

MSc. in Economics and Business Administration
Cand. merc. Strategy, Organization and Leadership

Succeeding in the Chinese market of wine: a plan for Italian wineries

Name: Pasquale Santoro

Supervisor: Robert Ibsen

Date: 25/09/2014

Number of pages: 80

Number of characters: 144.615

Type: Master's thesis

COPENHAGEN BUSINESS SCHOOL-2014

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EXECUTIVE SUMMARY

Since initiating market reforms in 1978, China has shifted from a centrally planned to a market based economy and experienced rapid economic and social development. With a population of 1.3 billion, China recently became the second largest economy and is increasingly playing an important and influential role in the global economy (Worldbank, 2014).

It is acknowledged that, alcoholic beverages have always been seen in China as health beverages and specifically certain kinds of wine are an essential ingredient of Chinese medicine. As in Western countries, wine is believed to reduce the risk of cancer and cardiovascular diseases (Eijkhoff, 2000).

This project aims to analyze the barriers faced by Italian companies willing to export wine to China and finding solutions to these issues. The first section presents the methodology involved in the study namely, qualitative primary data collected during two interviews conducted in Italy and qualitative secondary data gathered from relevant interviews conducted for Wine Business International for instance. Occasionally, the use of quantitative secondary surveys is involved to integrate the research. The methods segment, briefly, presents as well, the two case studies that serve as an example along with justifications and limitations.

The second section illustrates the theoretical framework used for the subsequent analysis of data, and the past literature regarding the topic. Afterwards, the third part analyzes data, based on microenvironment, mesoenvironment and macro environment surrounding companies, giving a strategic marketing management focus to this work. Companies commonly conduct this process, known as environmental screening, as it aids monitoring events in the immediate environments (Gimbert, 2011).

The discussion explains the consequences of the previous findings and paths the way for the recommendations aiming to provide resolutions.

Finally, the conclusion summarizes the project and the answer to the research question (RQ) beyond a few predictions on the future of wine export in China and possible future studies based on a few limitations of this thesis.

INTRODUCTION

Following Jenster, et al. (2008), wine can be defined as the product obtained exclusively from the total or partial alcoholic fermentation of fresh grapes, whether or not crushed, or of grape must.

Hence, the definition implies that, wine can be only produced where there is access to fresh grapes or grape juice.

The authors assert that, in 2005, the total world area devoted to vine was 7.9 million hectares under cultivation, and Europe accounted for 4.8 million hectares.

The report from the Organisation Internationale de la Vigne et du Vin (OIV) (2013), points out numerous statistics about wine production in the World. Particularly, the following tables highlight areas under vines in Europe and outside Europe.

Table 1- Areas under vines in Europe

<i>Thousands of hectares</i>	2009	2010	2011 Provisional	2012 Forecast
Austria	47	46	44	44
Germany	102	102	102	102
Bulgaria	81	83	78	78
Spain	1113	1082	1032	1018
France	836	818	806	800
Greece	113	112	110	110
Hungary	70	68	65	64
Italy	812	795	776	769
Portugal	244	243	240	239
Romania	206	204	204	205
Russia	64	62	63	62
Switzerland	15	15	15	15
Other wine-producing countries in Europe	718	715	709	706
Continental total	4421	4345	4244	4212
EU-27 total	3692	3619	3521	3492

Source: OIV, OIV Experts, Trade Press

Table 2- Areas under vines outside Europe

<i>Thousands of hectares</i>	2009	2010	2011 Provisional	2012 Forecast
South Africa	132	132	131	131
Argentina	229	228	218	221
Australia	176	170	174	169
Brazil	91	92	90	91
Chile	199	200	200	205
China	518	539	560	570
United States	403	404	407	407
New Zealand	35	37	37	37
Turkey	515	513	515	517
Other African countries	246	247	247	247
Other American countries	83	85	86	85
Other Asian countries	653	680	683	683
Total outside Europe	3280	3327	3348	3363

Source: OIV, OIV Experts, Trade Press

The first table emphasizes that, Spain, France and Italy represent the three biggest countries in Europe in term of areas under vine with respectively, 1113, 836 and 812 thousands of hectares.

On the other hand, the second graph underlines that, China, Turkey and the US account for a total of 1436 thousands of hectares under vines outside Europe.

Hall and Mitchell (2007), advocate the view that wine is an international business. Specifically, even if a winery is not exporting at all concentrating only on the local market, it still suffers from the competition of imports.

Moreover, this not only relies on imports but on winemaking equipment and labour as well.

International trade of wine is undoubtedly moved not only by cost advantage. Instead, the environment of millions of consumers revealing different preferences drives it and this is aided by the fact that, nowadays people travel extensively, thereby acquiring a taste for wine origins and styles (Spahni, 1998).

The phenomena of flying wine-makers, term used to explain wine-makers who move seasonally across the globe, to make wine or advise on wine making, demonstrates

the globalization of wine styles and the internationalization process of this business (Langendijk, 2004).

According to Resnick (2008), it can be argued that, the world of wine is divided into two general, big group of markets namely, the traditional markets and the new markets. The author maintains that, traditional markets include, Europe, US and Japan since World War II. These markets are characterized by the fact that, they are open to imported foreign wines. Unquestionably, they expanded and developed in very different ways due to their cultural differences.

Instead, in the new markets there is not a real wine drinking tradition yet. These countries include, for instance, China, India and Russia.

This study focuses on China, therefore a general introduction of this market is necessary to give the reader an overall big picture before getting into the central topic, which puts the emphasis on Italian wineries exporting to the Asian country.

China is the third largest country in the world in terms of area. The country is a developing nation with a capitalist economy that is controlled politically by communist leadership. Chinese civilization began more than 5,000 years ago and the nation has played a crucial role in world history and is continuing to do so today. China's government is based on communist principles with unicameral legislative branch called the National People's Congress that is made up of 2,987 members from the municipal, regional and provincial level. There is also a judicial branch comprised of the Supreme People's Court, Local People's Courts and Special People's Courts (Briney, 2011).

Nowadays, China is the most populated country of the World and the general economical development is rising incredibly fast. In the near future, globalization will become increasingly an Asiatic issue as a consequence of India and China starting to play an important role among the most economically powerful countries (Report of the National Intelligence Council's 2020 Project, 2012).

Following Rampini (2005), China will be, by 2020, the first market of the world and no sector can avoid competing with the Chinese economy. The term used by Rampini is "The Chinese Century".

The phenomenal growth of the Chinese economy over the past decade has encouraged international suppliers to export wines to China. Understandably, Chinese economy has been growing at over twice the rate of the world average, and thus appears to be one of the largest future markets for many imported products. Hence, international suppliers thirst after the idea of a huge potential market in a country of over 1,300,000,000 people. Moreover, living standards have improved dramatically since China's adoption of market-oriented economy. The French, have been doing quite well in this market and they dream of a huge future market among the middle-class (Mitry et al., 2009).

Indeed, a new generation of consumers, typically in urban areas, with more disposable income and willing to pay for high quality, is emerging. Wine has become fashionable as a symbol of social status and this trend is likely to continue. Furthermore, the health benefits associated with red wine have convinced several consumers to switch from traditional Chinese alcoholic beverages to wine (Bobik, 2011).

The study conducted by Protti (2005) remarks that until a few decades ago wine flux was addressed mainly to the US. Currently, 25% of wine production is exported to numerous countries including China. The author argues, regarding Italian wine, 90% of the exports are addressed to eleven countries, involving various emerging ones; therefore adequate commercial policies and entry strategies are required. Penetrating the Chinese market without appropriate competences and knowledge of the entry barriers is, indisputably a fatal mistake for companies.

The above-mentioned evidences make the Chinese market a very interesting one to explore for wine makers.

Yet, the difficulties may arise, from trying to be successful exporting wine to China, are numerous. There are certainly, cultural, political, legal issues to deal with and overcome.

This work takes into consideration the case of two Italian companies that are currently starting (Villa Matilde) or expanding (Cantina Santadi) the business in China.

Particularly interesting is to analyze their opinions in order to generalize the process for future companies that, wish to export their product. Only limited studies (eg: Protti,

2005 & Polska, 2002) analyzed the issues Italian companies face on the Chinese market and particularly there is lack of researches on how to develop a solution to this.

The first part of this project, illustrates the methodology used to approach the study, a description of the two case companies followed by the main theories involved in this project and the wine literature about the Chinese market, particular emphasis will be put, starting from useful analysis tools, on the concept of entry barriers, the culture related to wine consuming, and the distribution channels available in China. Subsequently, in the following parts there will be presented the analysis of the findings and a discussion of those, before giving, several recommendations to companies wishing to export wine in China.

PART 1: METHODOLOGY

Introduction

The research methodology used for this study is qualitative research beside a few quantitative surveys analyzed.

Following Mack et al. (2005), qualitative research is a common type of research that consists of an investigation aimed to seek answers to a question, systematically uses a predefined set of procedures to answer the question, collects evidence, produces findings that were not determined in advance, that are applicable beyond the immediate boundaries of the study. The three most common qualitative methods are participant observation, in-depth interviews, and focus groups. Each method is particularly suited for obtaining a specific type of data. Specifically the main differences are shown below:

- Participant observation is appropriate for collecting data on naturally occurring behaviors in their usual contexts.

- In-depth interviews are optimal for collecting data on individuals' personal histories, perspectives, and experiences, particularly when sensitive topics are being explored.
- Focus groups are effective in eliciting data on the cultural norms of a group and in generating broad overviews of issues of concern to the cultural groups or subgroups represented.

On the other hand, quantitative methods are a collection of techniques that rely on numbers to represent empirical reality and that presume a positivist philosophy in which it is supposed that the social world is knowable by observers who quantify its characteristics. They are classified by the primary goal they are planned to achieve and by the general strategy they engage (Schutt, 2012).

See appendix 1 for a table comparison between qualitative and quantitative methods.

Data collection

Firstly, this research was initiated due to the writer's interest in the wine industry in general and particularly, due the personal passion for wine business in economies of developing countries.

Secondly, for the reasons stated in the introduction of this project, the current and potential future development of China in particular, is overwhelming. It is undoubtedly worth to put effort in trying to understand the dynamics of this economy.

Furthermore, the geographic origin of the writer, Southern Italy, well-known area for wine production, certainly played a major role in the choice of this topic. Nevertheless, the Italian wine presence in the Chinese market is still very limited compared to its enormous potential and this is an additional motivation to understand why it is like that and how the problem can be solved.

Two Italian wineries namely, Villa Matilde and Cantina Santadi (they will be presented in the next section) were analyzed also with the help of two good friends who facilitated establishing contacts with them.

The former winery believes in the potential of the Chinese market and for that reason they are studying it, to plan a future entry. The latter already has established a successful export business but they are willing to expand it even more.

Among the most common qualitative methods available, in-depth (face-to-face) interviews were chosen.

The in-depth interview is a technique designed to elicit a vivid picture of the participant's perspective on the research topic. During in-depth interviews, the person being interviewed is considered the expert and the interviewer is considered the student (as in this study). The researcher's interviewing techniques are motivated by the desire to learn everything the participant can share about the research topic. Researchers engage with participants by posing questions in a neutral manner, listening attentively to participants' responses, and asking follow-up questions and probes based on those responses. In-depth interviews are usually conducted face-to-face and involve one interviewer and one participant. Interview data consist of tape recordings, typed transcripts of tape recordings, and the interviewer's notes. Notes may document observations about the interview content, the participant, and the context (Mack et al., 2005).

In case of this project, two in-depth interviews were conducted respectively with the CEO of Villa Matilde (Salvatore Avallone) and with the Sales Director (Raffaele Cani) of Cantina Santadi.

The questions asked were similar in both cases as a starting point, even if, as normal during in-depth interviews, follow-up questions were different according to the answers to the previous questions.

The following list can summarize the questions asked:

- Brief presentation of the winery
- The general impressions about the Chinese market
- The reasons behind the decision to go to China
- With which products you target the Chinese market?
- What are the businesses practices (process)?
- What are the business barriers and how to overcome them?
- Who are the costumers (B2B/B2C)?

- What are the cultural differences in wine consuming in China compared to the West?
- What are the most relevant distribution channels among the available ones?
- How do you see the future of the market (growth, preferences)?
- If they experience an increase in the number of competitors on the Chinese market, both Italian and from other countries

The interviews were conducted at the end of April 2014 during a trip to Italy.

Moreover, after the interviews a brief tour of the wineries was taken and in the case of Cantina Santadi, an expert oenologist guided it.

Additionally, several illustrative brochures, kindly received by the management of the companies, helped the data collection process.

Finally, primary data collection has been combined with secondary data. Secondary data analysis is the use of data that was collected by someone else for some other purpose. In this case, the researcher poses questions that are addressed through the analysis of a data set that they were not involved in collecting. The data was not collected to answer the researcher's specific research questions and was instead collected for another purpose. When using secondary data in an analysis, there are some important things that must be done beforehand. Since the researcher did not collect the data, he or she is usually not familiar with the data. Basically, the researcher needs to become as familiar as possible with the data set and the data collection process used (About.com sociology, 2014).

In the case of this research secondary data essentially included: interviews (eg: Kim, 2012) and surveys (eg: Zhou et al., 2014).

The aim of the data collection process was to answer the following research question:

Italian wineries exporting to China: how to overcome entry barriers and succeed in the Chinese market of wine?

Therefore, the project aims to be a tool for Italian wineries willing to export in China.

Data analysis

Data collected from the interviews originated transcripts. Following Mack et al. (2005), typed transcripts are the most utilized form of interview data. During the data analysis phase of the research, after data collection, transcripts are coded according to participant responses to each question and/or to the most salient themes emerging across the set of interviews.

According to Czarniawska (2004) there are basically two things that can be done with transcripts from interviews. The first is to concoct a researcher's own narrative out of them that is to write, rewrite and interpret them. The second is to analyze them as narrative of interviews, a special kind of texts.

The latter case applies to this investigation as this is designed as an exploratory research.

Conversely, in the case of secondary data, there has been a prior reading and analysis process in order to extract only the information relevant to answer the research question of this study.

Exploratory research is used to develop a better understanding of a business problem or an opportunity. It heavily relies on qualitative methods (as in this occasion). It was particularly useful in the case of Apple to develop I-Pod and follow-up products. On the other hand descriptive research, describes a situation through the use of descriptive statistics (Hair et al., 2011).

Qualitative research is discovery oriented and usually starts with an analytical approach known as deductive reasoning. Data are therefore analyzed starting from existing theory and developing new hypothesis. Contrary, inductive reasoning starts from identifying patterns in a data set to build up a new theory. Typically, it involves quantitative data (Hair et al., 2011).

The analysis approach of this research begins from existing theories and past literature thus follows a deductive reasoning analytical design.

Justifications and Limitations

Initially, the strength of qualitative research is its ability to provide complex textual descriptions of how people experience a given research issue. It provides information about the “human” side of an issue that is, the often-contradictory behaviors, beliefs, opinions, emotions, and relationships of individuals. Qualitative methods are also effective in identifying intangible factors, such as social norms, socioeconomic status, gender roles, ethnicity, and religion, whose role in the research issue may not be readily apparent (Mack et al, 2005)

Secondly, the key difference between quantitative and qualitative methods is their flexibility. Generally, quantitative methods are fairly inflexible. With quantitative methods such as surveys and questionnaires, for example, researchers ask all participants identical questions in the same order. The response categories from which participants may choose are “closed-ended” or fixed. Qualitative methods are typically more flexible that is, they allow greater spontaneity and adaptation of the interaction between the researcher and the study participant. For example, qualitative methods ask mostly “open-ended” questions that are not necessarily worded in exactly the same way with each participant. With open-ended questions, participants are free to respond in their own words, and these responses tend to be more complex than simply “yes” or “no” (Mack et al, 2005).

Due to the flexibility, qualitative research was preferred for this study because the aim to build a guide to overcome barriers in wine export needed “open-ended” questions. Respondents’ opinions and intangible factors are fundamental in this kind of project.

Indeed, culture, one of the main factors in this research, is made of relevant intangible aspects such as values and beliefs (Graig & Douglas, 2005).

Dealing with the in-depth interview method, the reasons for this choice are several.

First of all, they are, as already said, very practical to gather information on personal histories or experiences. This study’s intention is to take the wineries experiences and opinions as a starting point to build up a manual for future uses. Therefore, in-

depth interviews are the perfect mean to reach the purpose.

Furthermore, they are usually quicker and less expensive than focus groups for example. Special facilities are unnecessary, researchers need fewer participants and scheduling is more flexible along with being usually productive. Only relatively few in-depth interviews are unproductive (Kuhn, 2010).

Dealing with the decision to use secondary data as well, this is justified with the need of gaining objectivity compared to the often too subjective answers one can experience when collecting primary data, and according to three major advantages typical of secondary data as well namely, economics, because other people have already collected the data, thus the researcher does not have to devote money, time, energy, and other resources to this phase of research; the breadth of data available; the data collection process is often guided by expertise and professionalism that may not be available to individual researchers or small research projects (About.com sociology, 2014).

Moreover, the use of qualitative research was considered particularly appropriate because previous studies were limited on this specific topic (Hair et al., 2008).

Finally, the choice of splitting the environment into micro, meso and macro is found behind the fact that, organizations use environmental scanning to monitor important events in their surrounding environment. It is a way to answer the question, "What's happening in my environment that will affect my future?" Scanning involves identifying the issues and trends that have important implications for the future. The scanning includes analysis of the information about these issues and trends to assess their importance and determine their implications for planning and strategic decision-making (Gimbert, 2011).

Concerning the limitations of this research, I acknowledge there are, certainly several as well.

Primarily, recruiting participants is often a challenge, for a variety of reasons, including the often delicate nature of working with vulnerable populations; possible stigmatization of participants resulting from affiliation with the study; the high mobility of some populations; participants' concerns about confidentiality; and misinformation, lack of information, fear, or rumors about the study (Mack et al, 2005). In this case, issues about confidentiality were experienced even if in limited instances as

generally, the participants showed trust in the way data were being treated, hence both the academics purpose and the willing to help the future of wine export in China. On the other hand, at the beginning there have been some difficulties in recruiting participants and wineries as some of them refused to take part in this mission.

Moreover, the disadvantage of flexibility is that, it does not always allow for meaningful comparison of responses across participants and study sites. It requires a thorough understanding of the important questions to ask, the best way to ask them, and the range of possible responses (Mack et al, 2005). Indeed, in this study, not in all cases questions were answered completely and resource restrictions prohibited a more extensive research involving other companies.

Furthermore, another limitation concerns the absence of relevant financial information regarding the two case companies investigated probably because of the general extreme challenge of obtaining this kind of data when interviewing companies' management. However, financial analysis was not a significant part of the aim of this research.

Finally, the interviews were conducted in Italian because the participants felt more comfortable answering in Italian. Translating into English creates some bias, as individual translation generates uncertainty of various concepts.

The case wineries

This section will present the two companies used to gather data for this project, which serve as examples in order to build up general solutions for the Italian case. There will be a brief history, values and beliefs, main products and international business activity.

Villa Matilde

The history of Villa Matilde started in the 1960's when Francesco Paolo Avallone a lawyer with a passion for ancient wines and an abiding interest in the "vinum

Falernum” described in the accounts of Pliny and in the poetry of Virgil, Martial, and Horace, decided to bring back to life that legendary wine, which had disappeared in the early 20th century. With the assistance of a group of friends, including professors in the department of Crop Sciences at the University of Naples, Avallone was able to identify, after years of study, the grape varieties that had produced Falernum in Roman times. With the help of local farmers, he re-planted the handful of vines that had miraculously survived devastation by phylloxera in the late 19th century, right in the Monte Massico area where they had flourished in ancient times, and he then founded Villa Matilde. With the help of local farmers, he re-planted the handful of vines that had miraculously survived devastation by phylloxera in the late 19th century, right in the Monte Massico area where they had flourished in ancient times, and he then founded Villa Matilde.

Today, his children, Francesco Paolo, Maria Ida, and Salvatore Avallone, who have single-mindedly dedicated them to their father’s dream and winemaking project, manage the winery. In 2000, Villa Matilde introduced Tenuta Rocca dei Leoni and in 2004 Tenuta d’Altavilla, respectively in the heart of Benevento’s Sannio district and in the Irpinia DOCGs, in the province of Avellino. (Villa Matilde website, 2013).

The main products are the ones typical of the territory where they operate: Falerno del Massico, Aglianico, Greco di Tufo and Caracci (Villa Matilde Brochure, 2014).

Quality, eco-sustainability, local culture, respect for tradition, growth, technological development, support for scientific research are the most important value for the company. Above all they claim, the crucial importance of quality is the first rule (Villa Matilde website, 2013)

They are an international winery and their products can be found in numerous countries such as Germany, UK, US and several others (Villa Matilde brochure, 2014)

They are still in the early stage of entry regarding the Chinese market but they are deeply studying it in order to find the perfect adaptation strategy.

Cantina Santadi

The Cantina Santadi winery is located in the Sulcis area, southwestern Sardinia just a few miles from Porto Pino famous for sand dunes and beaches.

It was established in 1960, and after some start-up difficulties a new management, driven by strong determination, enthusiasm and passion, gave it a decisive boost. Thus a changing program was undertaken, adopting new strategies and clear targets. The aim was to stake operations on quality bottled wines, especially red wines, promoting the primary local cultivar: Carignano. Winemaking technique and wine selection were also perfected by the arrival of the international consultancy expert Giacomo Tachis. The use of French barriques ensures a perfect, harmonious finishing touch to these superb wines. The great reds are: Terre Brune, Rocca Rubia, Noras, Araja, Grotta Rossa and Antigua. On the other hands there are stylish whites: Villa di Chiesa, Cala Silente, Pedraia, Villa Solais and Latinia. The guiding values is the innovative spirit with respect for local traditions. (Cantina Santadi, wines made with art brochure, 2014).

The current management includes: the chairman of Board of Directors, Antonello Pilloni, while the Marketing and Administration responsible is Raffaele Cani a man with extensive knowledge of the local area and community (Cantina Santadi website, 2010)

Their international business is good illustrated by this picture taken during a visit of the winery

Figure 1- Santadi in the World



Source: Picture taken at Cantina Santadi, 24/04/2014

As it can be seen from the picture the main areas comprise: Europe, US, Asia (including China) and Australia.

PART 2: THEORETICAL FRAMEWORK AND RELATED LITERATURE

Internationalization, network theory and driving forces in the wine industry

The wine business is characterized by an overall degree of oversupply. Production is extremely fragmented, especially in the old world where the number of labels and producers on the market is extremely high. Production is concentrated in the hands of a few leading countries. The degree of competition has increased and some environmental forces are shaping wine business towards a progressive globalization (Hussain et al., 2008).

Several authors analyzed the issue of internationalization of the wine industry.

Covin & Slevin (1989), defined internationalization as a firms' strategic response to internal and external drivers; there is no doubt that strategic behaviour, however it is assumed happens because of both internal and external forces.

A few studies focused on it adopting a Resource Based View (RBV) approach. RBV provides an interesting framework for analyzing firm's strategic behaviour by focusing on the set of resources that belong or that have been externally acquired by companies. Resources' characteristics influence companies' ability to achieve a superior competitive advantage (Santini & Rabino, 2012). Visser & De Langen (2006) claim that the key factor of success of the outstanding exporting performance of Chilean wine relies in the clustered organization of local wine industry and on the way the network is managed. The well-known Uppsala Internationalization Model describes the managerial goals of internationalization in terms of reducing risk and avoiding uncertainty (Muecke, 2008). This model has been criticized for being too deterministic, thus Coviello (2006) extended it by the network theory of internationalization, which emphasizes the impact of business relationships upon the growth, and internationalization of small firms. Networks have been argued to contribute to the success of born global firms by helping to identify new market opportunities and contribute to building market knowledge (Madsen et al., 2000). The ability to build up networks and relationships to improve overall performance is illustrated by Rizzo & Bonuzzi (2008) in the case of cooperative cellars in the wine Veneto region in Italy as well.

In order to understand networks, relationships among firms must be studied (Axelsson and Easton, 1992). Johanson and Vahlne (2009) define business networks as "webs of connected relationships" meaning in practice that exchange in one relationship is linked to exchange in another. These networks usually consist of independent agents or distributors, and sales subsidiaries at later stages of exporter life, and further down the chain local dealers making business with the final customer. Shortly: trading partners and the final customer (Durrieu and Soldberg, 2006).

Similarly, Ford (2002) states that the two most important examples of firm's networks are supplier networks and distribution networks.

Easton (1992) points out the role of industrial relationships in industrial networks; in a simplified manner, if single relations among firms are added together, that will provide massive opportunities for systemic structures, yet the process of forming a network is not that simple or additive in a matter of fact. The inter-firm relationships can be identified and put into two main categories: the firm may either seek to exploit the complementarities of an individual partner or enter into a relationship in order to exploit network access. That kind of relationship allows control over the other organization and therefore reduces the uncertainty and increases stability.

However, internationalization in the wine industry is heterogeneous; differences depend both on firms' characteristics and location. The location issue is the case of Australian wineries that experienced a remarkable presence of born global wineries because of favorable market conditions in terms of demands overseas (Wickramasekera & Bambergy, 2003). The authors also assert that being international could be the right solution because of arising difficulties in domestic markets, such as high taxation.

The Italian wine industry is very oriented to foreign markets. For Italian firms this orientation is not a simply strategic choice, but a need, due to the declining trend in the domestic market and the higher opportunities abroad. Foreign competition is played, however, very hardly: the increase of Italian exports takes place within the growing of world exports, but is marked by a lower growth rate (Appendix 2), with the result of a decrease of Italian share in world exports (Mele & Spena, 2008).

The success of an internationalization strategy also deals with specific managerial capabilities. Edward & Spawton (1990) examined the role of pricing strategy while Santini et al (2007) stressed the importance of packaging and channels selection.

Microenvironment, mesoenvironment and macro environment

In a given system, the environment can be defined as a set of objects and whenever there is a change in one of the attributes there is also a consequence on the system" (Scott, 1992, p 125).

Looking at the environment, a distinction on three levels can be made: macro, meso and micro (Blackstone, 2014).

First of all, the microenvironment (organizational level) includes forces that address the internal environment of the firm; vision, mission, strategy, resources, processes, products and services.

On the other hand, the mesoenvironment (transactional level) consists of 'market forces' namely, suppliers, supply and demand, distribution, competitors and strategic alliances.

Finally, the macro environment (contextual level) consists of global forces such as, economical developments, demographics, politics, technological developments and social developments.

Microenvironment

Factors

According to Prasad (2010), the microenvironment consists of factors in the company's immediate environment that affects the performance of the company. These factors include suppliers, marketing intermediaries, competitors, customers and publics. Effectiveness in dealing with these elements affects the success of the firm in a given market.

The author briefly describes the characteristics associated to these important factors.

- Suppliers: this force is obviously very important. Uncertainties regarding the supply or other constraints force the company to maintain high inventories thus cost increase. Supply management acquires even more importance in a scarcity environment
- Customers: the ability to create and sustain customers is probably the major task of a business since a business exists only because of customers. A company can serve several categories of customers and the choice should be made taking into account others factors such as relative profitability, stability of demand, growth prospect and competition.
- Competitors: A firm's competitors include both the other firms serving the market with the same or similar products and also the others who compete for

the discretionary income of the consumers. Competitors' analysis means evaluating their strengths and weaknesses and then use the information to improve efforts within the company. Yet, it also means predict how competitors react to certain choices.

- Marketing intermediaries: the immediate environment may include a number of marketing intermediaries aiding the company promoting, selling and distributing goods to the final buyers. Ultimately, these are agents, merchants who help the firm finding customers and close sells with them. Marketing intermediaries are a vital link between the company and the final consumers.
- Public: a company can encounter a group who has an actual or potential interest in affecting the company's ability to achieve an objective.

Mesoenvironment

Marketing mix

Marketing mix refers to a series of action, tactics, tools or variables a company uses to promote its brand in a market. Ultimately, it is a set of tools that a firm uses to accomplish its objectives in a targeted market by aligning the company's with both the competitive environment and the consumers need (Dogra & Ghuman, 2010)

The decisions a company takes in a market are controllable variables named the 4Ps by McCarthy (1960). These are namely, product, price, promotion and place; they include, among many, the following characteristics:

- Price: price level, credit terms, price change
- Product: feature, packaging, quality and range
- Promotion: advertising, publicity, sales promotion
- Place: inventory, distribution channels, intermediaries

Scholars have several times criticized the concept of 4Ps. Particularly; Moller (2006) highlighted a few limitations of this notorious model;

Firstly, the mix considers the consumer passive being the model internally oriented.

Furthermore, it does not take into consideration the unique elements of service marketing.

Finally, it does not mention relationship building, which is a major marketing focus.

Despite criticisms, Goi (2009) argues that, marketing mix is still largely used by companies because it is simple to use, it separates marketing from other activities clarifying the role of the marketing manager, it allows to allocate available resources among various demands. Hence, it remains a staple of marketing.

Supply Chain and Distribution

Although terms such as logistics, supply chain management (SCM) and distribution are usually used interchangeably there are slight differences among them.

Rushton et al. (2014) p.6 provide a very accurate definition of logistics as “the efficient transfer of goods from the source of supply through the place of manufacture to the point of consumption in a cost-effective way while providing an acceptable service to the customer”.

In formula: $\text{Logistics} = \text{Materials Management} + \text{Distribution}$

An extension of this formula leads to $\text{SCM} = \text{Suppliers} + \text{Logistics} + \text{Customers}$.

Generally, the authors argue that: supply and materials management represents the storage and flow into and through the production process while distribution represents the storage and flows from the final production point to the customer or end user. Moreover, it should be reminded that SCM and logistics not only concern the physical flow and storage from raw materials to finished goods but also the related information flows and storage.

After this theoretical insight, the following two paragraphs provide an overview of the existing literature on distribution figures and channels in the Chinese market of wine.

The distributor/importer

While China has a very ancient food tradition, consumers are changing their historical habits.

Particularly, the imitation of international nutrition habits, the increase of caring about health, the new structuration of meals are altogether creating more occasions of consuming “outside home” (Malorgio and Camanzi, 2012).

Given this general background, foreign products are purchased through numerous distribution channels.

Specifically, Polsa (2002) lists the most used distribution channels for food and beverages in China; these are hypermarkets, supermarkets, convenience stores (24h), wholesales and private shops. All these forms contribute to more competitive prices and an increased possibility of choice.

However, a fundamental role is performed by local and foreign distributors/importers (Polsa, 2002).

Protti (2005) argues that in China, the distribution process must be carried out by authorized entities. The importance of the importer is due to the complexity of the food and beverage market as well.

Both department stores and hotels do not directly import but they make use of the importer. The tasks conducted by the importer are several namely, documents organization, customs clearance, distribution taxes payment, marketing activities. The biggest distributors/importers are located in Shanghai, Tianjin, Hong Kong and Macao due to the presence of free ports. The distributors are divided into state owned, private and joint ventures.

Protti (2005) stresses that; there is however an alternative represented by importer agents who directly establish contacts with foreign wineries in order to sell their products in the country.

Distribution channels

The following part is divided into three subparts namely, wholesale, retail and others thus to furnish a clearer picture of the distribution channels available in the Chinese market.

Wholesale in China is slightly different from what we are used to in Western countries. Indeed, in most cases, the only difference between wholesale and retail is just the presence of a warehouse in the first case (Polsa, 1988).

Historically, the wholesale system was divided into national, provincial and local. This was due to the strict planning wanted by the government.

The wholesale system has been controlled for years by the State in order to avoid foreign investors to enter the market (Musso, 2004).

Lately, in the mid 90s the situation changed. The new law gave wholesales the chance to establish companies aided by private equity thus founding juridical independent firms even if still owned by the State (Chung, 2001).

Nowadays, wholesale markets are known as Cash Markets and they are widespread in China. Entrepreneurs can rent spaces for their commercial brokering activities (Polsa, 2002).

Dealing with the wine industry, the wholesale activities have several disadvantages as Protti (2005) emphasizes; the producer is not able to recognize the market reaction to the product. The reason is the length and the fragmentation of this distribution channel. In most cases, in such a huge market, the winery is completely unaware of the wine destination.

On the other hand, the retail sell system is increasing its notoriety in recent times since it was absent in the past. This increment is certainly due to the above-mentioned life habits of the modern Chinese consumer and to the increasing buying power. These factors lead to numerous foreign investments by well-know chains such as Carrefour, Auchan, Walmart that, established joint ventures with local investors and built the modern retail system (Protti, 2005).

Supermarkets are definitely an example of the shift from a State economy to a more liberal system. The Shanghai Institute of Foreign Trade (2010) highlights that in Shanghai there are 200 supermarkets and they represent the prevalent typology where people shop for food and beverage products. The study reveals that they are characterized by low prices and an extended choice of goods. These characteristics make supermarkets the easiest and most effective place to be present for wineries. Essentially, they directly buy wine from the distributor/importer hence achieving two goals: skipping the long Chinese process to bring wine to the market and have a good value for money using their strong bargaining power. Wineries can as well increase their brand notoriety especially because supermarkets are easily accessible by the middle-class.

Major foreign-owned supermarkets devote a significant amount of retail space to wine, and some 80%-90% of this is imported. Generally, less than 30% of the wine featured is white and less than 10% is Chinese branded, though this dynamic is changing fast as powerful Chinese wine companies are increasing their marketing efforts. (Redfern Associates, 2010)

The most important foreign supermarket chains in China are Carrefour, Metro, Wal Mart, Tesco and Auchan while the most important State owned supermarket is Bailan.

Regarding shopping centers, they are typically located in huge buildings with several floors. Usually, at least one of the floors is reserved to food and beverage products. There is always a wide space dedicated to wines but the target in this case is an upper-class group of customers. However, the main purpose for shopping centers is to sell clothes and fashion items (The Shanghai Institute of Foreign Trade, 2010).

A further distribution channel available is represented by convenience stores. They are widespread throughout China. Solely in Shanghai there are 6000 convenience stores mostly private owned. Nevertheless, foreign groups are important as well and to cite an example 7 Eleven controls 30% of Lawson stores. The major 4 convenience stores are: Kalike, Kadi, Haode and Liangyoujinban. They are open

24/7 and the target is the middle class consumer with mass consumption products (The Shanghai Institute of Foreign Trade, 2010).

Lastly, the other two retail distribution channels available in China are: Duty Free and Ho.Re.Ca sector.

Considering duty frees, analyzed by Sequeròs (2004), they can be defined as a distribution system where you can buy items without paying taxes. In China, China Duty Free Group (CDFG), company with headquarters in Beijing, controls them. There are almost 150 of them in the country. Unlikely, most of the sells are symbolized by brandy and whisky while wine has still a marginal role.

Furthermore, the most sold wines are the French and Chinese ones.

However, the decision to sell wines in duty free shops lead to some advantages like free customs clearance, VAT and consumption tax. The taxes to be paid are 1,5 % control tax and a commission that is inversely proportional to the price of the product and it does not exceed 25% of the final price in the worst scenario.

Payback period is between 90 and 120 days from the commercialization date (Sequeròs, 2004).

The hospitality industry is made up of many interrelated businesses including lodging establishments, which can be segmented into hotels, motels, resorts, spas, inns and bed and breakfast; eating and drinking establishments comprising wine bars as well and wineries that have hospitality-related facilities. This sector is often referred as Ho.Re.Ca (Brostrom, 2009).

Concerning the Ho.Re.Ca channel, Refern Associate study (2010) underlines that many high-end restaurants and domestic hotel chains remain loyal to domestic brands and feature a growing range of Chinese branded products which are often expensive. This may have much to do with entrenched relationships and ownership models, which give preference to national product. A remarkably large number reports only selling up to 10 bottles a day. Prices range from RMB50 into the thousands, and promotions are commonplace. However, western restaurants generally carry foreign wines especially mid to high-level French, Italian, US and Australian brands. Prices are from RMB200 to Grand Cru level in establishments

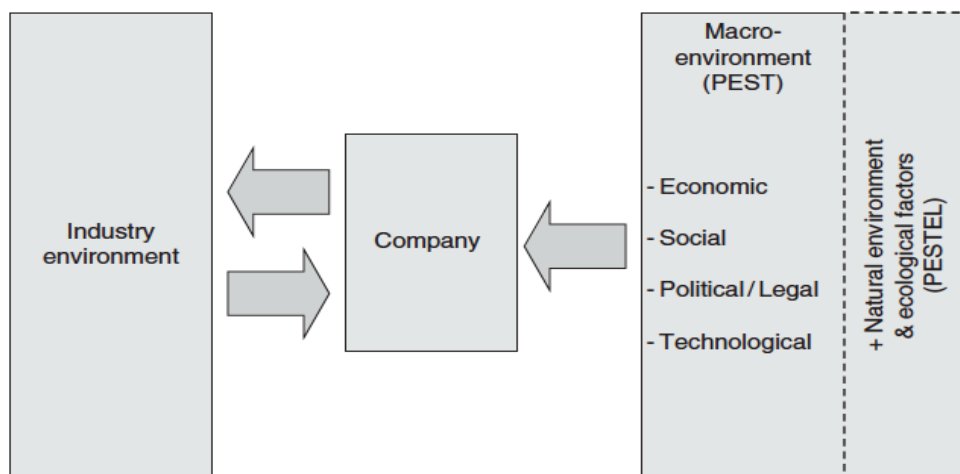
whose clientele is now, well over 50% Chinese. High-end foreign players and powerful Chinese distributors dominate supply via well-developed and often exclusive relationships (guanxi), which are very important in the Chinese context.

Macro environment

PEST(EL)

Following Gimbert (2011), the macro environment can be defined, as weather for a football team, meaning that, you cannot do anything to influence it thus you must adapt to it. The macro environment can be broken into four main parts namely, the economic, social, political and legal, and technological environments. The author well illustrates it in the below shown graph:

Figure 2- the different influences of the macro and the industry



Source: Gimbert, X. (2011) *Think Strategically*. New York, NY: Palgrave Macmillan. p. 48

The chart highlights that; the natural environment and the ecological factors can also be included, thus giving the name of PESTEL.

Gimbert (2011) argues, the growth (GDP) of a country or an area, unemployment and the ability to obtain funding are all economic factors, as are interest rates, exchange rates, inflation and per capita income. Economic factors are usually present in the day-to-day running of the business, as practically no company can help being related to economic health (GDP and per capita income) or inflation in their area of action. Similarly, very few can escape from being influenced by the situation of the interest rate or the exchange rate, as practically all companies are in debt to some degree and trade with (buy from or sell to) areas that have different currencies.

Several social variables that can influence companies greatly are the birth rate and life expectancy. Other social factors that may affect a business are demography, migratory movements, changes in life style (far-reaching in recent years), income distribution, level of education, industrial conflict (and the strikes that may be associated with it) and the attitude towards work and free time.

On the other hand, the political and legal environments are represented by the regulations and laws may affect an industry, such as labor, environmental or patent legislation, tax policy, tariffs or subsidies.

Lastly, when we refer to the technological environment we mean horizontal technologies, not those restricted to one industry. We can think of technologies such as the Internet, cell phones, automation, information systems, robotics or any other technical or scientific discovery that can be applied to an industry.

The next paragraph is though dedicated to a short PEST analysis of China according to existing literature.

China PEST(EL)

Political / legal dimension: Since its establishment, the Chinese Communist Party (CCP) (Peng and Nunes, 2007) has dominated the People's Republic of China politically. This type of central role allowed to government to control the majority of the resources in the country (Shirk, 1994). As a consequence, participation of foreign

products and investors in the Chinese market had been strictly limited during the planning economic era.

Nowadays, as Peng and Nunes argue (2007), economic, social and technological changes in an autocracy like China are typically associated with political aims and policies.

The political situation helps the reader to better understand the remaining dimensions of the Chinese macro environment.

The legal aspects will be analyzed in the next paragraph, when entry barriers are examined, as they strongly affect foreign exports including wine.

Economic dimension: Keng (2006) highlights that China has experienced outstanding economic growth in the last two decades. According to the global GDP ranking provided by the World Bank in 2005, China is now ranked the fourth-largest economy in the world behind the US, Japan and Germany (The World Bank, 2006).

The most economical developed areas are in the North (Beijing and Tianjin), in the Yangze river area (Shanghai) and in the South Guangdong. China has a lot of natural resources including, oil, coal, sodium chloride and natural gas (ICE, Shanghai, 2010).

Undoubtedly, there is still a big gap among the richest areas and the poorest areas of the country.

Social dimension: Regarding the social dimension, it is worth pointing out the fundamental concept of guanxi, which applies to everyday situations in China.

Guan (2011) claims that, loosely translated, the term refers to connections or relationships between people. Guanxi implies preferential treatment given to the partners in an exchange, in the form of easy access to limited resources, increased access to controlled information, credit grants, and protection from external competitors. However, the Chinese concept of guanxi is actually different from this, mainly due to the notion of reciprocal obligation and indebtedness. To the Chinese people, guanxi is a system of renqing (favours), in which obligation and indebtedness are manufactured, and in which there is no time limit for repayment.

Beside the guanxi concept, part of the social dimension is indisputably the unique Chinese culture. As already mentioned for the legal aspects, this topic will be presented in the next paragraph, since the relation to wine consuming is of particular significance.

Technological dimension: The technological dimension is a very broad one. It includes areas such as new products being developed, new purchasing mechanisms (intranet, extra-net), new production technology, new distribution mechanisms (Internet) and new methods of working (e.g. mobile telecommunication) (Chinabout, 2009).

A significant problem is the lack of an online B2C system that people trust. This is, above all, due to the strong uncertainty avoidance index (UAI) (Hofstede, 1997).

Entry Barriers

The Business Dictionary (2014) defines entry barriers as “any economic, regulatory or technological factors that can obstruct or restrict companies from entering an industry or a market”. They can take various forms namely, clear product differentiation; heavy advertising needed, culture and distribution to cite a few.

Although this definition is very clear, literature on barriers to entry produced many definitions across the years.

On the next page, there is a summary of the most notorious definitions available in the literature.

Figure 3- Various definitions of barriers-to-entry

<i>Scholars</i>	<i>Emphasis</i>	<i>Features</i>
Bain (1956)	Anything that allows incumbent firms to earn above-normal profits without the threat of entry	Failure to articulate a consistent theory Positive
Stigler (1968)	Differential costs between the incumbents and new entrants	Narrower than Bain's definition; Far stricter Positive
Ferguson (1974)	The incumbents' ability to set prices above marginal cost and to earn monopoly return	Advertisements are not a barrier depending on a case
Fisher (1979)	Anything that prevents entry when entry is socially beneficial Incumbents' unnecessarily high profits without entry	Accepting Bain's and Ferguson's definition. Normative An initial capital requirement not a barrier
Von Weizsacker (1980)	Differential costs between incumbents and entrants Any advantage over an entrant that an incumbent firm enjoys if that advantage produces a welfare loss	Based on Stigler's definition Normative definition Only if its consequences are undesirable, the advantage is a barrier to entry
Baumol <i>et al.</i> (1982)	Anything that reduces the sum of consumers' and producers' surplus, while phenomena such as fixed costs and scale economies need not do so (p. 282)	Incumbents can have costs lower because of the superior efficiency Such a cost difference is not a barrier to entry
Gilbert (1989)	A rent derived from incumbency	Defining entry barriers from the perspective of incumbents Sunk costs: both a barrier to exit and a barrier to entry
Carlton and Perloff (1994)	Both costs of entering and the time required to enter	Incorporates a time dimension
Church and Ware (1999)	A structural characteristic of a market that protects the market power of incumbents by making entry unprofitable	Based on Stigler's definition Distinguish between structural and strategic barriers
McAfee <i>et al.</i> (2004)	Distinguishing the concept of barriers to entry into economic, antitrust, standalone, and ancillary	Only structural barriers are barriers to entry More precise and sophisticated distinctions

source: <http://www.emeraldinsight.com/journals.htm?articleid=1770804>

Two among the most known are Bain's and Stigler's ones. Bain (1956, p 3.) claims "a barrier to entry is an advantage of established sellers in an industry over potential entrant sellers, which is reflected in the extent to which established sellers can persistently rise their prices above competitive levels without attracting new firms to enter the industry".

On the other hand, Stigler (1968, p 67) argues that a barrier to entry is "a cost of producing (at some or every rate of output) that must be borne by firms seeking to enter an industry but is not borne by firms already in the industry".

The former definition builds the consequences of the definition into the definition itself while the latter avoids tautology by describing an entry barrier in terms of its fundamental characteristics and it implies that a cost that only entrants have to bear today is an entry barrier, even if incumbents had to bear it in the past (McAfee *et al.*,

2004). There are critiques to both definitions; the one provided by Bain (1956) is a confusing concept; the one offered by Sigler (1968) is clear, but perhaps strange, because the words suggest something different to what would naturally come to mind.

Ultimately, it can be argued barriers to entry are factors that halt or make it difficult for new competitors to successfully enter a market in which they have not previously competed. Barriers-to-entry has been one of critical factors determining a market structure. Assessing whether or not there are entry barriers in a certain industry has been one of the critical methods for examining the presence of market power of the incumbents as well. Since a variety of entry barriers to a market will cause prices to increase greater than marginal cost and deter the entry of more efficient companies, it is detrimental to allocate efficiency and produce efficiency (Carlton & Perloff, 2005). The succeeding paragraphs will describe the barriers to entry faced by companies targeting the Chinese market of wine agreeing to past literature.

Culture

This aim of this paragraph is twofold. Firstly, there will be given a short description of the general Hofstede (1980) four dimensions of national culture related to China. This helps the reader to get a general overview of the cultural characteristics associated with China. Particularly, the Hofstede model has several consequences for general business making therefore it is connected to wine business as well.

Moreover, there will be a more specific part about wine consumption culture as it is obviously fundamental for the scope of this work.

Hofstede (1980) defines culture as a collective programming of the mind, which distinguishes the members of one category of people from another.

The author explained the culturally based value systems aided by four dimensions namely, power distance, individualism/collectivism, masculinity/femininity and uncertainty avoidance. Successively, Bond (1989) completed the model by adding a fifth dimension called long/short term orientation.

Firstly, comparing most Western culture to China, it can be argued that most countries score generally lower than China in power distance index. This means that in China, there is a higher grade of inequalities among individuals.

Indeed power distance index is defined as the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally (Hofstede, 1980).

Secondly, dealing with individualism, China displays a high level of collectivism. Hofstede (1980) describes individualism as the degree of interdependence a society maintains among its members.

Furthermore, the relatively high score of masculinity indicates that the society is driven by competition, achievement and success. Hence, masculinity/femininity is basically what motivates people, wanting to be the best (masculine) or liking what you do (feminine).

Lastly, uncertainty avoidance can be described as the extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these (Bond, 1989).

China scores low on this dimension meaning that the population deals comfortably with ambiguity.

During the Han Dynasty (206 BC- 220 AC), there was a consistent production of grape wine in China. However, wine from grapes was considered an exotic product and reserved only to emperors. The use of alcoholic beverages in China is strictly related to culture and particularly with the social, religious, economical and other aspects of life (Eijkhoff, 2000).

Furthermore, Eijkhoff (2000) maintains that, alcoholic beverages have always been seen in China as health beverages and specifically certain kinds of wine are an essential ingredient of Chinese medicine. As in Western countries, wine is believed to reduce the risk of cancer and cardiovascular diseases.

Nowadays, wine is consumed during traditional festival such as The New Year festival or other major social events.

Regarding imported wine, it is fundamental pointing out that it is served mainly to impress a guest or a business partner at a restaurant dinner or occasionally used as a gift on a particular occasion (Eijkhoff, 2000).

Yet, at official governmental events and among older generations, white alcohol (bai jiu) it is still largely preferred compared to wine (Guo, et al., 2010).

Another peculiarity is worth mentioning, is the idea that eating is for eating and drinking is for drinking. This expression means that, in China, eating is traditionally unaccompanied by any drinks. The only traditional beverage usually served with food is tea and more recently beer (Lee & Jeannie, 2007).

However, a recent report by Daxue Consulting highlights the drinking habits in China are changing. Particularly, the report shows a consistently increase of alcohol consumption among females as they are becoming more financially independent having started to enter the workforce.

Likewise, the extremely interesting fact deals with the emulation of Western consumers by the Chinese counterpart and the willing to prefer the image associated with drinking wine to taste.

Undoubtedly, this represents a significant opportunity for well-known Italian wineries. The general increase of economical well being among the population, the amplified easiness to access consumers' goods, modified the lifestyle. Nowadays, in most cases, the Chinese consumer can access medium and high quality products in all sectors (Alfieri, 2013).

According to the Meet the Chinese Consumer Study conducted by McKensey (2010), consuming of goods will increase dramatically in the following years. Specifically, in the main cities of the country, population will have an average 8000 USD income which is double compared to the current 4000 USD.

The average future consumer is aged 25-40 and aims to get richer than the others in a very competitive society. The consumer has knowledge about the prices and is influenced by the Western culture that, as above-mentioned, tries to emulate (Newsmercati, 2010).

Tadeo (2014) reminds that, the study conducted by VINEXPO, a Bordeaux-based wine trade association, clearly displays consumption of red wine has rocketed 136 per cent over the past six years, as wealthier shoppers continue to pour money into

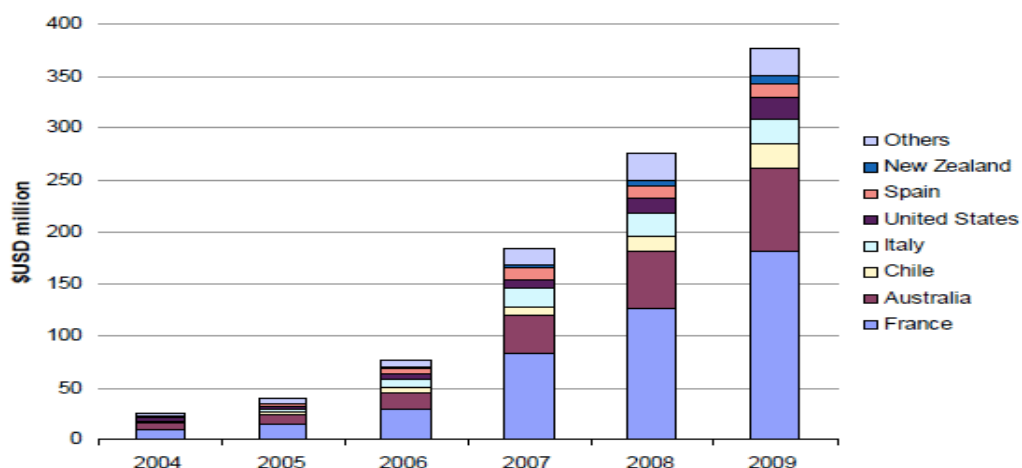
luxury items. The increase was also partly driven by cultural preference for red wine over white due to the meaning of red to Chinese people. Indeed, red symbolizes good fortune, wealth and power, while white is often associated with death, making it an obvious choice for business meetings.

Conversely, it is worth pointing out that 80% of wines consumed in China are made in the country but imported wines are rapidly gaining market share. Imports have risen 7 per cent over the last six years accounting for 18.8 per cent of all wine consumed in China (Tadeo, 2014).

In Asia, wine sales have doubled over the past decade, with China and Japan together accounting for 80 percent of the total Asian market (Thorpe 2009). China only began importing bottled wines in the last 15 years or so, and only in recent years, consumers began to develop a taste and preference for particular wine types that compliment food. Growth in wine consumption from 2001 to 2006 averaged around 7% annually, in contrast to global demand, which grew at just over 1% during the same period (Thorpe 2009).

The below shown graph well illustrates the import of foreign wine in China by country.

Table 3- Import of foreign wine in China by country



Source: GTIS, (from China Customs Data), 2010

As it is easy recognizable from the table, Italian wines, well known worldwide, only marginally account in the Chinese market compared to France and Australia.

According to Wine Intelligence (2013) nearly three-quarters of Chinese wine drinkers enjoy trying new wines, have a strong interest in the subject and they claim wine is an important part of their lifestyles.

Moreover, 54% of consumers in the study would consider themselves as expert within the wine industry.

Nevertheless, the Chinese wine consumer is typically a market follower instead of a leader. He/She needs to feel safe about the wine he is drinking he does not want to “lose face” by choosing the wrong wine or admit a limited knowledge about wine. Thus, it is important for wine companies to inform consumers where the wine is from and why it is a good quality one (USDA,2008).

Certainly, the continual growth of imported wines consumption is associated with a cultural characteristic; foreign wine is believed to be healthy and implies a certain social status and cultural sophistication. It is considered a fashionable alternative to traditional Chinese rice wines and alcohol.

Finally, in China, gift giving after a presentation or meeting is exceptionally important. Chinese often purchase wine as an elegant and tasteful gift to share or for others to enjoy. Larger gift boxes may include two bottles of wine and a corkscrew or wine glasses. Gift packaging in the form of a sturdy, ornate wooden display box is very standard. Gift items are top sellers among premium wines especially during festive times of the year (USDA, 2008).

Taxes and legal barriers

The limitation of foreign wine exports in China is indubitably due to the high exportation price as well, which is caused from taxes and various legal requirements. Particularly, Protti (2005) well considered these barriers. Indeed, custom taxes differ according to the typology of wine the company wishes to export. Moreover, the value added tax (VAT) is 17% and the consumption tax is 10%. The latter must be paid immediately after the product enters China. Regarding, bottled wine the total taxes to pay are thus made of:

- 14% custom tax
- 17% VAT

- 10% consumption tax

The total (41%) significantly increases the export cost thus it represents an important obstacle to export.

Regarding the label requirements, Protti (2005) highlights that; in 1994 the Chinese government suggested foreign producers to translate the wine labels into Chinese.

In 2000, the new law required producers to create a special label, in Chinese language for products introduced into the country.

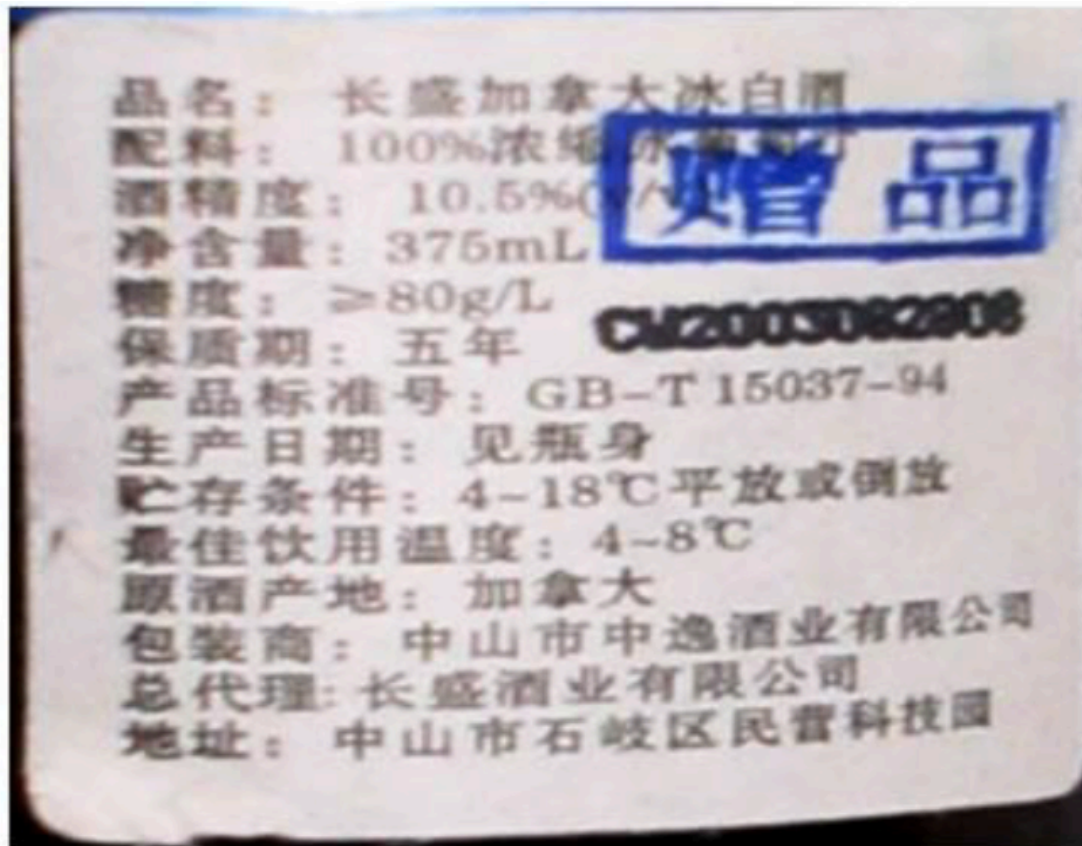
Nowadays, the General Administration of Quality Supervision Inspection and Quarantine (AQISQ), that checks labels and undertakes quality inspections on foreign products in China, carries out the label check and the quality inspections simultaneously thus speeding the process.

Specifically, the Italian Trade commission (2010) clarifies the label requirements:

- The back part of the label must be no less than 10 cm height and 7 cm width.
- The Chinese types must be no less than 2 mm big, the net weight and the wine name must be indicated with types no smaller than 4 mm
- The bar code must be indicated
- The wine name in Chinese and English (Italian)
- The wine typology
- Raw materials (grapes)
- Country of origin
- Region of origin
- Expiration date
- Bottling year
- Alcohol percentage
- Grape year
- Producer name
- Distributor name
- Producer address

The following page figure exemplifies the back part of the label

Figure 4- Label back part



source:<http://www.winesitaly.it/formazione47.htm>

Furthermore, the AQISQ requires certain documents to be included while exporting wine. These documents are the following (Infoexport, 2011):

- Load list
- 5 original copies of the invoice with signature and stamp
- 1 original copy of the health certificate
- 5 original copies of the label
- 1 original copy of the front label in Chinese language
- 1 original copy and 1 photocopy of the producer license translated in Chinese
- 1 original copy and 1 photocopy of the producer's health certificate translated in Chinese
- 1 original and 1 photocopy of the manufacturing process translated in Chinese

The control procedure lasts from two months to up to one year. Afterwards, the product can be sold in the country.

Usually, the importer appeals to specialized agencies to speed up the process. However, a higher cost (1000-3000 RMB) should be taken into account in this case (Protti, 2005).

Additionally, the website enocentro.it (2013), states that all exporters of alcoholic beverages must communicate the quantity of phthalates in their products. Phthalates are chemicals used to protect the PVC used to pack the beverages. An authorized laboratory in the country of origin must certify the presence of these chemicals.

Finally, a further limitation deals with packaging. The AQISQ demands a Declaration of Non Wooden Packaging in order to protect the land from introducing ants into the country.

Though, non-conifer packaging is allowed but a Declaration of Non Coniferous Wooden Packaging is required in this event.

Country of origin

Extensive research has been undertaken on whether the country of origin (COO) affects product evaluation. Roth and Romeo (1992) found that consumers view products of a particular country primarily based on their perceptions of that country's strengths and weaknesses regarding production and marketing. Wall et al. (1991) assert that COO information is more important in affecting product quality assessment than price and brand information.

When applying COO to wine purchasing, Batt & Dean (2000) maintain that origin of wine is one of the most important variables influencing customers' decision.

Duhan (1999) investigated the reasons behind the importance of COO. The author found two main motives. Firstly, there are so many wines on the market that consumers are likely to make decision short cuts, so-called decision heuristics in marketing. These kinds of decisions, typically involve only one or two characteristics of the product at a time.

Moreover, COO is often, rightly or wrongly, perceived as an indicator of quality. Lastly, Chaney (2002) added another explanation to this phenomenon; supermarkets and most of the wine retailers tend to expose wine by COO highlighting it as a principle of choice.

SWOT analysis theory

Examining a company's internal and external environment is an important part of strategic planning process. The SWOT analysis includes the analysis of strengths, weaknesses, opportunities and threats thus investigate internal and external as well as positive and negative factors of a firm usually displayed in a matrix.

The objective is to develop a marketing strategy using corporate strengths, avoiding weaknesses to benefit from future opportunities taking future risks into account. Thereupon, it offers a combination of results on firm's resources and capabilities against the background of the competitive environment where it operates (Bohm, 2009).

According to Ferrel & Hartline (2012), the analysis described above has certain advantages such as simplicity, lower costs, flexibility, integration and synthesis and collaboration among diverse areas of the company. However the authors remind that, staying focused, searching extensively for competitors, collaborate with other functional areas, looking for causes behind factors and separate internal and external issues are fundamental steps to following when conducting a SWOT.

PART 3: ANALYSIS

The analysis part will be again divided into three subsections, following the theoretical framework: microenvironment, mesoenvironment and macro environment. The purpose of this division is to create a clear structure to summarize the findings

using the SWOT analysis tool described above.

Particularly, the microenvironment analysis form strengths and weaknesses of the companies therefore internal factors.

Conversely, meso and macro environment analysis include opportunities and threats also known as external factors.

Microenvironment

This section aims to analyze the microenvironment surrounding wineries targeting the Chinese market. The model divides suppliers, customers, competitors, marketing intermediaries and public and separately treats all these factors affecting companies' microenvironment.

- Suppliers: Italy has more than 2 millions acres under wine, third in the world after Spain and France. The main issue is that most of vineyards are too small to start an international business or even to sell. Hence, numerous cooperatives have been established to pool the resources of local growers make and sell their wine (Brostrom, 2008). This case applies to Cantina Santadi as well. Indeed Cani (2014) highlighted the importance of a consortium with five companies in the Sulcis area of Sardinia, constituted among Santadi, Santantioco, Calasetta, Mesa e Semura wineries. The main aim is to promote the vine variety called Carignano. The three years collaboration among the wineries helped to introduce Carignano into China. Furthermore, this consortium benefit from European resources aimed to promote products in and outside the European Union.
- Customers: the Chinese consumer has been, as above cited, described and studied several times by past studies. Understanding the consumer is generally a relevant issue and even more relevant when dealing with the Chinese wine consumer because it is a recent issue. Conversely to most contemporary studies stressing an increasing of wine culture in China, Avallone (2014) claims that, the Chinese buyer still has no taste, no

perception and is moved by the desire to get drunk through the content of alcohol. The interviewee describes the way they drink wine as guzzling or having the so-called “one shot”.

Ultimately, Villa Matilde CEO maintains that they do not seek pleasure or nutrition through the product.

However, Cani (2014) argues that, the consumer is becoming more open-minded, especially in the food and beverage sector, compared to the past and that is probably the reason why big western chains such as Mc Donald’s are present in the Chinese market. The main reason behind that is the curiosity moving the sector. Therefore, it is still difficult to serve the consumer but definitely possible.

Regarding the target segments and the distinction between B2B and B2C consumers, Avallone (2014) contends that the process of reaching the consumer should first address to B2B market and then B2C that is because of the entry barriers, which will be discussed later.

On the other hand, Cantina Santadi decides to target directly medium/high class consumers because of their products quality and obviously high price range. Undeniably, due to high production costs, Santadi would not be able to compete in segments targeted by cheaper Australian, Chileans and Californian wines (Cani, 2014).

According to Zhang et al. (2010) approximately 40 % of Chinese wine consumption is an organizational consumption meaning organizations purchase wine for business and relationship-building reasons therefore B2B.

Nonetheless, there is a peculiarity that makes Chinese customers so different compared to other countries. Stevie Kim (2012), a well know wine expert and general coordinator of Italian wine trade fair, conducted extensive researches on this point. She claims, in the interview for Wine Business International by Carter (2012), gifting generates big clients and sales in China. Particularly, big corporations and governmental agencies use wine as a gifting mechanism. They buy containers directly from wineries and most of the time you have no idea what happens to them. Several winemakers experienced that and when they ask the importer about the final destination of their products, the importer

basically does not give many explanations simply saying: “I paid for it, so it is not your business”.

Santadi has faced this distinctiveness as well. Indeed Cani (2014) argues that unfortunately many times, wineries do not know much about the final customers. This makes extremely difficult to build a precise consumer's profile to target.

However, it is enormously important to build a profile of your customers before targeting the market; it is a principle of marketing management. A recent food consumption study in China by Zhou, Liu and Cao (2014) highlights 3 main profiles regarding the Chinese consumers: (1) extrinsic attributes-seeking consumers, who care a lot about the location of the winery, awards won, age of the wine and appearance of the packaging; (2) intrinsic attributes-seeking consumers, who care about the taste of the wine, quality, brand name and value for money; (3) traditional wine customers, who care about the alcohol volume and only marginally about other attributes. The second category is an important finding because it breaks the stereotype that Chinese only take into account extrinsic characteristics. It is a signal that they have started considering quality wines and enjoy drinking them. As a consequence quality becomes together with price factor an implication for developing players in the Chinese market.

The following data segments clients on buying occasions as well. Particularly, in this case, respectively 296, 237 and 236 respondents are divided into 3 categories again according to the purposes in relation to price; (1) private consumption, 42% of them are likely to pay between 101 and 300 RMB while 39 % are likely to spend between 50 and 100 RMB; (2) gift, 28 % are willing to pay between 101 and 300 RMB and the remaining between 50 and 100 RMB; (3) for special occasions, 20 % are likely to buy wines for a price range of 101 and 300 RMB and 52 % less than 50 RMB.

The subsequent graph includes the survey data:

Table 4- Wine price range for different purchasing purposes

Price range per bottle	For private consumption % (n = 296)	As a gift % (n = 237)	Special occasion or celebration % (n = 236)
Below 50 ¥	9.5	4.2	19.5
50–100 ¥	38.5	44.7	51.7
101–300 ¥	41.6	27.8	19.1
301–500 ¥	7.1	11.4	5.1
501–800 ¥	1.4	7.6	3.4
801–1500 ¥	1.0	3.0	.8
Above 1500 ¥+	1.0	1.3	.4
Sum of 300 ¥+	10.5	23.3	9.7

source: Zhang-Yue Zhou, Hongbo Liu, Lijuan Cao survey

Moreover, it is particular of significance to build a profile of the so-called Chinese young adults (CYAs) consuming behaviour because the habit of drinking wine is quite recent, thus the young population has a big role in this issue as acknowledged by many studies (eg: Protti, 2005, Polsa,2002, Kim,2012, Cani, 2014).

Yet, specifically useful in this case is the survey conducted on 414 Chinese university students by Li et al. (2011). The authors collected data on five factors namely, frequency of wine drinking, type of wine consumed, place where wine is consumed, purpose of wine drinking and like hood of wine drinking in the future. Of the total sample, 2.9 per cent of CYAs drink wine once a week, 12.8 per cent drink wine once a month, 25.4 per cent drink wine once every half year, and 58.9 per cent drink wine once a year or during a longer period. This is, according to the researchers due to three factors; they lack occasions to drink wine, they are still students therefore they have only limited funds, they prefer other drinks. Regarding the type of wine, the results show that 91.8 per cent of CYAs prefer red wine to white wine (6.9 per cent) and this is related to the element that they mistakenly call red wine even other beverages (in line with Avallone, 2014). Respondents were also requested to

provide their first-choice of venue for drinking wine. More than half (60.1 per cent) drink wine at home. 21 per cent of the respondents drink wine in a hotel setting, while 14.5 per cent drink wine at a restaurant. Very few respondents drink wine at either bars (3.1 per cent) or night clubs (0.5 per cent). By gender, more females drink wine at home (63.8 per cent) or in a hotel (22.3 per cent) than males (57.1 per cent and 19.9 per cent, respectively), while more males are willing to drink wine in a restaurant (16.8 per cent) or bar (4.9 per cent) than females (11.7 per cent and 1.1 per cent, respectively). This is because more males than females are involved in social activities. All participants were asked to answer an open-ended question on the purpose of their wine drinking. The results show that 59.2 per cent of the respondents choose social communication as the first-choice in this category hence social activities play an important role in this choice. Lastly, as the representation of the future of the emerging Chinese wine market, the likelihood of CYAs' future wine drinking was tested. When asked whether they were likely to drink wine in the future, 96.5 per cent of the respondents indicated that they hoped to do so, while only 3.5 per cent indicated that they were unlikely to do it.

Finally, in a recent study by the Chinese Ins Global Consulting, Hsu emphasized that in China, the main consumers of wine are the inhabitants of the big urban centers with a huge concentration in big metropolis such as Guangzhou, Shanghai and Beijing in particular. Women and the youngest coming from quite wealth families of the middle class are especially big consumers. Chinese people prefer the red wine compared to the white one, although the consumption of this latter tends to increase progressively. In China, the red color is a synonym of happiness, love and luckiness, which explains why 85% of the consumed wines are red wines. The Chinese are likely to consume fruited wines, less irritating their tongue than the others with a strong preference for the grape Cabernet Sauvignon which is the most well-known.

- Competitors: the competitive picture of the Chinese market has been considered by several studies as well. Particularly, the GTIS graph (shown

above) provides import data of foreign wine in China by value. In that case Italy comes after France, Australia and Chile.

On the other hand the following table (OIV) displays imports of foreign wines by volume:

Table 5- Imports of wines in China 2003-2012 - volumes

Importazioni di vino in Cina 2003-2012 - volumi					
hl/1000	2009	2010	2011	2012	var %
Totale	1,730	2,862	3,656	3,940	8%
Francia	446	749	1,279	1,397	9%
Spagna	84	473	739	713	-3%
Cile	496	556	435	610	40%
Australia	381	565	447	426	-5%
Italia	72	208	312	325	4%
Stati Uniti	100	128	147	159	8%
Portogallo	11	23	64	58	-9%
Sudafrica	45	41	58	51	-12%
Germania	18	33	42	38	-9%
Argentina	45	31	35	43	24%
Nuova Zelanda	11	14	20	25	26%

source: OIV, ISMEA, OEMV

The results do not show improvements for Italy; indeed, it comes after France, Spain, Chile and Australia in terms of volume as well.

Bobik (2014) collected data on some of the major competitors in the market. Dealing with France, the author states they managed to establish its wines as the most popular ones among all imported bottles and it has accounted for more than a third of the whole import market in the last decade. Australia has become a popular player as well. Despite general falling of Australian exported wines, they experienced an increase of demand in the Chinese market becoming the fourth largest in China in terms of presence. In Australia, China is considered to be a major market therefore a declared one to invest in.

Regarding Chile, it plays an important role. Particularly, in 2006 Chile and China signed a free trade agreement followed by heavy exports activities. Indeed, in 2008 Chilean wine exports to China grew by 15 % in volume compared to the previous year. Due to positive results they decided to establish a wine production directly in China.

According to data collected during interviews, Italian wines in Chinese supermarkets account for no more than 4% compared to 56%-57% scored by the French. Among the French and us there are other countries such as Australia, USA (California), Chile, Spain and even Germany sometimes. The main dispute behind it is that, Italian wineries are very small while France, for instance, invested globally as a group and also with the support of various governmental institutions like SOPEXA (International Marketing Group for food, wine and lifestyle) (Avallone, 2014).

This trend is confirmed by Stevie Kim (2012), who maintains for every 55 bottles of French wines there are only 6 Italian wines.

Moreover, continues Avallone (2014), Australians, French and Californians sell easier than Italians because they uniformed their products to the so-called international varieties: Chardonnay, Cabernet, Merlot to cite a few. Unfortunately, Italians when targeting the market with typical products such as Falanghina, Sangiovese and Nebbiolo are not immediately recognizable by the consumer.

On the other hand, Cani (2014) clearly sees possibilities for Italian wineries to succeed in China. One of the main issues to deal with here is the country of origin theory; Chinese associate Germany with cars, France with wine and Italy with fashion. Furthermore, France has champagne which is an elite product connected to high social level and snob way of life. Moreover, French started business in China ten years ago thus they built a territorial identity and they worked a lot with big chateaux, they are very good at selling.

Additionally, and this is connection with what Avallone (2014) declared, French have been capable to create an attractive system. All producers sell France as a country instead Italians sell different Italian regions and this makes difficulties for the Chinese to associate a particular regional wine with Italy in general. "For example, if you go to a food and beverage exhibition in Shanghai you will notice

Association of Italian Exporters, Consortium of Brunello, Moscato, Amarone, Consortium of Barolo and so on. "If you take a look at the French area you are able to immediately recognize the country as a whole", affirmed Cani (2014).

Vorndick (2014) declares that French wines account for a total of 48 % of all imports and Bordeaux's reds are a particular favorite of the Chinese elite. This is the real strength for France: growing economics. In the last few years, many renowned French wine companies have rushed to open joint-venture vineyards and wineries in China. In July 2014, Moët Hennessy's Chandon subsidiary opened its Ningxia Winery in central China, which will be dedicated to producing sparkling wine. Not far away, Pernod Ricard, a renowned wine producer, recently took over another large winery, Helan Mountain.

The above shows French wines are so established in China that Chinese stakeholders are directly investing in French vineyards. None of the data collected in this study indicated the same for Italy yet.

However, a research conducted by a Santadi's importer shows that France is the only country currently leaving from 8% to 10% market share in China.

Finally, since both Villa Matilde and Santadi produce medium-high level wines, wineries should also take into consideration competition by other cheap Italian products. For instance, Tavernello and other big groups are also targeting the Chinese market. Yet, Cani (2014) perceives this as an opportunity for quality oriented wineries since the consumer will be used to cheap products and then realizes the difference when trying a superior wine.

- Marketing intermediaries: it is acknowledged that the figure of the importer and other market intermediaries are very important when targeting the Chinese market (ex: Protti, 2005 & Polsa, 2002). This is strictly connected with legal requirements and the relationship building system typical of China. These will be analyzed in the macro environmental section when culture and other macro environmental entry barriers will be treated.

However, regarding importers, Cani (2014) highlights that they undertake the customs clearance, take care of all the documents needed and pay due taxes.

This figures is really critical because the customs process is long and not very easy to clear.

Indeed, Lee et al. (2009) state that regarding domestic wines, marketing forms vary; small traders buying the product from wineries and then selling it to potential customers is the dominant marketing strategy for local wines. Moreover, wine can be sold to retailers either directly or through wholesale. Direct sales have emerged with the rise of supermarkets while wholesalers buy large amount of wine and then they distribute it to small chains of restaurants and liquor store.

On the other hand, when dealing with foreign wine, specialized wine importers and distribution agents are completely responsible for getting imported wine from the port to the consumer. Although a significant share of imported wines is consumed in upper-scale restaurants in Beijing and Shanghai, increasing amounts of wines are being purchased in supermarkets in the case of foreign products as well. Data from a survey conducted by Lee et al. in 2005, selected a sample 61 supermarkets in major cities, from hypermarkets to convenience stores. About a half of these 61 offered foreign wines. On average, 21 % of total shelf space was allocated to foreign wine while most of the total shelf for foreign wines was in hypermarkets and medium-sized supermarkets. The absence of large supermarkets in metropolitan cities is, according to the authors, due to the fact that most of them became hypermarkets. However, in downtown areas the land is vey expensive to build hypermarkets therefore medium-sized supermarkets are vey common. Finally, convenience stores only offer limited amount of foreign wines. The next page table summarizes the findings:

Table 6- Share of stores that sell foreign wines

	<i>Stores that sell foreign wines (number)</i>	<i>Share of stores that sell foreign wines (%)</i>
Total	31	51%
By formats		
Hypermarket	16	73%
Large	4	57%
Medium	5	71%
Small	4	27%
Convenience store	2	20%
Foreign ownership	16	94%

source: Hyunok Lee, Jikun Huangb, Scott Rozelle & Daniel Sumner (2009). Wine Markets in China: Assessing the Potential with Supermarket Survey Data

Another relevant study by Noppè (2012) takes into account Charles Carrard, Commercial and Communications Director at French Paradox Wines, declarations. The focus is on international supermarkets in China and specifically Carrefour. Particularly, he states that rich Chinese people shop at Carrefour because it is a symbol of Western way of life; Carrefour has a wide wine selection ranging from cheap to expensive products; it helps creating brand awareness as Chinese become more familiar with various brands; specialized sellers are able to provide wineries indications on behaviours and buying patterns of consumers; it is a starting point to move from off-trade (supermarkets) to on-trade (Ho.Re.Ca) because if a consumer is used to a brand in supermarkets then it will prefer it in other channels as well.

- Public: concerning the public, Chinese have completely different logics compared to Western countries. They can affect company's image and

operations with various initiatives. Avallone (2014) reminds the case when groups of rich Chinese consumers experienced technical problems with luxury cars such as Lamborghini and Bentley and to protest against carmakers they simply destroyed 400.000 € cars instead of appealing in court.

Mesoenvironment

The objective of this paragraph is to present findings related to the meso environment, thus factors between companies and macro environment. Specifically, the well-know model of marketing mix will be used and 4ps presented individually.

- Price: Brentari et al. (2011) study show that the price formation mechanism in the wine industry is different in the large-scale retail trade and in wine shops. This difference is not merely represented by a price gap, because the supply of the two channels is partly different, reflecting the diverse kind of demand. In fact, consumers who buy through the large-scale retail trade are either not sophisticated or have tasted the wine elsewhere and use this channel for price convenience. For this reason, in large-scale distribution, selling sophisticated and quite unknown wines is disadvantageous, whereas in wine shops the consumer is more aware of the intrinsic quality of wine and is conscious that the price reflects this characteristic. The consumer basically seeks, beyond the wine, some experienced consulting. The determinants of wine price, as have emerged from the research, for the most part reflect these differences between the two channels.

However, this analysis is accurate for general markets but as we have previously realized from data, this is not 100 % valid for Chinese large-scale distribution where hypermarkets and supermarkets are very relevant selling channels.

Price strategy depends on the business strategy of the company. This means, according to Avallone (2014) that if you aim to sell high quality wines and you have big investments capacity then you can sell bottles at 10.000 € per bottle.

On the other hand, if you have another business strategy you may want to sell at 2 or 3 € per bottle. The interviewee insists that the price range varies according to your strategy and budget without a perfect recipe.

Specifically, Cani (2014) declares that the price strategy of Cantina Santadi aims to sell quality wines for a high price. Indeed, Terrebrune vine variety is sold in China at an average price of 500/600 Chinese RMB (60/70 €).

A study by Bretherton & Carswell (2001) clearly shows that values for Chinese customers are somewhat different to those for Western consumers. The cultural values suggest, prices of imported wines should be at the premium end of the range. Mainly, this is because reduced-price sales in China tend to be perceived as efforts to get rid off inventory that is below average in quality.

In conclusion, the process of listing imported wines in China at a given price is influenced by three factors namely, the combined import duty, value added tax and consumption taxes; the importer's margin in China that, can range from 30 % to 60% and finally, the margin of retailers or hotels and restaurants. Particularly, in high-end hotels and restaurants it is not unusual to find a mark-up of between 250 %- 350 % (Barbarossa et al., 2014).

- **Product:** Describing all Italian vine varieties would be an extremely long and probably not very useful work. For that reason this section intention is to build a brief map of the most renowned varieties produced to give the reader a big picture. According to Zrally (2009), there are more than 2000 wine labels in Italy but the biggest producing regions are Piedmont (with the big reds), Tuscany and Veneto. The major red grapes are Nebbiolo, Corvina and Sangiovese. Other important regions are Abruzzi, Friuli Venezia Giulia, Lombardy and Trentino Alto Adige. The control systems to ensure quality and production modes are called Denominazione di origine controllata (DOC) and Denominazione di origine controllata garantita (DOCG).

The chart on the next page displays the main grapes by region;

Figure 5- The Best (Easy) Map of Italian Wine Regions and Varieties



source: <http://www.vinissima.net/?p=154>

Regarding the cases analyzed in this project, Villa Matilde produce wines with denomination of origin. The reference product is called Falerno del Massico. Moreover, there are other geographically protected vines such as: Falanghina, Aglianico and Cecubo. They are all typical wines in the Caserta county area and they are almost 3000 years old. All these varieties have a quite high percentage of alcohol stressing an important difference compared to the French for instance (Avallone, 2014).

On the other hand, Santadi cultivate Carignano del Sulcis, Terrebrune (the most important variety of Carignano) and other regional varieties such as

Cannonao, Nasbo, Nuragos (Cani, 2014).

Packaging rules must be taken into account and they are established by the AQISQ, as mentioned above.

- Promotion: promotion activity is clearly related with the importer's activity that is responsible of facilitating the process of bringing the product to the final consumer.

The main promotion activities undertaken by Cantina Santadi include presentations during exhibitions, tasting events and events with local operators new importers, for companies that don't have one or with your importer if you already have one (Cani, 2014). At the time of interview, Cani (2014) also declared that he organizes several trip, like the one scheduled at the end of May 2014 for an exhibition in Hong Kong with the importer and then moving to Shanghai which is the importer's headquarter. It is fundamental to build long-lasting relationships as it could be noticed from the interviews.

Furthermore, they also invited a delegation of Chinese government to go to Sardinia and visit the company.

Organization of events to promote Italian wines in China is a useful means to increase brand awareness. Hoonay Wines participated to numerous events such as, national day reception of Italy in China, anniversary celebration of Renmin University, and also cooperated with many top Italian brands such as Ferrari, Ducati and Azimut. Hoonay also holds influential wine tastings and dinners all over China (Hoonay website, 2013).

- Place: the last p of marketing mix model deals with distribution. Extensive research has been conducted on available distribution channels in China (ex: Polsa, 2002).

Data collected at Santadi shows that they are targeting the Ho.Re.Ca sector, mainly medium/high class both Italian and Chinese facilities (Cani, 2014). This statement confirms previous theories, stressing the growing importance of the Ho.Re.Ca channel in the country.

The retail sector includes countless options namely, hypermarkets,

convenience stores, specialty stores and wine shops. Foreign players started loom hypermarkets although there is an increase of local competitors in this retail alternative. Operators such as, Carrefour, tend to stock not only domestic wines but also a wide range of imported ones in terms of country of origin, grape variety and price, from cheap plonk to top Bordeaux. In convenience stores, Family Mart, Quik, All Days and 7-ELEVEN prices are around RMB48 (\$7.60) to RMB106 (\$16.80) and included Australian, Argentine and French options, as well as the store's private Chilean label. While wine tends to be bought for gifts, perceived health benefits or the sense of status it bestows, for those who want the stuff for its taste, stores specializing in imported goods are a popular option with an average quality higher than hypermarkets. Lastly, there are plenty of interesting outfits, such as Top Cellar, with seven shops and a strong portfolio of mid range-priced wines in Beijing, Just Grapes and the focused Napa Reserve in Shanghai, Oh! Marco, which claims over a dozen wine shops in eight cities, and Enoteca, expanding north after opening in Shanghai, Suzhou and Guangzhou. Some shops combine wine with other products, such as Cheese and Fizz in Shanghai and Cheese and Wine in Beijing (Boyce, 2012).

There is a rising of Western oriented places such as French bars filled with young people like in New York for instance, continues Cani (2014).

Avallone (2014) believes that the choice of a channel instead of another is strictly related to your price strategy: "if you would like to sell 10 millions of bottles for 2 € you choose a channel, if you want to sell 100 bottles for 10.000 € then you choose another one" he asserts. Certainly, there is a wide part of the population willing to buy wine for 2 €. On the other hand, if you manage to collocate your product into a high value and price range you have no limits because it becomes a status symbol.

China is a very complex market to enter so it is extremely useful to identify the biggest players (distributors) available. There are numerous distributors/importers accessible for foreign brands.

Jim Boyce (2012) on the notorious Wine Business International describes the major distributors in the country. The ASC Fine Wines is one of the biggest

successes for imported wines in China. The ASC portfolio includes numerous large well-known brands and the company also sells wine accessories, including at its flagship operations Wine Gallery and Wine Residence in Beijing and Shanghai respectively. Another important distributor is Aussino; it has a network of hundreds wine bars, shops, lounges and kiosks throughout China where clients can indulge in everything from Grand Cru to bottles under RMB100. Chateaux and Domaines (C&O) are a major importer and distributor especially in the South Part of the country. The C&D portfolio lists wines from 10 countries and includes labels such as Banrock, Black Tower, and Castel. Moreover, China Wines and Spirits which although being recent it has a wide portfolio including Trapiche, KWV, Chianti Classico and Champagne Deutz as well as some quirky choices such as Grover Vineyards from India. COFCO Wines and Spirits is part of a state-owned massive company but also focusing on imported wines such the well-known Pommery Champagne brand. Summergate Fine Wines: Established in 1999 and long a major player among wine importers, Summergate has seen some big brand movement over the past 18 months, with the exit of DBR Lafite and Antinori. Conclusively, Torres China: the China branch of the Spanish family-owned company. The portfolio includes wines from 16 countries with a focus on family-owned operations, including home labels like Black Label Mas La Plana.

Particularly, a relevant example is Hoonay. Hoonay Wines is a specialized Chinese importer and distributor for Italian wines. Since foundation in 2010, their aim is to introduce Italian fine wines into the Chinese culture. Hoonay established cooperation with top brands such as, Sassicaia, Antinori, Gaja, Chacra and Ceci. They also have a close relationship with the Italian Government Chinese Embassy in Italy, many top wineries and European luxury Groups. With good resource in China, Hoonay has developed a national wide network composed of distributors and high-end consumers. Furthermore, Hoonay started close collaboration with professional organizations such as Vinitaly, Grandi Marchi and Gambero Rosso (Hoonay website, 2013).

A final and recent distribution channel is e-commerce. Data collected by Kim (2012) show a substantial growth of wine e-commerce especially because it is hard to reach some of the cities. Yesmywine is a young organization delivering wine; they have 150 agents negotiating with importers for their online sales. Yesmywine sells as much as 50.000 bottles per day. Another important player in the online sector is Tmall. It is spun off Taobao, Chinese equivalent of ebay and part of the platform Alibaba Group thus an incredible force. They have a different business model, they collect commission but they are very strong on quantity management since 80% of all e-commerce goes through Taobao. E-commerce business is definitely a big opportunity for medium to lower prices wines but you need relevant volumes often not suitable for tiny Italian winemakers.

Macro environment

The last part of this analysis is dedicated to studying the macro environment affecting companies willing to target the Chinese market. Hereafter, entry barriers are investigated aided by the PESTEL analysis theoretical framework. The components of this model fitting the aim of this research have been examined.

Political/Legal dimension: It is acknowledged that China is ruled by a communist dictatorship, which leads to several consequences regarding international business practices. Indeed, according to Cani (2014) a significant issue to overcome deals with the political dimension is the fact that rich people not always have the opportunity to spend money. The motives behind this should be researched in the historical and political events of the past years. For instance, the so-called only child campaign gave possibility to get governmental benefits only to people who decided to have an only child. These kinds of rules have been blocking the country for ages. However, proceeds Cani (2014) population is starting to become tired of all these State restrictions and one day they will “explode” and spend all the money they have.

Obviously, “an only child can not simply live an entire life Mao’s principle meaning I am going to work where my skills are necessary”, firmly declared Cani (2014) during the interview.

Moreover, another historical example is that in the past Chinese people was supplied food through a governmental card.

Finally, politicians know they cannot stop the economical growth because we should always remember about events such as Tienanmen Square.

Moving to the legal related dimension, barriers, as data shows, are even more noteworthy.

Regarding legal barriers, Avallone (2014) firstly stresses that, if you do not have enough links, right importers and right customers, products can lie even several months on the dock of a port without being able to clear customs. This is definitely a big issue but protection of the product is surely a more significant problem. The interviewee gave a very useful example: “ there is the case of a large French winery, not large in terms of size, but in terms of quality called Château Lafite. It is a Château among the 5 reference ones for the top quality in France. Chinese wines cloned it and they opened circa 5 million of bottles of fake Château Lafite in China. Château Lafite is important, a bottle of Lafite costs several hundreds or maybe thousands of Euros and Chinese people have thought about falsifying it”. Clearly, protection of intellectual rights is one of the most serious problems to deal with. The Chinese market can be considered, according to Avallone (2014), a “wild west” in the wine and food sector. In extreme cases, counterfeit products are killing people as the well-know melanin milk case or other tremendously polluted products. Fortunately, the Chinese government launched programs in order to standardize quality through control protocols.

Secondly, Cani (2014) highlights another legal issue: timing. Although, the importer does customs clearance, taxes are on value and not on bottles or liters like England, for instance. This means that when they find an invoice they check all the bottles to see if there is congruence with the document; they check each package and bottle.

Furthermore, these rules change often because of license issues faced in the past and most of the times companies are not well informed about changes and they

cannot do much about it. Surely, concludes Cani (2014), “we know that time to market is quite long”.

Doubtless, because of the latter statement, Santadi decided to label and translate all the bottles characters into Chinese before leaving Italy.

Economical dimension: Avallone (2014) states China is absolutely the richest country in the World as they have a power purchase that in Europe and in especially in Italy has been lost. Excluding approximately 50 % of population who live still in extreme poverty, a significant portion of extreme rich people makes the rest. The interviewee declares that, “they are so rich that I would probably never be able to imagine and it is so difficult to conceive those numbers”. To give a sample, there are circa 380 millions millionaires, meaning to assume Europe made only by millionaires. Furthermore, they have super billionaires who are 50 millions of people. On the other hand, Italy has around 50 millions inhabitants therefore billionaires in China equal Italian populations. “ I believe, I cannot imagine the size of their ability to spend and when experiencing, visiting China all this is tangible. The economic capacity of this country is simply monstrous,” asserts Avallone (2014) when asked about the economical potential of China.

Social dimension: The social dimension is probably the most relevant barrier, to take into account when you decide to start business in a foreign country. Moreover, the very different Chinese social dimension compared to Western country makes this factor even more important.

Particularly, the Chinese social dimension includes two main peculiarities as it emerges from past literature and from data collected for this study as well: the Chinese culture and the fundamental relationship building process which of course part of the culture.

One aspect is worth pointing out before digging into this paragraph: culture is not only part of relationships building, instead it is embedded and is one of reason of most factors already treated above as well, consequently it is very difficult to isolate it and impossible not to connect with certain aspects already presented in the progress of this analysis.

First of all, Avallone (2014), extending what he declared on absence of taste Chinese consumers show, insists on the fact that it is a nonsense to make products following only logics of quality because they prefer sweet, persuasive taste. Thus, the main cultural difference regards their idea of wine.

The average Chinese consumer is used to blueberry wine, rice wine and wines of endlessness kinds of fruit. Therefore, customers must be instructed that the wine they are going to drink is actually grape wine. Ultimately, habits, pleasure and nutrition through wine are considered a characteristic of our culture, unfortunately completely absent in their culture.

Kim (2012) states, the average consumer is not a connoisseur of wine but in her experience, the trend is definitely changing because the web savvy generations, the single child, are really embracing wine.

Likewise, Cani (2014) claims that the consumer must be educated to the product as well. The main reason behind this is the consideration of wine as a taboo in Chinese culture because they have difficulties drinking it: "sometimes they are drunk after 4 tastings when they go to an exhibition! You can spot them in the corners" declared the interviewee.

Moreover, the product wine should not be consumed solely; it should be consumed with food. Instead, in Chinese culture people are used to drink green tea or sake when eating. Wine is proposed only if you expressly ask for a wine list confirming that it is totally a new product although curiosity is emerging in the mind of the consumer (Cani, 2014).

Dealing with network building culture, Cani (2014) maintains that, relationship keeping is fundamental when you manage to build a friendship. However, this is not very easy because the Chinese individual is, nowadays, obsessed with money and that is probably because of the historical period when people were not allowed to grow economically. It is very important as well to remember, for instance, their birthday, their zodiac sign in order to keep network alive.

Networking is particularly a potential big chance for Italian wineries because of their often-limited size. Stevie Kim (2012) suggests partnerships with locals such as producers or local players. The main reason behind this is their know-how and expertise of the internal distribution system and promotion. This strategy makes the

first step to identify a possible local partner.

Conversely, both Avallone (2014) and Cani (2014) agree on the element that, one should always consider that Chinese business culture is based on immediacy and this can damage relations. Avallone (2014) states Chinese entrepreneurs do not make long-term strategies but they can help you overcoming barriers if you show to be useful to them.

Finally, Cani (2014) stresses the importance of price in the relationship affecting the labile concept of fidelity; “if you offer them 100 RMB monthly and another comes offering 200 RMB, they simply greet you and accept the best offer without caring that much about the rapport”.

SWOT analysis

This part aims to summarize the presented findings, collected during the data gathering process, by structuring them into a SWOT analysis framework. The justifications behind this choice lie in simplicity and clarity of the SWOT model.

The first strength emerging is certainly the product: both wineries produce mainly high quality products, meaning superior to various competitive countries. This can be deducted from two factors. The first one is undoubtedly the price; during the company visits, the variety Carignano was sold at a price of 50 € in house. The second one is the making process; after production, the wine is stored in special French barriques for several years depending on the vine variety. Each of them has a purchasing price of 600 € and to ensure high quality barriques are only used for two or maximum three years. Santadi has a total of 2500 barriques in the winery. Attention to details is fundamental in this process because it makes the difference between an average quality product and a high quality one, as reminded by the oenologist during the company visit.

Secondly, the history is another major strengths for both companies studied and for numerous Italian companies. Larner (2014) reminds that, in ancient times, the Italian peninsula was commonly referred to as *enotria*, or “land of wine,” because of its rich diversity of grape varieties and many acres dedicated to cultivated vines. In more

ways than one, Italy became a gigantic nursery and a commercial hub fortuitously positioned at the heart of the Mediterranean for what would become western civilization's first "globally" traded product: wine. Italy's prominence in the global wine industry has in no way diminished despite millennia of history. The sun-drenched North-South peninsula that extends from the thirty-sixth to the forty-sixth parallel embodies pockets of geographical, geological, and climatic perfection between the Upper Adige and the island of Pantelleria for the production of quality wine. Italian tradition is so closely grafted to the vine that the good cheer and easy attitudes associated with wine culture are mirrored in the nation's temperament.

Cani (2014) argues that, the vine variety called Carignano in the Sulcis, West part of Sardinia, originated thousands of years ago. Punics and Phoenicians in the Santantioco harbour imported it, which was an important harbour for navigators with 15.000 inhabitants. Therefore, the vine variety found great conditions in the area and nowadays it is known in the world as great quality wine compared to before (70's) when it was only sold as a mass market wine carried both in Italy and abroad.

Likewise, Avallone (2014) stresses that wines produced in their company arise from native grapes and products that have their roots firmly stuck in approximately 3000 years of viticulture in the area of Caserta county (South Italy).

Finally, an added strength dealing especially with Santadi, regarding the exemplified cases, is the network created in Italy. The three years consortium among five companies, including Santadi, in the Sulcis area provided a gateway to enter the Chinese market.

From a regulatory point of view, after a series of changes at EU level, the wine sector has taken a very important step thanks to the legislative decree n.61/2010, as it meets the explicit structural requirements that characterize the Italian production system. The degree officially recognizes the role of consortia on promotion and protection functions. This leads to a significant and encouraging trends toward aggregation and brings substantial benefits to the promotion of "Made in Italy" wines, supplying the opportunity to compete on the global markets also for those firms that would not have the chance to take part in competitive development strategies (Gori & Sottini, 2014).

On the other hand, there are remarkably weaknesses for both companies analyzed and generally great number of Italian companies wishing to export to China.

First of all, the size. A great number of Italian wineries are not so big to compete with other countries in the Chinese market.

Avallone (2014) clearly states that Villa Matilde is not a very big company and according to him, this excludes full penetration of the Chinese market, which is simply enormous in terms of dimension.

This is confirmed by Kim (2012) as well. Unfortunately, she declares, if a company is too small in size then China is not the right market. Yet, you need to invest time, energy and capital to get any return unless you can involve into gifting.

Equally, Santadi produces 1.800.000 bottles yearly but still needed a consortium to target the market.

Moreover, the country of origin issue is undoubtedly another weakness.

Chinese consumers are used to associate wine with France for various reasons; mainly because France advertise products associating them with the country as a whole; secondly because, and this is a consequence of the former, they have been able to build an attractive system as Cani (2014) maintains.

Finally, both due to the necessary presence of the importer and because of the size of market, it is very difficult to build up a consumer profile and this is unquestionably a remarkable weakness.

Regarding external forces in the SWOT model, data collected suggest the following.

Firstly, there is the emerging economical well being that is leading a large number of Chinese consumers to look for high-quality products that represents a status symbol. The number 50 millions of super billionaires suggested by Avallone (2014) is simply overwhelming and thus represents a big opportunity for company approaching the market. The new billionaires love to show their economical power and buying an expensive bottle of wine is an example of this.

Moreover, the curiosity certainly is an important opportunity and it represents a big potential.

Cani (2014) is convinced of that and he argues that this is mainly because wine is known only by a limited part of the population still. Thus, Santadi bet a lot on this

factor and they plan to expand even more their business to try acquiring bigger market shares.

Avallone (2014) instead, states wine culture is still totally absent but he agrees on fact that the average customer is very curious and wishes to be educated regarding this product.

Lastly, one more opportunity could be the gifting market reminded by Kim (2012) especially when targeting big corporations and B2B players.

To conclude upon this analysis, significant threats are worth pointing out.

First of all, legal aspects are likely to influence wine export.

Protection of rights is an awkward question, thus one of the most important legal problems to deal with. Avallone (2014) exemplified the case of the French fake Château Lafite copied by locals and other risky cases of fake food and beverage products.

Secondly, social dimension and labile wine culture is another threat.

Surely, the country has its logics and it is very different to deal with the social aspect in China compared to Europe or other Western areas.

The close relationship system is necessarily to be taken into account when doing business in China, as agreed by both interviewed people and by several studies (eg: Kim, 2012).

Similarly, their different idea of wine and immediacy of the market for sure influence the market penetration process.

Finally there is the French domination of the market and their well-organized system built that even if, as Cani (2014) reminded, is loosing market shares, still represents a foremost threat.

Table 7 summarizes the SWOT analysis framework and gives a structured picture of the presented situation:

Table 7- SWOT analysis framework

STRENGTHS <ul style="list-style-type: none"> • Quality (price and making process) • History • Network 	WEAKNESSES <ul style="list-style-type: none"> • Size • Country of origin (association) • Customers segmentation
OPPORTUNITIES <ul style="list-style-type: none"> • Economical well-being • Curiosity • Gifting market 	THREATS <ul style="list-style-type: none"> • Legal issues and protection of rights • Social dimension and labile culture • French domination

Source: author

PART 4: DISCUSSION

The aim of this section is to discuss the findings presented and analyzed before, thus explaining the meaning of the key results to the reader.

Firstly, the micro environmental analysis showed relevant findings especially concerning customers profile, competition and marketing intermediaries in the Chinese market of wine.

The main issue emerging from this part of the analysis is understanding the actual customers you are targeting. This originates mainly from two factors: the figure of importers and distributors as important marketing intermediaries between wineries and end consumers, makes extremely difficult to find out who really are your final consumers.

Indeed, it is worth to remind, as stressed also by Tang (2009) that specialized wine importers and distribution agents are entirely responsible for transporting foreign wine from the port to the consumer; The second factor is enormous size of the

Chinese market and its fragmentation as stressed by Avallone (2014) during the interview at Villa Matilde.

As in any other businesses clients can be divided into B2B and B2C.

In the case of imported wine consumption in China, the findings suggest that B2B clients are basically big corporations, which buy wine for gifting and relationship building processes.

Considering, B2C there are various categories of customers. Hue et al. (2014) found the three categories illustrated above; extrinsic attribute seeking, intrinsic attribute seeking and traditional consumers. Avallone (2014) is convinced that a large part of the population still falls in the third category thus focusing only on alcohol volume. However, Cani (2014) stresses the curiosity of the consumer to taste high quality wines and learn. The inclination is confirmed from Vinexpo (2011), as China has been one of the drivers for increasing global wine consumption in the last decade. Chinese consumers are changing their mind about wine. As the Chinese market is becoming more and more mature, the consumers have improved their knowledge in wine and they still are curious.

Concerning the competitive analysis, data show the presence of many countries in the market. Undoubtedly, France dominates the scene thus is the case worthy further attention. This dominance is due to numerous factors emerged from interviews and other data collected. To sum up, the principal causes explaining the French supremacy are the following:

- They have been present for many years as they started about 10 years before Italy
- They managed to establish a well organized system through heavy promotional activities
- Chinese people associate wine with France (COO)
- They are united, they present themselves as a country and not regions
- They have Champagne, Bordeaux and other well know varieties
- Their wines better fit the Chinese consumer's taste

Moreover, an additional disadvantage of Italian wineries compared to the French and the others is the size. A limited size often prevents players from entering a huge market as China (Avallone, 2014 & Kim, 2012).

Noteworthy, is also the fact that foreign competitors uniformed their products to international well-known varieties and this would be not possible for the kind of varieties offered by Italian grapes (Avallone, 2014).

Finally, regarding marketing intermediaries beyond the critical role of the importer, stressed several times in the foregoing, there is the growing prominence of hypermarkets/supermarkets in the retail sector.

The rise of Chinese supermarkets has been very fast and can be divided into four periods, based on the researches by Goldman (2000) and Chen (2004).

The First Period started in the early 1980s and ended in the early 1990s. The supermarket was just a special form of self-selection store with some very basic staple goods. This period is sometimes referred to as the 'embryonic stage'. The opening of the first small Chinese food supermarket, Guangzhou Friendship Supermarket, at Guangzhou on April 12, 1981, marked the beginning of the implementation of the new retail format. The second period of supermarket development began in the early 1990s and ended in the mid-1990s. During this period, supermarkets in the fullest sense of the word, meeting international standards, began to appear. The third period was from the middle 1990s to the late 1990s. Retailers started to adopt various formats in the supermarket sector. It was a growing period. In addition to the standard supermarket, new formats, such as hypermarkets, warehouse clubs; convenience stores and discounters entered China's retail market. It is also the period when international chains such as Metro and Carrefour appeared on the scene. The fourth and last period started around the year 2000. Both major domestic and international food retailers began new ventures by expanding their businesses to other provinces and cities in China. This included some less developed inland provinces and cities.

Nowadays, supermarkets are present in different sizes but hypermarkets seem to dominate the scene in terms of foreign imported wines as survey data by Lee et al. (2005) displays.

Additionally, supermarkets could be a starting point to switch from off-trade channels to on-trade (Ho.Re.Ca) as claimed by Noppè's (2012) study who also stresses the role of a major player; Carrefour which being a symbol of Western culture attracts diverse costumers.

Unfortunately both Avallone (2014) and Kim (2012) emphasize the limited presence of Italian wineries in this retail form compared to other big competitors.

Observing the meso environmental analysis, data helped to build the 4ps marketing mix model useful and known for its simplicity as underlined in the theoretical part.

The major findings deal surely with the promotion activities and the distribution.

In general promotion can assist a business in various ways: understanding and connecting with clients and customers, the development of financial goals and strategic planning which is a concept that encompasses marketing, promotion, sales, financial goals and is essentially about developing objectives for your business (Bradley, 2014).

Promotion in the case of wine exports in China plays a significant role and it is mainly implemented through activities organized among wineries and local players. This helps a lot in the relationship building process. Activities include trips to China and visits in Italy by Chinese delegations, exhibitions, tasting events as reminded by Cani (2014).

Moreover, promotion events increase brand awareness and it is very important in a country where wine is still a new product.

Distribution in China incorporates countless channels and players. The biggest actors have been presented with the help of Boyce's (2012) research.

Primarily, C&D and Summergate have a portfolio including several Italian brands and particularly the latter focuses on high quality products from well-know wineries such as Antinori. A further remarkable player for Italian wineries is Hoonay that is active in both distribution and organization of events both in Italy and China.

Channels available are hypermarkets, convenience stores, specialty stores, wine shops plus the growing Ho.Re.Ca sector. The latter placing system is the one

targeted by Santadi certainly because of the expanding category of rich people who can afford to use these facilities and buy wine often as a status symbol.

Lastly, data also shows another channel, very recent in China: e-commerce. The study by Kim (2012), suggest this channel, dominated by Yesmywine and Taobao, is suitable for lower to medium quality products but since the business volumes are very high, it is not an appropriate channel for limited size Italian companies. Indeed, none of the interviewees mentioned this opportunity.

Concerning the last part of the analysis, the macro environment, the PESTEL analysis indicates relevant results.

The growing economical well-being is certainly one of those. This factor is changing Chinese ways of spending and increasing their interest for Western products.

Nevertheless, the most relevant findings in this part of the environment concern social barriers (culture and relationship building) and legal barriers.

The analysis has been through the delicate issue of long waiting times from the port to the final customer, the high taxes on imported products, the very strict packaging and labeling rules. Anyway a major problem seems to be the imitation of Western wines by Chinese that leads to two consequences: (1) economical damages for wineries and the even more serious, (2) potential bad consequences on the health of the consumer.

Another relevant issue deals with the culture. Findings suggest several pertinent aspects related to the unique Chinese culture: (1) their idea of wine is often different compared to ours. Usually, they consider wine not only what is actually grape wine but other fruits beverages as well (Avallone, 2014); (2) they are not wine connoisseurs on average (Kim, 2012); (3) they mostly drinking wine solely without associating it with food (Cani, 2014).

A final macro economical barrier is the importance of network and relationship. They live in a system based on guanxi, a close structure based on favours. This is certainly a barrier for Western companies unaware of the Chinese culture and not able to understand how to deal with local actors but it can also help wineries because

managing to establish effective relationship can definitely help penetrating the market.

To give a clear framework of all issues and entry barriers emerged from the analysis and affecting Italian companies targeting the Chinese wine market, it is useful to design a table (Table 8) showing issues and consequences according to the level of analysis:

Table 8- Entry barriers and consequences

LEVEL OF ANALYSIS	BARRIER/ISSUE	CONSEQUENCE
Micro environmental	Customers segmentation	Difficult to understand the actual final customers to serve
Micro environmental	Competition and country of origin (COO) matter	Small market shares for Italian wineries.
Micro environmental	Limited size	Prevention from targeting the whole market
Micro environmental	Different product compared to competition	More difficult for the Chinese consumer to recognize
Meso environmental	Distribution channels /importer choice	Many channels make it more complicated to choose. The importer is fundamental because he/she carries on the whole distribution process.
Macro environmental	Culture and relationship	Often the different culture prevents the approval for Italian wines. Close relationships and immediacy systems are difficult to understand for Western companies.
Macro environmental	Legal issues	Long distribution times. High taxes and strict packaging rules. Imitation problem (protection of rights)

Source: author

PART 5: RECOMMENDATIONS

This paper has gone through the analysis of the issues Italian wine companies face when deciding to start an export strategy in China. The analysis presented the main barriers arose from in-depth interviews to two Italian wineries combined with what emerged from secondary data collection and analysis. In the discussion, issues have been arranged according to the environmental levels and consequences have been explained. This final part of the study is intended to find solution to these difficulties wineries encounter.

Firstly, at a micro environmental level, understating and segmenting customers to target is a very challenging question. The issue of lack of information can be reduced through authorities and specialized wine consulting organizations such as the portal wine-info.com as suggested by Tang (2009). The portal includes extensive researches and statistics on wine consumption in China, prices, and players by country. Moreover, it could be very useful to ask information on the customers to importers but this requires a trustful relationship with them because most of the times due to the business culture importers prefer not to give much evidence as Kim (2012) reminded.

A more effective strategy for selecting and studying potential customers, suggested by Bretherton and Carswell (2001), is to establish a representative office in China. This office would be able to do market research and initial scoping before embarking on exporting wine into China.

Undoubtedly, the latter seems to be the more effective but probably less efficient in terms of expenses.

Companies can indisputably try to reduce lack of knowledge on customers, operating certain strategies as listed above, but information deficiency cannot be completely removed due to the necessary presence of the importer carrying the whole distribution process.

Secondly, competition by many countries must be handled if Italian companies want to succeed. The biggest challenge in this case is to promote Italian wines as products from a united country and not from numerous little regions. One can argue that, this is an intrinsic characteristic for Italian wines.

However, wineries have to try stressing more Italy as a whole following the French example. Indeed, Cani (2014) suggests promoting wines simultaneously with Italian food both because Italy has a notorious food tradition and because wine is a product usually consumed in connection with food. This may help dealing with the COO matter thus useful to shift Chinese association of wine to Italy as well.

If COO is an influential factor, affecting “saving face” wine purchases, it follows that the success of wine companies will rely greatly on how well their area of origin is marketed and known in China. The perceived quality and familiarity of origin of French wines is a good example of why they are so successful in the Chinese wine market.

It is recommended to take into account the fact that although very important, COO has greater reliance when evaluating wine especially for special occasions, gift giving and consuming wine in public (Hu et al., 2008), hence of less importance when targeting private consumption occasions.

Another factor affecting the position of Italy among competitors relies in the product characteristics. The average Chinese consumer is not often used to not well-known Italian wines compared to famous international varieties produced by French wineries and other countries. Yet, as suggested by Avallone (2014), Italian wineries should keep making only typical wines, for two reasons: it is nonsensical to produce non quality wines just to uniform to competitors and it also irrational to offer them another Bordeaux, to cite one.

To sum up, the key success factors rely in promotion of Italy as a country and association of wine and food.

Likewise, the limited size of most Italian companies has significant effects on succeeding in the Chinese market of wine. It prevents a full penetration in most cases.

There are several potential solutions to this issue. A first one is inspired by Avallone (2014): to choose limited shares of the market, focus on them and operate. This is indeed the plan of Villa Matilde as it would be impossible to target the vast Chinese market with their limited production.

A second solution is the strategy followed by Cantina Santadi: the consortium.

Legal and promotion benefits of consortium have been listed above aided by Gori and Sottini's (2014) investigation. Additionally, consortium can take advantages from EU funds. Cani (2014) declares this network strategy with another 5 wineries is being successful in terms of promotion.

Nevertheless, it can be argued that consortiums imply a share of profits among companies involved but in case of limited size it might be the answer.

A final solution is the one suggest by Kim (2012): the gifting market.

Data from this research exhibits it is a relevant business in China thus it should not be a priori excluded. Besides, most of times big corporations buy wine directly from the winery without the matter of an importer for the producing company.

Furthermore, the availability of countless distribution channels makes the decision making process very complicated.

Before making a decision it is crucial to understand the functioning of distribution channels, the advantages and challenges of each. While the analysis of channel in one country does not provide sufficient answers for conducting activities in another country, it is critical for wine companies to understand the different systems behind the wine distribution channels in different markets as Chameeva and Zhang (2014) argue.

The decision to target the Ho.Re.Ca sector is justified by the growing importance of luxury locations in that segment. The general increasing economical well-being leads consumers to attend these places and buy high quality wines as a status symbol. Hence, it seems that this distribution channel is optimal for expensive products. Moreover, what Cani (2014) declared explicitly, being present also in Italian places in the Ho.Re.Ca sector, is relevant because it can help that process of associating Italian wine and food.

However, it should be also taken into account the fact that, growing the presence in hypermarkets and supermarkets could support building and increasing brand awareness and rises future consumption occasions in other channels but often supermarkets charge additional fees for placing and promotion and they are likely to give your products less space on the shelves in case of poor sales.

Whichever channel companies decide to choose, it is strongly suggested to work a lot on choosing the right importer/distributor especially true in China because of all the legal issues to overcome. These issues created a situation where distributors maintain a strong position power over companies.

This key aspect also finds confirmations in many past studies: Prichard (2004) argues wineries must identify and implement the key components of building effective relationships with their distributors to gain access to the channel and to continue to have distributor support to move the product at the retail level where they can become available to consumers. Thach and Olsen (2006) remarked that, one of the critical success factors for any wine producer is to build effective partnership relationships with its distributors, this is certainly due to the scarcity of reference literature available on distribution chain in the wine industry.

Most companies are blinded by the huge potential of the Chinese market and consequently they do not spend much time in choosing an importer agent. It is strongly advised to expand your communication and take importers' suggestions into strong consideration. The second step is to consolidate a relationship with them and support them in promoting your product properly as Tang (2009) mentioned. A good way to do it is to convince the importer to invest resources in improving staff's marketing and sales capabilities.

Frequent trips to China attending exhibitions and events are necessary, as Cani (2014) reminds, both for wineries looking for an importer and also for companies who already have one in order to strengthen the rapport.

Another concern that makes very important the presence of a right local agent is the language barrier. Unless people in the company are able to speak Chinese, it would be a wise decision to find a local interpreter that can be trusted and help you in the entry process.

Moreover, there is the cultural issue that, as already mentioned in the course of this study, is embedded in many processes while examining the Chinese market of wine, thus it should not be seen as isolated.

It has been acknowledged that the wine drinking culture in China is still at an early stage even if increasing rapidly.

Indubitably, wineries willing to enter this market must deal with cultural differences. There are various solutions that can help in this case.

At Cantina Santadi, they argue that a solution to the cultural matter is about making clear projects. Cani (2014) expands on that giving various steps to follow: firstly, it is recommended to organize trips to China to visit the population; secondly, you should take delegations to Italy and, as they did at Santadi last year, show them the winery and all the production process.

Moreover, companies should work a lot on communication. A clear communication is fundamental to make them understand the product. For instance, claims Cani (2014), they should even learn how to pronounce the names of the products since they have trouble on that.

Likewise, the consumer should be educated and followed step by step in the process of being introduced to the product as Avallone (2014) declared.

The general task is to create a widespread wine education. This would help not only foreign wineries but also leads to benefits for locals as, for example, new career patterns arise. Noppé (2012) provides several potential opportunities: specialist jobs created because of wine education include sommeliers, wine journalists, wine logistics specialists, viticulturists, winemakers, wine marketers and wine consultants. In today's market, the UK's Wine and Spirits Education Trust (WSET) offers professional wine education courses held in high regard. For professional level courses that focus on trade training, purchasing and sommelier training, there is plenty room for growth.

Regarding relationships, this study suggests it is important to get used to the guanxi system through keeping contacts with local partners as for examples remembering about events such a birthdays and comply with the immediacy of the market meaning that probably money plays an important role in keeping the relationship alive.

Another way to establish a close relationship and enter the market is the so-called equity joint venture (EJV). Rules impose that overseas company's share in the EJV must be at least 25 percent of total equity with no upper limit. An additional benefit of such an arrangement is that the Chinese partner has a vested interest in the long-term success of the venture. As such, they may be more willing to use their influence with local government officials to help the EJV. Beijing also favours this investment vehicle because EJV's usually involve significant technology transfer to the Chinese partner (Bretheron and Carswell, 2001).

Avallone (2014) reminds that also big corporations such as Volkswagen had to follow this path in order to start business in China.

However, one should always ponder the drawback of profit sharing in this last case, thus it could be a solution for company with large profits opportunities but not for limited size companies.

Finally, concerning the taxes and labeling and other legal requirements not much can be done to remove them: companies must adapt. Actually, they should not even be feared as impassable export barriers because if you have the right importer you will most likely be able to distribute your wine. Although, the long processing times should be always considered as well as the fact that those rules change very often as Cani (2014) stresses.

On the other hand, a more serious issue regarding legal, is the protection of rights and imitation. Firstly, it is recommended for exporters to seek professional assistance on the protection of intellectual property, such as registering brand names (both English and Chinese) and trademarks prior to engaging with a distributor in the market. It is not uncommon for companies, regardless of industry, to find that their brand or trademark has been registered by a third party without notification. Companies should also give consideration to website registration in English and Chinese, even if their current website does not include Chinese.

Conclusively, an alternative resolution to the problem is the installation of special recognition microchips in the label but Cani (2014) maintains this is only achievable by medium/high quality wineries as it is very expensive.

CONCLUSION

This study has investigated the barriers Italian companies wishing to export wine to China encounter such as, culture, legal, customers segmentation, competition, COO and distribution. The purpose was to find solutions to these issues in order to overcome them and be successful. Starting from presenting the methodology used and two case wineries where interviews have been conducted, the project illustrated the main theories involved and the past literature. The analysis part examined the findings from interviews and from secondary data, based on the distinction among microenvironment, mesoenvironment and macro environment before discussing them and explaining the consequences.

On the other hand, the recommendations designed solutions to the barriers faced.

The summarized solution basically foresees a marketing plan that brings together all the elements of the marketing mix to achieve the organization's marketing intentions by creating wine culture and delivering to customers what they would like; high quality Italian wine as part of the Italian culture. This plan should be following the recommendations above described, meaning made of a combination of consumers studies especially on field, competitors analysis and indication of your unique selling proposition (USP), which is a statement that distinguishes you from competitors then marketing promotion, pricing, relationship building and distribution, cultural differences taken into account and finally comply with the legal regulations.

The wine business has been often described as a mature industry (Harrigan, 1988) where old world is characterized by an export oriented approach to internationalization, while new world wineries are much more open to other forms of internationalization.

The Chinese market of wine is undoubtedly a very complex one both because of the size and because it is very different compared to Western markets as seen in this project.

In the future there will probably be a dramatic intensification of players wishing to target this market according both to Avallone (2014) and Cani (2014). Particularly,

Chinese winemakers will increase their cultivation of local wine and perhaps their investments in Western wineries as already experienced in France.

Future studies may investigate the cost of a multi year marketing strategy to succeed in China thus considering financials as well or focus more on consumers behavior which is unfortunately, as mentioned, difficult to study in the Chinese market of wine, by taking on site surveys.

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APPENDICES

APPENDIX 1

COMPARISON OF QUANTITATIVE AND QUALITATIVE RESEARCH APPROACHES

	Quantitative	Qualitative
General framework	<p>Seek to confirm hypotheses about phenomena</p> <p>Instruments use more rigid style of eliciting and categorizing responses to questions</p> <p>Use highly structured methods such as questionnaires, surveys, and structured observation</p>	<p>Seek to explore phenomena</p> <p>Instruments use more flexible, iterative style of eliciting and categorizing responses to questions</p> <p>Use semi-structured methods such as in-depth interviews, focus groups, and participant observation</p>
Analytical objectives	<p>To quantify variation</p> <p>To predict causal relationships</p> <p>To describe characteristics of a population</p>	<p>To describe variation</p> <p>To describe and explain relationships</p> <p>To describe individual experiences</p> <p>To describe group norms</p>
Question format	Closed-ended	Open-ended
Data format	Numerical (obtained by assigning numerical values to responses)	Textual (obtained from audiotapes, videotapes, and field notes)
Flexibility in study design	<p>Study design is stable from beginning to end</p> <p>Participant responses do not influence or determine how and which questions researchers ask next</p> <p>Study design is subject to statistical assumptions and conditions</p>	<p>Some aspects of the study are flexible (for example, the addition, exclusion, or wording of particular interview questions)</p> <p>Participant responses affect how and which questions researchers ask next</p> <p>Study design is iterative, that is, data collection and research questions are adjusted according to what is learned</p>

source: Mack, Natasha, Woodsong Cynthia, M. MacQueen Kathleen, Guest Greg & Namey Emily (2005). *Qualitative Research Methods: A Data Collector's Field Guide*. Research Triangle Park, North Carolina 27709, p.3

APPENDIX 2

PERFORMANCE OF ITALIAN WINE IN THE FIRST 11 COUNTRIES AND IN OTHER 4 EMERGING MARKETS

Countries	Export		% weight on export		Market share	Position in the market	Leader	Country with growing share (2005-06)
	Value (Mio €)	Vol. (1000 hl)	Value (Mio €)	Vol. (Litres)	Value (Mio €)			
USA	806,52	2.349	25,53	13,1	27,85	2 ^a	France	France
Germany	693,45	6.365	21,95	35,5	32,26	1 ^a	Italy	France, USA
UK	383,84	2.085	12,15	11,63	9,63	3 ^a	France	France, Australia, Chile
Switzerland	195,66	602	6,19	3,36	30,67	2 ^a	France	France, Germany, Ostrich
Canada	189,83	556	6,01	3,11	18,91	3 ^a	France	France, Italy, USA
Japan	98,95	284	3,13	1,59	11,48	2 ^a	France	France
Denmark	86,47	271	2,74	1,51	20,74	2 ^a	France	Italy, Germany Argentina
France	83,45	1.403	2,64	7,83	17,2	3 ^a	Portugal	Italy United Kingdom, Netherlands
Netherlands	69,32	313	2,19	1,75	7,15	5 ^a	France	France, Italy Germany
Austria	64,98	440	2,06	2,45	40,45	1 ^a	Italy	USA, France
Sweden	59,56	231	1,89	1,29	15,43	2 ^a	France	Germany, South Africa, Australia
.....
Russian Fed*	39,78	217	1,26	1,21	5,61	5 ^a	Moldavia	Spain , Italy
China	9,29	74	0,29	0,42	8,74	5 ^a	France	Italy, Australia
India	1,36	2	0,04	-	13,9	2 ^a	France	Italy USA, Australia
Brazil	18,91	93	0,6	0,52	15,23	4 ^a	Chile	France, ItalyChile

*data of 2004

source: collaboration from ICE and GTI

APPENDIX 3

INTERVIEW WITH DR. SALVATORE AVALLONE CEO AT VILLA MATILDE (23/04/2014)

Interviewer: What are your main products ?

Interviewee: Wines with denomination of origin , Falerno Massico , which is our reference product and then left indication of the wines protected geographical : Falanghina , Aglianico , Cecubo . They are all wines of this region that arise from native grapes and products that have their roots firmly stuck in something like 3000 years of viticulture in this area of the province of Caserta.

Interviewer: Can you describe your experience in China?

Interviewee: Let's say that at the time the experience is extremely limited, I 'm trying to understand this market, to understand the logic , to understand the possible introduction in some key areas of this market because to give a basic parameter , Italy 50 million people all around the Europe around 350 , the United States 400 million , China , only China is 1 billion 400 millions people . If we take together the whole European market , we sum it to the whole U.S. market , namely the poles , where it is always sold the Italian wine in the world , then Europe and the United States , which alone , these two areas , covering approximately the 88/89 % of exports of Italian products in the world, do not reach half of what the potential consumer market of Chinese reference , which is a market simply exterminated. As a result, the companies, to be present on this market must be large , which , in Campania they are not, absolutely not us , probably in the wine industry , no company at European level is able to deal systematically with the full penetration , of the whole, Chinese market. Giants such as Volkswagen have made agreements with Chinese companies to be able to produce and to be present with a significant effect on a market of this size. Having said that , we must say that the Chinese consumer does not know what the wine is , he has no idea , at a point that when you present

the product have to say this is a wine from grape , because there it exists the blueberry wine , rice wine and wine of endless other types of fruit. For them it is wine , everything. Thus, the specificity of what is a part of our culture and our way of life, that is the assumption, pleasure, habit, nutrition through product wine, there simply does not exist , they do not understand it, do not know how to drink it , so much is that they do not drink, guzzle , that if one pours a glass of wine at a Chinese he makes the so called "one shot" meaning he has it all in one gulp. There is no tasting , no perception , no nothing guzzle and there is the desire to get drunk through the stunning content alcohol. So what we try to do all the days, to make fine wines , quality products , there is a discourse that is simply not perceived , it is not understood , it is not understood. When we do this they look at you as if you were a Martian for example. This is the basic element or, let's say say, the photograph of the market, where the market today, stop me if you want to ask questions, where to now , the market , the Italian wine in supermarkets accounts for no more than 4% of total Chinese imports against a 56/57 % of the French product . Among the French who are leaders in the market and us right now in China there are, the Australians , the Californians , Chileans , Spanish , Germans even , then we really are , as always, bringing up the rear , and we need to recover . The main problem with this situation is the fact that Italian companies are small, when they move into a market so big disperse forces, while the French have invested globally, so with the strength of the group , not working as a single company but as in France thanks to the support of government institutions such as the sopecsa for example, who moved the company, it is not carrying on this wine or that but France as a whole. They have invested for years and now are reaping the fruits of significant appreciation, dissemination but more importantly, what will be the usual big problem for us Italians , training, perception of a product of French taste . When our Italian wines, which are so different from the French, you are going to submit will not be welcome because the taste of the consumer has been educated and trained according to the sense of taste and the type of product in France. A consumer who is not particularly expert already , you know, make him closer to any wine becomes a problem as I said before , it is still a major problem to let him know that there will be more than one type and compared to what he knows there will be countless others . Why do Australia, China ,

California , sell well? Because they are uniformed in style to the so-called international varieties: Chardonnay , Cabernet , Merlot, and so on, which are then varieties, the most famous French products . So there is a continuum. We as Italians when we go to talk about Falanghine , Aglianici , Sangiovese , Nebbiolo we do not have the capacity and the recognition of being understood. Our wines are very different, they are not very round, they are not very persuasive , the Chinese consumer loves a smooth and sweet taste, persuasive, our wines are strong, so all this creates further divisions and the distance between that market and our product types.

Interviewer: So what do you think are the main barriers? I mean, political, legal, duties, fees to enter this market ?

Interviewee: Surely China is a closed market . If you do not have your links, if you do not have the right importers, the right customers, your products may remain even months and months on the dock of a port without being able to overcome the customs barrier. This is definitely a problem and another problem may be the protection of the product. Let me give an example : a large French winery , not big in terms of size , but in terms of quality it is called Château Lafite. It is a Château among the 5 reference ones for the top quality in France it was cloned by Chinese wines and they opened circa 5 million of bottles of fake Château Lafite in China. Château Lafite is important, a bottle of Lafite costs several hundreds and hundreds or maybe thousands of Euros and Chinese people have thought about falsifying it . One of the most serious problems is the protection of intellectual property rights or the type of products because the Chinese market , I repeat, has nothing to do with our market. It is a market where , you know, it is a bit like a wild west at this time in the wine sector but also food is one of the most serious problems in China regarding food safety because they are killing people in a row, counterfeit products also in a extremely , criminal way that led to the death of children and adults receiving food : milk melanin, you will remember about it , or extremely polluted other products that exist on the market. That is why in China , the Chinese government in recent years has launched its programs in order to get to define a code of standards of quality

control protocols . Indeed, during Expo 2015 China is a country of reference precisely the focus of the Expo is on food and food safety . They will send a million, a million of Chinese in Italy for the World Expo 2015 to study and understand what Italy is considered one of the world's food valley.

Interviewer: Regarding the clients instead, according to you, is it more about reaching the final consumer (B2C) or B2B ?

Interviewee: There are 2 steps, the first is a B2B and then a B2C t . If we do B2B, as I said before, because of the barriers for the market it is practically impossible to do a B2C , therefore you have to find the right partners who know the market, which would like to invest in your company . One thing must be said: the Chinese business man, the Chinese entrepreneur does not invest in the future , the deal needs to be done now , immediately . There's no way they invest on you to collect fruits in the future; either they gain today or they do not care about you , so you will be out. The Chinese market is a market based on the immediacy on everything, from payment, only cash exists, and other market logics. There are no entrepreneurs making long term strategy, there is only the government to make programming choices, investments. If you're useful then you're the entrepreneur's best friend. The Chinese individual is a good partner because you manage to overcome the barriers. On the other hand, if you're not useful then you're simply kicked out.

Interviewer: Then you told me the preferences of Chinese consumers are completely different from ours , so what are the right products to target this market ?

Interviewee: The problem is not so that much about what product, because we cannot make the product that market wants, we make products that our land gives us, these are not bolts, here we're talking about wines. So the product that we do in this territory is called Falerno, or called Aglianico or Falanghina, it would not make any economic , commercial, mercantile sense to go there to propose another Merlot, billions of that are produced in the world or another Chardonnay and so on . The problem, and this is another positive fact: the Chinese consumer , the Chinese

market , being a virgin market, it is a market where you can write a personal story , in the sense I can and I have to go with a good communication because the Chinese wants to know and wants to learn. All this, however, requires substantial investments in economic terms and in personal terms, especially because it leads you to make choices because the Chinese market has the size I have said before , I can not target the Chinese market as a whole, I have to choose which market segments I want to go to target because otherwise I would not have enough money, time and size of the company in order to establish my brand there. So I have to build a product communication, teach my average consumer , why our product it is like that , its history, the reason why it can be enjoyed and appreciated as it is, but I have to drive the consumer step by step , holding his hands, to lead him to a knowledge, an acceptance and then construction of a taste for a certain type of product .

Interviewer: So could you describe me what is the process to get into this type of market?

Interviewee: The perfect process does not exist. According to me, I said before, each firm has to build a process based on its structure, its business strategy , its own goals, because the goals are clearly different from company to company . If I want to sell 100 bottles of wine in China for 10,000 Euros per bottle I have a strategy if I want to sell 10 million bottles for € 3 , € 2 per the bottle I have another type of strategy , therefore, also different investment capacity . So , I repeat it , there is not a recipe. We have to build it , I personally do not think I've found a way yet , because I am also in the early stages of access the knowledge in this market. It's a difficult market , it is a market that we can not avoid in the coming years because the well being has shifted from Western countries to Asian countries, and China today is the richest country in the world absolutely , so it is the country that has the purchase power that we, for example in Italy and in Europe have lost , especially in Italy there is no longer the ability to spend. In China there is this ability to spend except, approximately 50 % of the population , which is still in a state of absolute poverty , the other 50% has a very large part of people who is extremely rich , so rich that I probably would have never been able to imagine and difficult to conceive for a

European with those numbers , that is, about 380 million millionaires , it means to assume the whole Europe and some other parts still made exclusively by millionaires and then there they have super billionaires who seem to be something like 50 million within these 380 . instead , Italy is made up of 50 million inhabitants , those are important numbers and economic potential. That is, imagine , Italy made only by super billionaires. I believe that the size of such a capacity for spending and investment I can not imagine and experiencing China, visiting China , all of this is tangible. The economic capacity of this country is simply monstrous and dangerous, China is dangerous.

Interviewer: A last question before leaving you to your commitments. Regarding the distribution channels, which ones do you think can be targeted? For example Ho.Re.Ca , supermarket and so on.

Interviewee: You already have the answer. If you want to sell 100 bottles of wine at € 10,000 chooses a channel, if you want to sell 10 million bottles at 2 euro you must choose another channel. Then there exists this channel and that one. There is a very wide part of population able to buy wine at 2 euro that, be careful these wines produced for 2 euros cost to the consumer not less than 15 Euros , and wines with production costs of 10,000 €, there cost € 20,000 per bottle. I'm just giving you some numbers, the first one is correct though while the second one is just an hypothesis. Anyway when you get into a certain range of value and price there is no limit because it becomes a status symbol. The Chinese drinker nowadays, buys certain kind of products exclusively for status symbols , that is, to show that he has put on the table a bottle from 20,000 euro to 30.000 euro , and so on. When they take Lamborghini Gallardo and Bentley and protest against the company smashing street and then they carry them across the city pulled by a pair of steers to put shame on the car, then you realize that we are talking about a country that has different logics compared to ours. If I 'd ever had Lamborghini Gallardo I would never think about going to smash down the street to protest against the Lamborghini, because maybe the car doesn't work well, I'm going to Lamborghini and appeal against them, but I do not destroy my car worth 400/500/600 thousand euro. It is a country that we can

not compare with our standards, because they have a history, a culture, that is completely different .

Interviewer: Do you see an increase of competitors? What are the impressions for the future?

Interviewee: It is the market. It will be in the coming years, the most important market for any producer and hence also for the world of wine, with its logic, its irrationalities , its ignorance . Ignorance for us, then for them is the way of life.

Interviewer: Therefore, other countries will aim at the market?

Look, we are all there already. The countries that I have mentioned before are those that have a market share between 4 and 56% .There is not a country or an economic sector that can choose in a coherent manner to renounce a market of this size. If you make large numbers, it is your market , if you make high quality, it is your market , if you mass market products, it is your market. That's why , Ferrari now sells most of its production there, if you go to China to visit the city you see LV, Prada, Bulgari in all airports , in all towns in all places with mega stores. there are cities in China like Chongqing with 40 million inhabitants and 20 in Shanghai , 30 in Beijing , so a city is almost as big as the whole Italy . It's a market with a size we're not able to conceive. We have to go there touch it with our hands. You can not manage it from home, you have to go if you can do it otherwise it's better to renounce to it . It's not like Germany, where I can from home, the importer comes , I sell products , I see him once a year and that's it.

Interviewer: Thank you for your availability, I interrupt the recording.

APPENDIX 4

INTERVIEW WITH DR. RAFFAELE CANI MARKETING AND SALES DIRECTOR AT CANTINA SANTADI (24/04/2014)

Interviewer: What are the products of this winery?

Interviewee: First of all, this is Cantina Santadi and I'm Raffaele Cani responsible for commercial/sales and administrative aspects of Cantina Santadi. We are in the heart of Sulcis, West part of Sardinia where there is a vine variety originated thousands of years ago called Carignano. It was imported by Punics and Phoenics in the Santantioco harbor which was an important harbor for navigators with 15.000 inhabitants. Thus, this vine variety found great conditions in the area and nowadays it's known in the world as great quality wine compared to before (70's) when it was only sold as a mass market wine carried both in Italy and abroad. Therefore, Santadi from the 70's started this activity with a great willing to give the wine an identity so we worked hard on that. Nowadays, Carignano is well know, the wineries have big production and the Terrebrune is the most important variety of Carignano awarded several times and widespread worldwide. To sum up, the winery worked almost exclusively on the vine variety called Carignano del Sulcis without leaving other regional varieties such as Cannonao, Nasbo, Nuragos but Carignano del Sulcis is our point of strength.

Interviewer: So, is that the product to target China?

Interviewee: Yes, that is the product we propose. We constituted a consortium of Carignano with 5 companies in this area: Santadi, Santantioco, Calasetta, Mesa e Semura which recently changed its name due to a merge with another company. This consortium takes advantages from European resources aimed to promote products in outside the EU. We have a three years project in China to propose the Carignano vine variety with presentations in the exhibitions, tasting events and

events with local operator, importers, for companies that don't have one or with the importer for companies that have one. At the end of May I'm going to China because there is an exhibition, in Hong Kong, we are going with the consortium, working with our importer and then we are moving to Shanghai which is the headquarter of our importer.

Interviewer: OK. What are the general impressions about the Chinese market?

Interviewee: The Chinese market, at the moment, has a great potential because it is a country where wine is known only by a limited part of the population but I hope that with all the actions undertaken by Western countries and by them through planting vine for sure can make the alimentary positions to change. The country is very rich but people is not very rich yet. Moreover, rich people do not have always the opportunity to spend money because historical and politics events. The country has been a bit blocked. Think about the only child campaign in order to get governmental benefits. An only child cannot live all life with Mao's principles meaning I'm going to work where my skills are necessary. They are a bit tired of all this and one day they will "explode" and spend the amount of money they have. Back to our expectations, we have a lot of them. We're investing because we want to be ready when there will be a change expected in the short/medium run. It can't be in the long run because there are evolution processes that there (in China) are faster compared to us.

Interviewer: So, completely different processes?

Interviewee: Yes, totally. A half faster or one third compared to our processes.

Interviewer: You were saying about timing, political differences thus what are the barriers you encounter during the export process in China? Cultural, legal barriers etc

Interviewee: Each country has its rules. When there was an idea, in Europe, to block the Chinese photovoltaic panels in Europe they immediately threat to stop wine import. The French made a revolution, because they are the major exporter in China.

This is why a mediation is needed. It's clear that we can't say that all this in one year or two will change. For sure, the government, even if, not compelling with the historical Chinese rules, they know that they can't stop the economical growth because we all remember Tiananmen Square. They can't stop the natural growth. The barriers are first all cultural, because we propose a product that can't be consumed solely. It should be consumed with food. We should go and connect our wine with their alimentary habits or export our cuisine along with wine because wine means, drinking and eating.

Interviewer: Sorry if I interrupt you. From my research, I found that there is a strong division between eating and drinking in China while in Italy we always drink wine with food

Interviewee: Yes. For them wine is a totally new product. They drink sake or green tea like water. It's like Japan where they eat sushi with green tea. Wine is proposed only if you ask of it from a wine list. Your research, confirms my theory that wine is a totally new product. It is all about changing the alimentary habits hoping that our cuisine which is good, interesting and known worldwide, could have a chance in this big market.

Interviewer: Does a recipe exist to overcome the cultural barriers?

Interviewee: It does. It's about making projects. Firstly, you need to visit the country and the population. Afterwards, you need to take them to Italy. For example, our importer organizes trips to Italy. We like to show them, the process of production. Last year, we took them to the vine and showed them around.

Interviewer: Did they come here?

Interviewee: Yes. This is part of the three years project I talked you about.

Interviewer: Is the network important? I guess the Chinese society is made up strong relationships among people

Yes. Talking about Chinese way of life is not easy. From my experience, there is curiosity, the issue is to convince them and make them change their habits. There is an appreciation for our cuisine because we are talking about good products. I'm not talking about letters or treaties. People either like this product or not. We cannot convince them. The actions we undertook were successful, they were pleased. This makes me hope for the future.

Interviewer: Regarding distribution channels and clients. Do you see more possibilities in the B2B or B2C?

Interviewee: From our visits in Beijing, Shanghai etc. we of course visited also distribution places. Our wine has a high production cost so it cannot compete with lower quality wines as Australians, South Africans and others such as Chileans. We can't compete with wines sold for 2/2,50 euros per bottle. Thus, we targeted the medium/high class. We go to Ho.Re.Ca channels both Italians and Chinese. The big challenge is to connect Chinese cuisine with our wines.

Interviewer: So costumers with high purchasing power? What about the price?

Interviewee: I'm not sure about the Terrebrune price there. I think with taxes it's about 500/600 RMB. We are in big hotels or restaurants.

Interviewer: Is it difficult to overcome the legal barriers ?

Interviewee: The importer does customs clearance. There are difficulties, especially time difficulties. That's because each package is open to be checked. Taxes there are based on the value contrary to what happens in England, taxes per bottle or liter.

This means that when they found an invoice they check all the bottles to see if there is congruence with the document. These are rules, unfortunately they change often as the license issues faced in the past. The government make the rules but we can't do much about it and we are not well informed. We know for sure that the time to market is quite long.

Interviewer: Do you do the labels and translate them?

Interviewee: We label the bottles here. We bet a lot on China, we have the website in Chinese and the brochure. We are doing what the French started 10 years ago. Now there is a territorial identity. If you ask a Chinese why Germany is famous, they say cars; France for wine; Italy for fashion. First of all, France has champagne. It means elite, high social level, snob. French are not stupid, they are good at selling. They worked a lot on it like the big chateaux. France, from an import research, it's the only country going back leaving from 8 to 10 % market share.

Interviewer: So this is positive for you?

Interviewee: Yes, but it also means that France started before. In Shanghai we can find French bars with French wines. These places are full of young people like in New York.

Interviewer: What are the most important areas of China?

Interviewee: Shanghai that is the headquarter of our importer plus it is as big as half of Italy. There a lot of multinationals as well there. Then we work in Beijing, Chengdu, Guangzhou.

Interviewer: What about the competitors? You talked about France, but what about any others?

Interviewee: From Italy they also have Tavernello and other big groups. We should thank these wineries, because the Chinese people when they will try our product they will be more demanding. I would like to help them!

Interviewer: What about Hong Kong? I know you're active there

Interviewee: We consider Hong Kong a hub for China. They consume a lot of wine in Hong Kong but of course it's not all about there. It's like Singapore. I don't know if you have been in Hong Kong, but they don't feel Chinese. They feel independent because of the history.

Interviewer: Other national competitors?

Interviewee: A lot of them like Barolo and Brunello are incrementing their sales. So we should target more our area (Sardinia). Nowadays, it's very expensive to get to Sardinia and with the same price you can go to New York. We're not able to create an attractive system, France can do that. All producers, sell France, we sell different Italian regions. If you go to a food and beverage exhibition in Shanghai you will see: Association of Italian exporters, Consortium of Brunello, Moscato etc., Amarone, Consortium of Barolo. If you see the French area you immediately associate it with France. Sometimes it's difficult for them to identify Italy.

Interviewer: They are cohesive

Interviewee: Yeah. And communication. It should be simple. You know Chinese people can't pronounce very well the Italian letter R. If you say Roccarubia or Terrebrune they had fun pronouncing it like RRRR. They used to say Loccalubia, Telleblune. I was like no, it's Rocca!

Interviewer: How do you see the future? Do you see new players? Or is a battle among the current ones?

Interviewee: No, I wouldn't say battle. We should say that in the World there is space for everyone. You should find the right spot. We should focus on our wine. We can't fight in Europe with Germans or Swiss, very important markets for Italy. We should try to see very far. The Chinese market is not very far, you can get to Beijing or Shanghai in 10 hours. Products can be carried without major issues. It's about selling and making them know the product. Most of times the problem is when you try to sell the product without presenting it first. It's very difficult. We should educate them to the product called wine. Wine is a taboo, it doesn't exist. Japanese have been educated to that but Chinese had difficulties drinking wine. Sometimes, they get drunk after 4 tasting when they go to an exhibition! You can spot them in the corners.

Interviewer: Do you see any other barriers, also in the future?

Interviewee: Other barriers. We should consider that, Chinese people are very astute and they have an important link with money and business. They are not stingy, I don't say that, it doesn't exist at the moment the concept of fidelity. If one takes 1000 RMB monthly, another comes an offer the first 2000 RMB, the first one says goodbye to the first one. They don't care about it!

Interviewer: So, relationships are very important

Interviewee: Relationships are fundamental, if you manage to establish a friendship. I repeat it, it's not easy because the Chinese individual is , at the moment, obsessed with money. That's because there was a particular historical period, where probably it was not allowed to be better than others because of politics, they used to go to get food with a card.

Interviewer: It is like that and that's it

Interviewee: Exactly, then there was equality. Nowadays, they do anything to grow. It's about creating those relationships typical in the business agreements. They are every important, like visits, remembering about their birthday, their zodiac sign so all these kind of stuff to get more results.

Other barriers; we are in a country with local rules we can't change. We should be clear if we want to prioritize our interests or arguing about their rules. We should be pragmatic and practical. These are the rules; if they want a specific requirement for the invoice like the code of the usual importer, I should do it, even if it's bureaucratically difficult.

Interviewer: There are not any other possibilities

Interviewee: No. No alternatives. What can you do?

Interviewer: It works like that

Interviewee: It works like that in the World. If I go there and I see Australian or Chinese wines. Why shouldn't I be there? I should change my job if I believe it's too difficult.

Interviewer: Is the consumer a high class one or a middle class consumer?

Interviewee: I don't know very well the society to make a table. For sure, it's a population that in my opinion did not express a total curiosity yet both for historical events and for education issues. However, I believe that, for example I know many restaurants owners who came to Italy to Giancarlo Gracco or others. I know one of them who came here and had an internship in Carloforte. So they are becoming more open-minded. There are fields that need time to grow but other fields are moved by curiosity and I think that food is one of that.

Otherwise, I wouldn't find an answer to the question on how McDonald's is everywhere. If it was possible for them then it's difficult but possible for others as well.

Interviewer: You were talking about the process but when the wines arrive there, what is the process to get to the final consumer?

Interviewee: The importer undertakes the customs clearance with documents and paying the taxes needed. The operation is similar to other countries. I don't know all the procedures but I know they are really long. On every label the importer must be indicated because when you buy it you read the importer's name on the label. I repeat times are not short but medium/long. It's not as practical as England for example.

Interviewer: More than Italy?

Interviewee: Yes!

Interviewer: I would say that we covered all the areas if you would like to add something about the future

Interviewee: I think that Chinese people will in the future start cultivating wine. Even if, Europeans fear the imitation problem because we think that, the willing to make money, makes them evaluate all possibilities. Imitation could be an issue that in the future would lead us to register our brands internationally even to adopt any new systems to avoid it, like microchips in the label, but they are very expensive solutions especially for low price wines. So, it a country that requires attention to evolution

Interviewer: Thank you very much

Interviewee: Good Luck for that!

APPENDIX 5

ON CHINA: AN INTERVIEW WITH STEVIE KIM

By Felicity Carter for Meininger's Wine Business International

Stevie Kim, a Korean American who's resident in Italy is general coordinator of Italian wine trade fair, Vinitaly. She has travelled extensively through China, researching the market for Vinitaly. Everyone's excited about Asia. But you've actually cut back some of your Asian promotions and have put a lot of research effort into China. Why? I really wanted to push Italian wines in Asia via Hong Kong and to organize something with some kind of structure and presence. I did that for two years, but started getting a lot of pressure about China; most Italian winemakers are interested in Hong Kong for the premium wine market, but the Italian premium market is not as strong as the French in Asia and so they wanted me to explore China. In general, Italian wine is a very small element in terms of imported wines in China; for every, 55 bottles of French wine, there

are six Italian wines. China is very different from Hong Kong. It still lives under the Communist regime and is very difficult to navigate and decipher, so I've been going frequently to try and understand, and fully engage with the main protagonists in the international wine promotion sector. That means both trade as well as some consumer aspects of promoting Italian wines. You don't understand China unless you go there. What has surprised you the most about China?

In very general terms, the Chinese market is incredibly different from other countries because the big clients and sales are generated by gifting. Big corporations and, especially, governmental agencies and officials, utilise wine as a gifting mechanism. They can't give money as it's seen as bribery, so if they want to reward someone they will do that with wine. I don't know in exact percentages how much of the market that is, but it is certainly a very very important part. They sometimes buy containers directly from the wineries and you have no idea what happens to them. Some of my winemakers make this huge sale and receive payment in advance, so they're happy—especially

nowadays—but they have no idea what happens afterwards. If they ask the importer, “What happened to my wine? Do you want to reorder?” the Chinese attitude is, basically, “You gave me the wine. I paid for it, so it’s none of your business”. This is incredibly frustrating. But at the same time there is a great thirst for something different from French wines right now. Another factor is not to underestimate Chinese winemakers. Great Wall and Changyu have opened divisions of imported wines, so they sell their own wines at a lower price, but their strategy is driving quantity. In the end that will help imported wines, because it will elevate the consumption of wines in general. The average Chinese is not a connoisseur of wine by any means, but I see that definitely changing. The web savvy generation, the single children, are really embracing wines. Another thing is how huge China is. The second and third tier cities are where the real money is. People are so focused on Shanghai and Beijing they don’t understand the growth is incredibly strong in the second tier cities. There is a very expensive cigarette, called Chunghwa, which is beautifully packaged. The average Chinese will spend 10 cents on cigarettes and these Chunghwa are as much as \$10.00 a packet. If you go into the second tier cities, they’re smoking these cigarettes. There’s much more potential for the middle class to emerge in the second tier cities. That’s where I suggest the Italian winemakers focus

What’s your impression of ecommerce there? I went to see the wine ecommerce owners and ecommerce is happening very, very quickly right now. Wine ecommerce is growing, because it’s hard to reach some of these cities. It’s hard to get around even in Shanghai, because the traffic there is incredible. It takes forever unless you take the metro. But now there is a new organization called yesmywine that delivers wine. I met with the CEO when they just started, and they raised \$54m in private equity. They have 150 agents. Those aren’t call centre staff; they’re 150 agents who are negotiating with importers for their online sales. Yesmywine sells as much as 50,000 bottles a day. The CEO is very young and very driven. The objective is to do an IPO in 2014, but they’re already changing the rules of the game for wines right now. yesmywine imported more than one million bottles of wine directly from winemakers in 2011 and that’s just the beginning. They have 5m registered users. Any way you slice it, it’s an incredible force right now. I’m trying to

invite them to do a workshop in Verona or Hong Kong.

Tmall is another important player in ecommerce. Spun off from Taobao, it's the equivalent of ebay, and it's the B2B platform of Alibaba Group, so it's an incredible force. It's based in Hangzhou, the Silicon Valley of China. I went to speak to the man running Tmall in the wine sector. They have a different business model, because they just collect the commission, but their strength is such that 80% of all ecommerce goes through Taobao and Tmall. How is this changing the market for producers? Are they still better off going with one of the established importers?

Traditionally the big guys – Torres, Summergate, ASC and so on – ruled the wine market in the wine market in China, but ecommerce is completely changing that. Those older businesses are very threatened by what these new people are doing, with their new business models. They're getting to consumers directly and doing volume. Most people have gone with the big four importers, because they know what's going on and it gives them guarantees. Once they do, they won't have another choice, because they will be locked in. Once you get locked in to an importer, they have exclusivity. One of my very important producers – he is distributed by one of the big four – says to them basically Italian wines are just accessories. They don't really care about their Italian wines. They care about their French wines. So just because you go to a big importer doesn't mean you'll be successful. They have national coverage, and if you go with a smaller player you have to work harder. You need regional importers and you need to invest more. What often happens is that producers didn't get immediate returns on investment, so either pulled out or downsized and neglected the market. What's your advice to people heading for China? I think they have to lower their expectations and have realistic expectations in general. Just because China is big it doesn't mean you can sell one bottle of wine to each person. There has to be a strategy; before you

go into any market, it's like getting into a marriage. You have to try living with them to see if you're compatible, and not go with them because they're beautiful or rich, but because they're the best mate for you. What I try and do with Vinitaly is more like a matchmaking agency, where I try to give as much information as possible. But people still have to do their homework.

Moreover, it's difficult to communicate in China because there's no Twitter, no

FaceBook, no YouTube. It's all banned. You hear about it, but don't realize how serious it is until you go there and can't open those sites. Google won't work on some days. I've just opened a weibo account for Vinitaly, which is the Chinese mixed platform of YouTube, Facebook and Twitter together and, of course, it's government regulated. They have control over it. But, if you want to communicate, you have to adapt.

The very common mistake to make is not working with local people. You have to get local people, Chinese people. You can't hire from Italy and France and bring them over, open an office, and think that's going to go well. A foreigner can't penetrate the Chinese market without Chinese support. And you have to understand what they're saying – it's pretty basic. The most common mistake is that the big houses try to replicate what they've done in another country, like the US, and then take it to China. So first of all, I would try to find a Chinese partner in a second or third tier city. For the medium to lower priced wines, I would definitely do ecommerce, but you need volume. Italian winemakers are tiny and they don't have enough volume, so they can't have national distribution or be involved in ecommerce. You need volume to supply these players; they will do flash sales and sell 50,000 bottles a day. Most Italian producers don't produce that many. But if I were medium sized, I would definitely think about partnering with someone local, like a local producer or local player, so that to see how you can value. They have the knowhow and expertise of the internal distribution system and promotion. The first step would be identifying a local partner. What should you do if you're a small player? Unfortunately, China is not the market for you. You have to invest time, energy and capital to get any return, unless you can get into gifting.

A lot of government officials will taste a wine when they come on a visit to Italy, and they will order a container or two. The winemaker will then be happy for the rest of the year. You don't have to be in China to do this, because it's completely based on friendship. There are winemakers who have established relationships with the Chinese embassy in Italy. If they can make themselves known, they might be visited by a delegation. The Chinese are travelling everywhere and there are delegations coming to Italy constantly. If you can use those moments, then you can definitely be in the right place at the right time. If you're doing really well in another market, do the

Chinese notice? If I do an event in the USA—we were present at the Nasdaq closing bell ceremony—the Chinese read about it. I'm encouraging producers to use us freely as a resource. Italians have such great varieties, which is a strength and a weakness at the same. Once the Chinese discover wines in general, then Italian wines give them the opportunity to go to the next step and discover a wide variety. Italians have the best portfolio for that, with price as well. The whole middle ground is the great strength for Italian wines, both in terms of quantity and variety.

Source: http://www.wine-business-international.com/161-bWVtb2lyX2lkPTQ1Mg--en-print_vorlage.html

Acknowledgements

There are numerous people who supported me during this academics experience and throughout the process of this research.

Firstly, I would like to express my deep gratitude to my supervisor, Professor Robert Ibsen, who provided fundamental suggestions in order to develop a good project and has been always available especially in arduous moments.

Furthermore, I am particularly grateful for the aid given by two of my best friends: Pietro and Dario, who followed me during trips to wineries across Italy and introduced me to the interviewee.

Moreover, I would like to thank Dr. Salvatore Avallone and Dr. Raffaele Cani for their assistance with the collection of my data by taking part into the interviews.

A special thank to my family for their continuous support and encouragement during the past two years in Copenhagen and my previous bachelor in Milan.

Finally, I wish to thank Copenhagen Business School, a top institution where I grew a lot both academically and culturally.