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# **Foreign Wine in China: an overview of the Chinese wine market and the main wine exporting countries to China**

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## 导论

在过去 20 年里，葡萄酒市场成倍增长了。这尤其发生了邓小平改革开放以后，旨在更新也向外国开放中国。改革开放以后，中国经济的飞速发展还没有阻止，也所有部门都从改革中受益，包括葡萄酒市场，但是中国葡萄酒市是年轻市场的所以与西方国家的市场有一些差别。我的论文是为了进入一个像中国这样的国家寻找那类是最有效的方法。如果与西方国家相比,传统上,中国消费葡萄酒在一个非常不同的方式。其葡萄酒市场仍在发展中,因为它仍然是一个相当年轻的市场,因此在中国葡萄酒的消费不是日常生活的一部分。在中国，葡萄酒的历史很特色，它一直是中国很传统的饮料: 其实从青铜时代中国人用葡萄酒祭礼之中，之后，汉代的时间，近臣和贵族喜欢喝葡萄酒、一起讨论文化的题目也治疗一些毛病。例外，中国一直依靠西方的国家为了进口葡萄酒种子，所以最开始中国葡萄酒与西部相连了，特别与法国和美国。与这些国家的互动允许现代中国葡萄酒市场的巩固，但是，随着市场的发展，更多国家进入中国葡萄酒市场，特别是法国、澳大利啊、智利和意大利: 这些国家都是中国葡萄酒出口商。

这篇论文的目的是说明中国葡萄酒市场，也说明被出口国更多地使用的策略。这是为了理解那些是中国市场上最切实的输入法，事实上在中国外国出口商应该采用和西方国家不同的方法因为与西方消费者相比，中国人喜欢在不同的情况喝葡萄酒。中国人喜欢喝与西方人不同的葡萄酒: 因此我们知道在中国最喝的葡萄酒是红酒，据估计在中国进口和消费的外国葡萄酒 80% 是红酒的。此外，与西方国家不同的是，喝葡萄酒还不是中国人的每天习惯。

为了完成本论文的目的我分析了中国葡萄酒市场按照供求、消费者、消费行为、用于销售葡萄酒的销售渠道, 也介绍对中国的主要葡萄酒出口国和它们用的策略。我将特别介绍法国、澳大利亚、智利和意大利因为这些国家是葡萄酒出口国排名前四位的国家，此外我也将解释它们在中国成功的原因。

此外，我还更详细地分析意大利的情况因为，我特别分析意大利必要面对的挑战也哪些是意大利在出口排名中排名第四的可能原因。事实上，通常情况下，在别的国家出口排名中排名第一或第二，但是在中国葡萄酒出口排名中排名第四。原因可能有很多，事实上，在意大利，与中国不同葡萄酒天天在桌子上、每个场合都有最合适的葡萄酒：不管长河中要不重要，意大利人总喜欢一起干杯。由于这些差别，意大利葡萄酒贸易在中国有一些问题。平常意大利是一个很重要的葡萄酒出口商：在很多的国家意大利是主要的葡萄酒出口商，但是在中国意大利有三个很重要的竞争对手，这就是说澳大利亚、法国和智利。因为这种情况非常别致，我决定开始研究意大利葡萄酒出口策略也研究意大利竞争者的策略。此外，为了让我的研究更准确，我用了一些管理模式，比如说 C.A.G.E. 框架、Porter 的五力模式、Porter 的钻石模型、Hofstede 的文化方面和的产品生命周期理论。

为了使我的研究更准确，我决定采访三位意大利葡萄酒制造商了。这是因为，为了进行准确的分析，我觉得必须整合现有文献。我采访了三位葡萄酒专家从三家葡萄酒厂来的：San Leonardo, Marchesi di Barolo 和 Santa Margherita。我采访了这三公司的出口部经理或者公司业主为了收集他们作为出口商的意见和经验。我特别问他们告诉我哪些是进入中国葡萄酒市场的最大的挑战，此外，论文的这一部分包括与一些专家们的建议，比如说对意大利和意大利葡萄酒出口商来说，增加意大利葡萄酒在中国的销售和争取更大的市场份额可能是有益的。

## INTRODUCTION

During the last two decades, the wine market in China has been growing exponentially, and this growth started right after the reforms that the former Chinese President Deng Xiaoping implemented during the 1980s and which aim was to modernize the country and to open up to the world. The incredible economic development and growth that China experienced after that hasn't stopped yet, and all the sectors have benefited from the reforms, included the wine market.

Since the wine market in China is still a young market, it's interesting to research the differences between it and the Western countries' wine markets, in fact, in China wine is perceived differently than in Europe or in Western countries in general, and this is determined not only by the fact that the Chinese wine market is “new”, but also by cultural conditions and factors. Since the history of wine in China is very peculiar, and since its very beginning has been deeply connected with European countries, it's interesting to see how the relations between China and these countries developed and how the interaction between them has brought to the consolidation of the modern wine market in China.

The purpose of this dissertation is to describe and understand the Chinese wine market and to explain the strategies implemented by the main foreign exporting countries to better comprehend which are the most effective methods to enter a country like China that, traditionally, consumes wine in a very different way if compared to Western countries and whose wine market is still developing since it is still a quite young market, and the consumption of wine is thus not a part of Chinese people's everyday life yet. To satisfy the main purpose of the dissertation I analyzed the Chinese wine market in terms of offer, demand, consumers, consumer behaviour, and channels of distribution used to sell the product in the Chinese territory, and the main foreign exporters present in the Chinese wine market. In particular, the focus will be on France, Australia, Chile and Italy which constitute the top four countries in the wine exporters' ranking, and their exporting situation and strategies, as well as the possible reasons behind the success of their products in China.

Moreover, for the case of Italy, it will be included a more detailed analysis, in particular I had analyzed the main challenges that Italy has to face when exporting wine to China and which are the possible reasons why Italy is fourth in the exporting ranking, which is a quite unusual position because, when exporting wine to other countries, it is ranked first or second, ahead or behind France. To make the analysis more accurate, I reviewed some managerial models, such as the C.A.G.E. framework, Porter's Five Forces and Diamond models, Hofstede's cultural dimensions and the Product Cycle theory.

In order to make my research more complete and reliable and to confirm what the existing literature on the subject provides, in the last part of the dissertation I have also included the results of an interview I did involving three Italian wineries: S.Leonardo, Marchesi di Barolo and Santa Margherita and which includes the experiences of these three wineries as exporters in China and the main challenges they had to face entering the Chinese market. Moreover in this part are included some suggestions or possible strategies that the experts believe might be useful for Italy and Italian wine exporters to increase Italian wine sales in China and to try to reach a greater market share.

# 1. WINE IN CHINA: FROM THE FIRST FOREIGN WINE IMPORT TO MODERN-DAY DISTRIBUTION

Since ancient times, grape wine has always been present in China. Although its consumption has always been overshadowed by 黄酒 *huangjiu*, the “yellow wine” and by 白酒 *baijiu*, a traditional distilled spirit, the fact that wine has always been present in Chinese people's lives is undeniable.

We have evidence (Durrani, 2005) that the production of wine dates back at 7000 B.C. as attested by some pottery found at the archeological site of Jiahu. Also late Tang poetry mentions grape wine as a beverage consumed by aristocrats and courtiers during banquets.

Consumption of wine increased when the Chinese Empire started to establish commercial relationships with Central Asia kingdoms, in particular during the Han Dynasty era (206 BC- 220 AD). From this moment on, as we will see later, Chinese Empire started to import grape seeds and wine and Chinese people started to grow grapevines in China (Sima Qian “Shiji”pp. 244–45).

However, the real mass consumption of foreign wine started after the economic reforms implemented by President Deng XiaoPing (邓小平) (KJELLGREN, 2004) whose aim was to modernize four areas: agriculture, science and technology, industry and national defence. Along with these modernizations, he also carried on an opening policy and this means that, for the first time in the history of the People's Republic of China, foreign enterprises were allowed to entertain commercial relationships with China and also to establish companies in Chinese territory.

This chapter will explore the origins of foreign wine import in China, who were the main actors of wine commerce in the past and now, stressing out how the channels of distribution and the target market changed throughout the years and in particular after Deng XiaoPing's economic reforms.



## 1.1 Historical background of foreign wine import and export, and channels of distribution in China

Alcohol has always been an important element of Chinese celebrations and festivities. They not only used to drink liquors distilled from the fermentation of grain and cereals, such as the traditional baiju (白酒), or the “yellow wine”, that in China is called huangjiu (黄酒), but there's evidence that they had the habit to drink also grape wine, exactly as ancient Greeks or Romans (McGovern, 2005). We are able to know this thanks to archeological sites, such as Jiahu, in Henan province, where archeologists discovered different types of pottery used by ancient Chinese to drink wine (McGovern, 2020) especially during celebrations and festivities. We also know that the Chinese preferred to drink red wine since it was considered to bring good luck, happiness and abundance; and this habit is still present to the present day, since approximately 90% of the wine consumed in China is red (Muhammad et al., 2013).

Moreover, some Tang poems mentioned the existence of an high quality wine that used to be consumed by aristocrats during the Tang era, its Chinese name was *qióng jiāng yù yè* (瓊漿玉液) which can be translated as “Jade wine” (Quan Tang Shi, 1705).

Also the notorious historian Sima Qian in his *Shiji* talks about wine, and in particular about grapevine seeds, which were imported by imperial envoys from Middle-Asia kingdoms. He describes:

*"The Han envoys brought back grape and alfalfa seeds to China and the emperor for the first time tried growing these plants in areas of rich soil. Later, when the Han acquired large numbers of the 'heavenly horses' and the envoys from foreign states began to arrive with their retinues, the lands on all sides of the emperor's summer palace and pleasure towers were planted with grapes and alfalfa as far as the eye could see."* (Sima Qian, *Shiji*).

His historical point of view gives us two important information: the first is that at its beginning Chinese Empire didn't import wine as a finished product, but it imported grapevine seeds. This

means that they imported foreign species of grapevine and grew them in Chinese land to produce wine by themselves.

The second important information is that the one who sent envoys in western kingdom was the Emperor himself, who wanted to grow grapes and produce wine for himself and the courtiers and not to sell it to other people. So, at that time, the consumers were only members of the aristocracy and those who were part of the imperial entourage.

The fact that the Chinese wanted to grow grapevine and produce wine by themselves is a clear example of an idea that's deeply rooted in their culture which is the idea of self-sufficiency.

Although we have clear evidence of the use of wine since ancient times, we also know that it never became popular among common people; it was considered to be a luxury beverage, and common people still preferred to drink baijiu, or other spirits deriving from cereal fermentation.

Due to the unpopularity of wine during the Empire, its import was obviously not one of the priorities, and this went on until 1892, during the Qing dynasty (1644-1911) , when the first winery was established in Yantai, in Shandong province, by Zhang Bishi (Wang, 2012). This winery, the Changyu Pioneer Wine Co, is still the leading wine producer in China and it's interesting that his founder, Mr. Zhang bought the grapevine seeds both from the U.S. and from Europe, so once again, the plants used to produce wine were not autochthonous, but were imported from two different continents. However, after some years, Mr Zhang was compelled to graft the wild grapevine that he brought from north-east China, to the foreign grapevine in order to create a more resistant plant; in fact the pure-breed foreign grapevine started to root and die.

The mixture of the wild Chinese grapevines and the foreign ones, created a wine which taste was sweeter and way less bitter than the wine produced with the pure-breed foreign grapevine (Lyons, 2013).

Although we have some evidence of wine production and consumption in the imperial era, this habit was still unpopular among peasants and ordinary people. In fact we have to consider that wine

was expensive and its consumption was reserved to those people who had important roles inside the imperial Court or, later, to those who had money, that is to say, to a small minority of Chinese population.

In fact, the large majority of Chinese population was composed of peasants and farmers who barely could afford food for their families, so wine was completely out of their league.

The demand was therefore very low, low to the point that we don't really have data about wine consumption until the last two decades of 1900, but this is absolutely normal considering China's political and economical situation in the XX century.

The demand depends on consumption and “consumption is a mirror of the human condition.” (Trentmann, 2012) so, if human condition is one of extreme poverty, there won't be the basic assumptions to create a good demand and consequently a good market. Basically, the real problem that prevents us from reconstructing the detailed historical background of foreign wine market is the fact that there wasn't a real wine market in China yet. In fact, during the imperial era, channels of distribution were basically absent, the Emperor or the aristocrats grew grapes in their lands to make wine for themselves, so there wasn't difference between the producer and the consumer, nor there were intermediaries. We can see a new approach to wine production when Yantai Changyu Pioneer Wine Co. was established, in fact, the aim of this company wasn't personal use of wine, but was the sale of a finished product. Changyu winery was a new link in the production chain of wine: Changyu winery owner, Mr. Zhang, wasn't a consumer producing wine for himself as the Emperor and courtiers did, but he was an entrepreneur who bought vinegrape seeds from overseas sellers and planted them in his home country to produce wine for other consumers, for his clients. It doesn't matter that his customers were aristocrats and people from the court, what's interesting now is that, for the first time, there were an intermediary between vine grape sellers and wine consumers, and this was actually the first step that would have lead to the modern-day structure of wine chain of commerce.

The years that went from the fall of the empire to 1979, the year of Mao Zedong's death, were years of chaos and revolutions, characterized by internal disorders and political instability as long as extreme poverty and, although during the XX century China underwent deep changes that brought to the national unity and to the emersion from its backwardness, however this process of transformation was not easy and the price China had to pay was high. Professor Guido Samarani synthesizes China's journey during XX century as *“the shifting from a condition of extreme backwardness to a new phase of modernization and development, the identification of structures and instruments (the State, government, institutions, central and local powers) that were more adequate and functional to start, organize and manage the process of emersion from backwardness...”* (Samarani, 2004). This statement explains that, during the XX century, the priority for Chinese people was to finally build a nation that was united under the same flag, a nation that could lift Chinese situation after the years of wars and conflicts, such as the Boxer rebellion ( 2 November 1899 -7 September 1901) and the First Sino-Japanese war (25 July 1894- 17 april 1895), conflicts that brought China to touch one of the lowest points in its whole history. Thus, during this historical moment, characterized by extreme poverty, wars and internal disorders, China was isolated from the rest of the world and commercials were incredibly limited if not absent. This obviously had a great impact on wine trade too: we actually have almost no information about wine consumption and production in these years; wine was, in fact an unnecessary and way too expensive good, especially if we think that common people were struggling to get enough food to live and that poverty and starvation caused the death of millions of people (Samarani, 2004).

After the foundation of People's Republic of China, October 1<sup>st</sup> 1949, and with the rise of the new communist leader Mao Zedong, the situation of commerce didn't really improved, since one of the leading concepts of communsit ideology was “being self-sufficient” which means that Chinese people had to produce what they needed for their living by themselves, and not leaning on external powers' supplies. After years of colonialism, wars and division, in which the Chinese developed a

great sense of shame and powerlessness, Mao wanted to instill pride in people's hearts, giving them the hope that together they could have built a great nation, a nation able to redeem itself from the shame. So, obviously during the so-called Maoist era, PRC priority weren't commercial relationships, but rather mass mobilization and, most importantly, the return to the countryside to rediscover rural life (Samarani, 2017). We can clearly see that, in the XX century, the premises to start commercial wine with China, weren't the brightest, so the question arises spontaneously: what happened during the last decades of 1900 that allowed China to become the fifth market for wine around the world? And when did people start to actually develop an interest for wine?

We know that China started to produce wine in a modern way during the 1970s, when the power of Mao Zedong started to weaken due to the leader's illness that eventually would have led to his death on September 9<sup>th</sup> 1976.

The fact that Mao's power became every day more weak doesn't mean that the communist ideology was abandoned, but it means that people, intellectuals and politicians started to understand that a country isolated from the rest of the world was, in fact, a weak country. This common sentiment gradually brought the Communist-party secretary general Deng XiaoPing to rise to power.

## **1.2. Deng XiaoPing's economic reforms and the opening to external markets: a new opportunity for the wine market in China.**

In December 1978, Deng XiaoPing became the leader of China. He acquired this title during the 3<sup>rd</sup> Plenary Session of the 11<sup>th</sup> Central Committee of the Communist Party of China replacing Hua Guofeng, who remained the nominal Chairman until 1981.

Deng XiaoPing is still remembered as “*the father of the reforms that opened up China to the rest of the world*”<sup>1</sup> and this is because, thanks to these new economic reforms, China was able to emerge from that period of chaos deriving from the Cultural revolution and economical isolation that

1 Video from South China Morning Post, <https://youtu.be/9c-hDzN7IX4>

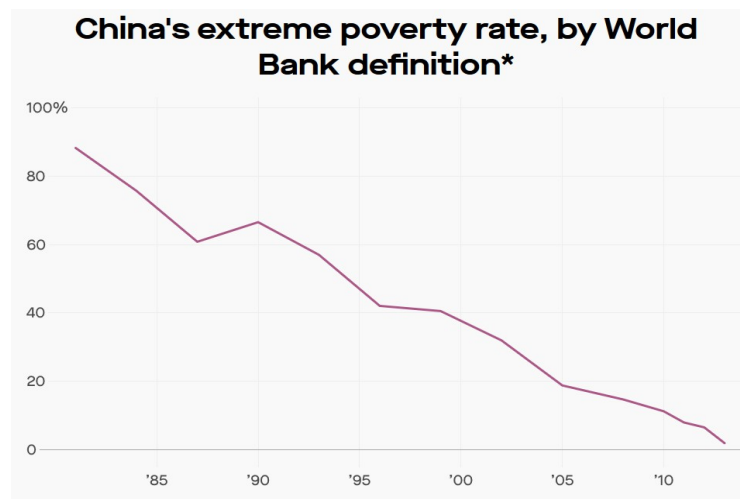
characterized the 1900s.

The new Chairman-s reforms must be mentioned in this research of the wine market to make us aware of the new opportunities that they gave not only to China, but also to foreign countries that wanted to start businesses in China.

This new “socialism with Chinese characteristics” (中国特色社会主义, *Zhōngguó tè sè shèhuìzhǔyì*) shifted the Chinese economical position from a self-centered to a market-based one.

This new opening reflected on people's welfare: during the 1980s, the economic development

*Image 1: China's extreme poverty rate*



*Source: www.theatlas.com, 2018*

allowed to create new employment opportunities and, as we can see in the graph, reduced drastically extreme-poverty rate. The progressive reduction of poverty rate, improved the economic possibilities of common people, who could now buy not only just what they needed in order to survive, but also non-necessary goods. But in which way did these new goods enter the Chinese market? Which were the important changes that the new economic reforms brought to Chinese economy and how are they linked to the wine market?

We know that “China began experiencing something of a wine boom in the 1990s. While overall wine consumption remained low, accounting for only one percent of the alcohol market, a growth

rate of 20 percent a year was maintained for more than a decade.” (Factsanddetails.com, 2015).

This boom is not casual at all, in fact, as Doctor Björn Kjellgren states “*the contemporary process of food globalisation [...] has coincided with the political programme of ‘openings and reforms’ decided upon in 1978, making wine and other ‘new’ culinary articles [...] intimately associated with China’s post-Maoist modernisations and re-emergence as a major power.*” (Kjellgren, 2004).

What Dr. Kjellgren wants to say here is that there's a switch in Chinese point of view: from a state-centered point of view to a more international point of view. Opening up to foreign market was a big opportunity of emerging from isolation and poverty, and this rapid change in Chinese way of thinking reflected in every field, also in the food & beverage one since, although Deng Xiaoping reforms focused on macro-areas, they actually ended up to be really useful to private owners because they implemented the market system, not only encouraging them, but also encouraging foreign investments. This new boost to the market created the perfect environment for the economical rise of three important wineries: the already mentioned Changyu Pioneer, which is still the largest winery of the country, Great Wall established in 1983, and Dynasty, that is a Sino-French joint venture established in 1980. These three wineries still dominate the market in China, and it's peculiar that two of them were established exactly during the period of the reforms and that reached quite a good success in a relatively short period of time. Moreover, it must be considered that these three important wineries established relationships and partnerships with France wineries since the very beginning of their activities, which explains why France has been the biggest wine exporter in China for many years and that only recently has been outranked by Australia.

In addition to this, it's important to mention that in 1987, during the National Conference of Wine and Spirits, the Chinese Government provided an encouragement to Chinese people, that is to drink wine instead of the traditional *baijiu*. The aim was to try to make Chinese people to change their drinking habits, switching from cereals-based alcoholic beverages to fruit-based ones in order to bring down the alcohol content consumed by consumers (Jenster and Cheng, 2008).

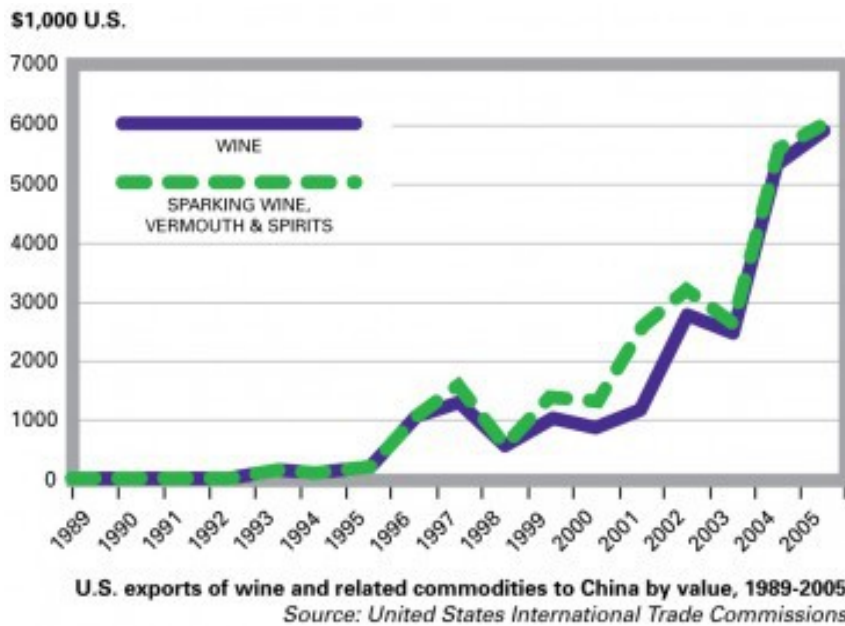
The beneficial circumstances created by the economic reforms lasted for all the 80s, and in 1988 a record output of over 308,000 ton wine was recorded (Kjellegren, 2004) the student movement of Tiananmen Square caused the wine market to fall significantly in 1989, and in the second half of 1990s it started to recover from this situation. Ironically the event that uplifted Chinese wine market was Asian financial crisis that left a lot of foreign wine unsold in Japan, Taiwan and HongKong, which were all deeply touched by the crisis.

China didn't have to take the same hit as these places and what happened was basically that China bought all the unsold European wine that was a leftover of those countries where the Asian crisis hit the most. At the same time, however, China decided that the wine sector could have been a profitable one, and, during the years that followed asian financial crisis, a lot of wineries were established. Once again, Chinese owners decided to turn to European experience in the wine industry and they decided to work in a large degree with imported machinery and expertise even though the capital employed was mainly Chinese and the reprise of Chinese wine industry was incredibly fast: it's estimated that in 1995 China counted approximately 250 wineries although the leading ones were, and still are the ones based in Shandong province (Kjellegren, 2004).

In the following graph we can see the uplift of wine exports of American wine to China after the 1989 crisis; it's evident that during the middle 1990s there was a boost in wine consumption, as mentioned before. The blue line refers to wine in general, both red and white. The consumption of both the types of wine increased, however we know that,traditionally, Chinese preferred, and still prefer, red wine.



Image 2: U.S. exports of wine and related commodities in China by value, 1989-2005



Source: United States International Trade Commissions

Moreover, it's important to underline that Europe played a significant role in this phase of Chinese wineries, especially if we consider that most of the wine that is drunk in China nowadays comes from Eurasian grapevines, in particular from hybrids between French grapevines and Chinese ones. We also know that the opening reforms gave Chinese people the opportunity to discover western style and taste, not only in the fashion field, but also in food & beverage one, causing wine imports to increase substantially. This growing interest in wine, especially red wine, was still a consequence of the opening policies which promoted *“healthier red wine consumption as opposed to traditional rice wine. Finally, a better education and stronger income has led to the emergence of a newly educated and wealthy class which is fond of fine wine”* (Sun, 2009). This statement provides us an important piece of information: during the first years of the XXI century, wine consumers were mainly wealthy people which had developed the habit of drinking wine as an alternative to cereal-derived spirits. For this new kind of consumer, the bourgeois, drinking wine was a status, a symbol of wealth and culture and it started to be seen as an investment opportunity among the upper-class

members.

### **1.3. The role of national culture in the Chinese wine industry**

National culture is an element that must be taken into consideration when it comes to analyze an industry because it can provide us a valid overview of a country which can allow companies and industries to make the right decisions when it comes to find a proper strategy to place a product in a certain market.

In particular, talking about the wine industry, a careful analysis of Chinese national culture is fundamental to understand in which way it's better to introduce wine in China, since Chinese culture is deeply different from all the Western and European cultures, and, consequently, as we have mentioned before, the wine consumption is not the same.

Moreover, it's important to remember that nowadays every industry is more and more globalized and the wine industry makes no exception, since operations have to be carried on in a global perspective.

In order to entry the Chinese market, western countries must understand in which aspects Chinese culture is different from their cultures.

A research made in 2005 by Pagell, Katz and Sheu (Pagell, M., Katz, J.P. and Sheu, C. 2005), they found out that *“the majority of international operations management research falls into one of three categories; single country studies, country comparisons, and regional comparisons”* (Pagell, M., Katz, J.P. and Sheu, C. 2005 "The importance of national culture in operations management research", International Journal of Operations & Production Management, Vol. 25 No. 4, pp. 371-394). Single country studies focus on the culture and the habits of a single country, focusing just on it and without making comparisons with other countries. Country comparison is usually made between the U.S.A and another country, but it can be made between every country. In this approach, two countries are compared and the aim is to find in which parts their cultures differ and

in which are similar and, in the case of wine industries, it can be useful to understand in which ways the wine consumption differs from one country to another, and in this way understand how to organize the distribution and promotion process in every country. For example, as we have seen before, Chinese consumers started to gain interest in wine after Deng XiaoPing's reforms and after the asian financial crisis, thus after 1997, so, if we compare China to european countries, we can understand that european wine tradition is longer than the Chinese one, which means that Chinese customers are not experienced as European ones yet. Consequently, when exporting wine to China, the exporter should try to simplify the offer to avoid to confuse Chinese consumers.

Regional comparison works the same way of country comparison, but it's made on a larger scale since it takes into consideration two or more areas of the world which share common patterns, for example a region can coincide with a continent. Obviously this approach can have some limitations since it would imply that all the countries belonging to a certain area share the same values and level of industrialization, but logically this kind of vision is generalized and it might be inappropriate for certain contexts and products.

These approaches are constantly used for the wine industry since, as we have seen before, China is still a growing and not mature market yet, moreover the use and the consumption of wine in China are deeply different from the Western countries ones, and, in order to enter the market in a more effective way it's necessary to carefully plan a successful entry strategy in order to avoid losses due to bad planning or lack of studies of the target country and market.

Moreover, once a company starts to deal with a foreign country, in particular if this target country is culturally distant from the home country, it's necessary to understand that cross-cultural study and training is useful for preparing people who have to work with another country since it's based on a range of cultural assimilators which can be used to predict and explain behaviours, in particular, during the 1980s a lot of theories have been developed, in particular the anthropologist Geert Hofstede, through a factor analysis he used to analyze the results of a worldwide survey of the

worldwide IBM Europe's employee values, found originally four and then five cultural dimensions that are useful to analyze the culture of every country or cluster worldwide. In 2010 Hofstede added a sixth cultural dimension.

These dimensions, starting from the 5 original ones are:

*Power distance index:* it is described by Hofstede as “*the extent to which the members of a society accept that power in institutions and organizations is distributed unequally*”. (Hofstede, G. (1980).

*Culture's consequences: International differences in work-related values.* Beverly Hills: Sage.) In other words, it shows the relationship between people who have power and those who have not power, and the extent to which those who are not in power accept inequalities. We can say that countries with an high power distance index are more likely to justify inequality and injustices inside a society or an institution, and thus, individuals belonging to this type of societies tend to be more deferential towards people who hold power. On the other hand, countries with a low power distance index are more willing to participate in decision-making process and power inside organizations is thus spread more equally.

China has a power distance index of 80 (hofstede-insights, 2021), which is very high. This means that the Chinese have a very hierarchical society where the roles are well-defined and it's clear who are those detaining power.

*Individualism vs. collectivism dimension:* individualism is described as “*the degree of interdependence a society maintains among its members*” and it explain wheter a society is more individualistic, so it focuses on personal achievements and individual goals, or, on the other hand, it has a more collectivistic point of view, so it focuses on group achievements and goals and on the cooperation of the members of the society, which is ideally divided into groups.

China is traditionally a collectivistic country, in fact it has an individualism index of 20, which means that people act to make the interests of the group they belong to and share experiences, success and failures.

*Masculinity vs femininity:* What Hofstede says about masculinity is that it “stands for a society in which social gender roles are clearly distinct: Men are supposed to be assertive, tough, and focused on material success; women are supposed to be more modest, tender, and concerned with the quality of life.”

China has a masculinity rate of 66 which means that the society tends to embrace masculine traits and thus is driven by competition, and it's more success oriented.

To better explain this we can say that the Chinese would sacrifice their free time with their family to stay at work and finish their tasks and this is because they have a strong sense of duty dictated by the competitiveness which is part of a masculine society.

*Uncertainty avoidance index:* this dimension is useful to understand how a society reacts to changes and deals with uncertainty and ambiguity. A society with an high uncertainty avoidance index will be more conservative, have more specific laws and regulations and it will also be more ritualized and less opened to the world.

On the other hand a low uncertainty avoidance index in a country means that the society is more open to change and innovation, less ceremonial and ritualized and the country has a less and more generic laws. China has an uncertainty avoidance score of 30 which is pretty low and this implies that the Chinese are comfortable with ambiguity, and this fact is reinforced by the language too: in fact the Chinese language has a lot of characters that may have different and ambiguous meaning, which may be one of the reasons why Chinese people are not bothered by uncertainty ( Hofstede-insights, 2021).

*Long term orientation vs short term orientation:* long term orientation is a characteristic of those societies that are focused on the future and tend to make long-term plans, moreover, a society like this will be driven by values such as perseverance and persistence.

On the contrary, short-term oriented societies are more focused on the present and the past which they consider being more important than the future. For this reason short-oriented societies deeply

value traditions and hierarchy, and usually people belonging to this type of society fix short-term objectives and seek for short-term gratifications.

China has a long-term orientation score of 87, which means that the society is very pragmatic. In general people in this kind of societies try to adapt to the different situations to find solutions because they believe that there is not just one right way to complete a task.

Taking into consideration these dimensions is fundamental, in particular if the country we are doing business with is very different from our home country. This is because, in order to allow every type of interaction with a different culture to go as smooth as possible, it's important to avoid cultural misunderstanding which could cause embarrassment and ruin a potentially good relationship.

It's particularly important for a company to understand the characteristics of a society if it's having commercial relationships involving food, in fact the taste in food is something that a person starts to develop since a very young age (Fischler, 1990; Rozin and Nemeroff, 1990) , not to mention that food is one of the most important elements of a culture, since it's passed down from generation to generation and in a lot of cultures is associated with religious practices too.

Wine makes no exception, in fact a lot of religions or, more generally speaking, cults, have been using it during the rituals since ancient times, and, as we have seen in the introduction, wine has started to be part of Chinese culture since ancient times, which is a characteristic that brings together both Chinese and European traditions even though, with the passing of the centuries, production and consumption started to differ substantially between the two areas.

So, a cultural analysis is fundamental when a company wants to enter a foreign market, but it's obviously not enough; in fact is necessary to study the market itself , in order to understand which are the forces and the factors influencing a certain industry.

In the next paragraph I'll try to go through Porter's 5 forces analysis model which is commonly used by companies when they are willing to start commercial relationships with foreign countries.

## 1.4. Porter's 5 forces model

Porter five forces model is a business analysis model which describes the different forces that can affect a company's level of competition. The theory was first published in 1980 in E. Porter's book *“Competitive Strategy: Techniques for Analyzing Industries and Competitors”* and it's particularly useful because it can increase the long-term profitability of an industry and describe its strength and weaknesses (Investopedia 2020).

As the name of the theory suggests, the forces that Porter took into consideration in his analysis are five, namely Threat of new entrants, Bargaining power of suppliers, Bargaining power of buyers, Threat of substitute products and Rivalry among existing competitors.

Image 3: Porter's 5 Forces



Source: [www.investopedia.com](http://www.investopedia.com)

The first force that Porter considers is the *rivalry among existing competitors*, or, in other words, the competition in the industry. It refers to the ability of a company to undercut another one considering the number of existing competitors, the diversity among them, the differences among them, and the concentration of a certain industry. As it's logical to assume, if a certain industry has a

high concentration and the existent players are well established in the market, it will be difficult for a new company to enter the market and be successful, in fact, the companies which are already present in the market have more experience, thus know the market better and have probably gained the loyalty of the customers which won't easily switch to the new entrant's product.

For instance, as I've already mentioned, the first foreign country which exported wine to China was France, which, over the years has gained the trust of the consumers and has built a strong image of “French wine” (法国葡萄酒 *fǎguó pútāojiǔ*) which is well recognized and appreciated by Chinese consumers. As it's logical to assume, the Chinese consumers will be reluctant to switch from a product they know is top-quality and has a strong brand to a new product that might be delusional for them.

The second force that Porter mentions is the *threat of new entrants*. If a certain industry is particularly attractive, it's possible that new actors are willing to enter it, and sometimes this might be a threat for those who are already present in the market. The threat is higher if the entry barriers are low, otherwise, if they're relatively high, the risk is lower. Entry barriers might be, for example, the need to have economies of scale, brand loyalty, capital requirements, government policies, switching costs and access to distribution channels as shown in the image n3.

For the wine industry we can say that the risk of new entrants is quite low since we have seen that the Chinese consumers are loyal to the brand and it's difficult to make them turn to a new product, especially if the brand is not well-known or prestigious. Moreover, the entry barriers are quite high, in fact, as we will see in the next chapter, the amount of documents or certificates requested in order to export wine to China and to satisfy custom requests.

The *bargaining power of suppliers* refers to the extent to which suppliers are able to increase the cost of materials or other types of inputs useful to a certain industry and it's affected by the number of suppliers and their size, the uniqueness of the suppliers and, most importantly, the substitutability of the supplier. Obviously the more unique and well established a supplier is, the more unlikely for



it to be substituted with another supplier, and the fewer the suppliers in an industry, the more companies will depend on a supplier, which consequently gives the supplier the opportunity to increase the price for its goods or services.

In the wine industry it's possible to talk about bargaining power of the suppliers referred to the importers based in China, because they are the first intermediary between the winery and the foreign customer, in fact it's the favourite method used by wine producers to approach the Chinese market (Pierre Pradier, 2020). This is because relying on an intermediary is less risky for the exporter, because it will not be requested to completely understand the foreign market and it will be sure that the entry strategy and distribution process will be in the hands of an agency which is already acquainted with the Chinese market and, hopefully won't make mistakes in placing the products in the market.

The *bargaining power of buyers*, on the other hand, refers to the power that the customers have to influence the price of a products and to put a company under pression, in fact, the more important and the fewer the customers, the higher their power to negotiate and obtain a more advantageous price., whereas if the company has several customers, it will have more control on the price of its products.

The last force that porter found is the *threat of substitute products*, which, as the name itself suggests, refers to the possibility the customers have to substitute a company's product with a complementary one. The number of alternatives, the price of substitute products, the buyer's propention to substitute and the perceived level of product differentiation.

When it comes to the wine market in China, the threat of substitute products is a fundamental factor which can't be ignored: studying the competitor is necessary to understand if and how a product might have success in the market.

To make a concrete example, we have seen that if for the customer it's easy to choose an alternative and more convenient product, the difficulties for a company will be more debilitating, for example,

as we will see in the next chapter, Chile has a Free Trade agreement with China which allows to import goods in China at zero rate, whereas Italy has a 14% import tax for food and beverage, wine included. Consequently, Chilean Cabernet Sauvignon will be sold at a lower price than the Italian one and this might be a potential disadvantage for Italy and an advantage for Chile, because the average customer will tend to choose the less expensive product.

This means that, a certain segment of consumers will be willing to switch to a more convenient product in particular if the typology of wine is the same (e.g. Cabernet Sauvignon), but the price is lower.

From these factors, we can understand that, for a company, a preliminary analysis of the market is not only suggested, but dutiful in order to allow its product or service to enter the market in a successful way, which is possible only after the company knows what to expect from the market itself and knows how is the situation of the specific market it wants to enter, in order to avoid financial losses due to bad planning or carelessness.

### **1.5. Wine demand in modern days**

During the last decade of 1900 and the first years of 2000 wine was provided mainly by the newborn wineries, and the customers were mainly very rich people, millionaires and billionaires, that, during the period from the year 2009 to the year 2014 increased by 189% (Masset, 2016).

The anthropological and managerial studies that were brought on during the 1980s surely gave companies new tools and, for this reason, more wineries were able enough to try to approach the Asian market. For this reason, in the last half of the 1990s, we have the beginning of a new era for the wine market: in fact, for the first time in history, wine entered considerably in the Chinese market, thus Chinese people were able to find wine in the stores, and more generally, wine was available in the large distribution even if the types of wine weren't numerous.

This addition in the sales chain is extremely significant for the wine market, especially because

wine bottles had a visibility they have never had before: wine sections inside the supermarket weren't so common during the last years of 1990s, but little by little every supermarket started to add at least a small wine section inside the store. Obviously, this new peak of visibility created an opportunity to reach new customers: not only the rich, upper-class people, but also people with a pretty decent salary who wanted to indulge in tasting a glass of red wine. The merging of this new segment of customers made it necessary to create a product differentiation. Wine market had now to meet “customers and their needs and thus ranges from relatively cheap bulk wine for everyday consumption and which can be found in most supermarkets to fine wine that is more expensive and rare to source (Masset, 2016). It's also logical to assume that fine and valuable wines were and still are almost impossible to find inside a normal supermarket, because their characteristics are appreciated by experts and connoisseurs, and are far from common people taste and interest, however cheaper, more affordable and lower quality wines are the ones that allowed China to become the fifth wine market in the world. Of course wine experts are still important customers, especially for foreign wineries, since Chinese experts appreciate their excellences and pay deep attention and concentrates on specific characteristics such as the aging potential, the place of origin (ideally a well-known place of origin which product quality is certified), the prizes the product has been awarded by international experts, or a good placement in official classification.

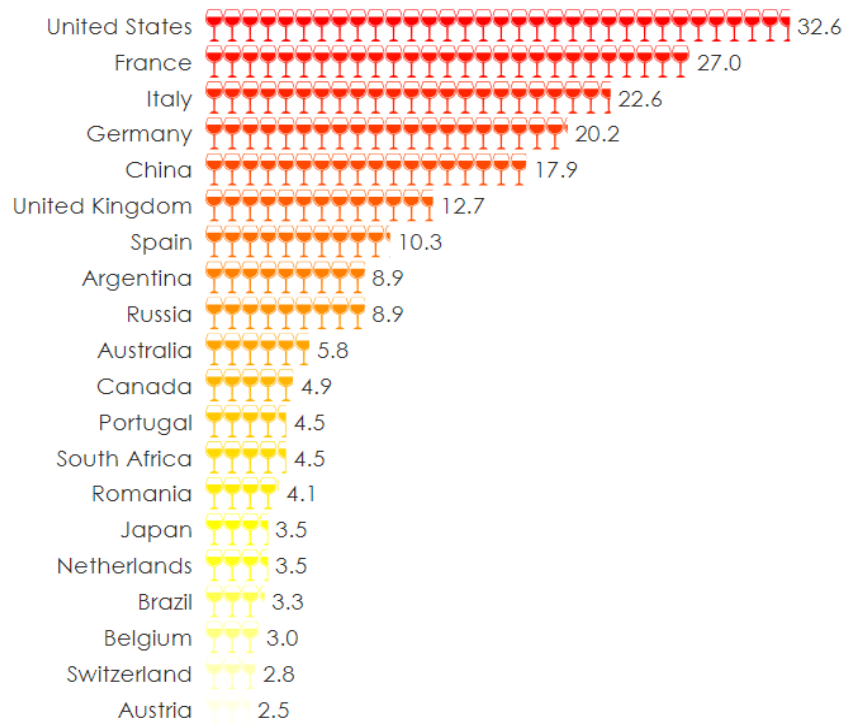
It has to be said that the Chinese consumers that pay attention to certain characteristics are not numerous. Experts are an important minority, but the average wine consumer in China doesn't have a cultural background about the peculiarities of different types of wine, in fact a considerable part of Chinese customers are not even used to drink wine habitually, some of them are not even wine-consumers and they buy wine as a present, in fact as Yu points out in his research “*Chinese spend more on purchasing wine as a gift than for their own consumption*” (Yu et al., 2009), moreover “*Lee and Liu and Murphy further suggested that giving high-end wine may be associated with displaying an image of high social standing and prestige from the giver*” (Qing et al., 2015).

Actually, a bottle of wine is considered to be a good present to give to somebody who stays higher up in the social ladder, and it's often accompanied by a carton of expensive high-quality cigarettes, as a sign of respect and recognition of a social status. We know that, when it comes to choose a bottle of wine, consumers not always decide to buy foreign wine, but they often choose domestic wines; in fact imported wines account for around 40% of Chinese wine market (Rachel, 2019) which is still a large portion of the market.

It's important to remember that wine import has been stimulated by the entry of China into the WTO in 2001, which reduced wine import tariffs from 43% to 14% (Masset et al., 2016), so that foreign wines began to enter the Chinese market at a fast pace (Chen, Lombaerde, 2013). Red wine consumption in China increased to the point that in 2013 it overtook France as the largest red wine consumer in the world, with more than 1.8 bottles of wine sold in Chinese territory in 2013, which increased to 16 million hL of wine (all types of wine) consumed in 2015 (OIV, 2018). 2015 was also the year when China became the fifth largest market for wine, position that it's still maintaining in 2020: in fact datas say that in 2019 the first wine consumer country were the United States, with 32.6hL, followed by France (27.0 hL), Italy (22.6 hL), Germany (20,2 hl) and finally China with 17.9 hL.

It must be underlined that China is the first asian country in the list and that the next asian country in the global ranking is Japan at the 15<sup>th</sup> place with only 3,5 hL sold in 2019, which makes China an exception in the whole asiatic continent, because its neighbours are far to reach its wine consumption quantity.

*Image 4: Countries by wine consumption in mhl*



Source: *displayr.com*

### *1.5.1. Factors affecting wine consumption in China*

Such an important placement in worldwide wine consumption ranking implies that exist factors that push Chinese customers to choose to drink wine.

Some of these factors are, for examples those which are called “traditional factors” and that are price, income, and price of a substitute good (García-Cortijo et al., 2019).

Price is clearly a primary factor when it comes to choosing a bottle of wine Liu and Murphy (2007) and Yu et al. (2009) have conducted some researches which point out that Chinese consumers are more willing to buy high-priced, and consequently high-quality wines if they're for gift purposes, but, on the other hand, for everyday personal consumption they prefer to buy low-priced wines.

Income influences consumers' choice too, and it also can explain why the wine market in China increased so fastly during the XXI century: the higher the income, the higher the consumption, and

it's not a case that, in China, expansion of the wine market coincided with the increase of incomes.

Price of substitute goods is another interesting factor. It refers to the price of goods that can replace wine, for example beer or, in China, the traditional *baijiu*. Although at the beginning wine could not be considered to be a valid substitute to beer, we have the evidence that now it actually is seen as an interesting product to drink not only on special occasions.

Also sociodemographic factors are worth to be considered in this analysis since they have a great influence in the market in general and consequently also in the wine market. Sociodemographic factors are age, gender, marital status, level of education, geographical area, and tourism activities (García-Cortijo et al., 2019).

Talking about the age factors, some researches found out that the average wine-consumer in China is between 19 and 35 years old (Camillo, 2012); this means that exporters should focus mainly on the younger generation whose members are the ones that have been more exposed to the changes made in the last years. It must not be forgotten that those who are 30 years old now were born in 1980, during the period of the economic opening, thus they have a weaker bond with the precedent era's traditions and basically grew up in an international context.

Another sociodemographic factor is gender. Chen, in his research, found out that the majority of consumers are men (Chen, 2012), however last years' trends show that women are growing interest in wine industry and it's expected that in the next few years they will reach men and maybe even surpass them.

Marital-status is an interesting factor, since it has been discovered that couples who buy and drink wine regularly are more likely to have a long-lasting marriage (Mercer, 2016), but other studies state that married people consume less wine than unmarried ones, however the fact that wine is appreciated by couples in general is undeniable.

The next sociodemographic factor is the level of education. In China, the beverage wine consumer is graduated or studies at university (China economic information network, 2012) and, more

generally, educated youth is the sector of consumers who caused the boost of wine consumption.

Geographical area has an influence on wine consumption too, in fact we know from International wine and Spirit research that wine is more likely to be sold and consumed in big cities and, more generally in urban areas. Cities like Beijing, Shenzhen, Shanghai and Chongqing are the places where wine of every type is sold the most since modernization and western influence arrived earlier and in a massive way, moreover in these cities there are a lot of expatriates working for foreign companies; on the contrary rural areas are still deeply linked to their traditional roots. In these areas modernization arrived slowly and years later, and there are still undeveloped villages and towns, so it's quite obvious that the people living there are more bonded to their original habits of consumption.

The last sociodemographic factor is tourism activities (Hall et al., 2000) and it refers to wine tourism. Wine tourism puts together standard tourism and wine interest, bringing advantages to both the sectors. It is still a field to develop, but we know that in the last years wine areas have been catching the interest of a decent number of wine lovers, and it shows potentials that are not to be neglected.

There is another factor that recently has captured scholars' attention which is the importance of the country of origin. Liu and Murphy surveyed some households in Guangzhou and found out that, although the majority of customers had little knowledge about wine, they still purchased wine, in particular French wine, which is considered to be the most prestigious one (Muhammad et al., 2013). Deeply bonded to the consumption of wine is also the concept of *mianzi* (面子) which literally means “face”, but it's often used to refer to one's personal dignity. One of the biggest fears of Chinese people is to “lose face” (丢面子 *diūmiànzi*), and for this reason it is really common in China to show off fancy cars, expensive mobile phones and clothing and, talking about the wine field, also expensive bottles of wine. Muhammad explains that “Chinese wine consumers are primarily interested in purchases that convey a level of prestige, status and respect, all of which are

important components of Chinese culture. Consequently, quality wines, especially quality imported wines have become the choice of many high-end consumers.” (Muhammad et al., 2013).

This statement coincides perfectly with the concept of *mianzi* and it's fundamental to not confound this kind of exaggeration in displaying expensive items as narcissism: in fact *mianzi* is not something a person has by birth, but it's rather something that is given by others, by the community, and this makes a big difference between Chinese culture and Western culture. The preference that the majority of high-end customers show is therefore the preference for fine foreign wines, but what is the perception of top quality for Chinese consumers? Data show that red wine is the most consumed wine, and, in particular, French red wine is Chinese consumers' favorite one: Bordeaux and Burgundy wines are very well-recognized in China, but in the last years also white wines demand has been increasing due to the growth of female consumers who prefer light-taste wines (New Zealand Trade and Enterprise, 2009).

To better understand the categories of Chinese wine, however, it's important to introduce the concept of market segmentation, which is a very useful tool for those the foreign entrepreneurs who want to export wine in China.

### *1.5.2. Chinese wine market segmentation*

Market segmentation is “*a marketing term that refers to aggregating prospective buyers into groups or segments with common needs and who respond similarly to a marketing action. Market segmentation enables companies to target different categories of consumers who perceive the full value of certain products and services differently from one another.*” (Investopedia, 2021) which means that using this indicator, an entrepreneur can group people into “segments” of individuals sharing the same characteristics or needs. Segmentation has to be undertaken using a range of variables, which, in the wine market are, for example, grape varieties, wine color, bottle pressure, brewing method, price, geographical factors, population factors, psychological factors, behavioral



factors, product quality, consumer risk reduction, consumption timing, cultural crossover, involvement and lifestyle (Yabin, Li, 2019).

Moreover factors influencing wine consumption are always linked to culture and complex to identify, but in general we can say that the factor which influences wine consumption the most is consumers' lifestyle.

We have a general classification of wine drinkers, identified by Professor Bruwer in 2007 through an household survey in Australia, which divides consumers into five different categories:

- Enjoyment-oriented social wine drinkers;
- Purposeful inconspicuous premium wine drinkers;
- Ritual-oriented conspicuous wine enthusiasts;
- Basic wine drinkers; and
- Fashion and image-oriented wine drinkers (Bruwer, Li, 2007)

However these categories can't be completely applied to Chinese customers since they refer to wine market in general, thus to a more mature market.

However, a classification of Chinese consumers has been made by 2019 Wine Intelligence, within its China Portraits 2019, which identified six categories of Chinese consumers. These categories are still developing and, being the Chinese wine market not mature yet, there's a possibility that they will change in the future, but at the moment they give a quite accurate idea of the different types of customers. These categories are:

- Health sippers, aka those individuals who drink wine for health purposes (they're the smallest segment in the market),
- Mainstream casuals, who are those individuals who have discovered a particular wine they like and now have developed the habit to consume it,
- Engaged explorers, high-spending consumers who have the habit to try new types of wine,

- Status-seekers, that are those who drink wine to show their social status and prestige,
- Social Newbies, mainly young people who have just started their working career and still have to fully develop their interest in wine,
- Frugal Occasionals, those who drink wine occasionally and are more motivated by low prices and not by the quality (Fan, 2019)

Having identified these categories, it's easier for the exporters to understand which segment of consumers is more suitable for their product. For example, a winery from France which excellence is Champagne, a white sparkling wine, won't focus on health sippers or frugal occasionals, since the first category is traditionally more fond of red wine, the latter is highly influenced by price, and Champagne is not a cheap wine. This kind of winery would prefer, for instance, to focus on the category of status-seekers or engaged explorers, who have more experience and knowledge about wine and are usually people who have the economic possibility to afford an expensive bottle of wine to assert their status.

### *1.5.3. Elasticity of demand*

Having such a heterogeneous range of customers, it's obvious that the demand is quite differentiated too. In particular, we know that foreign wines are the ones preferred by wealthy people, since foreign wines cover the highest retail positioning (more than 7\$ per bottle), while middle-class consumers still prefer domestic wines, which have the lower retail positioning (2-12\$ per bottle) and consequently are more affordable than foreign ones (Capitello et al., 2015). Talking about imported wines, we have also to consider an important economic measure, which is elasticity of demand. It is *“an economic measure of the change in the quantity demanded or purchased of a product in relation to its price change”* (Investopedia, 2021).

Expressed mathematically, it is:

$$\text{Price Elasticity of Demand} = \% \text{ Change in Quantity Demanded} / \% \text{ Change in Price}$$

It refers, basically to the change in demand when there's a variation in another factor, for example the price.

An elastic product is a product whose switch in price leads to a great variation in demand, an inelastic product, on the contrary is a product which changes in price doesn't lead to great variations in demand.

A research conducted by Capitello, Agnoli and Begalli in 2015 concerning different foreign wines' price sensitivity demonstrates that there's not heterogeneity between different wines' elasticity to demand. They found out that in Chinese market we have “inelasticity for sparkling wines, elasticity for bulk wines and different degrees of responsiveness for still bottled wines. [...] The demand for still bottled wines supplied by the market followers (Italy and Australia) is sensitive to price strategies and competitive interdependence. Bulk wine imports are price elastic, mainly because of high substitution among products and suppliers, and different marketing channels, including the production of domestic wine. Rigidity in the demand for sparkling wine confirms the leadership of France and Italy in satisfying Chinese consumers who demand product, brand and origin reputation, and are not highly price sensitive” (Capitiello et al., 2015).

These findings confirm what we have said previously: there's a category of consumers, in particular engaged explorers and status-seekers, who are loyal to certain types of wine, in particular French and Italian sparkling wines since they are the ones which history is richer and the products' quality is notorious all around the world, and this preference among high-end Chinese consumers confirms the importance that brand and origin reputation has for them, although it's evident that sparkling wine is still consumed by a small niche of clients.

Moreover, as Porter's 5 forces model I explained in the paragraph 1.4 states, for a product which has a big number of substitutes and a not so strong brand, is more difficult to affirm itself in a certain market, in particular because customers will easily switch to a similar product which price is lower and this might be the case of still, bulk and bottled red wines, which have a lot of alternatives that

can be easily found among domestic products and at a lower price, whereas sparkling wines such as Champagne are not easy to substitute with similar products, and this is because the offer of white wines in China is not that wide as I will explain in the next paragraph.

## **1.6. Foreign wine supply in China**

In economy supply is *“a fundamental economic concept that describes the total amount of a specific good or service that is available to consumers. Supply can relate to the amount available at a specific price or the amount available across a range of prices if displayed on a graph ”* (Investopedia, 2021). This means that supply should satisfy customer's demand and, in order to do it, supply has to meet and be consistent with the demand. In the previous paragraph we have seen which are the requests and the needs of Chinese wine customers which are traditionally more inclined to drink red wine, since in China the color red is associated to luck and health. On the other hand the white wine is not so popular in China because, since ancient times, the color white is associated to death and mourning, so it's not rare to see Chinese people wear white dresses during funerals, and to be more precise, the exact colour associated to funerals is not pure, bright white, but a more yellowish white, called 素 (*sù*). Moreover the same colour is believed to be the opposite of red: while red brings happiness, money and good luck, on the other hand white is associated to loss and waste (Terminiello, 2018). It's also important to remember that the Chinese don't have the habit of drinking cold beverages during lunch or dinner (they even drink beer at roomtemperature) and for this reason red wines are more suitable for them to drink while they eat, not to mention that red wines are more indicated to be drunk in combination with Chinese food thanks to their savoury and fuller taste, that, in China, is more appreciated than the sweeter taste of white wines (Week in China, 2014).

For these cultural reasons, white wine has still difficulties penetrating the Chinese market which is still red wine oriented, and not only for cultural reasons, but also for traditional reasons, in fact, as

I've pointed out before, the first imported grapevine and wines in China were French wines coming from Bordeaux region, which, in the Chinese collective imagination, have been associated to top quality wines in the world. This factor has led all the players who wanted to enter the Chinese market to adapt to customers needs and try to make a selection of the products they wanted to export, which means that the offer of foreign (but also domestic) wine in China is mainly composed of red wines, to be more precise, 80% of the total wine sold in China is red (Statista, 2020).

In particular, it is notable the presence of French Bordeaux wines that are still the most loved by Chinese consumers even though in the last years France has been exporting also Languedoc and Rhône Valley (Mersol&Luo, 2019). Following the steps of France, also other countries have been approaching the Chinese market mainly with red wines, in particular with wines made with Cabernet grapes, which is also the typology of grapevine more present in the Chinese territory for the production of domestic wines (Wu, 2015). For instance, Australia has been taking advantage of Chinese preference for red wines to export its famous Cabernet wines: it's not a case that the most searched Aussie wine in China is Penfolds Bin 389 which is, in fact, made from a variety of fine Cabernet Sauvignon (Wine Australia, 2017). Australia, however, also exports other types of red wine, for example Shiraz, which has established its presence in China and it seems to be appreciated for its full-body and versatility, which are, in general, the characteristics of the great majority of red wines and the reason why they are the most distributed and sold in China and this is proved, for example, by the fact that *"More than 96 percent of vintages shipped from Australia is red"* (Mersol & Luo, 2019).

Also Chile has been exploiting Chinese customers' love for red wine by exporting its premium wines made from different varieties of Cabernet Sauvignon that grow in the South American country (Mersol&Luo, 2019). In particular Chile has been exporting wines from its winemaking areas which are the coastal area, the Entre cordilleras area and the Andes area, which, once again produce and export mainly red wines (Li, 2018).

Also Italy is well-known in China mainly for its red wines from Barolo to Amarone di Valpolicella and Chianti, which, according to a survey that Business Strategies conducted among the upper class of Beijing, Shanghai, HongKong and Guangzhou, are the most popular Italian wines in the country, and this confirms that these types of wine are the most popular in mainland China and that, even though only two Chinese consumers out of ten associate the category “wine” to Italy, Italy has the potential and the right products to satisfy Chinese consumer's demand (Federvini, 2018).

If, as we have just explained, the supply of foreign wine in China is quite heterogeneous, it's important for the exporters to find the right promoter and channel of distribution in order to reach as much consumers as possible. In the next paragraph I will explain which are the main channels of distribution in China and which are each channel's target, prices, costs and capillarity.

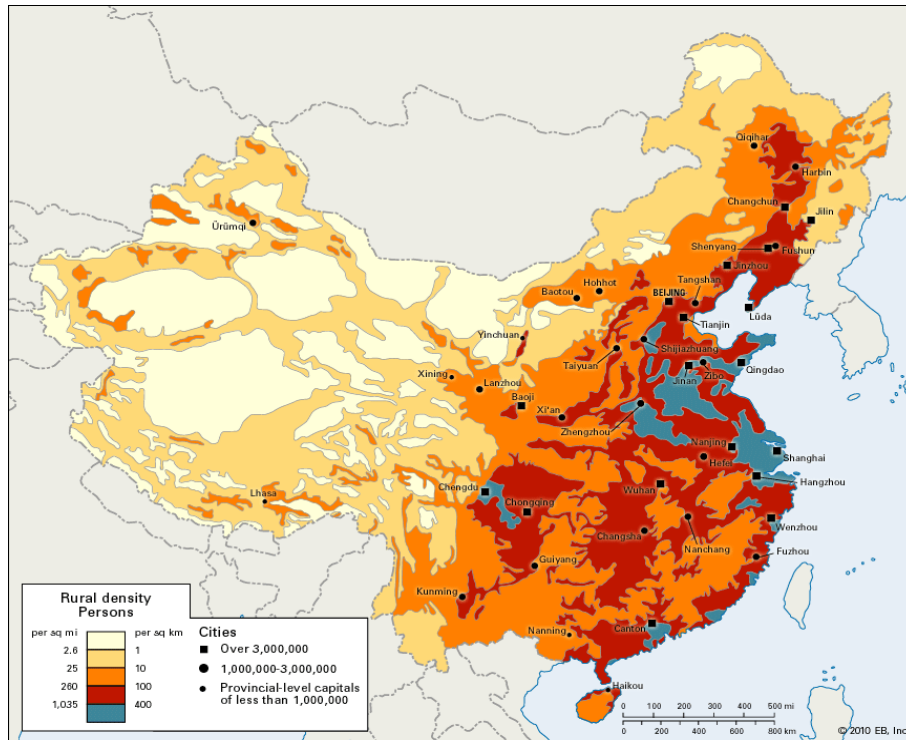
### **1.7. Channels of distribution**

A growing market like the Chinese one needs the right channels of distribution and a careful analysis of the market possibilities in the domestic scenery. We know that China has a population of 1,394 billions<sup>2</sup> individuals, distributed unequally throughout the whole Chinese territory.

The eastern part of China is where the concentration of metropolis and big cities is higher, moreover the great majority of Chinese people lives here, where development and modernization are a reality since the opening policies implemented during the last decades of 1990 and, for some cities, was a reality even before than 1990s, in particular those cities where in the past were established foreign concessions.

<sup>2</sup> World Population prospects – Population division. population.un.org. United Nations Department of Economic and Social Affairs, Population Division. Retrieved 9 November 2019

Image 5: China's Population Density



Source: kidsbritannica.com

We can clearly understand that, the areas in the map where population density is higher (in particular blue and red areas) are those places where there are more possibilities to find potential clients and consumers, since these areas are highly modernized and already used to western presence thanks to the great number of foreign enterprises present here.

It's also important to remind that these areas are the ones where almost every citizen has access to internet connection, which is a very important factor for wine exports in China, especially in the last few years. Of course such a vast and heterogeneous country needs different channels of distribution in order to satisfy every customer's need, and for this reason it's important to choose carefully which channel of distribution is more suitable for a certain segment of the market.

In China, except for wholesalers, who are basically the first channel of distribution born in this country, now there are a lot of new possibilities to enter the market. For instance, there are off-trade distributors, who can meet the needs of almost every kind of consumer because they are divided

into supermarkets, convenience stores and boutiques. A boutique, clearly will meet the requests of more experienced and wealthy clients, while occasional drinkers will prefer to purchase a more economical bottle of wine at a convenience store. Also on-trade distributors, such as restaurants, bars and KTVs are becoming more and more important for the wine industry, and once again, they can satisfy different types of customers' needs. Lastly there are direct sales, that can be divided into corporate or individuals.

In the next sections I will go through each type of distribution channel to better understand which are their characteristics and their target consumers.

### *1.7.1. Wholesalers and showrooms*

Traditionally, the distribution of foreign wines in China lays in the hands of state-owned companies, however in the last years the Chinese Government assigned to private importers-wholesalers a lot of import licenses. Registered on the site [winesearcher.com](http://winesearcher.com), there are 250 wine wholesalers in China, but the number is increasing due to the growing request of products. Wholesalers are the first step for a lot of foreign wineries when it comes to entering the Chinese market, and thus they're the first contact between foreign producers (but also local ones) and clients.

There are two types of wholesalers: those who focus on a smaller range of products, i.e. only fine white wines, and those who deal with a larger choice of products and importers. Also, it's interesting to notice that the majority of wholesale companies were established during this century, when the interest for wine, both Chinese and foreign one, started to grow significantly. In particular i would like to underline the importance wholesalers have in showrooms, which are very appreciated by wine amateurs and became quite popular in the last decade. The showrooms are places where the best of imported wine in China is presented, and thus are often visited by wine experts and, more specifically by those members belonging to engaged-explorers and status-seekers categories, which means by those who drink wine on a daily basis, not only for leisure, but for



business purposes too. In fact showrooms' purpose is to connect individuals interested in the wine industry, and first of all to connect customers and wholesalers, but also wholesalers and producers. In these places vine-growers can be represented and gain a certain visibility, showing the quality of their products and, often, their quality label. At the same time wholesalers can promote their shops and sell their products to acquire new customers and retain them.

In this regard, I would like to mention one of the most important showrooms held in China, that is Shanghai International Wine & Spirits Exhibition organized by Shanghai Golden Commercial Exhibition Co., Ltd. and Shanghai Free Trade Zone Red Wine Trading Center Co., which will host its 22<sup>nd</sup> edition in 2021. The exhibition's official website, talking about exhibitors, says that "For wine and spirits industry suppliers who want to have direct contact with domestic and foreign buyers and achieve business cooperation, attending Shanghai International Wine & Spirits Exhibition (SUPERWINE) is an effective way to achieve its goals" ([www.superwinechina.com](http://www.superwinechina.com), 2020). This exhibition is open for everyone interested in the wine market, and if a winery, a wholesaler, a client, or even a simple visitor wants to participate in this event, they can simply subscribe through the event's website which is available on Google too. This allows industry association to strive for a larger market share, bringing their products in China which is now one of the largest wine markets in the world, and, most importantly, it's constantly expanding. Super Wine China is now hosting not only the main wine exporters to China, which are Australia, France, Chile and Italy, but also Germany, South Africa, Brasil, Argentina and many other countries willing to enter the Chinese market.

Going deeper inside the mechanisms of these channels of distribution, it's important to understand which is their specific target, the costs, the capillarity of distribution and the level of control of the commercialization. When it comes to wholesalers, it's necessary to think that they are intermediaries between the producers and the customers of different types, from restaurants, to supermarkets to KTVs, to specialized stores, and this depends on the size of the wholesale company's size and

experience. As it's logic to imagine, there are many distributors which cover different territories of the country since it would be impossible for a single wholesale company to guarantee wine supply throughout the whole Chinese territory, and that's the reason why national distributors are the most common in China (Boquen, 2021).

### 1.7.2. Off-trade distributors: supermarkets, convenience stores and boutiques

Off trade distribution refers to the sale of alcoholic drinks for consumption off the premises. Off sale distributors are supermarkets, convenience stores and boutiques specialized in alcoholic beverages and we know that 54% of wine sales in China were sold through retail chains (Bouzidine-Chameeva and Zhang, 2013).

Image 6: Off-trade distribution channels



Source: [daxueconsulting.com](http://daxueconsulting.com)

As we can see from the picture, there are a lot of supermarket chains which are not only present on the Chinese territory, but that are international, for example Walmart and Carrefour. These supermarkets sell a lot of foreign products, from coffee, pasta, cheese and obviously alcoholic beverages too, wine included. In these supermarkets it's possible to purchase both Chinese and

foreign wine, but obviously not top-quality wines.

Talking about the target customers of supermarkets and convenience stores, first of all it's necessary to say that, since the Chinese wine market is still not mature, the literature concerning customers' behaviour is quite scarce and the studies that have been made are still not sufficient to give us a complete framework, even though with the studies that have been made until now, it's possible to deduce some facts about customers' habits. For example an online survey conducted in 2013 by Liu, McCarthy and Chen among Chinese wine consumers, found that 79% of the respondents buy wine at the supermarkets even though with a low frequency and, the same survey, states that the majority of consumers buy it for private consumption or as a gift (Liu, McCarthy and Chen, 2013). Usually, as some interviews to Chinese Carrefour's customers underline, a lot of health sippers choose the supermarket option to purchase wine, for example a 36-years old woman interviewed by Ye Jun for China Daily said that she buys wine from Carrefour every month because it's good for her skin and helps her sleep (Ye, 2008). Interviewing former import wine manager at Carrefour's China headquarters Charles Delamalle, Ye Jun discovered that *"More and more Chinese, both old and young, and from different lines of business, go to Carrefour to buy foreign wines"* and that *"They buy the wines, to give friends as a gift or to drink by themselves."* (Ye, 2008).

Although at the supermarket the customers can't find top-of-the-range wines, the selection of wines is still able to satisfy a wide range of consumers as explained in this interview. The variety of products, and therefore the variety of prices, are the key to the success of supermarkets as a distribution channel.

Also convenience stores are an interesting channel of distribution. They are way smaller than supermarkets and offer a reduced choice of food, hygiene products and alcoholic beverages, wine included. These stores are usually open 7 days a week 24 hours a day and are frequented mainly by young people, in particular students who want to buy something to eat quickly during school break or a pre-cooked meal for dinner. In the existing literature, the customers of supermarkets and

convenience stores are grouped together since the difference between them is almost non-existent and the quality of the wines they can find here is similar to the one of the wines sold inside the supermarkets (obviously, being smaller places, they have a smaller selection of wines) so we can say that here customers can find medium-quality products.

However the potential of this kind of channel is not to be underestimated, in fact supermarkets and convenience stores are the right channels to reach the largest number of consumers as possible because the price of the products in these places is more affordable, and to confirm this, Merso&Luo website states that the main target customers of supermarkets and convenience stores are those individuals which monthly income is between RMB 8000 and RMB 14,999 (Mersol&Luo, 2019) and it's necessary to consider that foreign wines are usually highly taxed in China, and importers multiply the starting price by 5 to 10 times for B2C sales (Boquen, 2021). Moreover, being the primary channels to buy wine, and being present throughout the whole Chinese territory, it's logical mto assume that supermarkets, hypermarkets and convenience stores have a good coverage of the national territory, to make an example there were 438 Walamrt stores in China in January 2020 (Statista, 2020) and in March 2019 Carrefour had 210 hypermakets and 24 convenience stores in 22 Chinese provinces operating in 51 large and medium-size cities (David, 2020).

On the other hand boutiques present different characteristics, since they focus on the best wines in the market, which means that they deal with fine wines. Usually they do not have enough staff and points-of-sales to develop a large distribution network, thus they prefer to focus on specific channels and niche products to deal with clients who are already experts in the wine sector and for this reason boutiques are easier to be found in first or second tier cities and are frequented by customers with a higher level of education (Chen, 2019). From this information we can deduct that, logically, the coverage of the territory that botiques can reach is not as high as the coverage that supermarkets have, in fact, if one searches on the internet “fine wine boutiques in China”, the

results will show only shops of retailers situated in tier one cities. In fact these cities are the most economically developed and here western culture and habits are well-consolidated, not to mention the fact that in cities like Shanghai, Beijing or Guangzhou it's more easy to find rich people who may be interested in fine wines or other luxury products. The prices of the wines that can be found in the boutiques, in fact, are high; for example, on the website of ASC Fine Wines, it's possible to find wines which price is higher than RMB 2000 per bottle. Moreover these boutiques are beginning to reach foreign exporters using online platforms such as WeChat, the most popular social communication app in China, because these are relatively cheap ways of spreading wine stories before following up with tastings and sales.

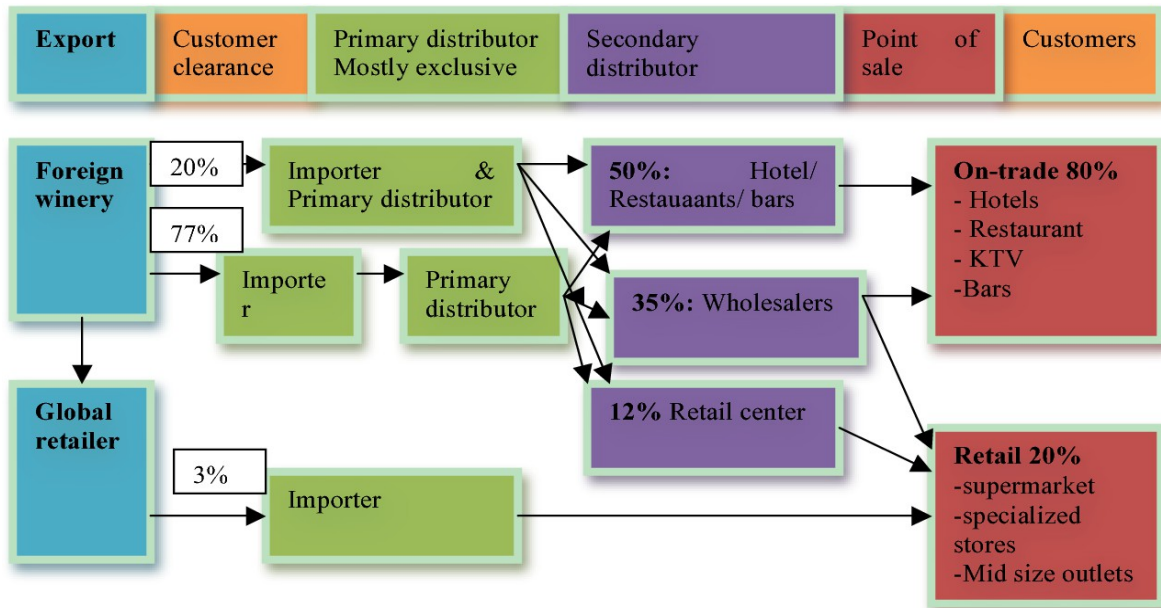
### *1.7.3. On trade distributors*

The main on trade distributors in China are restaurants, bars, wine bars, hotels, SPA and KTV (karaoke saloons) and they are the channels through which wine is sold the most in China (80% of total sales in tier 1 cities in 2010) (Bouzdine-Chameeva,Zhang, 2013). This data might be surprising, but, in fact, it's quite normal that the majority of imported wine market in China focuses on this channel since bars, restaurants, KTV and SPA are places where people are more willing to treat themselves with a good bottle of wine, and, on the other hand, importers are sure to find the right customers for their products. A research conducted by Thach in 2008 shows that the reasons that convince a customer to purchase a bottle of wine in a restaurant are basically the same as with stores or supermarkets and this reason is that the wine has been tasted before and that a brand recognition has already taken place, so that the consumer is able to remember the characteristics of that specific wine (Thach, 2008). Yet, this research, even though there's nothing that contradict it in the Chinese market, is not based on Chinese consumers' behaviour, however it is congruent with Liu and Murphy's findings who say that typically Chinese consumers drink spirits in the majority of convivial occasions, but drink wine only in special occasions or while entertaining in a restaurant

(Liu and Murphy, 2007) and a more recent research conducted by InterChina for the Italian Trade Agency about wine consumers in China (2017) shows that this habit has not changed over the years since the restaurant is the second location more appreciated to drink wine in China, moreover the survey found that the older consumer prefer to drink wine in Chinese restaurants, while younger consumers are more willing to choose Western restaurants (InterChina Consulting, 2017).

As we can see from the graph below, before reaching the restaurant, the hotel or the bar, the products pass through an importer. The importer has some duties, for example the communication with the foreign winery, receipt and forward of purchase orders, arrangement of the delivery, custom clearance, arrangement for the transport storage of the wine at the warehouse, selection of a wholesaler for distribution to retail outlets, and assistance with the promotion and sale of the brands (Connell, 2013). This means that, according to the type of wine the importer is dealing with, he will find the right restaurant (or bar, hotel and KTV) to place it. The literature and studies about the typology of wines that can be found in bars and restaurants or hotel is really scarce and confused, but it's still quite clear that on trade distributors do not sell cheap wines, in fact as I have already mentioned before, the starting price of wine is multiplied 3 or 4 times for B2B sales and 5 to 10 times for B2C sales, which means that a bottle of wine that in France or Italy costs 3€, in China can cost 15€ or more. Talking about the coverage that on trade distributors can have in this sector, a research conducted by Rabobank (2012) shows that in tier 1 and tier 2 cities they hold the highest volume sales, and in the cities of Guangzhou, Shanghai, Beijing and Shenzhen they represent the 80% of total sales (Rabobank, 2012).

Image 7: Imported wine distribution in China



Data from Rabobank, 2010

Source: [www.researchgate.net](http://www.researchgate.net), data from Rabobank, 2010

Unfortunately, on trade and off trade distribution channels are not being studied much in the last years and we don't have recent literature and data about their market share. This lack of studies about these two channels of distribution is due to the growing interest that scholars and experts have shown towards a new phenomena: the rise of e-commerce.

#### 1.7.4. E-commerce

Wine is a product which online sales are growing rapidly in China and online stores are multiplying in the last few years. Concerning the wine market, there are three typologies of online stores, which are: specialized stores, integrated platforms offering, among other items, alcoholic beverages and winery-owned e-commerce platforms (Li, 2016).

The importance of e-commerce is absolutely undeniable, in fact we know that currently 20% of the wine sold in China is sold online, mainly through Tmall, which is a famous Alibaba group's B2C online retail platform (China Wine Competition, 2020). Tmall is one of the leading online

platforms in this field because the wines distributed here are both low-cost or high-end, and this can satisfy a wide range of customers, from the wealthier and more expert clients, to those who just want to occasionally purchase a bottle of wine without spending too much money. Moreover Tmall, which is part of Taobao, the most famous e-commerce platform in China, is the part of Taobao where only authenticated brands can open their online stores, making it more reliable in terms of quality and branding. Currently it counts more than ten thousand brands, thus the potential of this e-commerce platform is not to be ignored, since it offers a great opportunity for foreign wineries to enter and reinforce their presence in Chinese market.

But who are the consumers buying wine online? A research based on the customer data of yesmywine made by Li MuShui, which involves 2276 online wine consumers, shows that the typical e-commerce client is mainly between 26-35 years old and that 80.8% of them are females (Li, 2016). This is interesting because we can notice that this data seem to contradict the general data about wine consumption in China which see male consumers being the ones more interested in wine. In fact this research shows that there's a predominance of female customers and this might be a sign that they will consume as much wine as men do, and maybe even surpass them.

Talking about the products that can be found online, as we have seen before there are various types of stores that will consequently deal with different types of products. As I have already mentioned before in the chapter, big e-commerce platforms like Tmall allow only authenticated brands to open an online store, and this is guarantees to customers the quality of the wine they are buying (Yu et al., 2013) which is really important to gain consumers' trust. A proof that Chinese consumers trust online stores and buy from them is JD, one of the most important e-commerce platforms in China that in 2017 sold 40 million bottles of wine, with France being as the first place with a 36.4% market share followed by wines from China (23.9%) and Australia (19.9%) (Wang, 2018). These numbers show that online wine shopping is a big reality and that wine exporters have understood the importance of investing on this type of channel of distribution, in fact more and more brands



and wineries are opening online stores and not only on Tmall or JD. In fact, apart from these giants of e-commerce, there are also a lot of specialized B2C websites such as Yesmywine, Wine9 and Jiuxian which are comprehensive platforms importers and distributors set up their own webpage directly for the consumers (Dal Vecchio et al., 2018) and, thanks to the different supply channels, wine purchased from these platforms has lower costs.

Moreover it is important to underline the fact that the value of online transactions related to individuals' consumption in China was worth \$790 billions in 2016 (Wang et al., 2017), which proves that Chinese e-commerce is efficient and consumers trust online shopping. This has brought e-commerce to develop enormously during the years and online sales are reaching smaller cities and rural areas (Wang et al., 2017) which means that, if in a small Chinese city foreign wine is not available for any reason, customers living there can still purchase wine online, so clearly the territory coverage that e-commerce has is very high and it's almost incomparable with the coverage that the other channels of distribution have.

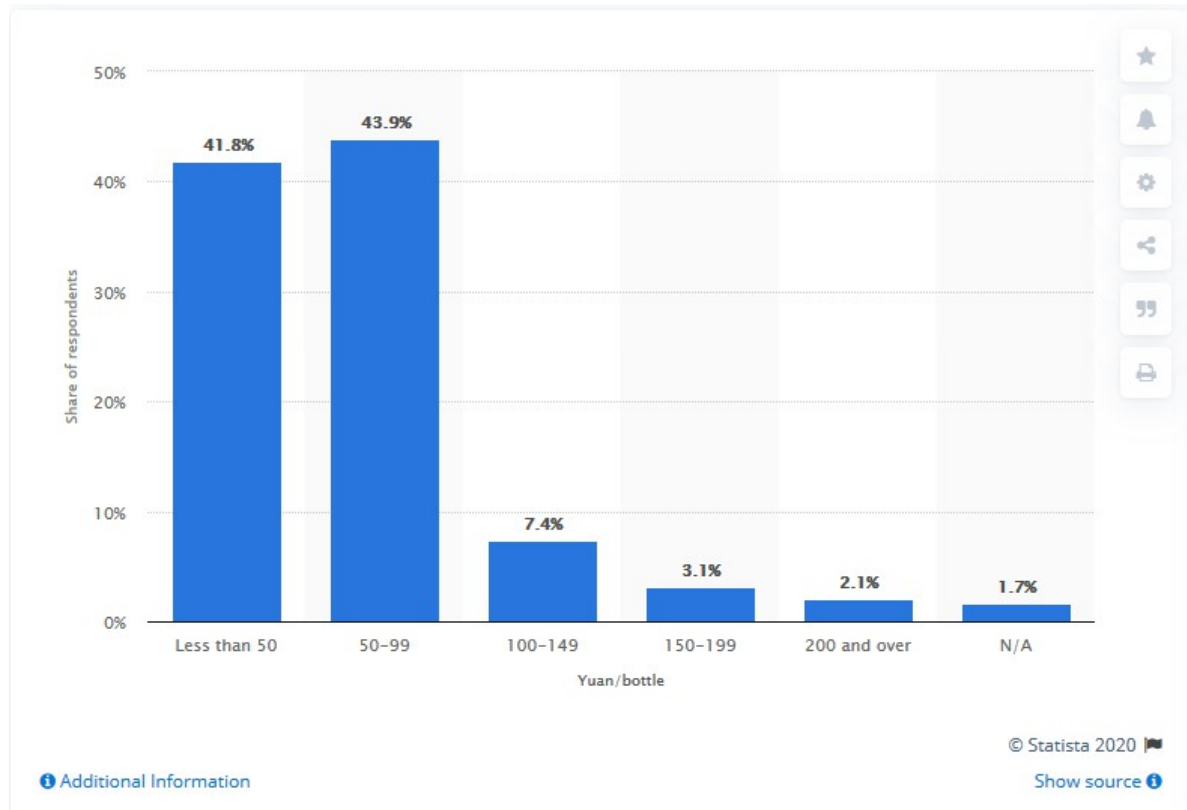
It's also worth to mention that the method of payment when it comes to e-commerce is mainly Alipay. Alipay is the most popular e-wallet app in Asia; it was established in Hangzhou in February 2004 by Alibaba Group founder Jack Ma, and it overtook Paypal as the world's largest mobile payment platform (Heggestuen, 2014). Using this app allows customers to complete their purchase comfortably and without leaving their homes, which is one of the keys of online shopping's success in China. Another advantage of e-commerce in China is the possibility to correspond and bargain directly with the sellers through a specific section of the app, for example Tmall (and Taobao in general) provides this feature (Li and Liu, 2007) and it's much appreciated by customers since it allows them to receive information directly from the seller who can quickly answer their questions and assist them in the purchasing process. Considering the current global situation, it must be said that e-commerce is playing a fundamental role for the wine market in 2020: in fact since the Covid19 pandemic broke out in China, shops and restaurants had to remain closed during the

lockdown, that in Wuhan, the epicenter of the pandemic, started on 23<sup>rd</sup> January 2020. With bars and restaurants closed, the only possibility Chinese consumers had to buy wine were supermarkets and websites, but clearly it was easier for them to buy online because the restrictions during the pandemic were incredibly strict and basically people went outside only to buy absolutely necessary goods and for this reason, the easiest way to purchase wine during the pandemic was through e-commerce platforms, which could deliver the order safely at the client's address.

The timing of the pandemic has left a lot of wineries struggling, since about 70% of Chinese wine sales is made within the first and the last quarters of the year, in particular during the Chinese New Year, *Chunjie* (春节), which is the most important festivity in China and falls between January and February and the pandemic caused logistic and distribution problems exactly during this time of the year when Chinese government wasn't equipped to face a large-scale pandemic yet, however, if there's a place where difficulties like these can be overcome in a relatively short time, this place is China, where the still not mature market and strong economy will allow it to recover from Covid-19 effects. In fact, we know that in China, social gatherings have returned to normal, as well as businesses meetings and dinners, which are occasions where wine consumption is really frequent (Liang, 2020).

Moreover, e-commerce can offer a valid solution to this crisis, since e-commerce platforms allow foreign brands to easily access the market, and their growing popularity is reaching also consumers who are not wine experts or habitués. In fact, we can see from the graph below that the category of wine that in 2016 sold the most online was the category whose price per bottle went from 50¥ to 99¥, which is a quite affordable price for all the middle-class consumers.

Image 8: "Distribution of online wine sales in China as of 2016, by price range"



Source: Statista.com

So, although the wine market has to bear this moment of crisis, however it's expected to grow annually by 7.3%.

We know that the total revenue in the wine segment amounts to CN¥ 149.029m in 2020 with a drop of -16.1% yoy. Still wine has been the most sold during this year with a total revenue of CN¥ 147,031m (-16.1% yoy) followed by sparkling wine with a total revenue of CN¥ 1.809m (-16.5 yoy).<sup>3</sup>

Making projections now is risky because the economical situation is still uncertain because of the health emergency caused by Coronavirus, however we have seen that there are good opportunities for Chinese wine market to grow, and for foreign exporters to find new consumers for their products, however, as Paolo Fassina – the regional manager North East Asia of Castello Banfi, the

3 All the data are from statista.com, available at <https://www.statista.com/outlook/10030000/117/wine/china?currency=cny>

locomotive of Brunello di Montalcino- says: *“in the short term, the repercussions of the current situation will certainly be significant, but we are optimistic in the medium and even more so in the long term. Starting in the second half of the year, we have begun to see signs of recovery, which give us hope for the future”* (Wine news, 2020).

In the next chapter we will present the main wine exporters in China, and we will focus on their market strategies, in particular on the differences between Italian's strategy and its competitors' strategies in order to understand why Italy ranks fourth in the ranking of exporters in China, while it usually ranks first or second in other countries.

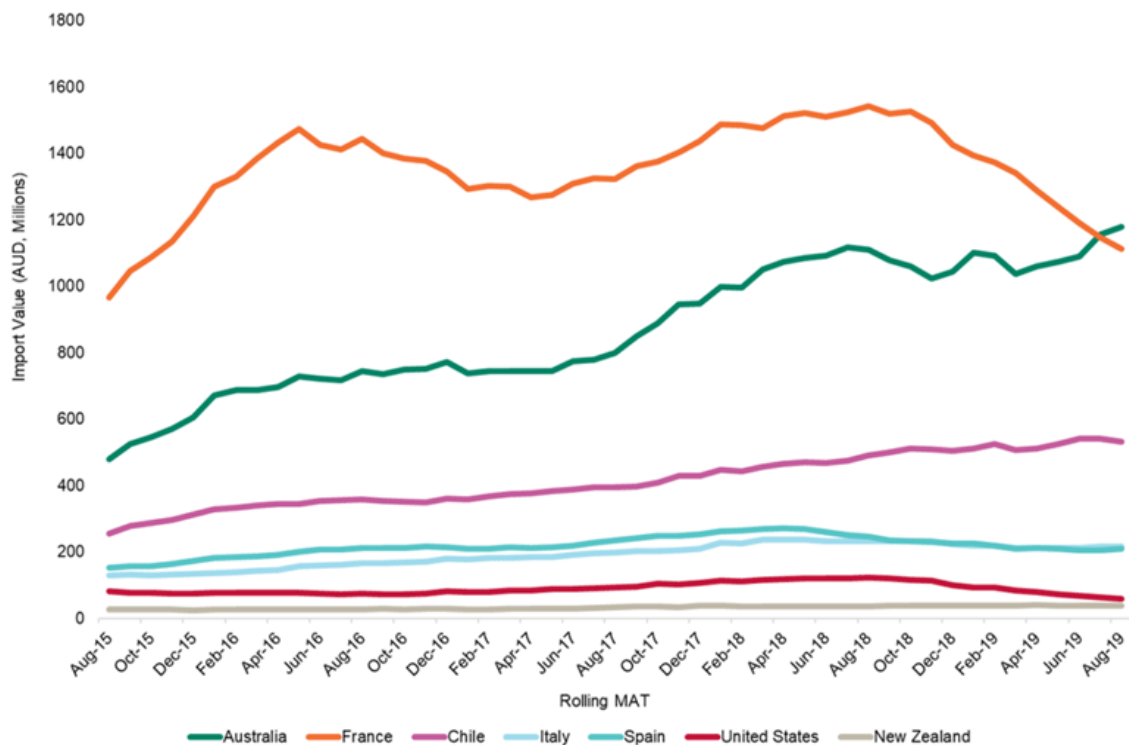
## 2. EXPORTS: MAIN EXPORTERS AND BARRIERS WHEN ENTERING THE CHINESE MARKET

China has become one of the main wine importers worldwide, and, without any doubt, its imports growth is the most significant if we consider the years from 2014 to 2018, in fact, in this period of time, China had a wine imports grow rate of 79% (OIV 2019).

For many years, France has been the main exporter to China. In 2018 France had 38.2% of market share and imports reached 217.8 million liters (around US\$1.05 billion worth), with a clear preference for Bordeaux and Languedoc wines (Mersol & Luo, 2019).

However, during the last semester of 2019 Australian wine imports started to increase, and French wine imports started to slow down, leading Australia to become the first wine exporter by value with 35.54% of the total market share ([statista.com](https://www.statista.com) “Share of wine import value in China in 2019 by leading exporting country”).

Image1: Main wine exporting countries to China

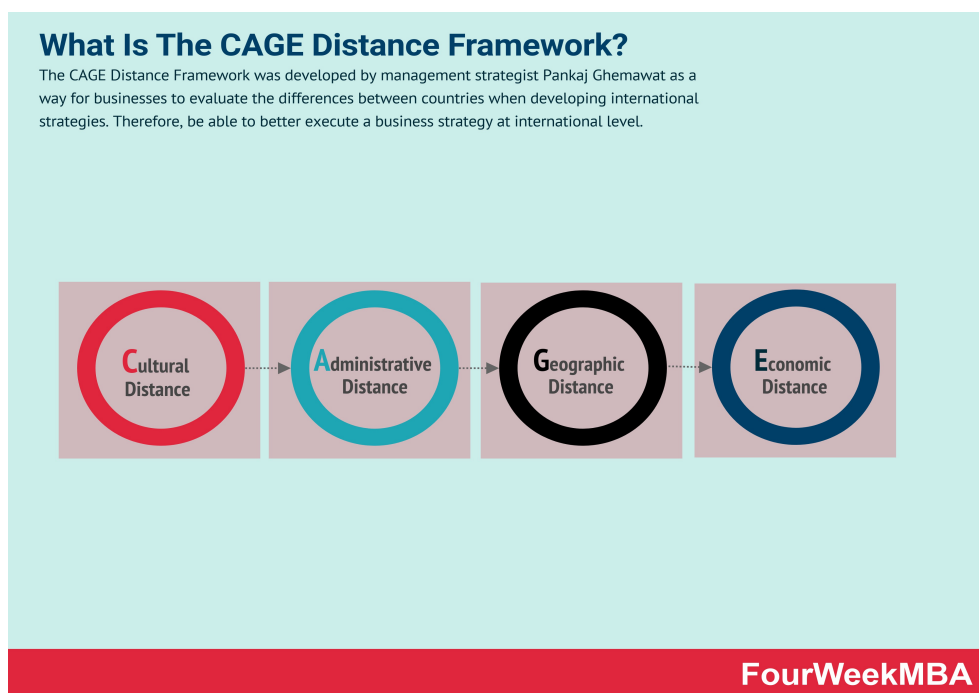


Source: [wineaustralia.com](http://wineaustralia.com)

This graph shows which were the main wine exporters to China from August 2015 to August 2019, and it's interesting to notice the rapid growth of Australian exports' value as well as Chilean exports' value. We can also notice that France had to endure a decrease of 21% in its exports, which is believed to be caused by the zero-tariffs policy that Australian imports enjoy in China which is an advantage that started when the two countries signed, in 2015, the China-Australia Free Trade Agreement, and the import tax it fell to zero in 2019, while French wines still face a 14% import tax (Global Times, 2019). However, from this graphic we can also notice that Italy has the fourth place in the ranking, and it has 6.43% of market share in China (Statista, 2020). For a country that is one of the main wine producers and exporters worldwide, it's weird to occupy such a low position in the exports ranking, especially because usually Italy is the main wine exporter in a lot of foreign markets. This fact left me with a lot of questions concerning Italian export strategies and, obviously, concerning its main competitors' strategies.

In the next paragraphs we will analyze Australian, French, Chilean and Italian strategies and the changes they underwent in the last few years and try to understand why the first three countries are so successful in the Chinese wine market. We will also try to understand why Italian strategy is successful in certain countries, while in China is less effective. Before analyzing the situation of the major competitors, however, it's important to underline which are the factors that influence international commerce and economy, which, according to the Cage Framework that I will use to analyze the different countries exporting wine to China, are cultural distance, administrative distance, geographic distance and economic distance (Ghemawat, 2001).

Image 2: CAGE Distance Framework



Source: *medium.com*

The CAGE distance framework was developed by Professor Pankaj Ghemawat in 2001 with the aim to offer a tool to evaluate the distance that two countries have in order to reduce the risk when it comes to do business. The framework identifies four types of distance which I will briefly explain to better understand them and their influence on international business<sup>4</sup>.

Firstly there is the *cultural distance*. Cultural distance in this case doesn't refer to the interactions among people, but to interactions among different countries and the obstacles that might occur when they start a commercial relationship. In particular it refers to the linguistic, religious, social and ethnicity differences that there are from one country to another. To make a concrete example, it's obvious that an European country will have less difficulties doing business with other European countries than with an Asian one, not only for linguistic reasons, but also because differences in ethnicity and religion may cause lack of trust and higher levels of intolerance.

The next type of distance is *administrative distance* and it refers to laws, policies and institutions and is thus closely related to governments. The distance is wider when two countries don't have

<sup>4</sup> All the information about the CAGE model explained in this chapter are excerpted from: Pankaj Ghemawat "Differences across countries: The CAGE Distance Framework" 2007, Harvard Business School Press

colonial ties, member-ship in the same regional trading block, and the use of a common currency, when there is institutional weakness and political hostility.

*Geographic distance*, as the name itself suggests, concerns the physical distance between two countries which includes lack of common borders, lack of sea or river access, the size of the two countries and their location, the differences in transportation and the transportation or communication links. If applied to the wine commerce, we will see that geographical distance is fundamental, in fact the more distant the exporting country is, more difficult is to enter the Chinese market smoothly.

Lastly, *economic distance* regards the differences between two countries in terms of economic income, purchasing power, distribution of wealth and gross domestic product, but it also includes natural resources, infrastructure and differences in human resources.

## **2.1. Documents, certifications, labelling, and import requirements**

We are now going to analyze those legal and administrative aspects which characterize the imports of foods and beverages in mainland China.

Firstly three preconditions are necessary in order to ship food products to China:

- The importer must have a *business license* which is the authorization to carry out commercial activities;
- Registration of the manufacturer at the State Certification and Accreditation Administration;
- Label verification and sample inspection at Entry-Exit Inspection and Quarantine Bureau.

### *2.1.1. Documents and certifications*

There's a body which is responsible for the entrance of the goods in China, which is called AQSIQ, short for General Administration for Quality, Supervision, Inspection and Quarantine of P.R.C. and it's "a ministerial, administrative organ directly under the State Council of the People's Republic of



*China in charge of national quality, metrology, commodity inspection, entry-exit health quarantine, entry-exit animal and plant quarantine, import-export food safety, certification and accreditation, standardization, as well as administrative law-enforcement.” ([www.aqsiq.net](http://www.aqsiq.net), 2020)*

AQSIQ requires some documents and certification in order to let the products pass the Chinese custom and they are:

- Sales contract or order confirmation;
- Export invoice;
- Packing list;
- Cargo manifest;
- Bill of Lading;
- Shipping notice (from the shipper to the importer);
- Certificate of origin;
- Health certificate for the export;
- 7 sets of samples of the labels in accordance with Chinese standards;
- Sample copies of the label translated into Chinese;
- List of ingredients provided by the manufacturer, certificate of authenticity or approximate production process

Moreover all the documents in foreign language must be translated into Chinese and two copies must be provided (Agenzia ICE, 2019).

### *2.1.2. Labelling requirements*

Every food product entering China must be provided with a label written in Chinese language which will be controlled by AQSIQ along with all the other documents.

The content which must necessarily appear on the label of any kind of pre-packaged food product

includes:

- Product name
- Ingredients
- Proportions of the ingredients
- Date of production
- Durability of the product
- Requirements for conservation
- Net weight
- Name and contact information of the producer
- Licence number for production;
- Name and address of importer and distributor
- Date and storage instructions
- Code of the product standard
- Quality level (Agenzia ICE, 2019)

If the product and the label pass CIQ controls, a certificate attesting that the product can enter the country will be issued; if, on the other hand the product and the documents does not comply with Chinese standards, the destruction of goods is ordered, or the authorities will give the exporter the possibility to ship the goods back. (Mglobale.it, 2020)

It's worth to consider that, for countries like Italy, France or Spain which don't have Free Trade Agreements with China, exporting wine is more complicated and expensive, in fact the rate custom duty to export wine in China goes from 14% to 20% (Mersol&Luo, 2019) which causes an inevitable rise of the products once they enter the Chinese market. The differences with the commerce inside the E.U. are evident: in fact, inside the European Unions applies the principle of

free movement of goods, and the only obstacle European wine has to overcome are the excise duty on alcoholic beverages and tobaccos but they can have a reduced rate for certain categories of products, for example for wine or fermented beverages that have no more than 8,5% alcohol by volume, beer that have no more than 2,8% alcohol by volume, ethyl alcohol that has no more than 10% alcohol by volume and intermediate products of no more than 15% alcohol by volume (Europa.eu, 2021). Also labelling is easier inside the European Union because it is standardized and countries belonging to E.U. are required to write the same information on the labels which are: provenance statement, category of product statement, Protected Designation of Origin (PDO) and Protected Geographical Indications (PGI), bottler's details, nominal volume expression, alcoholic strength, allergens statement and lot numbers (Food Standards Agency, 2019).

## **2.2. Australia in the Chinese wine market**

During the last few years, Australia has been having great success in exporting wine in China, where Australian wineries seem to have found just the right typology of consumers for their products. In 2019 Australia overtook France as the country with the higher market share in China, which is a clear sign that Australian strategy suits perfectly the Chinese market and that Australian exporters have identified and understood Chinese consumers' needs exactly as France, which is a Chinese historical partner, did before.

To understand why of Australian wine has had a big success in China, it's important to make some considerations about the factors which brought this country to enter the Chinese market in the right way.

Firstly, it's important to mention that Australia and China are geographically close: the distance between Darwin and Guangzhou is only 4393km (Free Maps Tool, 2021) and both the countries have a sea access, which is obviously an advantage in terms of transportation and storage of goods, in particular for wine which is sensitive to changes in temperature. Therefore, the proximity

between these two countries is considered to be one of the main advantages that Australia has when commercing with China, and this is confirmed by the CAGE model I have introduced earlier in the chapter, and even though the cultural distance between the two countries is quite wide, starting with the evident linguistic barriers and the cultural differences, geographic proximity still revealed to be a sufficient point of strenght for Australian's esports. However, geographic proximity is not the only advantage Australia has, and once again the CAGE model is useful to explain the success of Australian strategy in China. In particular it's worth to mention that not only both countries are part of the WTO (World Trade Organization) and thus are part of a worldwide organization which one of the main objectives is to provide a forum for negotiating and monitoring further trade liberalization (Anderson, 2020), but the two countries have also signed a Free Trade Agreement. ChAFTA, namely the China-Australia Free Trade Agreement entered into force on 20<sup>th</sup> December 2015 after ten years of negotiations (Australian Government website, 2020) and it aimed to create new job opportunities, support economic development and higher living standards through increased goods and services trade, and investment. Some of the main provisions of this agreement have brought a lot of benefits for Australia, for example the removal or reduction of tariffs, larger quotas for certain restricted items, and streamlined custom processes. Overall, 98% of Australian goods exported to China are eligible to enter duty-free or at preferential rates than other countries' products. Essentially, the negotiated terms have provided Australia with a strong competitive advantage in the Chinese marketplace over some of worldwide leading competitors such as the USA, Canada, the EU, and New Zealand, particularly for our agriculture and processed food sector (Asialink Business, 2020). We can see that the agriculture and processed food sector was given great importance in this agreement, and the wine sector, which is included in the food sector, has benefited from this agreement's clauses. In particular, this agreement led to the complete elimination of the existing tariffs of 14% to 20% on January 1<sup>st</sup> 2019 (Australian Government website, 2020), which gave Australian wineries a great competitive advantage over their European

and South American main competitors.

However during the second half of 2020, this agreement started to lose effectiveness due to rising tension between the two countries, probably for reasons caused by an Australian violation of the anti-dumping measures which seems to have harmed the Chinese wine industry and its competitiveness in the market, and this led to a dumping investigation which is still underway (McDonald, 2020). This is a perfect example of how the administrative distance between two countries explained in the CAGE model can increase significantly once a political tension happens, and that this can actually cause a lot of damages for the commercial relationships between two countries because the level of intolerance becomes higher and the mutual trust fails. In fact, after the Coronavirus outbreak, Australia took an important role in investigating the pandemic's origin. Australia conducted an independent investigation into the origins and early handling of the coronavirus outbreak, which has attracted strong pushback from China, which interpreted it as a political “manoeuvre” against Beijing (Hurst, 2020). The wine sector has been particularly affected by this situation because, already from 28<sup>th</sup> November 2020, China had announced that there would have been an increment of the import tariffs ranging from 107% to 212% (Maskiell, 2020) which, as Australian Trade Minister Simon Birmingham said, will make Australian wine unsellable because the price of the products will rise significantly. This will put Australian exporters in a difficult position because they will be unable to sell wine to their main importer, a fact that will strike a blow on the \$1.2 billion-a-year industry (Sullivan, 2020).

This drastic increase in import taxes is just the last step of a contrast that has been going on for one year. In fact, already in May 2020, China imposed tariffs of 80.5% on Australian barley exports, which were made up of a 73.6% anti-dumping duty and a 6.9% countervailing duty (Maskiell, 2020), moreover, earlier, China stopped or reduced imports of beef, coal, barley, seafood, sugar and timber from Australia after it supported calls for an inquiry into the origin of the coronavirus pandemic, which began in China in December. We still don't know if these decisions will be

permanent and to which extent they will affect Australian wine export to China, but surely the situation is not turning in favour of Australian producers and exporters. The words of The Australian Trade Minister, who claimed that these new taxes will deliver a devastating blow to the Australian wine sector, were supported by a lot of wine producers, such as Tony Battaglione from Australian Grape and Wine, who, in an interview for ABC News, confessed: *“The China market is a big market for us, but also some of our major competitors, particularly from Europe, are [now] given a tariff advantage of 100-200 percent [which] is going to make it very difficult to compete ... it won't be good.”* (Sullivan, 2020). So, although is still early to know how the situation will develop in the future, it's clear that there's a high level of concern among Australian wine producers, who might lose their main commercial partner. It seems that the high level of praise and satisfaction that Australian wine received in China, is being threatened by this by now consolidated contrast between the two countries, a contrast that will probably bring the Australian wine market to its knees. This will thwart Australian efforts of building a strong market in China, efforts that, as we have seen before, have been really successful. In fact, until now, Australian wine has been widely appreciated by Chinese consumers, and this appreciation must be reconducted to Australian exporters' good strategies.

It's also worth to mention that, among all the reasons that brought Australian wine to have so much success in China there is the in-depth research that Australians made about Chinese drinking habits and business-making, as reported in the Australian Government's website, which explains in detail how an exporter should do business with the Chinese counterpart, but also from specialized websites, such as Wine Australia, which published a lot of articles concerning Chinese consumers' habits and needs, which means that Australians payed particular attention to Chinese customers, evaluating carefully their needs and requests before entering the market. Moreover we know that Australia has made concrete efforts to conquer the Chinese market, for example, Wine Australia has designed a Trade Specialist Program to engage, recognize, and encourage the Chinese wine trade to

promote Australian wine (Wine Australia, 2020). In this program, Australian wine producers are able to better understand their customers' taste and habits, and it gives them the Australian Wine Trade Specialist recognition, which identifies them as certified professionals in selling Australian wines. The fact that they are officially certified enhances their trustworthy image among Chinese customers. By taking part in this program, wineries also receive Wine Australia's support in their promotional projects, achieving sales growth in Australian wine. Moreover, Australian wineries are led by Penfolds which is a flagship brand and has been the main driver of profit growth over the past six years for Treasury, and they became a must-have: consumers were pulling them through the distribution network and demanding it (Flannary, 2020).

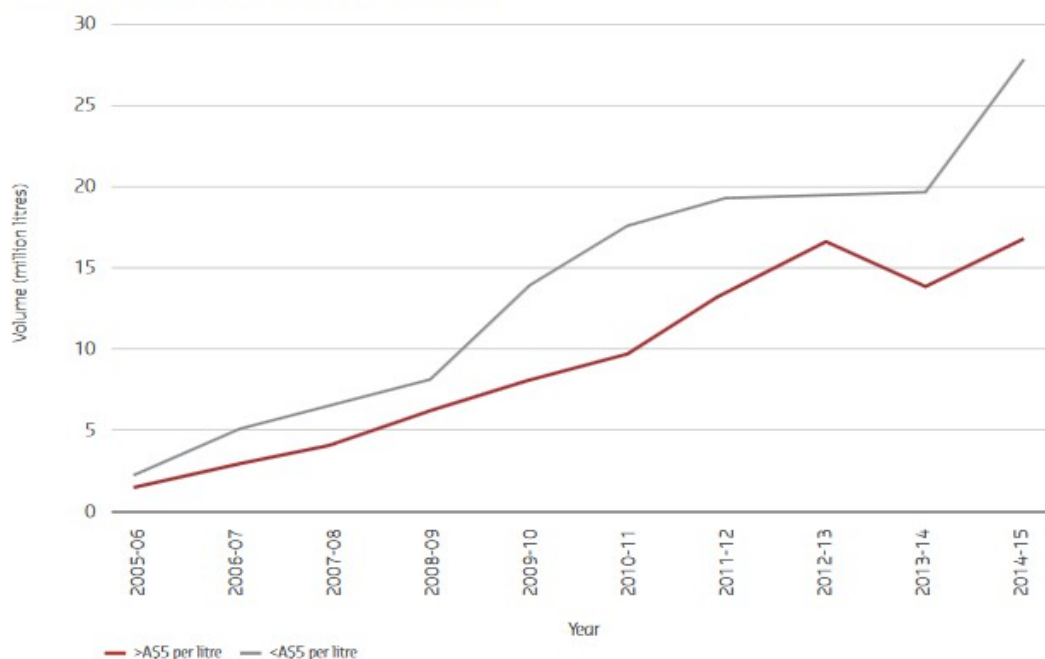
So, Wine Australia is just one of the many organizations which have developed a successful strategy to make business with China, a strategy based on the attentive analysis and study of the consumers.

In fact, Australians have understood their clients' taste and habits, in particular, they have understood that Chinese consumers still don't have a strong wine culture and that wine knowledge is still growing and there is strong interest in discovering lesser-known but premium wineries (Wine Australia, 2020). In addition to this, as we have seen in the previous chapter, we know that a great part of Chinese consumers are newcomers, people new to wine culture that still have to discover a lot of varieties of wine, and this is an advantage for Australian wineries because Australian grapevines give soft-fruity wines from well-known varieties, which are the favourite wines of newcomers because they are more versatile and light-tasted, which means that are easier to drink (Boyce, 2019). Moreover, Australia has a great reputation for food safety, which, as we have seen before, is one of the main reasons that encourage Chinese customers to purchase a bottle of wine, and not only for wine experts but also for those who drink wine for health purpose. So the high level of food safety is a great point of strength of Australian strategy because this allows wineries to reach a larger number of customers. Besides, Australian wineries have been using e-commerce

platforms more and more, because they understood that this channel of distribution offered a lot of new opportunities and, through e-commerce, they would have been able to reach a larger number of consumers. We know that by 2017, there have been 32 Australian wines sellers on Tmall, 26 of them are flagship stores which means that Australian excellence is well-recognized in China, which led more and more Australian wine producers to set up their online stores on Tmall (Daxue Consulting, 2020). Thanks to this massive use of e-commerce platforms and the until-now-valid Free Trade agreement, Australian wine producers were able to reach not only a large number of expert consumers but also newcomers and younger consumers, which is evident by looking at the graph below where is shown the growth rate of Australian wines priced less than AUD\$ 5 per litre and wines priced more than AUD\$ 5 per litre (BANKWEST CURTIN ECONOMICS CENTRE, 2016).

*Image 3: Bottled exports to China by price points*

**Figure 10** Bottled exports to China by price point



Source: *wineaustralia.com*

As we can see, even though both >A\$5 per litre wines and <A\$5 per litre wines have faced a negative impact in the years from 2012 to 2014 and this is due to Chinese austerity measures (BANKWEST CURTIN ECONOMICS CENTRE, 2016), however, after the China-Australia Free-Trade Agreement that came into effectiveness in 2015, there was a quick recovery, which continued until



now. Apart from this, we notice that the most exported Australian wine costs less than AUD\$ 5 per litre, which means that this wine is not top-end wine and it's affordable for a larger number of consumers, even for those who are new to wine environment such as young managers who are starting their careers or occasional drinkers who don't want to spend too much money for a bottle of fine wine. Australia is also a great producer of well-known wines, such as Cabernet Sauvignon and Chardonnay, and it is home to some of the oldest vines in the world, many of them are even older than 150 years (Wine Australia, 2018). This is an important element for Chinese consumers, because, as we have seen in the previous chapter, they deeply care for quality, tradition, and good reputation of a product, which are characteristics that Australian wines have, suffice it to say that Chardonnay and Cabernet Sauvignon, which are Australia's most famous wines, are two among the most famous and most appreciated wines in the world, not only for their fame, but also for their versatility and resilience to temperature changes during the transportation process.

As we can see from the image shows, 2019 was a year of expansion of Australian wine with a growth of 12% and a value of USD 1,3 billion, and China confirmed to be the main market for Australian wine despite the slight decrease in exports (Phoebe French, Australian wine exports grow by 3% to \$ 2.91 BN, 2020).

Image 4: Australian wine exports



Source: wineaustralia.com

So, to briefly sum up the reasons why Australian wine has had a huge success in China we can say that geographical proximity, the advantages brought by ChAFTA and the characteristics of Australian wine seems to have created the perfect exporting environment that led Australia to be the major wine exporter to China until now. However, with the recent tensions between the two countries, the decay of the Free Trade Agreement and the consequent increase of taxation on Australian wine, the lucky circumstances of which the Australian market has enjoyed until now are likely to turn into a period of crisis for the Australian wine sector.

### 2.3. France in the Chinese wine market

The second wine exporting country to China is France and, although French wine exports suffered a loss of -21% of volume from 2018 to 2019 (Nimbility Asia, 2020), however, it still holds the second position in the ranking of exporters. The fact that France is one of the main wine producers in the world is notorious. In 2020 France ranked second in the worldwide wine producers ranking

with 43.900 million hl produced in 2020 (OIV, 2020) and French experience and prestige in the wine sector allows it to keep a good exporting rate in China, even though this year France had to face a lot of difficulties due to Coronavirus outbreak which led the exporting rate to decrease.

France has always had an important role in the modern China wine market and, as I explained in the previous chapter, it can be considered to be China's historical partner when it comes to wine commerce. In fact, after the Deng Xiaoping reforms, already after the Changyu Pioneer Wine Co. foundation in Yantai, the founder, Mr. Zhang Bishi, started to have contacts with France to import their vine grape from Europe (Lyons, 2013). We also know that, already in the mid-'90s, France with Bordeaux as its standard-bearer has been the clear leader in wine shipments to China (Nimbility Asia, 2020), and China is still the number one market for Bordeaux wines (Bargain, 2020), which means that from the very beginning of the Chinese wine market's boom, France was able to make its way in China, becoming a symbol of quality and reliability in this sector. Moreover, it's important to remember that, the increase of wine consumption among Chinese people, has been a fundamental factor for France wine export in the last decade after the crisis due to an increase in sales of other beverages, changing lifestyles, demography, increased wine production of other European producers, and poor weather conditions that French wines had to face in 2009-2012, in 2013 the increasing wine consumption in China and USA helped France wine to increase their sales again (Ambaye, 2015).

However, according to the CAGE model, the distance between the two countries is quite wide: geographically, Beijing and Paris are 8213.570 km away (Free Maps Tool, 2021), the linguistic barriers are an important obstacle for the communication, the ethnicity and culture are completely different as well as the currency. However, as for Australia, France is part of the WTO too, which can facilitate the commercial exchanges between the two countries, moreover France, unlike Australia, has an history of colonialism in China: in fact, from 1849 to 1946 France had a territorial Concession in Shanghai, from 1860 to 1946 had one in Tianjing and from 1898 to 1946 one in

Hankou, moreover France had influences also in the Provinces of Hainan, Guangxi, Yunnan and Guangdong (Samarani, 2004) which, as CAGE model confirms, is an important factor for good commercial relationships. This also proves that the bond created in the past is strong and can provide France Chinese consumers' trust and esteem which is also confirmed by the fact that, traditionally, Chinese people's knowledge of enology comes from France, in fact, already during the 1930s, some students from rich families were sent to study abroad, and some of them went to France specifically to study enology, and, when they came back to China they laid the basis of Chinese enology education, which, however, was still a niche subject (Li, 2015). To bring another concrete example of the fact that France has been the pioneer of foreign wine in China, it's important to remember also the case of winemaking company Dynasty that was established back in 1980 and it's a joint venture between Remy Cointreau group and Tianjin Farm Group, and this was one of the first sino-foreign joint ventures to be established and it brought important innovation to the sector winning a lot of important international awards too (Dynasty wines, 2020). Dynasty is one of the most sold wine brands in China along with Changyu Pioneer's wines and Great Wall ones, and it has a lot of visibility since its wines are sold in the great majority of Chinese supermarkets at an affordable price even for occasional drinkers.

As we have already seen in the previous chapter, the 80s were an important historical era for foreign wine and, logically, French wine makes no exception: in fact, already after the opening reforms implemented by Deng Xiaoping during the last years of the 1980s and in particular after 1995, when foreign wine was allowed to enter every area of mainland China, French wine was the first foreign wine the Chinese started to import (Xu, 2013). Moreover, we also know that 2006 was a fundamental year for French wine in China because French President Jacques Chirac made a diplomatic visit to Beijing and encountered China's former President Hu Jintao. During this visit, French Trade Minister Christine Lagarde and the French Transport Minister Dominique Perben signed their names on a bottle of French wine and presented the gift to Wang Chao, Chinese

Assistant Minister of Commerce, a symbolic act indicating that French wines will soon enter the Chinese market (21 Food, 2006). The company that owned the bottle that was given to Minister Wang Chao, was Saviour Club, and, the same day, the President of the company, Pierre Martin, said he was optimistic about the prospect they had in China (21 Food, 2006). As we know from the most recent data, Martin's prevision was correct and China became the second-largest destination for French wine exporting following the United States in Non-European area and this is because, after the 2008 economic crisis, the worldwide largest wine consumption area, Europe, started to lower its consumption, fact that obliged France to seek for new markets to export wine (Xu, 2013).

As I was mentioning before, another element that helped French wine to shorten the administrative distance between China and France and that has been fundamental to enter the Chinese wine market has been the entry of China in WTO into 2001, which led to an appreciable custom tax reduction, in fact, starting from 2005, the tax rate for imported wine lowered from 43% to 14% for bottled wine and from 43% to 20% for bulk wine (Bailey, 2011) which obviously caused a reduction of the price of French wine in China, making it more affordable for the consumers.

Another lucky factor for French wine, has been the fact that Hong Kong is a free zone, and French exporters didn't have to pay customs taxes to sell their product in this city, so they could easily enter the area without the obstacle of the barriers. The wine which entered the Chinese market through Hong Kong port became famous also in mainland China and the request increased rapidly in other areas too, which led French wine to be the greatest wine exporter in the country (Xu, 2013).

Moreover, the majority of French wine exported to China is from Bordeaux or Burgundy regions, which are well-known among Chinese wine experts and amateurs because wines from these regions, especially Bordeaux, were the first ones to reach Chinese consumers, and, over the years they have gained a good reputation among them, as these wines are seen as incredibly high-quality products, but at an affordable price compared to some Chinese red wines which are not as good-tasting as French ones.

As we have seen in the previous chapter, one of the most important factors which can convince a Chinese customer to purchase a bottle of wine, is quality, and, notoriously, French winemakers are masters of quality, in fact, France has an appellation system that was created already in the early XX century and it's a system of laws which aim is to define each wine region and its boundaries and impose strict rules around winemaking practices. An appellation contrôlée on a wine label is not only a guarantee of quality but also a guarantee of origin, a sign that the wine has been made following certain rules and process specifying grape varieties, soil, planting, yields, and winemaking (FRENCH WINE FACTS, 2012). So, this set of laws has the aim to control the origin of a certain type of wine, its production process, and also to control the grapevine it comes from in order to put a guarantee appellation on the wine label to inform the client that the product they have purchased is a top-quality one.

Another valid method French wineries use in China is professional promotion, which consists in promoting French wines in important sponsor events such as sporting events like tennis, golf, baseball, or racing events, but the most effective ways are to introduce them through sponsorship, exhibition, and tasting, because these methods are “characterized by carrying on directional transmission and communication to the specialized objects such as distributors or target customers, apart from watching the showpieces, we can experience any wine as we like; this way is narrower than mass advertising, but more widely, more focused than terminal sales.” (Xu, 2013). This method is particularly effective because wine promotion is united with other events, which may be different, and that sometimes have nothing to do with the wine industry, however, the presence of wine companies as sponsors can enhance their visibility among potential costumers, and also, from a psychological point of view, these potential costumers will associate wine to positive experiences, for example, sporting events, thus they'll be encouraged to purchase it.

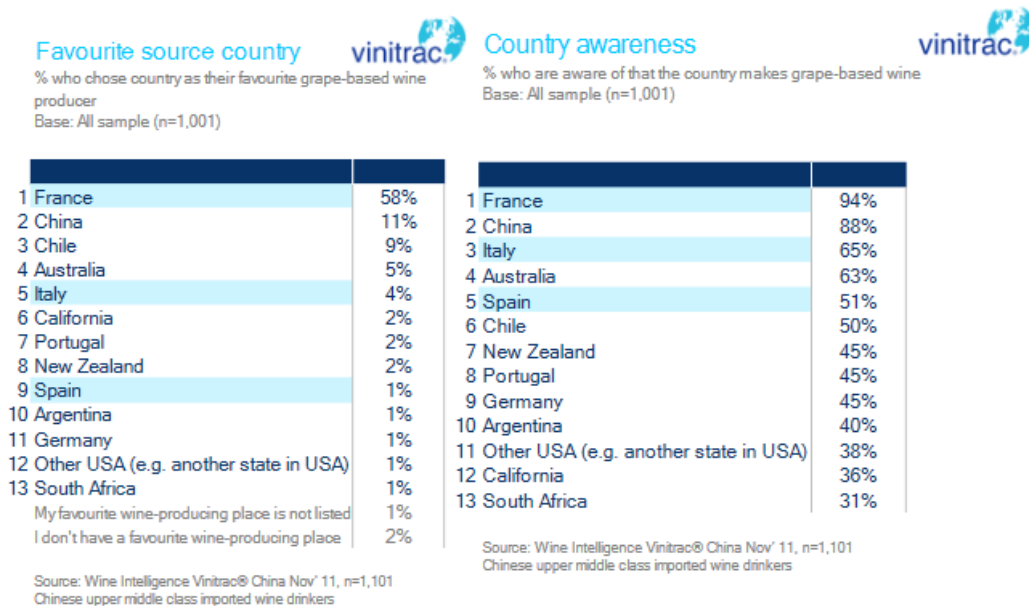
As a matter of fact, French wine has everything Chinese consumers need: a strong tradition in wine-making, dating back to 6<sup>th</sup> century B.C. when Celtic started to grow vineyards in the southern

territories of France, and during the following centuries they have developed modern techniques of wine production and storage (Admin, 2012) and this has contributed to the idea that wine-making is deeply rooted in French culture.

French wine has also wide popularity, not only in China but all around the world. French wine is famous in every country of the world for being high quality and one of the best in the market and, during the years, it has gained a lot of visibility and fame, just think about Champagne: everyone has heard about it at least once during his life.

This popularity of French wines is undeniable in China too, in fact, already from a survey made by Vinitrac in 2011, it resulted that Chinese consumers' favourite source country is France, as we can see from the graph below.

*Image 5: Chinese Favourite Wine Source Country*



*Source: Wine Intelligence Vinitrac China*

As we can see, France is both the favourite wine source country and the first in the country awareness ranking, which represents the percentage of people (in this case the survey includes only upper-middle-class imported wine drinkers) who are aware of the fact that a given country produces grape-based wine, and in the case of France, 94% of respondents are aware of this, moreover

interesting that Chinese consumers have a lower country awareness about China than France.

Another important point of strength of French wines is the brand image. Brand image is becoming every day more important in China as the market matures, in fact in an average supermarket, there might be quite a lot of wine brands, and every winery aims to make its wine stand out. Branding is even more important if we consider that Chinese consumers “*tend to buy on the basis of an instantly recognizable brand that reduces the effort required to understand all the factors that help to determine the real value of the wine*” (China Wine Competition, 2020) which means that the first impact is fundamental for them. As we have already mentioned before, France has gained a reputation of prestige and high-quality in China to the point that even not-drinkers are aware of the image France has in the worldwide wine industry. Bringing a concrete example, a research made by Ubifracne, Chinese consumers' favourite foreign wine is still Bordeaux because its brand image is incredibly strong and it's associated with a high level of quality (Marche *et al.*,2011). However, with the increase of female consumers, even sparkling wine, both red and white, has started to be appreciated, in particular Champagne, “*香槟*”(Xiang Bin), which has conquered particularly Shanghai consumers who started to drink it not only for its taste but mainly for its brand (Marketing to China, 2012).

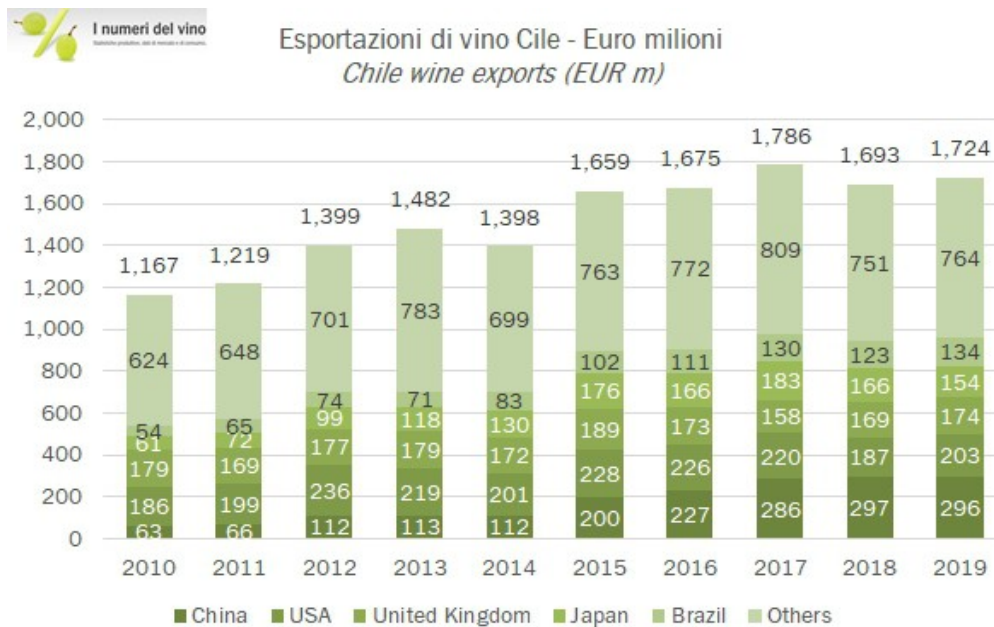
The elements we have discussed until now are basically the key to the success of French wine in China, based on a history longer than a century that started with the establishment of Changyu Pioneer in Yantai and the first imports of French grapevines and continued during the 1920s with the creation of Chinese enology when Chinese students were sent to France to study the subject, and with the boom of Chinese wine imports after Deng XiaoPing reforms which led Bordeaux wine to be the leader in exports. This long tradition of cultural and commercial exchange has contributed to building the strong retention that Chinese consumers have towards French wine, which is seen as a symbol of quality and reliability.



## 2.4. Chile in the Chinese wine market

Chile is one of the main wine producer countries of the New World, and its producing history starts back in 1500 when the first Spanish colonists imported grapevine in Chile from Spain. During the following centuries, Chile became famous, in particular for its sweet and fruity wines made from Pais and Muscatel vines which were appreciated even by the famous British poet Lord Byron after he shipwrecked off Cape Horn, who, soon after, entered into contact with Muscatel (Bassi, 2018). However, until 1990, the wine produced in Chile was consumed mainly by the local population until the increase of exports during the last decade of 1900 and the first years of 2000, when foreigners started to appreciate Chilean wine too (Benvenuti, 2019). If until and during the first decade of 2000 the main importer were the U.S., from 2016 China took U.S.' first place as the main Chilean wine exporter and the imports seems to keep on growing as we can see from the picture below (2020, I numeri del vino).

Image 6: Chile Wine Export



Source: [inumeridelvino.it](http://inumeridelvino.it)

As we can see in 2019 Chilean wine leading export destination was China, and the amount of wine

that Chile sold in China is worth \$ 330.8, while the total amount of wine Chile exported in the U.S. During the same year was worth \$ 226.75, 100 million dollars less than the exports to China, which means that China imports 60% more wine than the U.S.; moreover, Chile is the third exporter country by import value with 14.21% of the total import share (Statista, 2019).

If we apply the CAGE model to Chile, we can see that its case is quite unique, since Chile and China are considerably distant in almost every dimension: geographically, Beijing and Santiago are 19.071km away (Free Maps Tool, 2021) and the transportation of the products by sea is thus really long and risky, culturally the two countries are extremely different since they don't share neither the language, nor the religion, nor the ethnicity, nor the social norms, and economically they have different currencies and, due to the physical conformation of the two territories, the natural resources are different. However, talking about the administrative distance, there are some common points, starting from the fact that, as for Australia and France, also Chile is part of the World Trade Organization and thus, commercial exchanges are facilitated. It is also fundamental to mention that Chile was the first Latin America's country to have established relationships with PRC already back in 1970, relations that have been sluggish until November 2005 when the former Presidents of the two countries, Hu JinTao and Ricardo Lagos signed a Free Trade Agreement which entered into force in October 2006 and, under this agreement *“China and Chile will extend zero duty treatment phase by phase to cover 97 % of products in ten-year time. The two countries will also further strengthen exchange and cooperation in such areas as economy, SMEs, culture, education, science and technology, and environmental protection [...]”* (Ministry of Commerce People's Republic of China, 2020). In 2016, President of PRC Xi Jinping visited Chile and, in this occasion, he announced the beginning of the negotiations to upgrade the already existent FTA and, on November 2017 an agreement on FTA was reached and, starting from March 1<sup>st</sup> 2019 the modifications came into force (Saarinen, 2019). As China Briefing reports: *“The upgraded China-Chile FTA will see the number of items exempt from tariffs increase to cover up to 98 per cent of all items, according*

to China's Ministry of Commerce" and this obviously benefits to Chilean wine industry too since wine is one of the most exported Chilean good to China as we can see from the graphic below (Saarinen, 2019). Moreover, it's important to remember that, since the Free Trade Agreement entered into force, China has replaced the U.S. as Chile's biggest wine market and, during the first eight months of 2020, despite Coronavirus economic effects have brought to a decrease in wine imports, China imported Chilean wine worth USD139.76 million (Shanken News Daily, 2020). Thanks to this Free Trade Agreement, Chilean wine has been starting to gain more popularity in the last years in China, but it wouldn't be sufficient alone. Also the growing purchasing power of the middle class, the crescent urbanization, and the adoption of western habits in particular among younger generations who are increasingly getting to know the wine sector are contributing to the success of Chilean wine in China (Quiroz Weldt, 2016).

However, Chile, as we have inferred from the CAGE framework, has some disadvantages in comparison to French and Australia, in fact, Australia is geographically closer to China and France has a long history of wine commerce with China. In particular, Chilean exporters know that they can't compete with French wineries, since the relationship between Chile and China hasn't a long history and it would be very difficult for them to convince those customers who choose their wine on the basis of popular and benchmark grapes, regions and labels because these consumers are already loyal to French wines, instead, Chilean producers have decided to focus on that segment of consumers who consider mainly the price and taste when purchasing a bottle of wine and, most importantly, to focus on their points of strenght and their uniqueness (Mersol&Luo, 2019).

Chilean wine has begun to be successful in China a few years ago and still has to build a strong branding image like French and this is because building a brand is difficult and requires time and perseverance and -as Eduardo Chadwick, one of the most famous wine producers in Chile, says- "*it requires to choose carefully the channels to enter the Chinese market and he adds that if Chile keeps on focusing on developing a good image and quality, by 2030 it could duplicate the price of*

*imported wine per bottle, going from the actual US\$3,1 per liter or US\$28 per box to US\$7 per liter o US\$63 per box”* (América Economía, 2019). In fact, Chile has been doing a lot of efforts to erase the image of being a “cheap and cheerful” winemaking nation, and, since 2018 it has been promoting mainly wines that £10 or more per bottle at retail in order to let pass the idea that Chile is a producer of fine and valuable wines too, an idea which has passed in particular in Asia, and in the U.S. Where there was an uplift in sales, and in China where there was a 20% rise in sales in 2019 (Shaw, 2020). This “premium push” which Chilean producers have been giving to their wines to build a new image, based on the idea of quality, is obviously a progressive process, which, however, has already begun to show its results and, if they will keep on promoting their wines in this way, this will help to build a premium image for Chile.

Chile is also working on another point of strength of its wines which is sustainability. In fact, Chile is making efforts to be carbon neutral by 2050, moreover, some companies are aiming to make more “green” packagings, like Chile’s VSPT Wine Group which is aiming to reduce the quantity and weight of its bottles and packaging so that 100% are separable, reusable, recyclable or compostable by 2030 and this is a fundamental factor to reach the more eco-conscious consumers, in particular those belonging to the younger generations, which are more sensitive to the environmental issue (Shaw, 2020).

Another point of strength that Chilean wines have is regionality, in fact, having such different climatic areas, winemakers have been able to produce differentiated products, and, being aware of their potential, they have started to form groups to promote region-specific wines, grape varieties and methods of production and this strategy has been going on since 2009 intending to support small independent vintners. Moreover, these groups have strict regulations that members have to abide by in order to guarantee the products' quality to promote a good image of Chilean wine (Shaw, 2020). The complex geography that Chile has, allows different types of grapevine to grow, thus, to produce wines with different flavours and characteristics, for example, the Andes areas are

the best place to grow a good quality Cabernet Sauvignon, a fruity red wine which is highly appreciated by Chinese consumers since it represents perfectly the type of wine they prefer: red and not too acid.

Moreover, as we have seen before, the situation of Australian wine exports to China is experiencing a really difficult period, in fact, as Ian Ford, president of Shanghai-headquartered Nimbility said in an interview for Forbes magazine: *“All Australian importers have stopped shipping wines to China. There has been no ban that’s been published. There’s been no official notification but it’s been made clear to every importer that I know that it is no longer encouraged to ship wine from Australia. The importers know what that means, and they’ve effectively decided that they’re going to hold off on shipping Australian wine. For the Australian wine industry, it’s an unprecedented challenge.”* (Mersol&Luo, 2019). These difficulties Australian exports are experiencing may indirectly benefit Chilean wine exporters because, exactly like Australia, Chile has a free trade agreement and zero import duties, which allows them to replace Australian wine in the Chinese market. In fact, if Australian importers have stopped shipping wine to China, as Ian Ford claims, Australian wine will be every day less available in China, but Chilean wineries can benefit from this situation since their products can serve as a substitute.

However, Chilean wine was already being appreciated by Chinese consumers before of the Sino-Australian crisis, and an example is Eduardo Chadwick of the Errazuriz family of brands from Chile. Chadwick is not only one of the most important actors in the Chilean wine scene and also one of its most enthusiastic and charismatic promoters, but he has also been nominated Decanter man of the year in 2018, a nomination he has gained for his determination which has helped to propel Chilean wine to a global level (Richards, 2018). If we think about Chadwick's motto “finesse and elegance” it is perfect for the Chinese wine market, where the consumer drinks wine for prestige, to show social status and wealth. In fact, as we can see from the graphic below, Chile's main destination for wine exports is China even though from 2018 to 2019 there was a slight

decrease in exports (-3,1%) since they went from 71.137 litres exported in 2018 to 68.910 thousands of litres in 2019 (ODEPA 2020) .

*Image 7: Chile's main destination for wine exports*

Cuadro 5. Exportaciones de vinos con denominación de origen por país de destino									
País	Volumen (miles de litros)				Valor (miles de USD FOB)				
	2017	2018	2019	Var. % 19/18	2017	2018	2019	Var. % 19/18	% Part.2019
China	73.221	71.137	68.910	-3,1	250.425	249.492	247.390	-80%	17,1
Brasil	49.408	49.197	52.134	6	143.228	142.415	144.989	180%	10
Reino Unido	52.600	51.748	48.214	-6,8	133.727	144.003	132.421	-800%	9,2
Japón	54.708	49.408	43.224	-12,5	151.216	139.354	123.924	-1110%	8,6
Estados Unidos	38.066	32.492	30.357	-6,6	135.178	119.508	113.297	-520%	7,8
Holanda	31.974	30.365	28.345	-6,7	93.802	94.108	83.048	-1180%	5,7
Canadá	16.505	15.678	14.313	-8,7	68.657	67.294	61.360	-880%	4,2
Corea del Sur	8.445	10.040	10.600	5,6	36.767	42.452	44.168	400%	3,1
Irlanda	14.489	14.417	13.265	-8	43.215	46.133	40.738	-1170%	2,8
México	12.578	14.757	14.544	-1,4	36.216	42.598	40.110	-580%	2,8
<b>SUB - TOTAL</b>	<b>351.994</b>	<b>339.239</b>	<b>323.906</b>	<b>-4,5</b>	<b>1.092.431</b>	<b>1.087.357</b>	<b>1.031.445</b>	<b>-510%</b>	<b>71,4</b>
OTROS PAÍSES	124.986	116.981	120.096	2,7	429.218	420.606	413.544	-170%	28,6
<b>TOTAL</b>	<b>476.980</b>	<b>456.220</b>	<b>444.002</b>	<b>-2,7</b>	<b>1.521.649</b>	<b>1.507.963</b>	<b>1.444.989</b>	<b>-420%</b>	<b>100</b>

Fuente: Odepa con información del Servicio Nacional de Aduanas.  
Cifras sujetas a revisión por informes de variación de valor (IVV).

*Source: Odepa, available at [www.winesofchile.org](http://www.winesofchile.org)*

Even though there has been this slight decrease in exports, the fact that Chilean wine has reached important results in China is undeniable. The factors that brought Chile to be one of the top exporters to China are different, for example, is undeniable the fact that the number of Chinese citizens belonging to the middle-class has increased during the last decade and this segment of the population is starting to demand more products and services, and wine is one of these goods (Quiroz Weltd, 2016).

So, thanks to its growing popularity and the newest strategies Chile has been implementing, in particular to improve its wines' image of quality and the attention wineries put on environmental issues can be the key of success of Chilean wine in China, in particular, now that, among the top 5 wine exporters to China, Chile is the only country that can benefit of a Free Trade Agreement which can give its wines an important competitive advantage.

## 2.5. Italy in the Chinese wine market

The Chinese wine market, as I mentioned in the previous chapter, is a still-not-mature market yet, so it is really attractive for those countries that produce and export wine worldwide and Italy, being the first wine producing country in the world, makes no exception (OIV, 2019). However a market which is so different and distant from the ones Italy is already acquainted with, needs to be evaluated carefully to be approached in the correct way, in particular because Italy and China, if compared using the CAGE framework, are two distant countries. If we talk about geographic distance, the two countries belong to different continents, don't share common borders and the distance as the crow flies between Rome and Beijing is 8123km (Free Maps Tool, 2021), but it obviously increases significantly if we consider that, to transport wine, the most used way is by sea. Also the cultural distance is considerably wide since Italy and China have a different language, ethnicity, religion and different norms which can be a barrier in commercial relations if they are not taken into consideration properly. Also the economic distance is quite important because the two countries have different natural resources, different human resources and different infrastructures. Once again, as for the other countries I have analyzed in this chapter, the differences between Italy and China are less on the administrative level because they have something in common starting with the WTO membership, and, as in the case of France, Italy and China have a colonial history. In fact Italy had a concession in Tianjin in the years from 1901 to 1943, which Chinese name was 天津意租界 (*Tiānjīn yì zūjiè*) and was one of the smallest concessions China ever gave to an outside power (Alpozzi, 2015). Since this concession was smaller and had a lot less influence compared to those held by France, in particular the French concession in Shanghai, we can say that Italy still has a disadvantage which is made worse by the fact that Italy wasn't a pioneer of wine exporting in China and thus, is facing some difficulties which are due to different factors that I will underline in the next section. However, before I will briefly explain the situation of Italian wine in the Chinese market.

Image 8: Major client countries of Italy of wine and musts

**Major client countries of Italy of wines and musts as a whole**

	Volume (Hectolitres)			Value (thousands of euros)		
	2018	2019	Var. %	2018	2019	Var. %
USA	3,390,398	3,482,393	2.7%	1,462,143	1,540,676	5.4%
Germany	5,013,864	6,010,001	19.9%	1,038,647	1,064,104	2.5%
UK	2,813,766	2,836,805	0.8%	811,534	770,951	-5%
Switzerland	706,616	742,146	5%	375,507	381,559	1.6%
Canada	769,349	777,365	1%	333,379	341,994	2.6%
France	831,344	961,824	15.7%	190,451	202,904	6.5%
Japan	407,121	481,092	18.2%	161,410	182,519	13.1%
Sweden	522,826	495,592	-5.2%	176,604	178,022	0.8%
Netherlands	436,722	491,132	12.5%	153,530	167,114	8.8%
Denmark	374,983	376,153	0.3%	145,262	140,641	-3.2%
China	331,843	364,358	9.8%	126,891	133,683	5.4%
Belgium	368,763	390,533	5.9%	133,647	133,357	-0.2%
Russia	417,796	528,371	26.5%	108,075	130,853	21.1%
Austria	393,522	480,867	22.2%	106,394	106,573	0.2%
Norway	227,503	229,609	0.9%	93,778	94,822	1.1%
Poland	215,520	247,854	15%	64,578	73,667	14.1%
Australia	138,539	143,933	3.9%	61,749	63,545	2.9%
Czech Republic	227,744	280,308	23.1%	48,566	50,467	3.9%
Spain	213,263	225,650	5.8%	47,097	44,641	-5.2%
Finland	95,360	99,529	4.4%	38,883	40,231	3.5%
Others	1,704,072	1,969,165	15.6%	558,082	591,715	6%
<b>World</b>	<b>19,600,913</b>	<b>21,614,678</b>	<b>10.3%</b>	<b>6,236,206</b>	<b>6,434,037</b>	<b>3.2%</b>

*Source: Ismea processing on Istat data*

Source: Ismea

As can be noticed from the image n. 8, China is not one of the main markets for Italian wines and, in 2019, the volume of wine exported was of 364,358 hectolitres for a value of 133,683 million euros with a market share of 6,43% in 2019 (Statista, 2020). If we compare Italian situation with another big of winemaking tradition, France, we notice that for France, China is the third top-customer and France was the second country for market share in 2019 with a share of 28,49% (Statista, 2020). So, although being the main wine producer in the world, Italy only has 6,43% market share in the Chinese wine market, even though, during the last five years, it has been climbing the rankings positioning itself fourth, while in 2014 it only occupied the seventh place; however, although this ranking improvement, Italy is not even trailing Australia or France which market share is way higher (Xin Hua, 2020). What is quite clear from the data provided by Ismea, is that the value of imported Italian wine is quite high if we consider the reduced amount of hectolitres, and this means that the value of the product is quite high, but, although in average Italian wines are more expensive compared to New World's wines, in 2018 they still had an increase of 62,82%, which is already a good result if we consider that Italy doesn't have bilateral agreements



like other countries such as Chile and, until November 2020, Australia (Bretti, 2019).

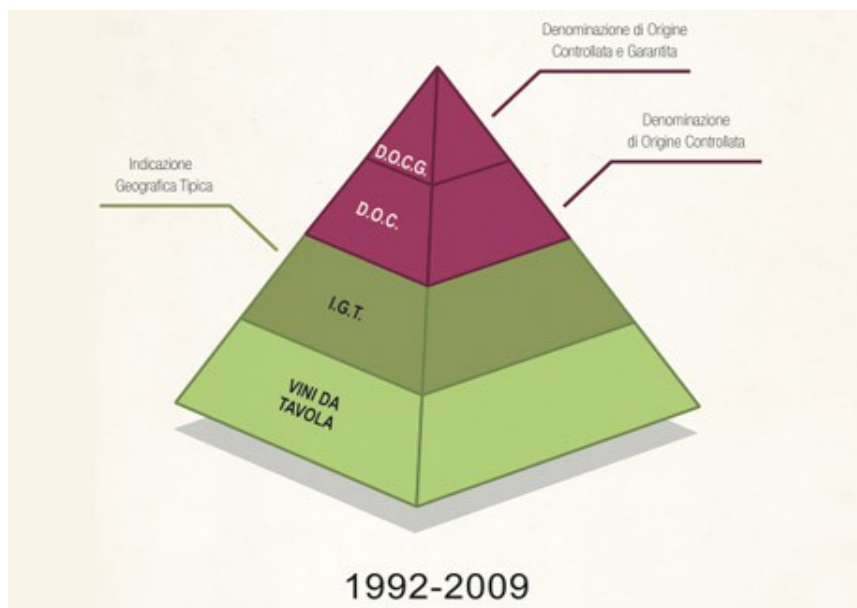
Until now, Italy has always been focusing on the concept of “made in Italy” to convey the idea of prestige and quality connected to it, which implies that Italian wine is the perfect candidate to gain the approbation of that niche of rich consumers that are already used to consume wine regularly or of those who have an enological background or status-seekers who can afford to drink top-end wines habitually (Retex, 2020). Moreover, Italy has another potential point of strength which is its strict system of classification of wine which was first introduced in 1963 and modified lately in 1992 with the implementation of the law n. 164. Its function is to define different categories in a “pyramid ranking” which includes the following categories as shown in image n. 9:

- D.O.C.G. denomination of controlled and guaranteed origin;
- D.O.C. Denomination of controlled origin;
- I.G.T. Typical geographical indication;
- Table wines

those wine belonging to the first category, D.O.C.G. wines, are the most prestigious ones, then there are D.O.C. wines, then I.G.T. wines and finally table wines (Federdoc, 2019).

What is important about law n. 164 is that for the first time it introduced a method through which is

*Illustrazione 9: Italian wines denomination*



Source: federdoc.com

now possible to connect wines and the territories where they're produced and this is fundamental if we think that, as we have previously discussed, Chinese consumers are deeply influenced by the place of origin of the product when it comes to purchasing a bottle of wine and this strict classification aimed to total quality meant in terms of origin is certainly a good tool that costumers can use during the purchasing process. Talking about quality it's important to understand that the Made in Italy enjoys a good reputation in China, however, it's still linked mainly to the luxury fashion brands such as Gucci, Prada and Dolce&Gabbana which are well-known by the majority of younger consumers and are seen as the symbol of Italy along with luxury car brands, such as Ferrari and Lamborghini, and, for the food and beverage sector, Italy is more famous for its cuisine, for pizza and pasta, but not for the wine (Sansone 2012).

Even though the market share of Italian wine is still low if compared to the ones of the other competitors (of 100 bottles of wine sold in China only 6 of them come from Italy), it has to be noticed that Italy is one of the few nations which didn't suffer a drop in sales during 2019, on the contrary, Italian bottled wines had a growth in quantity of almost 10% and, data that can not be ignored, there was a growth of 12% in value and 22,7% in quantity in the sector of sparkling wines (Wine Acts, 2020). As a matter of facts, the efforts that Italy is doing to promote its wine in China have been evident during the last years, but also during 2020, even though the Coronavirus outbreak has been slowing down the imports: in fact even though the worldwide situation is still precarious due to the health emergency, however, 65 Italian wineries have been taking part to the third Vinitaly promotion tour in the cities of Shanghai, Xiamen and Chengdu, from 14<sup>th</sup> to 18<sup>th</sup> September 2020, a tour which aim is the one to promote and enhance b2b relations through meetings between importers and wineries both in digital and in presence (Vinitaly 2020). This event, organized by Veronafiere and Vinitaly, had made use of a dense network of partnerships, surely is a good occasion to increase Italian wines' visibility, like Shanghai Wine Export 2020 - which this year has been held totally in digital form - but the question before us is: are these promotion events a tool

which can effectively help us stand out on our competitors? Are there any other methods which can help Italy to increase its market share value in the Chinese wine market? Are there any specific reasons why Italian competitors are being more successful even though they are New World countries and their enological tradition is not as long as the Italian one?

In the next paragraph, we are going to analyze a couple of marketing theories and apply them to the wine industry in order to try to explain why not only France, but also New World countries have a better performance in China compared to the Italian one.

### *2.5.1. Problems of Italian strategy in approaching the Chinese market*

In order to explain why the export of Italian wine is less successful in China than in the other countries where Italy exports, I would like to explain briefly the International Product Cycle theory, which was firstly introduced in 1966 by Professor Raymond Vernon and it's one of the classic theories of international commerce. The theory concerns the stages of product development in the international market and it's divided into five stages:

- Introduction;
- Growth;
- Maturity;
- Saturation;
- Decline (Vernon, 1966)

Illustrazione 10: Vernon's international product life cycle



Source: Vernon, 1966

During the *introduction* phase, a product has been successfully developed by a company or an organization and it is introduced in the national and international market. At this stage the number of competitors is low and in order to create demand, investments are made concerning consumer awareness and promotion of the new product to get sales going, but the profits are still low.

When the demand for the product increases, it will enter the next stage which is the *growth* stage. During this stage, sales increase in direct proportion to the demand and also competitors will start to enter the market proposing their version of the product and usually selling it at a considerably lower price. In this stage profits become higher and when many potential customers have been buying the product, it will enter the next phase.

The next phase is the phase of *maturity* which refers to the stage where the product is well-known by a lot of consumers. The competition is now intense and the different companies make efforts to be the market leader, moreover, the production phases progressively move to other countries different from the original one.

The last phase, *decline* phase production moves completely to markets with low labour cost (Vernon, 1966).

If we apply this model to the wine sector, we can notice that the entry of New World countries in the market is starting to switch the production to other countries, and, even though the market is not a mature yet, it's growing continuously, and at some point, it will reach maturity. However, this theory doesn't take into consideration the link that the wine has with territories and in case of Italy, this is linked to the concept of quality and the fact that Italians “drink less but better” because Italian wine is growing in international markets and this fact is connected to the revaluation of the product. This means that the growth of Italian wine in the international market is a growth of a product of a higher level than the New World's ones because Italian territory is an asset that these countries don't have and, for now, they can't match (Pupulin 2012).

As we have noticed from the previous paragraphs, two of Italy's main competitors are Australia and Chile, which are New World countries that don't have a strong wine-making tradition, but they are able to be more successful than Italy which wine tradition dates back to Roman times. The reason because they were able to compete with the old world countries is because they were able to create the right conditions to gain a competitive advantage and this applies also to countries such as Argentina, New Zeland or South Africa which, although they have not a relevant market share in the Chinese wine market, however during the last years they are conquering more and more portions of the worldwide wine market.

To explain how a country or a company gains competitive advantage, we can use Porter Diamond Theory of National Advantage, better known as Porter's Diamond Model, a theory that was first published in Michael Porter's book “*The competitive advantage of nations*” in 1990. Porter's model claims that competitive advantage is influenced by the presence and the quality of four elements: factor conditions, firm strategy, structure and rivalry, demand conditions at home, related and supporting industries (Porter, 1990).

*Factor conditions* refer to the different types of resources that may or may not be present within a country and they include human resources, capital resources, natural resources, infrastructure, and

knowledge resources. They are divided into basic and advanced factor conditions. For example, basic factor conditions are natural resources and unskilled labour, while advanced factor conditions are skilled labour, specialistic knowledge and capital. As Porter says, a country can have more resources than another country and this determines the type of competitive advantage of a country. The scarcity of other types of resources may push a country to exploit in a better way the resources that are more available within the country itself.

*Demand conditions* depend on home market demand. To have a competitive advantage for an industry there must be a strong home market demand for the product or service because in this way companies will be encouraged to innovate and improve.

*Related and supporting industries* – It refers to the availability of groups of suppliers and producers of complementary products with distinctive competencies. This means that the success of one industry can be dependent on the success of related industries or suppliers because the presence of internationally competitive suppliers can be useful for a company if they buy and use their products. The presence of these suppliers, in fact, can create a favourable environment for companies which can benefit of know-how spread throughout the territory, of economies of scales and can access better inputs more easily.

*Firm Strategy, Structure, and Rivalry* – it refers to the local conditions in which a company has been set up, organized and structured. In fact, if in a country the local competition is high, there will be a continuous incentive towards innovation, which can also affect the research of the best design, the best process innovations and the development of human capital.

If we apply this model to the wine sector, we can deduce some information related to competitive advantage in the wine sector.

*Factor conditions* – every country we have mentioned so far has a territory which differs from the ones of its competitors for climatic reasons due to the difference in latitude which affects climate,

and the geographic conformation of the territory itself. For example, the Cabernet Sauvignon produced in Andes areas will be different from the cabernet Sauvignon produced in Italy's Piedmont region or Australia's Coonawarra area, and it will surely be different from the original Cabernet from Bordeaux. In fact, even though the origin is the same, the different areas in which Cabernet vine grape grows can deeply affect the final taste of the product; for example, Chilean Cabernet from the Andes is sweeter and fruitier than Australian Cabernet which has a higher level of acidity (Wineaustralia, 2020) and the more aromatic taste of Bordeaux Cabernet Sauvignon (Bordeaux.com, 2020).

*Demand conditions* – having a long wine-making tradition, Old World countries have a quite developed domestic demand, for example, in 2019 France had a per capita wine consumption of 49,5lt in one year, and Italy had a per capita wine consumption of 44lt. On the other hand, New World countries had a significantly lower per capita consumption, in fact, Australia has a per capita consumption of 27lt and Chile had a per capita consumption of 16,4lt (Statista, 2020). These data show us that Old World country have higher per capita consumption, thus higher per capita demand, however, we can not underestimate the fact that the growing per capita consumption and the growing domestic demand of New World countries can be an incentive towards innovation for wine producers, since the volume of domestic sales of these countries is not low, for example, Australian volume of domestic sales in 2019 was of 494 million litres of wine, more than the previous year when domestic sales stopped at 496 million litres (Wineaustralia 2020). From these numbers, we can understand that there's a possibility that, in the future, New World country will introduce innovations which could make them more competitive in the international market.

*Related and supporting industries* – the supporting industries mentioned by C.Matthew Rendleman *et al.* in their research “Wine Industry Competitiveness: A survey of the Shawnee Hills American Viticultural Area” (Rendleman *et al.* 2016) are the following:

- Electricity supply;

- Collaboration with research institutions in R&D;
- Telecommunication;
- Suppliers of packaging materials;
- Financial Institutions;
- Transportation Companies;
- Internet service providers;
- Social media services;
- Long-term outlook of local grape suppliers;
- Reputation of research institutions;
- Quality of local grape suppliers

Obviously, the more these supporting industries and services are well-developed, the more wine industry will be advantaged too. For instance, let's think about the importance of the cork industry. If a really good quality wine is bottled in a country where there's a poor quality cork, there's a consistent risk for this wine to react with the cork top and to alter its taste.

A wine produced in a country where, on the other hand, the cork quality is higher, will not be exposed to the risk of ruining its taste.

*Firm Strategy, Structure, and Rivalry* – concerning firm strategy, structure and rivalry, we can first consider the number of companies in the industry. For the Old World country, where the wine industry is well-developed, we can say that rivalry is high; in Italy, for example, there are more than 705,000 hectares of vineyards all over the territory with more than 54,8 million of hectolitres of wine produced in 2018 and in France, which is Italy's main competitor, there are more than 793,000 hectares of vineyards with a production of 48,6 million of hectolitres produced in 2018 (OIV 2019). In addition to these two countries, in Europe we can find another giant of wine production, which is Spain: with more than 969,000 hectares of vineyard, it's the European country with more hectares of



land under vines, even though its wine production is lower, stopping at 44,4 million of hectolitres produced in 2018 (OIV 2019).

On the other hand, New World countries have less land under vines: in Australia, 146,000 hectares of land are used for vitiviculture, obviously, the land available for cultures, in general, is way less than the land available in European countries, also because Australia is mainly a desertic country and only the coast areas are suitable for vine culture, however, Australian wine production in 2018 reached 12,9 million of hectolitres. Also, Chile has less land available than European countries, since the land under vine is 212,000 hectares circa, with a wine production identical to Australian, 12,9 million of hectolitres in 2018 (OIV, 2019). Moreover, it's worth mentioning Argentina's wine production, which in 2018 reached 14,5 hectolitres and it is the fifth worldwide wine producer ahead of Chile (OIV 2019).

OIV Statistical report on worldwide vitiviculture 2019 also shows us that the variation of production in percentage is positive for every country that we have mentioned (the only exception is Australia which production fell of -6%) and the special observed is Chile, which had an increment of production of 36%, more than France (34%) and Italy (29%), which is a clear sign that this country has a lot of potentials which could lead it to become one of the main protagonists in the worldwide wine market.

Another factor that Porter mentions in his research is the role of government and refers to it as an "extra factor" in addition to those I have already mentioned before. Porter states that the role of government is *"acting as a catalyst and challenger; it is to encourage - or even push - companies to raise their aspirations and move to higher levels of competitive performance ..."* which basically means that governments are key actors in a company's performance since they have the possibility to encourage them to raise their performances. This can explain the success that Australian and Chilean wines have had in China until now, in fact, both of the two countries have a FTA with Chinese Government which has stimulated the imports of wine in China, even though we know that

Australian situation twisted completely during the last months. On the other hand, France and Italy have always had 14% rate for custom duty, a rate that rises to 20% for bulk wine or individual packings of more than two litres, which obviously creates a competitive advantage for New world countries that, in this way, can import their wine in China at a more competitive and advantageous price.

Having said so, we understood that there are advantages and disadvantages for both New World and Old World countries, so in order to understand why Italian strategy is defective compared to its main competitors' one, we will have to analyze a little bit deeper the overall Italian situation.

Italy has a varied competitive situation since its wine industry is composed both by big winemaking companies and smaller wineries, all with different levels of integrations, moreover, the domestic market is quite saturated and the internal competition is high, for this reason, foreign markets, and in particular Eastern market have been taken in consideration by Italian producers as an opportunity of making a profit. Asia has been attracting Italian wine-makers since the worldwide crisis of 2008, when Western countries' markets have taken a hard hit, while Asian countries endured the effect of the economic crisis in a better way, in particular, China was not only able to recover quickly without too many consequences but in the years after the crisis it started to establish itself as one of the world's leading economic leaders (John W. Garver, 2016).

The attractiveness of Asian markets, and in particular the Chinese market, is likely to increase during the next years because, while the great majority of the world is still facing the consequences of Coronavirus outbreak, in China the situation has returned to normal, and commercial activities have resumed normal operations. Thus, the strength and the stability of the Chinese market is the reason for its attractiveness for foreign wineries which see in it a potential for growth and profit. Moreover Chinese market is not an exclusive of big companies or pioneers anymore, in fact, also smaller wineries are approaching it but using different strategies, creating internal competition, which, in the case of the Chinese market might have negative effects because to have success in this

kind of market is required a country-wide structured offer (Pupulin, 2012). However, the biggest challenge Italian wineries have to face is not an internal competition, but external competition, in particular the competition with New World's wines which have been gaining an every-year-wider market share in China, but also with France, which is a country with a wine-making history similar to the Italian one, but that still has substantially better results. In an interview for Xinhua, Francesca Filippone, founder and managing director of L3, a food and wine consulting company focused on China, declared: *“China is the most attractive emerging wine market in the world, and Italy is trying to make up for the lost time, however, France has an enormous advantage in terms of image and familiarity”*. This means that, although France and Italy are the main protagonists of the worldwide wine market, however in China Italian wine stays behind their French competitors, even though in the last few years there has been a growth of 1/3 (Wine Intelligence 2019).

Livio Di Salvatore, Export Area Manager of Tenuta Rosarubra, on MondoDem published an article where he explains that, during the years, France was able to build a unified image of its wine, a 法国葡萄酒 (*fǎguó pútāojiǔ*) which has always conveyed a concept of quality and it is unequivocally successful in the country of the dragon. On the other hand, Italy has entered the Chinese giving an image that is not unified, but tragically fragmented, with an enormous number of wine varieties that are completely different from each other, and this creates confusion and conveys the idea that there's lack of identity, there's not a real “Italian wine identity”, but, on the contrary, there's a fragmentation in which products are classified in gradually smaller categories which overshadow the concept *“Italian wine is quality wine”*. This great diversification of wines creates confusion, disorientation and discouragement, in particular in novice consumers who are still not acquainted with wine labelling and with Italian wines denomination. Di Salvatore also states that this fragmentation and chaos which has been created during the years might be because Italian wineries are really competitive with each other and this is at expenses of an image of unity for the Italian wine industry (Luigi Di Salvatore, 2020). In fact, we must think that in China, mass-wine

consumption has begun after the 1990s and wine has become more and more popular during the last decade, with the growth of the imports, so Chinese consumers hadn't time to get familiar with the different typologies of wine unless they're wine experts that are used to get in contact with a lot of different wines. To try to overcome this problem and guide the Chinese consumer through the complexity of Italian vine varieties, that are more than 600 (Xinhua 2019), in 2019 UniMi Confucius Institute and Italian publishing group Gambero Rosso first published the *“Italian-Chinese Bilingual Dictionary of Wines and Vines”* which role, according to Paolo Cuccia, the publisher of the Dictionary and Chairman of Gambero Rosso is to *“fill the gap in language translation and promoting Italian wine in the Chinese market.”* He continues saying that they *“have spared no efforts working with the Confucius Institute to publish this wine dictionary, hoping that it can also contribute to teaching as well as further the development of Italian wine culture. Now, China is becoming a major wine producer and consumer in the world, and hence the wine with unique Italian characteristics will continue to embrace great development opportunities in the Chinese market”* (Confucius Institute of Milan, 2019).

This dictionary is thus an effort to promote Italian wine penetration in China, but it obviously won't be enough, in fact as the experts during the presentation stated, there is still a long way to go; for example, Marta Valenti, director of the Confucius Institute at the University of Milan and one of the authors of the dictionary and Bettina Mottura, another dictionary author and a professor of Chinese language and culture at the University of Milan think that efforts should be made in order to familiarize and educate Chinese consumers to Italian wines, while Filippone, on the other hand, thinks that Italian Government should commit to negotiating bilateral tax agreements including wine exports to start from the same basis of New World country (Xinhua 2019).

So, actually, what's wrong about Italian strategy is the approach it has to the Chinese market, which is completely different from the western market, thus the approach should be completely different. Generally, Italian wineries prefer to “act”, however this traditional method used by Western

countries has to be reversed necessarily and the focus must be put on another fundamental element: the understanding. In fact, comprehension and understanding are the only elements which can lead to an effective strategy design (Colombo 2012). What seems to have happened is that, compared to other countries, Italy entered the Chinese market with an opposite process, which is proving to be ineffective; moreover Italian entry into the Chinese market was a late entry and this can be identified as one of the main reasons why Italy is behind those countries who saw the opportunity that Chinese wine market could offer them. Already back in 2012, Giovanni Mantovani, general director of Veronafiere, in an interview for Trenwine said: *“French companies have been present on Chinese territory for many years, working hard on promotion and marketing and making large investments to produce wine along with local wineries through joint ventures, and in this way they have been able to increase their market share. [...] The appeal of Made in Italy is strong in China too, however it's necessary to invest in promotion and marketing, as well as in relations and formation of operators and consumers in order to achieve long-lasting results over time.”* (Colombo 2012).

During the years progress has been made, and this can be seen by the increase of Italian wine imports in China, in fact, from 2009 to 2019 there has been an increase of 548% (ISTAT 2019), which is a clear symbol that Italian wines are being appreciated more and more, however a lot of efforts have still to be made. To gain the appreciation of Chinese consumers, Italy should do what France did before, that is to say, building brand awareness because, as we have seen in the previous chapter, the brand is one of the main reasons that encourage consumers to purchase a bottle of wine. Another problem that should be taken into consideration is the delivery system that wineries and winemaking industries use, that is to say, the ex-work deliver method, which means that once the product is finished, producers wait for the buyer to come and collect it. This means that the one who's in charge to put the product into the distribution system is the Chinese importer or other intermediaries, and the risk is that the producer, in the end, won't know who will be the final

customers i.e. who will finally buy their products. Another risk that may emerge from this shipping mechanism is that the importer who's in charge of selling and promoting the final product, will do this superficially or marginally, not giving it enough importance or providing confused or lacking information about it and this reduces significantly the enormous potential Italian wine has (Sansone 2012). Moreover not taking proper care of shipping, a wine-producing company won't be able to know in which conditions its products will be kept during the shipment (Quarati, 2012).

Another element that has to be considered is that Italian wines are placed in a medium-high range which means that a bottle of Italian Merlot will cost double the price of a Chilean Merlot, and the “common” Chinese consumer is still not willing to spend too much money for a wine that can be found at a lower price (Wineworld, 2012).

These are surely the main problems that Italy will have to solve if it wants to gain market share, and that, although in the last few years a lot of progress has been made, to achieve better results and show the potential of Italian wines in China there are still issues on which it's necessary to focus, and that can be sum up in these following points:

- High competition among Italian producers;
- Late entry in Chinese wine market;
- Too many types of wine;
- Lack of brand awareness construction;
- Lack of adequate product promotion,
- Competitive disadvantage compared to New World countries which have FTO with mainland China.

In the next chapter, I'm going to analyze the data obtained from a questionnaire that I submitted to twenty Italian wineries in order to better understand which are their main problems when it comes to export their products in China, and see which are the points of strength they can exploit to increase their sales.

### **3. EMPIRICAL RESEARCH**

This chapter will be dedicated to three interviews that I made with the kind collaboration of three famous Italian wineries: Antiche Cantine Marchesi di Barolo, Tenuta San Leonardo and Santa Margherita. I decided to make an interview in order to see if the theories and data that I have analyzed in the previous chapters have feedback on the Italian wine-making reality and to collect the opinions of the experts of the wineries about the Italian positioning in the ranking of the wine exporters in China. Moreover, I have been able to collect the experiences that the three wineries I chose had with China and the approach they used to enter the Chinese market, but also the difficulties and the challenges they had at the beginning of their exporting experience in a country that, as I have explained in the previous chapters, is appealing but complicated to satisfy.

I had the opportunity to get in touch with the wineries that kindly collaborated with me for this interview thanks to Eleonora Gottardi, Managing Partner of DYNAMICA PTE. LTD. who suggested me these wine-making companies she works with.

Antiche Cantine Marchesi di Barolo, Tenuta San Leonardo and Santa Margherita are wineries with a lot of experience in the Chinese and Asian market since the three of them have been present in the Chinese territory for a considerable period of time and they have had the opportunity to study and understand deeply the market and the consumers. This has been particularly useful for my research because they have been able to give me a point of view which is one of the people who stay in contact with the Chinese market and consumers on a daily basis and thus is guided by personal experience.

Moreover, the results and the opinions I have collected during the interview will enrich the existing literature about foreign wine in China with updated opinions about the trend of the wine market in China provided by people with experience and that has also travelled to China in the past years.

In this chapter, I am going to present their answers to my questions synthetically in order to see if their experiences find a match with the literature I have analyzed in the previous chapters or if they

contradict it, or possibly if they add new facts that the previous literature doesn't mention.

### **3.1. Methodology**

To make the interview, I firstly prepared four questions that I will present more specifically in the next paragraph based on the literature review that I made to write the first two chapters of this dissertation in order to be consistent with its themes. I got in touch with DYNAMICA PTE. LTD. Managing Partner Eleonora Abbona which kindly suggested me to contact Antiche Cantine Marchesi di Barolo, situated in Barolo, Piedmont and Tenuta San Leonardo situated in Valle della Lagarina, Trentino Alto Adige. I also contacted Santa Margherita Vini situated in Portogruaro, Venice, through a family friend who suggested I choose this winery thanks to its experience in China.

The interview was done by telephone after I arranged all the three appointments by mail with the secretaries that, in a second moment, put me in contact with the people I had to interview.

The first winery I contacted is Marchesi di Barolo. This winery was established more than 200 years ago in the countryside of Barolo, Piedmont, a region situated in the North-West of Italian peninsula.



The signature wine of Marchesi di Barolo is “Barolo” which takes its name from the place where it grows. Barolo has a lot of varieties, but it derives from the grape variety of Nebbiolo which produces an intense, full-bodied red wine.



For Marchesi di Barolo, I spoke by telephone with Valentina Abbona, Marketing and Export Manager of the company who granted me an interview that lasted 30 minutes.

The second winery I contacted is San Leonardo: established in 1724 by the ancestors of the family Guerrieri Gonzaga. The estate is situated in the locality of San Leonardo, Avio, Trentino Alto Adige, in northern Italy.



The signature wine of San Leonardo is “San Leonardo” which is the symbol of the estate and it's a classic Bordeaux wine obtained from three grape varieties: Cabernet Sauvignon, Carmenère and Merlot.

For San Leonardo I had the opportunity to talk directly to the owner of the estate, the Marquis Anselmo Guerrieri Gonzaga who kindly agreed to grant me an interview of 30 minutes circa.

The last winery I contacted is Santa Margherita. It was established in 1935 by Gaetano Marzotto in Fossalta di Portogruaro, Veneto, in north-eastern Italy.



The experience of Santa Margherita is different from the ones of the other two wineries because it's specialized in white and sparkling wines, in particular Prosecco, which are not the favourite category of wine for the Chinese consumers, however, the experience and the quality of their wines have allowed them to export and sell in China. For Santa Margherita I contacted and spoke with Alessandro Guerini, the Export Director EMEA&APAC of the company with whom I did an interview of 40 minutes circa.

### **3.2. The interview**

As I have mentioned before, I have decided to structure the interview by dividing it into four questions which reflect the themes I wanted to survey the most and that I think are more useful for the purpose of this research. What I asked the experts I have spoken with is, first of all how they approached the Chinese market, if they relied on intermediaries or if they used other methods, and when they decided to enter it, in order to understand which kind of experience the three wineries have in China and if they used the same method. Secondly, I asked which have been the main difficulties they had approaching the Chinese market and exporting their products in China. Thirdly, I asked the experts the reasons why, according to their personal experience as exporters, Italy finds itself being only in the fourth place in the ranking of the exporters, in particular, I wanted to know the nature of these reasons is cultural, administrative, geographic or economic. Lastly, I asked the experts which are the possible solutions or strategies that the single wineries and the institutions can implement in order to gain a greater market share.

In the next sections, I will analyze the answers the three experts provided me and see whether they match with the existing literature or not.

#### *3.2.1. The approach*

As I have presented in the first chapter, the great majority of Italian and foreign wine exporters

prefer to turn to an importer in China. This is because, a culturally distant country like China might be difficult to approach if the exporter still hasn't the experience to enter the market without problems, moreover an on-site importer avoids the exporting company a lot of efforts because it won't need to study the Chinese market on a deep level.

This has been confirmed by all the three experts I have interviewed, in fact, all the three wineries, when they decided to enter the Chinese market, decided to contact an on-site importer. Valentina Abbona for example says that Marchesi di Barolo relies on an Italian importer in China because *“he's an expert of the Chinese market, he lives in China and thus he can understand the consumers' needs more than we do staying here in Italy, moreover he is also responsible for the distribution of our products”*. This means that the company relies on an importer also for the distribution of the products so he decides the channels of distribution that are more suitable for a certain type of wine in China. Also Marquis Guerrieri Gonzaga, owner of San Leonardo, confirmed that his company relies on an on-site importer, in fact, he affirms that, back in the years, he travelled to China and understood that a developing country with a growing market like China was totally from the western countries that Italian wine producers are used to dealing with and thus they needed to rely on a person physically present in China which could decide where to place their products. Guerrieri Gonzaga also says that the target cities for their products are tier 1 cities, those more developed and already used to western habits, such as Shanghai which has long been influenced by western powers, in particular the French Concession, however, he doesn't exclude that, in the next few years, also tier 2 or tier 3 cities will become more and more attractive. Also Alessandro Guerini, Export Director of Santa Margherita confirms that the winery relies on a Chinese importer and this choice has been dictated by the fact that it's fundamental to have someone who knows the consumers and the market, in particular for a winery like Santa Margherita that exports mainly white and sparkling wines which are appreciated only by a small portion of Chinese consumers.

What emerged from the words of the experts is that the presence of an importer is necessary for

different reasons and the most important is that having an overseas partner avoids the company to make expensive efforts to study the market and the Chinese consumer's behaviour, which, as emerged from the literature review, is different from the consumer behaviour of Western countries. So, no matter if the importer is Chinese or Italian, a point of reference abroad is the solution that the great majority of Italian wineries choose to implement, however, as Guerrieri Gonzaga warns, it's important to find someone who knows both the consumer both the product, otherwise, there is the risk of a wrong placement in the market or a wrong choice in terms of the channel of distribution.

### *3.2.2. Difficulties exporting the product in China*

As confirmed by the wine producers, China is an interesting country, but it is really difficult to approach because of the differences that may cause problems and misunderstandings if they are not taken into consideration.

First of all, what emerged from the interview is that one of the main challenges of exporting wine in China is the gap between the Western and the Asian culture. Trivially, all the three experts suggest that the first barrier is the language: to make a concrete example, the labels applied on the bottles exported in China must be written in Chinese (sometimes is sufficient to juxtapose the label written in Chinese to the original one) and this is a requirement that can't be underestimated because, as we have seen in the previous chapter is been confirmed by the experts I have interviewed, labelling requirements are really strict in China, and a poorly-done label can compromise the import of the product. This is one of the reasons why the wineries have decided to contact an importer: in fact, importers are used to dealing with the re-labelling process and their job is to guarantee a successful import process in order to avoid monetary and product losses. It's obvious that a label written in an incomprehensible way will automatically be considered unsuitable and rejected by the competent authorities.

But the language is not the only cultural barrier that foreign wineries must consider when they

export their products in China. In fact, as Valentina Abbona points out *“traditionally the Chinese have a different way to eat if compared to Italians. They don't have different courses during a dinner, but the dishes are gathered together at the centre of the table and are eaten without a precise order”*. This is a fundamental difference between Italian (and European) culture and the Chinese one and it influences how wine is consumed, in fact in Italy wine is usually paired with different courses, so there will be a specific wine for the appetizer, one that is suitable for the first and second courses and obviously a different wine, usually a sweet one, for the dessert. This distinction is not valid for the typical Chinese meal which, as Mrs Abbona points out, is characterized by a multitude of different dishes, so the pairing wine-course fails. The only solution is to find a wine that is well-combined with all the dishes chosen for dinner. Moreover, Guerrieri Gonzaga adds that the Chinese don't have the habit to drink fresh beverages during the meal so it's necessary to find a wine that can be drunk at room temperature without losing its potential. This fact supports the data, in fact, we know that 80% of the wine sold in China is red, and red wines are stored and consumed at room temperature, on the other hand, white wines must be served fresh, which is in contrast with the preferences of Chinese consumers. However the choice of the right type of wine is not the only obstacle that Italian (and foreign) wineries have to face, in fact, Mr Guerini adds that when it comes to choosing a beverage for a dinner, Chinese people are not inclined to choose wine, because it's still not part of their everyday life and convivial occasions. Guerini also adds that wine is usually consumed during business meetings or events, in particular white wines which are the speciality of his winery, Santa Margherita. Thus, it is more difficult to make this product enter the life of people who don't have to attend business meetings or, more generally, top-end events.

In addition to these closely cultural reasons, there is another one, which is linked to the wine demand. In fact, as Guerrieri Gonzaga explains *“the Chinese wine market is still a young market and the interest towards the wine started to rise during the last decade. Obviously, this amount of*

*time is short and the consumers still need to discover the world of wine and winemaking. Of course, there are valid and competent sommeliers and enologists, and there's a growing interest in wine among young people. However, the reality is that the majority of the population still don't know the basic notions behind a bottle of wine and is really confused by the multitude of wine varieties that we have to offer".* This confirms what is stated by the literature which says that the diversity of the Italian wines that arrive in China and the complexity of their denominations, is an element of confusion for the Chinese consumer who has not the sufficient experience to understand the importance of D.O.C. or D.O.C.G. because these are abbreviations they are not familiar with and behind them, there is a complex reality of regulations and rules and, most importantly, they are linked to the quality and the terroir. This causes a lot of confusion in the Chinese consumer who approaches the Italian wine for the first time and that, as Alessandro Guerini affirms, sees it as a really fragmented and complex reality, which doesn't arrive in China with a unified image, and this is due to the regionalism inherent in the Italian winemaking scenario. Mr Guerini, whose winery is specialized in white and sparkling wines, brings up another difficulty Santa Margherita had in exporting its wine to China, which is that, the Chinese clients often are not willing to pay for refrigerated containers for the transportation of the products, which is really damaging for white wines since they must be stored at a low temperature in order to preserve their characteristics and flavour and to avoid to damage the product itself.

Another difficulty that has been mentioned during the interviews are the documents necessary to export wine in China. They are different from the documents requested to commerce wine inside the E.U. and thus, it's more convenient for them to contact an importer who can take care of the documentation and the certificates. The role of the importer once again is fundamental, because it's the liaison between the Italian producer and the Chinese buyer and he can help to overcome the cultural and bureaucratic problems that could undermine the exporting process. However, even though the importer's role facilitates the commerce between the two countries, there's a

disadvantage that must be taken into consideration. In fact, Guerrieri Gonzaga confirms what the literature already points out, that is the fact that the winemakers don't know where their wines will be sold, at least not specifically. In other words, when the product enters the distribution system, the producers won't know which are the specific boutiques, supermarkets or hotels where their wine will be sold, since it's a decision taken by the importer who selects the places he thinks are more suitable for a certain type of wine. If from a certain point of view this can be seen as an advantage, on the other hand, we must consider that the producer will never know who bought its wine, and, consequently, won't know the reasons why a certain consumer bought it. This can be a problem if we think about the future expansion of Italian wine in China: if Italian wineries aren't aware of the motives that lead a consumer to purchase a bottle of their wine, they won't be able to invest in their points of strength and implement new, more effective strategies.

### *3.2.3. Italian positioning in the exporters' ranking*

As I have stated previously in the dissertation, Italy is the fourth country in the wine exporting countries ranking, and it's preceded by Australia, France and Chile. I have asked the three experts I have interviewed their opinion about the reasons that may lay behind this unusually low positioning for Italy when it comes to the wine export. What I specifically asked the three experts is to explain to me the reasons why, relying on their working experience, Italy's main competitors have such a great success in China and which kind of advantages they have that allow them to be more successful than Italy. Obviously, it emerged that there is more than one reason, and, first of all, all the three experts stated that Australia has a geographic advantage being the closest country to China among the top-four wine exporters. This confirms what the CAGE framework I have used to analyze the wine exporting countries states: in fact, even though China and Australia don't share borders, however, the maritime routes connecting the two countries are shorter and more straightforward if compared to the ones of Italy, France and Chile. Valentina Abbona also pointed

out that, considering Australia's geographic advantage and the fact that now it's going through a crisis due to the taxation China imposed on its wines, it's now worth keeping an eye on New Zealand, which is a New World wine-producing country and, potentially could climb the exports ranking.

But, coming back to the reasons why Australian wine has been successful at least until 2020, geographic closeness is not the only advantage Australia had. In fact, as it's logical to assume, the Free Trade Agreement entered into force in December 2015 has had a crucial role in defining the success of Australian wine, which, as Alessandro Guerini says "*[the FTA] allows Australians to have a competitive advantage in terms of price since they are not subject to the 14% import taxation which causes an increase of our wine's prices*". In addition to this, Guerini adds something that I hadn't found during the literature review, that is the fact that Australia, unlike Italy, produces wines specifically for the Chinese market, made to meet their taste and needs and, often, winemakers produce wines on behalf of third parties, which means that they produce and provide the wine (if it's not bulk wine they also bottle it) and sell it to other companies in China that will put their label on it. This is a huge difference with Italy, in fact, Guerini says that Italian strategy is based on the export of Italian wines and the promotion of their uniqueness and prestige and that Italian wineries don't produce wine specifically for the Chinese market, so it's not granted that the consumers will like it.

On a different issue, when the respondents spoke about France, they all seemed to agree that their main point of strength is the fact that they entered the Chinese market early, to the point that, when French winemakers started to export wine in China and created the first joint ventures with Chinese wine producers, there wasn't a wine market yet, and thus they had the opportunity to see this market grow and develop and they also had the opportunity to see the changes in consumers' taste. Moreover, all the experts agree on the fact that French wineries, unlike Italian ones, have always been able -and are still able- to work as a team and give the Chinese consumers a unitary image of



*made in France*. What French wineries have understood during the years, is that the Chinese consumers don't need a multitude of information about different wines and their compositions and denominations, because this only causes confusion and disorient them in the choice of the wine. Instead, French winemakers have realized that it's more effective to present fewer varieties of wines but to promote them with the aim to allow the consumers to associate them as the top quality wines present in the market. France has been able to successfully implement this strategy thanks to its early entry into the Chinese market, however, Mrs Abbona says that France uses this strategy not only in China, but also in the other countries, and this is the main difference with Italy which, instead, is more inclined to give a more fragmented image of its winemaking scenario because of the strong internal competition. So, even though the potential of Italian wine is not inferior to the French one, the difference in the strategy is the reason why France is successful in China while Italy still has to make some efforts to promote its product in the best way, and, most importantly, to simplify the complex reality of Italian wine production to avoid confusing the Chinese consumers. It has to be underlined that, since the Chinese have been used to associate French wine with the idea of quality and prestige, French winemakers have to make fewer efforts in order to convince the consumers that their product is the best.

Talking about Chile, both Mrs Abbona and Marq Guerrieri Gonzaga think that the reason behind the success of its wines is their versatility and the fact that Chile exports wines that are already known to be appreciated by Chinese consumers and are easy to adapt to their needs. Moreover, they say that the China-Chile Free Trade Agreement is surely helping Chile commercing its wines and, as Mr Guerini says *“Chile is a strategic partner for China and its copper mines have been attracting China for some years now. The Chilean have used this interest to their advantage obtaining the Free Trade Agreement in 2019, from which both countries have had benefits”*, so in the case of Chile, its natural resources have been a key element to obtain trade facilitations which helped Chilean commerce in general. He also adds that the wines produced and exported by Chile

encounter perfectly Chinese consumers' taste since, as I've explained in the previous chapter, are mainly red wines which varieties are already known in China and, most importantly, the Chilean don't have a complex denomination system, nor propose too many wine varieties to the importers.

The combination of these strategies and, according to Mr Guerini's words, the perfect entry time in the Chinese market, are the key behind the success of Chilean wine, which, if the trends keep going this direction, will have a growing market share in the next years.

### *3.2.4. Possible strategies and solutions*

When it comes to suggesting possible strategies to improve the Italian wine situation in China, all three experts agree on the fact that, if there was a precise answer that could guarantee the success of Italian wine, Italy probably wouldn't be fourth in the exporters' ranking. Having said so, they however provided some solutions that, as far as they are concerned, can be very useful to promote Italian wine in China. Obviously, all the interviewees specified that the solutions they provided me come from their personal experience as winemakers and other wineries may provide other solutions to the problem. In fact, the three participants, unlike for the previous questions which answers were quite heterogeneous, gave me different solutions and points of view, which means that each company found had a different experience with China and Chinese wine consumers in general.

For example, Valentina Abbona suggests that, since the varieties of Italian wine are a lot and the Chinese consumers are still not well-acquainted with them, it's important to let them know them as well as the different labels and the best way to do this is to attend wine exports and fairs. These events in fact, not only are more and more famous in China, they are also getting bigger and more inclusive, with more participants and, most importantly, a growing number of importers and wine amateurs, and, as Mrs Abbona says *“fairs and exports are the perfect occasions to present our wines and let the importers and the consumers understand what is Barolo and why it is unique and can't be produced in other places”*. This also means that a winery, through fairs and exports, can

present not only its wines but also its history, its territory and its specificity in order to raise awareness concerning the uniqueness and the quality of its products. Moreover, presenting the background behind a certain wine or label, it's easier for the consumer to recognize the product and will be more difficult for them to forget about it.

Also Marq. Guerrieri Gonzaga underlines the importance of exports and fairs because they are the easiest way to gain visibility and reach as many importers and wine lovers as possible, however, he stresses the importance of educating the consumers. In fact, he says that *“if the consumers don't know what they want, it is more difficult for them to choose a bottle of wine and, consequently, will fall back on products they already know and are familiar with”* which obviously is a disadvantage for those who face the Chinese market for the first wine bringing a new product. He, therefore, insists on the education of the consumers which can be implemented through events and winetasting experiences and says that he's hopeful because he has seen that the younger generations are showing more and more interest towards wine consumption and that a lot of students choose to study enology both in China and abroad, thus it would be a good idea to invest on them since they grew in an international context and have fewer difficulties embracing elements typical of the Western culture. On the other hand, Alessandro Guerini, without denying the importance of wine fairs and expos, suggests that the real problem is the fact that Italian wine in China doesn't give a unitary vision about itself and thus an improvement that Italian winery could make in order to gain a higher market share is, as far as possible, to “work as a team” to convey a solid idea of made in Italy. He also reiterates the importance of building a strong, easily recognizable brand, which can be associated with the idea of good quality and prestige, since, as the literature widely explains, the Chinese consumers give great importance to the brand, and this can be deduced also watching the choices that the Chinese make in the fashion field: in fact, they love to buy famous brands clothes, which, exactly as happens for wine, are a tool to express a social status which, as I've explained previously in the dissertation, is deeply liked to the concept of 面子 and social recognition.

Guerini says that obviously the single wineries alone can't build a strong national image because they are not used to work together, and this is confirmed by the fact that there is a strong competition between them, as Guerini himself explained previously in the interview. He says that, in order to achieve better results in China, the wineries efforts alone are not enough, and there should be a greater commitment and participation of the institutions, which should facilitate the wine commerce with China and try to encourage the export.

It's also worth mentioning that, during the interviews, emerged the potential of the consortia. In fact, every consortium deals with one (or few) types of wine and they can also attend fairs and expos and present the products grouped by typology which can be useful as long as consortia don't confuse the consumer with a large number of labels since, as we have understood, is not the right approach to the Chinese wine market.

## CONCLUSIONS

What came up from the literature review and from the opinions of the three experts I have interviewed for this dissertation is that the Chinese wine market is really attractive since it is a still-growing market, but it's also really complex and the possibilities to make a mistake are not remote and thus when it comes to approaching it, it's necessary to plan carefully the export strategy (or strategies). It also emerged the peculiarity of the Chinese wine customers, who are very different from European, or more generally speaking, from Western countries' consumers and this is because the distance between Asian countries and Western countries is quite large as the CAGE framework I have used in the second chapter of the dissertation confirms. To enter the Chinese wine market successfully, it's necessary to understand what the customers need and what can be interesting for them, bearing in mind that their priorities are a reliable brand and a versatile product and that, averagely, the Chinese consumer is still unexperienced and that wine is still associated with the idea of prestige and class. It is also clear that traditionally the Chinese prefer red wine, which is best suited for their traditions and eating habits, and that it constitutes the majority of foreign wine consumed in China and thus it's convenient to focus the efforts to export and place this kind of products in order to avoid pointless losses.

The export of foreign wines, moreover, lures the attention of the younger generations who are more willing to experience foreign products and find it easier to adapt to Western taste, exactly as it happened for the fashion world.

It is also evident that a few countries have been able to enter successfully the Chinese wine market and that is not easy to follow their steps and match their results, however, the market is always changing as the recently increased taxation on the Australian wines shows which will lead the exporters ranking to change.

The analysis of the main wine exporters in China has led to finding the possible reasons for Italy's low market share, which is indeed the aim of this dissertation. It's now obvious that the strategy

Italy uses to export in other countries, such as European ones, the United States or Canada, is not effective in China, where Italy only has a 6.43% share market and the distance from its main competitors worldwide, is abysmal.

Thanks to the interview I prepared and to the interviewees' willingness to share their experience, I found the confirmation that the existing literature is quite complete and that the challenges Italy have to face to cope with its competitors are different and of different kinds. To synthesize, there are a few things that Italy could improve to make its strategy more efficient, starting with the will to form a strong national wine identity, the idea of 意大利葡萄酒 (*yìdàlì pútáojiǔ*) in the same way as France did for its wines and abandoning the chauvinism which is not useful in China and, on the contrary, it only causes the Chinese consumer to feel more confused and bewildered in the choice of wine.

Italy is a country with a lot of potentials since it's already well-known in China for its fashion culture and for the cuisine, and the concept of made in Italy is not unfamiliar to the Chinese, so, even though the competitors in the wine sector have already gained consumers' trust, Italy can increase its exports and the positive trends of the last years are the proof that Italian wine has a potential that has still to be utilized in the best way.

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