano-sul-marchio-fantini-1.11118930>

portfolio, was not interested in developing the relationship and in making grow the brand of Farnese Group, advertising its wines and its brand.

For this reason, Farnese Group preferred to establish a distribution network made up by multiple medium/small Chinese importers, who can ensure the geographic coverage and the volumes, because of the fact that most of the times Farnese has to face occasional orders, spot supplying which occur once and no more. Since two years Farnese is experiences a strengthening of the relationships established with its importers, who made orders with continuity and who are promoting Farnese Group's products and are creating an image of the brand on the market. Today the partners, because of all the motives explained before, are 15-20. In order to find partners the winery adopts different methods. It takes part in fairs, such as the Vinexpo in Hong Kong and the Vinexpo in Bordeaux. Less important have been the fairs of Prowein and Vinitaly, because those kind of fairs attract mainly importers belonging to the Western world. Today Farnese Group's wines are distributed in Shanghai, Canton, Yunnan and Beijing, mainly through the on-trade. Just a few are placed through the off-trade. These are low-end Red wines. Farnese Group wines are very good in quality and have a good price. The promotion is carried out by Chinese importers. It could be a participation at local fairs or wine maker dinners which are an occasion for meeting the final consumers. Farnese Group is today present in China thanks to its perseverance, as the Export Manager Stenia Paparella says: "The most effective strategy in China consists in exploring the market as far as possible and in contacting everyone for talking with as many importers as possible. Our wines have a quality/price ratio unbeatable and have features which are very appreciated by consumers. In addition, with respect to many other Italians we take care of having a good packaging which is modern and which can communicate with our consumers. We develop the packaging observing the consumers' behavior during the wine making dinner and the tastings, listening at their comments and opinions, analyzing the most sold bottles and the ones with the highest growth trend. For us the education is fundamental. We manage it organizing market visits. We arrange wine tastings with our importer's the sales agents.

For consumers we organize both wine tastings and wine making dinners. During these events we teach them at how to taste wines and how to understand and distinguish them. Most of all we tell about the story of the winery and the territory. Create a link with the territory is fundamental. Then, we also organize incoming for our partners, who come to Italy to visit our winery and our vineyards. The direct experience is a winning strategy for create a solid and strong relationship. Our most appreciated wines in China are Primitivo, Montepuciano and Edizione, from Puglia and Abruzzo".¹⁸²

Even if Farnese Group is just at the beginning of its experience in China, the experience of this winery provides a lot of elements, both of difficulty and success:

- ✓ Multiple medium-small Chinese partners → Because of the fact that the Chinese territory is really extended, this distribution configuration ensures a widespread presence. In addition, it also reduces the risk of a drop in sales due to spot orders and not continuous relationships.
- ✗ The first problem that Farnese Group experienced relies on having ASC Fine Wines as importer. The problem with a large international importer is that it already has a wide product portfolio and therefore it is not interested in making you grow or in promoting your brand and your products.
- ✗ Another problem is related to the discontinuity of orders by Chinese importers. Most of them use to make spot supplying. Many importers are improvised.
- ✗ Farnese Group experienced also difficulties in communicating with importers, who have problems in understanding English or do not even know it, so that they need a translator.
- ✓ Peculiar offering, which consists in wines with particular features that match the consumers' tastes and preferences: fruity, fresh, sugary.

182 Interview #1007, 21/01/2016, Farnese Group's Export Manager – Stenia Paparella.

- ✓ Packaging. A modern packaging which reflects the style of the winery and able to communicate and transmit the message. The packaging is developed on the basis of a research concerning consumers' behavior, comments and analyzing the most sold bottles and the ones with the highest growth trend.
- ✓ Education directed both toward sales personnel and consumers. During the occasion of wine tastings or wine maker dinner. The winery teaches on how to taste wines, at understanding them and at knowing them.
- ✓ Communication. During the meeting occasions the winery tells about the story of the winery, but most of all it tells about the story of the territory.
- ✓ Quality/price ratio unbeatable.



Figure 66: Farnese Group most sold wines in China – Primitivo, Montepulciano, Edizione

Source: Farnese Group website



ALOIS LAGEDER

1823

ALOIS LAGEDER 1823 (TRENTINO - ALTO ADIGE): THE WHITE SPECIALIST

Established in 1823 the family business Alois Lageder is today synonymous with quality and excellence in the wine tradition of the South Tyrol. The winery stands out for its ability to blend tradition and innovation. Every action done in the estate is inspired by a holistic and sustainable approach. It implies that the respect for nature takes precedence, as demonstrated by the choice of practicing organic-dynamic cultivation.¹⁸³

Alois Lageder has a turnover 2015 of around 15 million Euros and a production of 2,5 million bottles. The winery operates in almost 50 countries all around the world, with about 50 employees.

Alois Lageder started its experience in China 7 years ago, when the winery settled the relationship with ASC Fine Wines. Even if at the beginning to find the right partner and to establish the relationship was difficult, Alois Lageder was able to engage this big importer because it offered a type of wine which is not offered by others: the White. Alois Lageder is in fact considered the specialist for white wine, in particular for the Pinot Grigio. ASC is the only partner of the winery and it takes care of promoting the wines and the brand of the winery. ASC sells Alois Lageder wines online and advertise the brand on the social media. Today, the distribution network is configured with an 80% on-trade and a 20% off-trade, where the wines have a middle-high positioning with prices ranging from 125 RMB to 400 RMB.¹⁸⁴ The most significant element of the case of Alois Lageder is that **the winery gets ASC as partner because it offered a variety of wines (the White) not already present in the product portfolio of the importer.**

¹⁸³ ALOIS LAGEDER 1823 WEBSITE, “*Who we are*”, last check on 14-01-2016.

<http://www.aloislageder.eu/it/marchio?i=10>

¹⁸⁴ Interview #1008, 22/01/2016, Alois Lageder 1823’s Sales Marketing Manager – Urs Vetter.



BERA (PIEDMONT): A SMALL PRESENCE IN CHINA

The winery Bera is located in Piedmont, in the Langhe between Alba and Asti, on the road from Barbaresco and Neive climbs toward Neviglie, a corner of the territory where the vine is tied to the tradition. The winery tradition is hundreds of years old, and began around 1900. Moscato, from which is get the Moscato d'Asti, the main wine of the winery, and also the historic Asti Spumante. The winery now covers an area of 30 hectares and over 23 of which are vineyards, spreading even to the neighboring municipalities. With Moscato in the heart, to produce Asti and Moscato d'Asti, Nebbiolo in the head to make Barbaresco, Nebbiolo and Alladio Sassisto, the Bera family continues to cultivate Dolcetto and Barbera for not giving up to the territorial tradition. Today are also produced Chardonnay and Pinot Noir, which are used to prepare an intriguing and elegant Bera Alta Langa Brut classic method. Bera wines want to be the result of the respect of the territory, the daily work and the care of vineyards, culture, history, traditions but also of memories, emotions and passion of BERA.¹⁸⁵ Bera has been present in China for 3 and 4 years, since it met its today's two partners respectively at the fairs of Vinexpo and Prowein. The two importers are middle size Chinese importers who distribute Bera wines through specialized shops, in the cities of Beijing and Shanghai. Everything is managed by Chinese partners, so that Bera has a very little knowledge of their Chinese business. **The winery, especially at the beginning, experienced problems with custom clearance and documents. In addition, the problem registered by Bera is the lack of communication on the part of the Chinese partners. The winery experienced difficulties in dialogue because the Chinese partners do not reply and keep in contact only when they need something.**¹⁸⁶

¹⁸⁵ BERA WEBSITE, "Who we are", last check on 14-01-2016.

http://www.bera.it/site/index.php?option=com_content&view=article&id=7&Itemid=130&lang=en

¹⁸⁶ Interview #1009, 19/01/2016, Bera's owner – Valter Bera.



CEVICO GROUP (EMILIA-ROMAGNA): THE TOP ITALIAN EXPORTER TO CHINA

The Cevico Group origins date back to 1963. It is a large cooperative reality of Romagna, with connections to other regions. Always in the top 5 Italian manufacturers for bottled wine and number 1 for the B / Box, Cevico Group is also the winery with the fastest growth. It offers a comprehensive selection of wines from different regions.

The Social Cellar members receive the grapes from 5.000 associated growers, who cultivate 7.000 hectares of vineyards and wine-making to carry about 140 million kg of grapes. The grapes are transferred and processed in the 20 wineries. Leader on wines from Romagna and Sangiovese (0,750lt bottle). Cevico Group is owner of many prestigious brands and historic wide popularity. Cevico Group distributes its wines in 55 countries and in Italy is one of the wineries better known for its brand (Galassi, Cantine Ronco and Sancripino). It is also the largest supplier of bulk wine for the foundation of Bacardi, Martini and Campari. The wines are wrapped in the three bottling sites of Lugo, Forlì and Reggio Emilia. The most common varieties are: Trebbiano Romagnolo, Sangiovese, Cagnina, Grechetto kind (for DOC Pignoletto or Rebola), Pagadebit, Chardonnay, Merlot, Albana, Cabernet Sauvignon and Lambrusco.¹⁸⁷

Cevico Group today produces one million hectoliters per year, is present in almost 65 countries all over the world and registering a turnover (2015) of 131 million Euros.

Cevico Group is present in China since 2008, when they participate in a fair in Singapore. Here they get the first contacts with Chinese importers. The strategy, since the beginning, was aimed at searching for multiple importers, because of the diversities among regions

¹⁸⁷ CEVICO GROUP WEBSITE, "*Company's profile*", last check on 13-01-2016.

<http://www.cevico.com/it/profilo>

and the geographic vastness of the Chinese territory. The partners have been found after years of travels in China and participation at fairs. Today, Cevico Group exports to China almost 64 brands, which are distributed on-trade, off-trade and online, some of them on yesmywine.com (Figure 67).



Figure 67: Yesmywine platform for selling wines

Source: Yesmywine.com

The Chinese market is the second most important market for Cevico Group, after Japan. In 2015 Cevico turned out to be the biggest exporter of Italian wine in China with **9% market share** of all Italian wine imported. The wines are distributed in all the main municipalities. The export manager, Francesco Paganelli, says "The provinces where we export most are first of all Fujian, then Shanghai, Beijing, Qingdao, Shenzhen. Now we have a stable presence, but at the beginning it was not so easy. We faced worrisome

difficulties in finding serious and professional partners. Now we collaborated with different importers. This is to reduce the risk of a single importer's performance dependence and to have a direct and widespread presence in all the Chinese provinces. Our distributors mainly sell wines which express a great price/quality ratio and which have a well-finished packaging"¹⁸⁸. Cevico Group opened in summer 2015 a new wine bar in Xiamen, which is called "The de Tot", which means "Every Day" in Chinese (*Figure 68*). "In order to be able to appreciate the great quality of the wines of Romagna at a fair price, we thought of a place where people feel invited in, which is nice, but not exclusive, elegant and comfortable at the same time - says Ruenza Santandrea, President Group Cevico - and especially where the hospitality of Romagna is the dominant trait and where this trait gives off all over the place. The wine bar will be held tasting courses, cooking, art events with the intent of raising awareness and appreciation to wine, in addition to the culture and the essence of the land of Romagna, in synergy with a historical culture like China."

Cevico Group's objective is to transmit to Chinese consumers the habit of consuming a daily glass of good Italian wine, specifically the Romagna one.

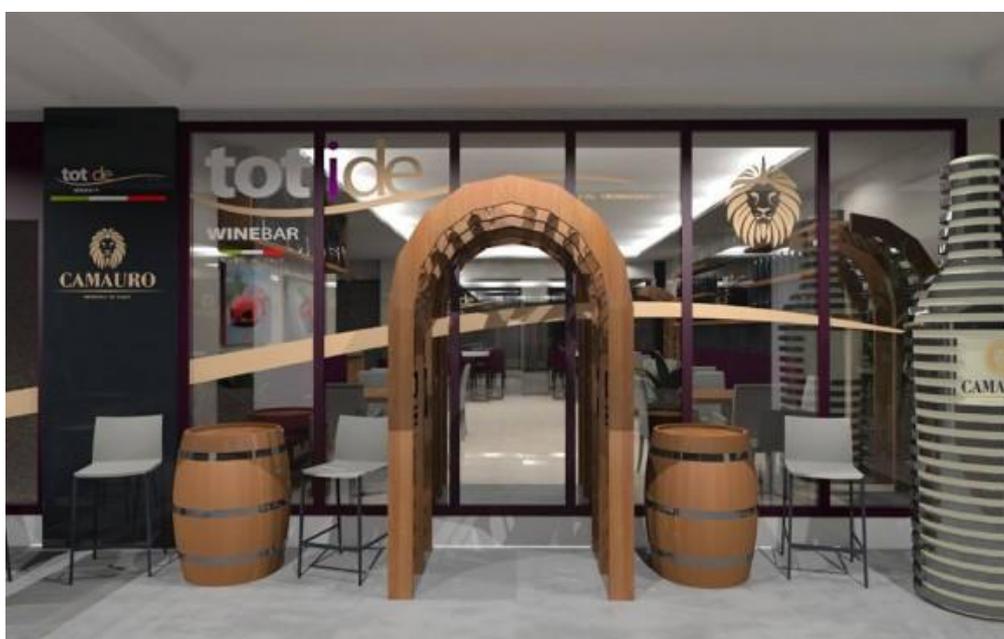


Figure 68: Cevico's wine bar in Xiamen "The de Tot"

Source: Cronache di gusto

188 Interview #1010, 08/01/2016, Cevico Group's Export Manager – Francesco Paganelli.

The elements which determine the success of Cevico in China have been:

- ✓ Constant and widespread presence.
- ✓ Online presence, on YesMyWine.
- ✓ Personnel working for Cevico Group who speak Chinese
 - They are able to transmit the messages and to provide education to Chinese consumers.
- ✓ Educate consumer, in particular at Romagna's knowledge and Romagna's wines.
- ✓ Flexibility.



GIULIO COCCHI SPUMANTI (PIEDMONT): a comprehensive winning strategy

Established in Asti in 1891, Giulio Cocchi is among the wineries of reference in Piedmont for the production of drinks and sparkling wines Metodo Italiano and Metodo Classico, in particular Alta Langa DOCG. All Cocchi's products are based on wine and recipes which follow formulas of Giulio Cocchi: this makes the Cocchi's style recognizable in the taste and character. Giulio Cocchi from the late '70s has renewed production to lay the foundations for the cult status that the brand has now won.¹⁸⁹

Giulio Cocchi keeps intact its own character and its artisan origin using only traditional techniques and natural ingredients in the production of the famous aperitif and sparkling.

Giulio Cocchi has 7 employees, is present in 22 countries, has a production of 400.000 bottles/year and a turnover of almost 2 million Euros.

The first contacts with the Chinese market dates back to the '90s, but the first significant sales begin around 2005-2006 in Taiwan and a few years later in China and Hong Kong.

Giulio Cocchi analyzed various Chinese import companies, which were evaluated according to their strength on the market and their transparency in the information provided. "It is always important to network with Italian companies to understand the opportunities that an importer can offer or the problems that may be encountered by cross-

¹⁸⁹ GIULIO COCCHI WEBSITE, "L'azienda di Giulio Cocchi", last check on 25-01-2016.

<http://www.cocchi.it/ita/storia.htm>

checks with other manufacturers and with the Insurance Institutes that evaluate the financial soundness”.¹⁹⁰

Today Giulio Cocchi has different partners in China. Product distribution takes place and through these well-structured importers. The partners are met annually at international fairs, in which Cocchi participates, and during the export manager’s visits in China.

The distribution network of Cocchi is organized through the importers, who buy the goods and resell or directly distribute wines into their channels as in Taiwan or through wholesalers and retailers as in the case of China and Hong Kong. In China, the Cocchi’s importer serves mainly the large cities, such as Shanghai, Beijing, Shenzhen, Guangzhou and Chengdu. The channel used is the on-trade and the importer serves mainly high-end pubs, cocktail bars, starred hotels and restaurants serving Western cuisine. Giulio Cocchi in China sells flavored wines such as Vermouth di Torino, Americano and Chinato Wine and sparkling wines from Piedmont. In Taiwan, the winery sells sparkling wines from Piedmont with a focus on the Asti DOCG, whereas in Hong Kong primarily flavored wines like Vermouth di Torino, Americano and Barolo Chinato.



Figure 69: Giulio Cocchi Spumanti most sold wines in China – Asti DOCG, Vermouth di Torino, Americano and Barolo Chinato

Source: Giulio Cocchi Spumanti website

190 Interview #1012, 25/01/2016, Giulio Cocchi Spumanti’s Legal Representative.

Currently Giulio Cocchi does not have dedicated wines for China. The winery also does not have a web site totally in Chinese. Even though, the information on the company and products are available on the sites of the importers. Promotional activities are carried out in collaboration with local partners that organize tastings, events with the media and so on. The brand is promoted through both Western and Chinese social networks, as Wechat and Weibo. The brand is promoted through:

- Annual visits on site for importers' staff training by export manager of Giulio Cocchi;
- Actions of incoming to know the winery and the complete Cocchi's portfolio;
- The trade fair participations;
- The involvement of the media.

Giulio Cocchi is still experiencing difficulties in the definition of contracts and negotiations for setting prices. In some cases, the difficulties have not been overcome, so that the partnership was interrupted. In other cases, it was important to have a direct comparison, dialogue and especially the presence of Western staff. The success of the winery is due to dedication, careful selection of partners, the constant presence on the market and the high-end products offering, which, even if high in price, have met its target, composed by the more educated and always looking for something new Chinese consumers and the tourist or foreigner in search of the traditional tastes and smells. As far as what distinguish Giulio Cocchi offering in China, the spokesperson says: "It is certainly the offer of high quality Vermouth that are sought by the most famous international barmen and that are experiencing huge acclaim and success worldwide. About sparkling wines, Asti DOCG wine is the world's most popular sweet sparkling wine and the awareness of the high quality of the one produced by Giulio Cocchi ensures its huge success. The history, the experience in the wine world (Giulio Cocchi was born in Asti in 1891), the presence of a family that runs the production for decades in compliance with the original recipes, hospitality, are factors increasingly sought by consumers in China, who come to visit Italy and who look for curiosity. China is a market that can offer good business opportunities

only if you find the right local partner, possibly with ownership or staff not only Chinese. The presence of staff European or American can undoubtedly facilitate communication and reduce the timing decision. Chinese young consumers like the sweet wine with low alcohol content as Moscato d'Asti and flavored wines like Vermouth and Americano, essential ingredients in the best nightclubs, bars and hotels of the most major Chinese cities. Giulio Cocchi is a boutique winery in China and Hong Kong is only the high-end sector of the Ho.Re.Ca., whereas in Taiwan the brand Giulio Cocchi is distributed by a large American chain”.

The experience of Giulio Cocchi Spumanti reveals both elements of success and difficulty:

- ✓ **Careful selection of the partner** → Evaluated according to their strength on the market and their **transparency in the information** provided. **Network with Italian companies** to understand the opportunities that an importer can offer or the problems that may be encountered by **cross-checks with other manufacturers and with the Insurance Institutes that evaluate the financial soundness.**

Possibly with ownership or staff not only Chinese.

- ✗ **Difficulties in the definition of contracts and negotiations for setting prices. In other cases** → It was important to have a direct comparison, dialogue and especially the presence of Western staff.

- ✓ **Constant presence on the market** → **Visits, fairs**
- ✓ **Positioning** → **High-end product offering on the Ho.Re.Ca.** → High-end pubs, cocktail bars, starred hotels and restaurants serving Western cuisine.
- ✓ **Education** → Tastings, importers' staff training, actions of incoming to know the winery and the complete Cocchi's portfolio.
- ✓ **Brand promotion** → Social media both Chinese (Wechat and Weibo) and Western, annual visits on site, trade fair participations, involvement of the media.

- ✓ **Quality products offering** → High quality Vermouth that are sought by the most famous international barmen and that are experiencing huge acclaim and success worldwide and Asti DOCG, which is the world's most popular sweet sparkling wine.
- ✓ **History of winery and brand** → Awareness of the high quality of the one produced by Giulio Cocchi. The history (Giulio Cocchi was born in Asti in 1891), the experience in the wine world, the presence of a family that runs the production for decades in compliance with the original recipes and the hospitality.



CANTINE SETTESOLI (SICILY): A COMMUNITY ACTION

Cantina Settesoli was founded in 1958 in Menfi. Today it has 2.000 associates, a surface area of 6.000 hectares, which is about 5% of the total Sicily's vineyard area, three wine establishments dedicated to winemaking with about 500.000 tons of grapes processed every year and a center for packaging and storage of finished products. Cantine Settesoli is the largest Sicilian winery, the largest vineyards in Europe and is an authentic wine district in the province of Agrigento between Menfi, Montevago and Santa Margherita di Belice as much as 70% of some 5.000 families in these communities are involved in Settesoli.¹⁹¹ Cantine Settesoli is today present in almost 40 countries, with 41 permanent employees and 200 seasonal workers. It produces 25 million bottles per year, reaching a total turnover 2015 of 54 million Euros. Cantine Settesoli is present in China since 2011, when it settled the first partnership in China. Before entering the Chinese wine market, Cantine Settesoli takes part in the Marco Polo Program. This program deals with supporting companies that want to work in China. The support is provided through advices, market researches sponsored by CMO funds and help in the construction of the sales network. By the moment of the first contact, a lot has been done in order to develop relationships aimed at finding the right partners. In order to do that, the winery takes part in meetings in China, followed by incoming in Sicily, and in trade shows. In addition, the Export Manager Ricardo Andujar, specialized in Asian markets, spent a lot of time in China for meeting operators and selecting the most professional ones. As the PR & Communication Manager Roberta Urso says, "Although the good work of Ricardo the research is not ended. China is really huge and it is very difficult to cover all the metropolitan areas. We must seek for new business partners and establish relationships,

¹⁹¹ CANTINE SETTESOLI WEBSITE, "*The Story*", last check on 18-01-2016.

<http://www.cantinesettesoli.it/?op=history>

consolidating that already acquired. We decided to be present in China because it is a huge market, with an enormous potential, where the culture of wine is still undeveloped but will certainly evolve in the near future. We must be ready to meet the needs of new Chinese consumers”.¹⁹² Cantine Settesoli distributes today its wines through a net of 8 middle/large Chinese importers and distributors based in Shanghai, Guangzhou and Zhengzhou city. The wines are distributed both on-trade and off-trade, with two dedicated lines which are respectively Mandrarossa (on-trade) and Settesoli (off-trade). Cantine Settesoli wines are positioned on the mid-range market. Cantine Settesoli takes part in the main trade shows, such as the International Wine & Spirits in HK, Prowein China and Interwine China. Cantine Settesoli faced some difficulties in dealing with the Chinese wine market. These difficulties are mainly related to cultural aspects, because a lot of educational work must be done in order to sharpen the consumers’ taste and their knowledge about wine. Even though, the winery was helped in its action in China by the ICE, which is the agency dedicated to the promotion of the Italian firms abroad and which also help Italian firms in the internationalization process. Cantine Settesoli participated in many events organized by ICE and placed all over the world, and it also used the ICE’s spaces in the trade fairs. Cantine Settesoli promotes its brand in China through wine tastings, wine dinners and creating and publicizing videos and promotional material in Chinese, which are used to foster sales and to advertise the brand. The success of Cantine Settesoli in China is due to some elements of the winery’s strategy:

- ✓ The good quality/price ratio.
- ✓ The wide product offering, which ranges to almost 27 different grapes variety.
- ✓ The fact that Cantine Settesoli represents a community of winemakers, who collaborates among each other. This collaboration result in a stronger image and brand awareness, a wider product portfolio and greater financial resources available to be invested.

¹⁹² Interview #1011, 20/01/2016, Cantine Settesoli’s Public Relations & Communication Manager – Roberta Urso.



FATTORIA MONTE FASOLO: THE CHOICE/OBLIGATION OF NOT BEING PRESENT IN CHINA

History of the winery and its Internationalization strategy

Located in the heart of Veneto, between Euganean Hills, Fattoria Monte Fasolo has been for more than 40 years a unique and singular production reality. It is made up of a total area of more than 100 hectares, located inside the Euganean Hills Regional Park, 60 hectares of vineyards, 4.000 olive trees and tens of hectares of forest.¹⁹³

Fattoria Monte Fasolo produces 230.000 bottles per year. It is the private winery with the highest production volume in its area (Euganean Hills). Considering the production volume it is classified as a medium-small winery.

The medium-small wineries produce between the range of 7.000 to 150.000 bottles per year, whereas the medium wineries have a production ranging from 150.0000 to 500.000 bottles/year. The large wineries produce from 500.000 up to 1 million bottles/year and finally the very large wineries have production volumes over 1 million of bottles per year.

Instead, considering the total vineyard area, Fattoria Monte Fasolo is classified as a medium-large winery, because with its 60 hectares, cannot be listed among the family-run business.

Fattoria Monte Fasolo is a very good example of how Italian wineries become global. The winery has been present on Italian wine market for forty years. It has always produced medium quality wine, sold on the market at medium-low prices.

Then, in 2004-05 something changed. The owners of the winery started to think about the strategic positioning of Fattoria Monte Fasolo on the market, figuring out that such a

¹⁹³ FATTORIA MONTE FASOLO WEBSITE, "A jewel in the Euganean Hills", last check on 28-12-2015.

<http://www.montefasolo.com/eng/una-gemma-nei-colti-euganei-page.php>

positioning (medium quality wines at medium-low prices) was no more optimal, because of the typology of Euganean Hills wines, which are very little known. Moreover, the company started to approach the international wine market, internationalizing its business. In order to do so, having a wide variety of wines was no more a strategic element, as it was until the company remained with a local/domestic configuration of the business. In fact, what happens in a local business is that the client comes into the winery to choose the wine, and having a wide variety implies a higher possibility that the client find what he desires. Whereas, once orders come from other countries, having to ship the wines, the container (15.000-30.000 bottles) or the pallet (600-700 bottles) departs only once it is filled up. Therefore the quantity ordered increases, up to 20.000-30.000 bottles per each typology. These orders would be impossible to satisfy having a wide product portfolio. For this reason, was required to modify the business configuration. First of all, the variety of wines was reduced, from 25 to 8-9. In addition, also the type of wines was changed. The company focused on quality products, which implies a prices modification. Prices change from 2-3 Euro/bottle to 7-9 Euro/bottle, up to 25 Euro per bottle. The quality of Fattoria Monte Fasolo and its wines was widely promoted. It was indirectly publicized through articles on trade magazines and journals and directly promoted through actively participate in annual worldwide fairs and contests, only based at an international level. Obviously the passage was not sudden. Between 2004 and 2007 the company attended only national contests. In 2008 it started to evolve, taking part in both national and international contests, whereas starting from 2009, it attended exclusively International contests. The winery constantly takes part into some fairs and tasting occasions which occur annually in European countries. Some of these are, for example, the ProWein of Dusseldorf, in March, or the Vinitaly in Italy (Verona), in April. The strategy of Fattoria Monte Fasolo was clear. The winery wanted to be present on the international context. To do so, it rehanges its business, in order to be able to face and satisfy the large international orders. Moreover, the winery understood that it was crucial to communicate its presence to both international actors and markets. Therefore, it invested in promotion, using magazines as driving force,

and in participation at relevant international events and showcases (fairs and contests). Using this strategy, Fattoria Monte Fasolo started to become known and recognized at the international level. The wines of the winery won every year 6-7 medals gaining rewards at European and American level. It was properly thanks to those recognitions that the winery could find distributors for EU and US markets.

The experience in China

In the 2014 Fattoria Monte Fasolo decided to participate for the very first time in the Decanter Asia occurred in Hong Kong, competing with its wine: Moscato Fior D'Arancio DOCG. This is a sweet Spumante with 6% alcohol, which won for ten years medals at the English contest.

The Hong Kong Decanter Asia is a contest organized with consecutive steps. During the first step wines are grouped by type (spumanti, rosè and so on), and the Moscato Fior D'Arancio DOCG won its category (*Figure 70*). Hereafter, within its category (sweet Spumante) wines are evaluated with a regional contest, where for region Chinese mean the country of origin (Italy in our case). Moscato Fior D'Arancio DOCG won also the regional contest. Then, the wines which win the region contest are judged for the area contest, which in our case is Europe. The Moscato won this contest too. Finally, the winning wines for each area are evaluated all together in a worldwide contest, where the Moscato won above all. In addition, the Moscato Fior D'Arancio DOCG gets an extra reward because it obtained the maximum score in all the category contests. This extra reward was ascribed to just five wines, among a total of 800 potential winning wines.



Figure 70: Moscato Fior D'Arancio award at Decanter Asia 2014

Source: Fattoria Monte Fasolo website

Thanks to the Moscato Fior D'Arancio DOCG, Fattoria Monte Fasolo meets with success at Chinese wine market. The winery was later contacted to participate at fairs or tasting occasions. Fattoria Monte Fasolo presented another of its wine, the Fior d'Arancio Passito at the Decanter Asia 2015 (May) where this wine won the bronze medal.

Therefore, Fattoria Monte Fasolo has two years of experience of Chinese wine market and has created a network in China.

However, in spite of all these positive factors, Fattoria Monte Fasolo is not present today in the Chinese wine market, in the terms of exporting and selling its wines in China.

This may sound contradictory. Yet, there are some factors which obstacle the presence of the winery in China, some attributable to the winery, some other ascribable to the market.

"My first approach to the Chinese wine market was in 2012 – says the entrepreneur and owner of the winery, Gabriella Mazzucato – and since the beginning I understood that there were some obstacles, which oppose an hypothetic presence of Fattoria Monte Fasolo's wines in China. The first concerned the **huge investments** required to enter the market. In order to enter the market is required an initial investment which ranges from

20.000 to 1 Million Euros for 5-6 years. Therefore only large wineries which have availability of economic and financial resources, such as Gaja and Banfi, can afford it”.

Gabriella Mazzucato explained me the problem more in detail. “In order to enter the Chinese wine market you have to spend for fairs participation, marketing, for developing local contacts and for the insertion in the market. Moreover, there were **too many costs** to sustain. Shipment costs, the commission of the importer, stowage costs, taxes, and the costs of distribution. You have to pay the importer but also the distributors. Distributors ask you to pay to place your wines and they also ask extra money for positioning your wine in its network and for promoting and distributing it. I should have to pay for placing my wines, giving 20-30% to the distributors.

Another problem I faced was that Chinese asked me **large orders at price per bottle which was well below market price**. A bottle of wine has the costs of raw materials, which varies depending on wine typology and quality. They include glass, labels, cork, capsule and metal cage (for Spumante). Because I produce 30.000 bottles/years everything comes to cost more than it could cost, for example, for those who produce 1 Million bottles/year (they can exploit economies of scale). Chinese asked a medium price per bottle of 1,50, maximum 3 Euros, which is too low, because considering the bottling costs, it comes out a bottle with a higher price. The price they asked for is the selling price of a bottle in Italy. The selling price of a bottle in China is ten times the Italian selling price, in Euros. Then you have also to convert it in Renmimbi.

The last issue I had to go through is linked to the double connotation Italian wine has abroad. It can be qualified broadly as “Italian”, and my wine as Fattoria Monte Fasolo takes advantage of only this kind of characterization. Otherwise, more specifically, the Italian wine can be even more qualified, according to the region or to the wine type it belongs to. It means that the wine is identified as, for example, Brunello di Montalcino, Soave, Amarone. My winery (Fattoria Monte Fasolo) has been part of the “Euganean Hills Consortium” for twenty-five years. Even though, the Consortium has never made marketing and advertising of its (included mine) products. As results, no one outside the

province of Padua knows about Euganean Hills wines. A good example of the very positive results this kind of action can generate is provided by the Soave. Soave is a new brand and it is also a basic wine, a simple VDT (table wine). Nevertheless, all the **producers in Verona province worked together as a team in order to promote the brand**, and not each single cellar or producer's interests. Producers made advertising, in particular oriented abroad, showing images of the Garda Lake and **promoting the territory which the Soave belongs to.**¹⁹⁴

The experience of Fattoria Monte Fasolo and its owner, Gabriella Mazzucato, provides with some very important elements concerning the Chinese wine market for Italian wineries:

- ✘ In order to enter the market huge economic resources are required. These must be used for marketing, for finding the partner and to face the costs.
- ✘ A large production capacity is required too, in order to satisfy the Chinese big order's volumes and to meet the low price the Chinese ask for.
- ✘ Without a recognized brand and a strong image is really difficult to present yourself to Chinese wine market.

Because of all these reasons Fattoria Monte Fasolo decides, being in part obliged, to not be present in the Chinese market, even if its wines are really appreciated by Chinese, which is demonstrated by all the awards they gained.

194 Interview #1001, 14/12/2015, Fattoria Monte Fasolo's Owner – Gabriella Mazzucato.

DEFINING THE RIGHT APPROACH

Once I had collected all the experiences of Italian wineries, I figured out why the Chinese market represents both a difficult market and a great opportunity for Italian wineries. I am now going to explain why Chinese wine market is so hostile for Italian wineries, pointing out what was wrong in the past and the objective complications Italian wineries have to face today. Afterwards, I will present what I identified as critical aspects, which wineries have to pay particular attention at, in order to define the main elements, which can be used as reference by Italian wineries in order to set up a successful strategy.

WHAT WAS WRONG IN THE PAST: THE INCORRECT APPROACH TO THE MARKET

The problems and the issues faced today by Italian wineries, they encounter when they firstly approach the Chinese wine market, are in part due to what happened in the past. According to the Alberto Bradanini, the Italian ambassador in the Republic of China, the problem in China is that **Italy is not seen as one of the major wine producing nations**. “We are known for fashion, for tourism but, when it comes to wine, a Chinese think automatically to France”. This situation of misperception and lack of knowledge is primarily due to the fact that the French were the first who settled in the market. The French wine market took office in the Republic since the early 80s, through joint venture agreements with producers of alcoholic drinks. The French presence has been consolidated over the years and communicated effectively to the final consumer. This is why today the Chinese are struggling to perceive Italy as a wine producer, because for the large majority of Chinese the first and immediate association is: wine = France. Indeed, when a product is placed for the first time into a market, in which before it was not present, but above all it was not known, the idea and the perception of the consumers is totally dependent on communication made by who first approaches the market. This explains why Chinese

consumers think pizza is American, because they associate it with the first explorer of the market: Pizza Hut.

In addition, the French have been particularly good at understanding the market and how to approach it. Their trump card lies in the manufacturer-distributor relationship. The distributor is not the same as with the large retail chains, which in China only accounts for 15% of the market, but with the importer who works closely with the first link in the chain.

The French have understood that the product should be followed from beginning to end and they control the whole process using experienced professionals on packaging, customs bureaucracy, storage and transportation. In the absence of a widespread competence, who decides what people should drink is still the distributor. The key words to toast the success are therefore marketing, communications and logistics. Furthermore, there was an error on the part of Italy and the Italian producers in the approach to a so different and peculiar market as China is. Unlike the French neighbors who have invested significant resources to help importers to sell their products on the market, the Italians were not able to create an effective supply chain.

The failure of Italy is mainly due to:

- **A lack of control over the distribution network;**
- **Incorrect, if not many times absent marketing strategy and communication, due to a lack of investment in these levers.**

In Italy, most exporting wineries sell ex works that means they limit themselves to prepare the products in their cellars and provide the necessary documentation, leaving to the buyer the customs and transport operations, sometimes without even knowing the final consumers. This, as we have seen, is totally wrong. Because if you do not know your consumer, you do not know its characteristics, its preferences, its needs. So summing up, how can you sell something to him? Especially since we have seen how the culture of Italian wine in China is extremely limited. Therefore, most likely the distributors do not have the knowledge and skills to sell the Italian wine cellars provide them. The distributor

does not know how to communicate to customers the value and the quality of the wine and let pass an image that is not the real one. In addition, if you do not take care of the shipment, consequently, you do not know the conditions in which the goods are traveling, how and through which channels it is sold. The "Made in Italy" has in this case to pay more attention to the big picture. In this matter, the French have much to teach us.

OBJECTIVE COMPLICATIONS FACED BY ITALIAN WINERIES

The case of Fattoria Monte Fasolo, points out three big objective complications which Italian wineries have to face once they try to approach the Chinese wine market. The first one concerns **financial and economic resources**. Enter in Chinese wine market implies huge investments, which have to be done since the beginning, because of the shipment costs, the bureaucratic costs and the costs supported for finding a partner. These initial costs are in particular made up by **tariff costs**, which as we have seen accounts for 48% and are particularly heavy on wine and specifically on Italian wine, which cannot take advantage of the facilitations provided by trade agreements (as Australia and Chilean wines have), and administrative and **bureaucratic costs**, because of the long series of procedures that have to be followed and the amount of documentation required, which is also really costly. Moreover, a serious issue concerns **the protection and safeguarding of the denominations**. Since the system of classification by origin is not recognized in China, the only way Italian wineries have to protect themselves from improper use of the names of their products, if not from actual cases of counterfeiting, is to pursue the registration of trademarks. The trademark registration must be made before exporting, from Italy. This is to protect themselves from a series of events that might occur if the mark is registered by the Chinese importer. In fact, if this happens, the Italian manufacturer can face serious problems, once the relationship with the Chinese importer ends. Since he registered the mark, if the Italian producer wants to change importer, it would be subject to blackmail. The Chinese importer would force him to continue the relationship, since he is the owner

of the trademark. Alternatively, the Italian producer who wanted to end the relationship but continue to sell in the Chinese wine market will be forced to change the name of his wine, not having in his hands the ownership of the brand. And well, this alternative is clearly not acceptable.

Then, further costs refer to marketing and communication costs and the ones the winery has to undertake in order to build a solid brand and a deeply-rooted presence in the Chinese market. The second problematic aspect is related to the **size of orders**. Chinese importers ask for **too big** orders, pretending also a low price per bottle. A condition which cannot be supported by small and medium wineries, which cannot exploit economies of scale and which result in having a cost of production totally well below market price and therefore not profitable. The latter issue identified by Gabriella Mazzucato, and also confirmed by the other interviewees, is that without a brand recognition it is difficult to have success in China. **Italian brands are not known by Chinese consumers, because of a lack of marketing and promotion of Italian territory as a unique brand.**

Chinese are not so familiar with Italian wine, because Italy still occupies a marginal position in the Chinese wine market. “The problem is that have not been developed new strategies aimed at presenting to the Chinese Italy and its wines as an organized system – says Gabriella Mazzucato – moreover, with local rivalries, consortia and organizations are struggling to promote the area”.

In addition to these issues, the Italian wineries penetration difficulties originate also from other obstacles, which refer mainly on legislative, cultural and linguistic nature. These firstly concern the **insufficiency of local distribution channels**. In China is totally lacking the Italian mass distribution system as well as the Italian hotels chains. In addition, since import of wine is a relatively recent phenomenon, it lacks a comprehensive and highly professional network of importers-distributors. Another problem concerns the **poor interaction with the political entities - national trade in Italy and in China**. Generally, relations with embassies, consulates and chambers of commerce do not go beyond the initial bureaucracy, even without much support before, during and after the business

relationship with Chinese counterparts. Thus it is desirable that these relationships grow, addressing also the Chinese political institutions in Italy.

"Sadly there is a deep lack of certain key factors: for example, lacks the political support, lacking a mutual understanding of the market and the product, both by the manufacturer, and by the importer of the product; lack of awareness of the cultural counterpart because negotiate with the Chinese takes time, patience and wealth of information, in addition to a primary, but always well-received, linguistic and cultural knowledge."

Then, there is the problem of the **cultural distance and language barriers**. Language barriers create difficulties in relationships. Italian wineries have to take into consideration that Chinese is a language made by symbols, not based on an alphabet. For this reason, a mere translation is not sufficient to communicate a concept.

In addition, as the experience of Farnese group pointed out, many importers do not even know English and this makes it difficult the relationship between the parties.

CRITICAL ASPECTS

Analyzing successful and failure cases and the opinions of all those who deal with Chinese wine market, I identify some criticalities Italian wineries have to pay particular attention at.

1. Partner choice, the crux element.

This is the first and fundamental step. Without a match of goals and intentions, it is not possible to build a solid presence in China.

As Elisa Rossetto (Bisol) says: "The key for the success in China is the partner/importer. He must be serious, professional and honest, which are features actually quite difficult to find in an importer".

- Incompetent or unfair distributors.

It can often happen that you have to face incompetent or unfair distributors, who can ask you to pay 'extra fees' to place the product. For this reason, Italian producers ask for the creation of a distribution network mainly entrusted to Italians, who better know and can better appraise Italian wines.

- Where to meet the partner?

On the one hand the partner can be already known, for example because of a relationship already set up in another market. On the other hand, the partner can be met in B2B events, trade fairs or promotional events, like Vinexpo in Hong Kong, Vinexpo in Bordeaux, Prowine Asia in Singapore and the fair in Kunming (China).

2. Collaboration among Italian wineries.

There is too much pride, therefore Italian wineries do not collaborate among each others. This weakens the action and the presence of Italian wine in China.

3. Communication of the brand and education of Chinese consumers.

Chinese have a very little knowledge of wine, especially of the Italian one. Therefore they must be trained and taught at tasting wine.

4. Have an active presence in China.

This participation is fundamental to catch new opportunities and to understand the evolutions of Chinese market (which, as seen, is growing swiftly).

5. Using the online channel.

In order to be successful, brands should have strong presence in the online and importer/distributor-owned retail chain. These channels have a higher level of trust among consumers and can provide more professional services and transparent information, which is vitally important as concern over counterfeits is still the biggest barrier to buying wine in China.

HOW TO MAKE IT BIG IN CHINESE MARKET – WHAT THE EXPERIENCES OF THE ITALIAN WINERIES ANALYZED CAN TEACH US

China represents a great opportunity for Italian wines, this is indisputable.

Analyzed the factors of obstacle and the mistakes made by the Italian producers in approaching the Chinese market, I want now to identify the elements which represent factors of success for Italian wineries. In this way, we will better understand the strengths of Italy and of its wine, and on what Italian wineries have to focus on, in order to succeed in the Chinese wine market. In particular, it will give answer to questions:

- How Italian wineries can hit the big time in a market like the Chinese one?
- Which might be the main elements of their strategies?

✓ FIND THE RIGHT IMPORTER

As all the experiences of Italian wineries demonstrate, the selection of the right importer is crucial. The importer must be a partner, who collaborates with you and who cares of the relationship. Elisa Rossetto of Bisol claims how the other members of the Grandi Vini Consortium are facing some issues in China. They are not satisfied with the volumes of sales and this is because their importers do not give priority and importance to their brand, being more concentrated on the price. Even if they tried to change they face difficulties because it is highly difficult to find a good importer. Moreover, the fact that the wines they offer are already widely present in China is another issue. In fact, the best importers are already taken for these kind of wines. The same problem has been experienced by Farnese Group. At the beginning the winery had ASC Fine Wines as importer, but the collaboration was short because ASC was not interested in promoting Farnese wines and did not take care of advertising the brand on the market.

For all those Italian wineries which are not large in size and do not have a strong brand in term of worldwide recognition, the large international importers must be

avoided. In fact, among all the wineries analyzed, only Bisol, Zoin and Ruffino have a large international importer (EMW, Torres and ASC). This because they are big in terms of turnover, despite Bisol, and because they have been present in China for almost 20-25 years. The problems of having as partner a big international importer are mainly two. They are not interested in developing a relationship with you and in making you grow, developing your business in China. They already owned a lot of wine brands, therefore a label more or a label less makes no difference for them.

- *The best solution for middle size Italian wineries is to enter Chinese wine market using different medium-small Chinese importers/distributors. This configuration allows to have an extended geographic presence and to reduce the risk due to the distributor's performance dependence and spot orders.*

As we have seen, it is difficult to find an importer, and a lot and a constant work must be done, especially at the beginning.

- *Therefore, a strategy for attracting importers consists in offering a wine which is particular, new and not already distributed in China. In this way the winery can get the partnership with the importer and then, once the relationship is well-established, can ask to place more common wines.*

The most important thing is that the partner is **RELIABLE**. He must take care of promoting your brand and increasing the brand awareness, guaranteeing marketing activities. You must take care of the relationship setting up a relation of **TRUST** and **MUTUAL COLLABORATION**, long term oriented. You must be available of visiting your partners in China, also taking part in meeting and tasting occasions with sommelier, educator and importers, which have the goals of strengthen the relationship and training your representatives.

✓ **SPREAD THE ITALIAN CULTURE, PRESENTING ITALY AS A BRAND**

As the Italian Ambassador in China sustains, it is essential to create a “Country Brand”, promoting and presenting “**The Brand Italy as the Country of Wine**”.

The Chinese who decide to spend for a good foreign wine choose famous brands because in this way they feel like they are buying the values and the ideals they represent. Therefore, the major buyers prefer labels that have already built a good reputation. Without presenting themselves with a **unique and strong image** Italian wineries would not be taken into consideration by Chinese, regardless of the fact that their wines are excellent in quality. For Chinese in fact, the brand and its popularity are more important than the quality. The case of Bisol is a clear example of this. In fact, the winery can take advantage of being part of the Great Wines Consortium. The Consortium spread and increase the knowledge of "Great Wines" all over the world, fostering the purchases of Bisol's wines in China, thanks to the fact that Bisol name (brand) and its wines are already known by Chinese consumers.

✓ **MAINTAIN A DIRECT AND UNINTERRUPTED PRESENCE IN CHINA**

The direct presence is required because Chinese culture is so different and distant to the ours one. With a direct presence in China it is possible to immediately grasp the peculiar tastes rather than buying opportunities. For example, propose commercial initiatives calibrated on adherence to a particular sign or set of signs would be a way to attract interest, since the zodiac and the membership of a particular sign has a meaning of great importance for the Chinese people.

The direct presence is well represented by the cases of Zonin and Moncaro. Zonin established in 2015 a trading company in China, whereas Moncaro has a Joint Venture since 2010.

Giorgio Serra, project officer of Buonitalia, the company's promotion of the Ministry of Agriculture, said:

"What is required is a constant presence, developed through catering and retail channels, which can provide to consumers valuable information on the wide variety of Italian wines".

✓ **NARRATE THE STORY OF THE WINERY AND ITS WINES**

It is important to **combine the wine with its cultural and historical background and to highlight the elements of the wines' tradition and their link with the territory**, all elements that Chinese love a lot. Chinese are very tied to their traditions and family's history and they give value to a product that shows these characteristics. Italian wineries, with their wine heritage, must differentiate themselves from foreign competitors, focusing on communicating and explaining features such as historicity, uniqueness and tradition, using the storytelling, for example showing and presenting photos and videos subtitled in Chinese. The private labels create confusion in Chinese consumers, who are really scared by fakes and who, for this reason, consider these wines not authentic, since they are not backed by history. A very good example of an effective communication of winery' heritage is provided by Farnese Group and Cantina Tollo.

✓ **CREATE THE BRAND AND STRENGTHEN IT**

Italian wineries must be able to **translate their brand in Chinese**, not simply translating literally but creating a simple brand for the local consumers, which does not confuse the ideas and recaps the quality of the product. The winery must attend wine competition because **Chinese are particularly attracted by awards rewarded wines**. Moreover, they must allocate an annual budget for marketing and promotional activities as wine dinner (very appreciated) or wine tastings, and for the advertising on media and Internet.

Internet is today fundamental to strengthen the brand and make it recognizable by the majority of Chinese people. The best example of the construction of the brand is

provided by the case of Moncaro, which established in China 15 one brand shops and did a huge work on the brand.

✓ **EDUCATE CHINESE CONSUMERS, THE SALES PERSONNEL AND THE PARTNERS**

Chinese face difficulties even in understanding the complexity and variety of Italian regional naming systems, which confuses them. Therefore, for them becomes quite impossible to understand the variety of Italian wineries. For this reason Italian wineries have to educate Chinese consumers on Italian culture and Italian wines. They can, for example, link a product with a professional training course on that. They can organize incoming to Italy and clients' dinners and visits. Once educated, Chinese will appreciate Italian wines. **Chinese like the sweetness of Italian wines**, their mineral composition and also their **complexity**, in terms of differences in varieties and types. **The main obstacle toward the establishment of Italian wine is the lack of knowledge.** Beyond some successful case, the entrance of Italian wine in China is still difficult due to a poor communication and, consequently, of a failure to taste education. Even before educating consumers it is fundamental to educate the sales personnel and your partners, because these are the people who will tell about your product in China and who represent you in China. To do so you can organize tastings or wine dinners. A very good example here is provided by the educational action of Farnese Group and Cantina Tollo.

✓ **CREATE RELATIONSHIP OF TRUST WITH CUSTOMERS**

The best way to strengthen the relationship with customers is to organize **WINE DINNERS** with the most active people on socials and sector's journalists. This will also foster the word-of-mouth.

✓ **HAVE THE WEB SITE or A SECTION OF IT IN CHINESE**

With information as detailed as possible. Not many wineries have it today. An example is given by Moncaro.

✓ **E-COMMERCE**

This can be particularly useful to avoid the logistical and distribution problems due to the vastness of the Chinese territory and to enlarge the number of customer reaching also the Chinese who live outside the main big cities. It is important to imprint the Italian connotation on the e-commerce.

✓ **USE THE SOCIALS – SINA WEIBO and WECHAT**

Not for selling but to spread and increase the awareness of the brand and the wines knowledge. The best example of how to do it is provided by Zonin.

✓ **ENTER THE MARKET WITH SOMETHING NEW**

Presenting a wine which is **unique and different from the competitors offering** (especially the French one). What is important is to avoid at all costs any form of standardization and homogenization, and especially keep update on current markets features and trends. The extreme level of this is shown by the case of Zonin, who developed a line exclusively for China: "First love".

✓ **ADAPT THE PRODUCT TO CONSUMERS' REQUESTS**

It is important being able to offer customized packaging and labels, adapted on the basis of consumer requests. This is particular important to catch private purchases, which, according to Cantina Tollo, is the only channel where Italian wines register significant volumes.

✓ **COMBINE FOOD WITH FASHION**

These are the two things that Chinese mostly like. And if the Italian wines are not particularly known by Chinese consumers, the same cannot be said of Italian fashion, which is very appreciated in China. The new Chinese wealthy classes are extremely sensitive to the charm of Italian style and are very familiar with major Italian brands of design, fashion, automotive, luxury and, more generally, all that is identified with the quality and the elegance of living.

It would be very important, therefore, **use this combination to give value to the authenticity of our wines.**

✓ **ENTER THE MARKET WITH A WINE THAT CAN BE MATCHED WITH CHINESE FOOD**

This is because Chinese avoid Italian wine also because they believe that it cannot be associated to Chinese food. Chinese use to eat western or foreign food but just once a week. For the rest of the days they prefer to eat the traditional Chinese food.

✓ **COLLABORATE WITH ORGANIZATION SUCH AS VINEXPO, VINITALY INTERNATIONAL, PROWINE, ICE**

This is valid especially for small/medium wineries, which can face difficulties in knowing and understanding the market. These specialized organizations can offer a professional and competent support.

✓ **LABEL AND BOTTLE SHAPE WHICH CATCH THE ATTENTION**

The label must have Italian elements. Chinese are really concerned on the visual.

✓ **PAY ATTENTION AT THE FINAL PRICE and OFFER A GOOD QUALITY/PRICE RATIO**

Chinese are still very sensible to price.

✓ **INSERT A NEW TECHNOLOGICAL ELEMENTS**

Even in a traditional product, such as wine is. Because of the fact that China is a very technological, we could say "techno-toxic" country this element may be a plus.

- *An idea would be to introduce an NFC chip in label containing a "certificate of Italian product, to prove that you are not buying one of the many imitations.*

THE ELEMENTS OF A SUCCESSFUL STRATEGY

In analyzing cases of Italian wineries which succeeded in entering the Chinese wine market, I extrapolated some common elements, which I identified as the main critical determiners for the success of the export project (toward China).

These are:

1. THE RIGHT PARTNER – Promote the brand and develop the product offering.
2. MAINTAIN A DIRECT AND UNINTERRUPTED PRESENCE – L.T. relationships.
3. BRAND AWARENESS AND BRAND RECOGNITION BY ASSOCIATION: HAVE A STRONG BRAND IMAGE
4. NARRATE THE HERITAGE OF THE WINERY AND THE STORY OF WINES – Tie consumers to Italian territory, history, tradition – Create the customers' experience.
5. EDUCATE PARTERS, SALES PERSONNEL and CONSUMERS – Wine dinners, Tasting occasions, incoming to Italy.

6. ADAPT PRODUCT TO CONSUMERS' REQUESTS: CUSTOMIZE – Packaging and label, especially for private sales. Offer something particular and able to catch the eye of Chinese consumers.

7. USE THE E-COMMERCE TO EXPAND SALES - 17 million imported wine drinkers are now buying wine online and off-trade channels are experiencing a decline of sales.

8. USE THE SOCIAL MEDIA (WECHAT and SINA WEIBO) TO INFORM AND TO COMMUNICATE WITH YOUR CUSTOMERS– Consumers keep up with wines online.

9. OFFER AN OPTIMUM QUALITY-PRICE RATIO – Consumers are price sensitive.

10. POSITIONING - HO.RE.CA, Italian wines are barely competitive on off-trade, and PRIVATE CITIZENS PURCHASES, the only channel where Italian wines experience relevant volumes.

Considering the wineries analyzed, the table below (*Figure 71*) summarizes the elements of a successful strategy which each of them introduce and adopt in its strategy.

As already said the crucial element is the right partner. Other common drivers are the positioning in the Ho.Re.Ca and private sales, the direct and widespread presence and the educational element. Nevertheless, Italian wineries still have to work on the communication side. Just a few of them have a website or a part of it in Chinese and even less uses the social media for doing advertising and communicating with their customers. Finally, also the online presence must be improved, in particular taking into consideration the future market evolutions, which will be explained in the last paragraph.

WINERY NAME/SUCCESSFUL ELEMENTS	BISOL	ZONIN 1821	MONCARO	CANTINA TOLLO	RUFFINO	FARNESE GROUP	ALOIS LAGEDER	BERA	CEVICO GROUP	CANTINE SETTESOLI	GIUJO COCCHI SPUMANTI
RIGHT IMPORTER	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
DIRECT & WIDESPREAD PRESENCE	✓	✓	✓	✓	✓	✓	✗	N.A.	✓	✓	✓
CREATE A BRAND AND STRENGTHEN IT	✓	✓	✓	✓	✓	✓	✓	N.A.	✓	✓	✓
NARRATE THE STORY OF WINERY AND WINES	✓	✓	✓	✓	✓	✓	✓	N.A.	✓	✓	✓
EDUCATION: PARTNERS, PERSONNEL, CONSUMERS	✓	✓	✓	✓	✓	✓	✓	N.A.	✓	✓	✓
ADAPT PRODUCT: PACKAGING - LABEL	✓	✓	✓	✓	N.A.	✓	✗	N.A.	✓	✓	✗
E-COMMERCE	✓	✓	✓	✓	N.A.	✗	✓	N.A.	✓	✗	✓
WEBSITE or A SECTION IN CHINESE	✗	✓	✓	✓	N.A.	✗	✓	N.A.	✓	✗	✓
SOCIAL MEDIA: WECHAT, WEIBO	✗	✓	✓	✓	N.A.	✗	✓	N.A.	✓	✗	✓
OPTIMUM QUALITY/PRICE RATIO	✓	✓	✓	✓	N.A.	✓	✓	N.A.	✓	✓	✓
POSITIONING: HO.RE.CA and PRIVATE SALES	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Figure 71: Successful elements adopted by wineries analyzed

Source: Own production

WHAT CAN WE LEARN FROM ITALIAN WINERIES EXPERIENCES IN CHINA – A PERFORMANCE INDEX

Once collected and analyzed all the Italian wineries' cases under a qualitative perspective, I looked for supporting my results by a quantitative analysis. In order to do that, I figured out which winery is today better performing as far as the Chinese market is concerned. Therefore, I looked for the estimates of bottles sold by each winery in China. Then, I created and calculated a Performance Index. The Performance Index is a parameter which expresses the level of performance. I calculated it using the measures which express the

level of performance of an Italian winery in China. These are: Bottles Sold in China (2015) and Brand Awareness. As far as the latter is concerned, it has been estimated by the Wine Intelligence, but only for the first top 30 brands in China (including French, Australian and Chilean). Within the top 30 appear only Zonin and Ruffino as Italians. Therefore, I estimated the brand awareness for those excluded by the top 30. I based my estimation on what each spokesperson told me about the perception and the recognition of company's brand. I gave a score of 100 to the highest datum and I calculated the remaining with relation to that. Then, I attributed the weights to the two measures considered. I gave to Bottles Sold a 0,6 and to Brand Awareness a 0,4. Finally, I calculated the Performance Index summing the normalized measures weighted for their weights. The result is shown in the table below (*Figure 72*).

WINERY NAME	BOTTLES SOLD IN CHINA 2015 (1)	NORMALIZED BOTTLES SOLD	BRAND AWARENESS (2)	NORM. BRAND AWAR.	PRESENCE IN CHINA (YEARS)	PERFORMANCE INDEX	BETTER PERFORMER
BISOL	50.500	3	8%	26	<u>20</u>	12	8
ZONIN 1821	<u>450.000</u>	23	<u>31%</u>	100	<u>25</u>	<u>54</u>	2
MONCARO	161.200	8	12%	39	10	20	5
CANTINA TOLLO	<u>215.000</u>	11	13%	42	10	23	4
RUFFINO	125.000	6	<u>17%</u>	55	<u>26</u>	<u>26</u>	3
ALOIS LAGEDER	35.000	2	7%	23	7	10	10
BERA	7.500	0	2%	6	4	3	11
CEVICO GROUP		100	<u>15%</u>	48	8	<u>79</u>	<u>1</u>
FARNESE GROUP	100.000	5	12%	39	7	18	6
GIULIO COCCCHI	30.000	2	6%	19	25	9	9
CANTINE SETTESOLI	105.000	5	9%	29	5	15	7
Weights		0,6		0,4			
(1) Estimates							
Value hidden for privacy reasons							
(2) Brand awareness evaluated by Wine Intelligence for Zonin and Ruffino, because within the top 30 in China. For all the remaining wineries in the table, the % has been attributed by estimates which consider all the other parameters included in the table (China Turnover, Bottles sold in China, Years of presence).							

Figure 72: Italian analyzed wineries performance in China

Source: Own production

The analysis reveals that Cevico Group is the Italian winery better performing in China, result which differs from the previous one, concerning the world performance, if we remind the previous table (*Figure 56*). Cevico Group is performing very well in China. It is the first winery for market share (9%) and for bottles sold. This level of performance is really notable if we consider that Cevico operates in China for just 8 years, which is a very narrow interval of time if compared to the one of Zonin or Ruffino, which have been present in China for almost 26 years. The second better performer is Zonin, which is not surprising. In fact the winery invested a lot in China, developing an exclusive line for this market, the only one among all the other Italian winery. What is remarkable is the performance of Cantina Tollo and Moncaro, which are performing better than wineries biggest in size and which are performing better at world level, such as Cantine Settesoli and Farnese. If we consider just one of the two measure (the bottles sold), they are doing better even than Ruffino, which is much more bigger in terms of dimension, because it registers a higher turnover (80 mln Euros vs 37 mln of Tollo and 24 mln of Moncaro), and a higher production (25 mln Euros vs 13 mln of Tollo and 12 mln of Moncaro), and it has also been present in China for more time (26 years in comparison with 10).

FUTURE EVOLUTIONS and HOW TO CONFORM THE STRATEGY

Shanghai and Beijing offer the largest wine consumer base, boasting the most developed on-trade and off-trade wine scene. Nevertheless, they also represent highly saturated and competitive markets for imported wine. For this reason, Tier-2 cities in Mainland China (e.g. Chengdu, Chongqing and Wuhan) are becoming increasingly important for those who look to build a long-term strategy in China. Tobacco & liquor wine stores, traditional supermarkets and corner shops have wider geographic coverage than other wine selling channels in China. They are usually owned by private individuals and scattered in both urban and less developed areas. They tend to be less professional in terms of buying, storing and selling wines. Consumers living outside Tier-1 or more developed Tier-2 cities still do not have

much choice when buying imported wine. Therefore, to reach consumers in less developed cities, brands will need to rely on e-commerce or develop their own retail channels.



Figure 73: Distribution channels for imported wine in China

Source: Wine Intelligence

Analyzing the distribution channels performance emerges that:

- In the off-trade, wine-specialized shops remain the top 1 channel for buying wine. Hypermarkets and supermarkets have seen a decline in the past year with decreased usage of key hypermarket/supermarket retailers (e.g. Wal-Mart and Carrefour).
- On-trade has seen lower spend on wine especially for business functions. **Buy online has started to become a trend among highly-involved wine drinkers** as they know what they like and find it difficult to order a good bottle of wine at a reasonable price in the on-trade.

- Online channel has shown strong growth over the past 5 years.
 1. **17 million** imported wine drinkers are now **buying wine online**;
 2. Online sales/search of wine is strongly related to festivals in China;
 3. Developed e-tailing businesses still concentrate upon the cities on the east coast, while growth is coming from the less developed regions.

In order to be successful, brands should have strong presence in the online and importer/distributor-owned retail chain. These channels have a higher level of trust among consumers and can provide more professional services and transparent information, which is vitally important as concern over counterfeits is still the biggest barrier to buying wine in China. Tobacco & liquor stores or local corner shops must be avoided, because in general they have a lower level of trust and poor customer service. It is also recommended to **adopt a multi-channel strategy** with a selective channel/product mix from high-end supermarkets (e.g. OLE, City Super), hypermarkets (e.g. Wal-Mart, Carrefour and ParknShop), independent wine-specialist shops (e.g. Just Grapes), department stores (e.g. Wangfujing), convenience stores (e.g. 7-11, C-store) and traditional local supermarkets, in accordance with the brand positioning.

The Wine Intelligence identified six different types of Chinese imported wine drinkers, each representing one typical set of behavior and relationship with wine:

1. **Frugal Occasionals.** Are low-engagement, infrequent wine drinkers who drink wine mainly to celebrate special occasions and choose based on price.
2. **Health Sippers.** Are price-conscious wine drinkers, with a narrow repertoire. Drink wine occasionally for its perceived health benefits.
3. **Social Newbies.** Are younger consumers, who are new to the wine category. Just begin to learn about wine and see it as an interesting and social drink.
4. **Adventurous Connoisseurs.** Are high-spending, frequent wine drinkers. Are confident in their wine knowledge and have a broad repertoire of source countries.

5. **Prestige-seeking Traditionalists.** Are conservative, high-spending consumers. Favor French wine and choose imported wine because of the prestige and social status.
6. **Developing Drinkers.** Are consumers developing a habit of drinking wine because they like the taste. Growing interest and begin to see wine as important in their life.

The table below characterizes each of these six groups and shows how to engage them.

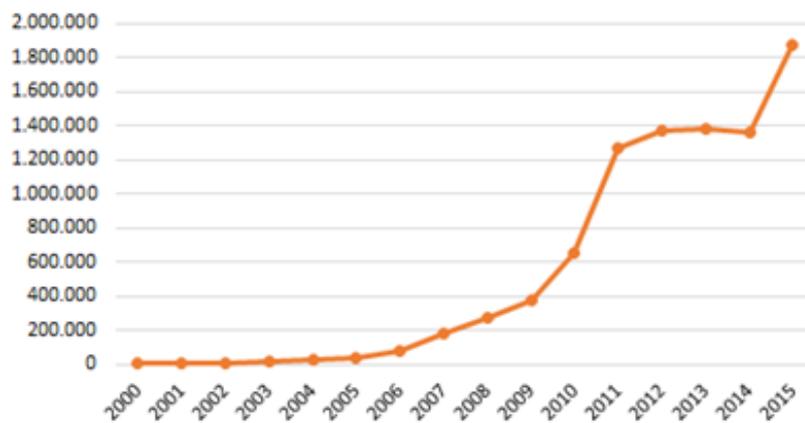
	Adventurous Connoisseurs	Prestige-seeking Traditionalists	Developing Drinkers	Social Newbies	Health Sippers	Frugal Occasionals
Profile 	Even gender split Typically under 40 Mid-high income	More male More "over 40" High income	Slightly male skewed Mix of age groups & income groups	Even gender split Typically under 30 Lower income	More female Mix of age groups Low income	Even gender split Typically under 30 Low income
Motivation 	Hobby Self-image	Symbolisation of Social status	Taste Thirst to learn	Socialising Western lifestyle	Health benefit Relaxation	Celebration Special events
Involvement 	Highly-involved Wine experts	Highly-involved Confident	Mid-involved Growing interest	Mid-involved Less confident	Low-involved Risk-averse	Low-involved Price-sensitive
Off-trade 	High-spending, frequent drinkers; use wine shops & online	High-spending, frequent drinkers; Shop overseas & duty free	Mid-spending, regular drinkers; use wine shops & hypermarkets	Mid-spending, less frequent drinkers; use wine shops & hypermarkets	Low-spending, occasional drinkers; use hypermarkets	Low-spending, infrequent drinkers; use (discount) supermarkets
On-trade 	Frequent drinkers; more likely to BYO than other segments	Typically drink expensive wines in business situations	Drink wine in restaurants for business functions & special occasions	Drink wine with friends in both bars and restaurants when socialising	Occasionally drink wine in on-trade; choice driven by price	Drink wine in on-trade when they have to; price-driven
Repertoire 	Most experimental group; broadest repertoire of style, varietal and origin	Particularly favour French regions such as Bordeaux and Burgundy	Both Old World & New World but latch onto French wine	Limited range of origin; choose "beginner" wines	Narrow repertoire; predominantly Chinese and French wines	Narrowest repertoire and least to drink imported wine among all segments
How to engage 	Wine tasting; education	Friendly & professional shop staff	In-store tasting; taste description on back label	Unique label design; shop staff recommendations	Brands conveying authenticity; promotional offer	Promotional offer; shop staff recommendations

Figure 74: Imported wine consumer characterization

Source: Wine Intelligence

CONCLUSIONS

Today China is clearly a market with great prospects and it represents a big opportunity for Italian wineries. No one can afford to ignore a market with 38 million imported wine consumers and an urban adults (18-54) population of 378 million potential consumers. Even though, selling in China implies a huge commitment, in terms of both investments and direct and constant presence. The remarkable tariffs, linguistic and political barriers still represent huge obstacles to export for Italian wineries. In addition to that, Italian wines suffer for the deep lack of knowledge of Chinese consumers, due to the past incorrect or absent action of marketing and communication aimed at spreading the knowledge and the awareness of Italian wines and territory. The too high individualism was the main cause of that, because Italians miss to approach Chinese market collectively, as a nation. The data of 2015 confirm this. Chinese Imports in 2015 registered the record, a +37%, with over 1,8 million dollars. Even if the import quota of all the Nations rose, the Italian one registered only a +1% (*Figure 75*).



COUNTRY	Liters		Dollars		Dollars/Liters	
	2015	Var. %	2015	Var. %	2015	Var. %
France	166.279.191	32,9	863.292.661	40,6	5,19	5,8
Australia	56.642.300	56,5	439.376.537	77,7	7,76	13,6
Chile	48.749.105	42,5	170.015.879	36,5	3,49	-4,2
Spai	54.436.787	55,2	112.188.945	16,6	2,06	-24,9
Italy	22.592.255	23,6	82.112.459	1,4	3,63	-17,9
Total	394.934.103	37	1.872.773.619	37,1	4,74	0,1

Figure 75: Imported wine Chinese import 2015

Source: Own representation on "Corriere Vinicolo" data

Nevertheless, the excellent quality-price ratio, the wide variety of our products that can meet various needs and consumption patterns of Chinese and, ultimately, the flexibility and willingness of businesses tricolor to create wines with brand demanded by distributors, are the elements of a successful business that begins now to reap the first successes. The growth in knowledge of our wines by the Chinese consumer, who began to associate the country of Italy not only to fashion but also to food and wine, it's just beginning, and must be supported with an investment promotion "system" able to continue the information and education activities, which, according to data just published, is confirmed to be a winning strategy for growth intended to continue in the future.

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INTERVIEWS' LIST

Nr.	Code	Interview date	Interviewee's name and position	Winery represented
1	1001	14/12/2015	Gabriella Mazzucato – Winery's Owner	Fattoria Monte Fasolo – Cinto Euganeo, Padova (<i>Veneto</i>)
2	1002	18/12/2015	Elisa Rossetto – Asia Pacific Export Manager	Bisol – Santo Stefano di Valdobbiadene, Treviso (<i>Veneto</i>)
3	1003	29/12/2015	Pierluigi Pollio – East Asia Area Manager	Zonin1821 – Gambellara, Vicenza (<i>Veneto</i>)
4	1004	12/01/2016	Luigi Gagliardini – Export Sales Director	Terre Cortesi Moncaro Soc.Coop. Agricola – Montecarotto, Ancona (<i>Marche</i>)
5	1005	15/01/2016	Domenico Angeloni – Export Manager	Cantina Tollo – Tollo, Chieti (<i>Abruzzo</i>)
6	1006	20/01/2016	Roger Rossini – Distribution & External Warehouses Manager	Ruffino srl – Pontassieve, Firenze (<i>Tuscany</i>)
7	1007	21/01/2016	Stenia Paparella – Export Manager	Farnese vini Group – Ortona Chieti (<i>Abruzzo</i>)
8	1008	22/01/2016	Urs Vetter – Sales Marketing Manager	Alois Lageder S.P.A. – Magre' sulla strada del vino, Bolzano (<i>Trentino-Alto Adige</i>)

9	1009	19/01/2016	Valter Bera – Owner	Bera Azienda Agricola – Neviglie, Cuneo (<i>Piedmont</i>)
10	1010	08/01/2016	Francesco Paganelli – Export Manager	Cevico Group – Lugo, Ravenna (<i>Emilia-Romagna</i>)
11	1011	20/01/2016	Roberta Urso – Public Relations & Communication Manager	Cantine Settesoli – Menfi, Agrigento (<i>Sicily</i>)
12	1012	25/01/2016	Legal representative	Giulio Cocchi Spumanti – Cocconato, Asti (<i>Piedmont</i>)