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# **Exporting New Zealand Wine to China**

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## **Abstract**

China is one of the fastest-growing wine markets in the world. Wine businesses from major wine-producing countries have been focusing on this market. New Zealand, as the fastest growing wine producer in the New World countries, has targeted East Asia, especially China, as an export destination. However, the market share and reputation of New Zealand wines has not been very high and many New Zealand wine exporters have neither understood the Chinese market very well, nor successfully set up their export business there. The findings of this study will inform current and potential wine exporters from New Zealand of effective market entry procedures.

A qualitative methodology was employed to identify the key elements of exporting New Zealand wine to China. Fourteen businesses, including eleven New Zealand wine exporters and three China-based wine import distributors were interviewed. The data was analysed using qualitative data methods. The study found that New Zealand wine exporters have used four market entry modes, chosen according to the different characteristics of their businesses: indirect exporting, direct exporting, joint venture, and acquisition. This study also identified key elements in successfully exporting New Zealand wine to China, including the selection of market entry modes, distribution channels, and suitable importer/distributors, the initial organisation of the wine export process, and the development of business relationships. Challenges to this success have also been identified, such as the current Chinese preference for red wines, the small scale of the New Zealand wine industry, the orientation towards short-term profit by Chinese traders, and identifying suitable business partners.

Recommendations are also made for the development of successful export business by New Zealand wine producers in the future.

**Key words:** market entry, wine export, China wine market.

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## **Dedication**

This thesis is dedicated to my parents and my wife for their great support and encouragement during my study.

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## **List of Abbreviations**

AANZFTA: Australia and New Zealand Free Trade Agreement

CIF: Cost, Insurance and Freight

CMO: Common Market Organization

CNFCA: China Non-staple Food Circulation Association

EXW: Ex Works

FAO: Food and Agriculture Organization of The United Nations

FDI: Foreign Direct Investment

FOB: Free On Board

GATT: General Agreement on Tariffs and Trade

JV: Joint Venture

MO: Market orientation

NZTE: New Zealand Trade and Enterprise

OIV: International Organization of Vine and Wine

SMEs: Small and Medium Enterprises

USDA: United States Department of Agriculture

WOS: Wholly-owned Subsidiaries

WTO: World Trade Organization

## **CHAPTER 1: Introduction**

### **1.1 Background**

Wine consumption reached over 23.4 billion litres across the world in 2009, and the wine industry changed dramatically in the last decade. Wine market performances in Old World countries differed greatly from that in New World countries. Production and consumption in Old World countries such as France, Italy, and Spain trended downwards while wine has become more and more interesting to local consumers and businesses in New World countries such as Australia, United States, New Zealand, and Russia, and consequently wine market performances in these countries steadily improved (FAOSTAT, 2011).

China is one of the fastest-growing wine markets, accounting for about 7 per cent of global wine consumption (Wine Institute of California, 2010). Over the last five years wine consumption in China doubled, reaching 1.156 billion bottles in 2010, and almost fifteen per cent of these were imported. Sales of imported wine almost quadrupled between 2005 and 2009 and a further increase of 56 per cent is forecast between 2010 and 2014 (Willa Suen, 2011).

New Zealand (NZ) was ranked the eighth largest wine exporter to China in terms of value in 2009 (FAOSTAT, 2011). NZ wine exported to China reached NZ\$17.2 million in value and 1.4 million litres in volume in 2010 (New Zealand winegrowers, 2010). China was the sixth most important export market for NZ wine in 2010 after UK, Australia, USA, Canada and Netherland (Scandurra, 2011; NZ Winegrowers, 2011).

### **1.2 Problem statement**

China is a very big and complex market both geographically and in terms of infrastructure. Differences in operation, size and expectations among the NZ wineries and exporters accessing the Chinese market has led to a variety of modes of market entry being used by them to enter and develop their business in China. NZ wine

exporters can benefit from careful analysis of those business' choices in market access method, the key elements of successful experiences in exporting wine to China, and the challenges that have been encountered by exporters .

In the last few years Rozelle et al. (2006), Olsen et al. (2007), Gao and Knight (2007), Ma (2008), Beverland (2009) and Redfern Associates (2010) have studied wine exports to China from western countries (including NZ) producing an overview of the Chinese wine market, and investigating successful entry strategies to China, the impact of the NZ-China Free Trade Agreement (FTA), business relationships in China, and the factors in successful exporting. Little study has been done collecting primary data from NZ wine exporters and China-based NZ wine importer/distributors concerning their understanding of the entry of NZ wine into China.

### **1.3 Aims and objectives of the research**

The aim of this research is to identify and analyse how NZ wine can be successfully exported to China. The objectives include:

- to review both global and Chinese trends in wine importation and consumption;
- to identify and analyse the market entry modes currently used by NZ wine exporters to China;
- to identify key elements of successful NZ wine exportation to China

### **1.4 Thesis structure**

This thesis is organized into seven chapters. It begins with the introduction, which includes research background, a statement of the problem, and the research aim and objectives. The second chapter reviews wine production, consumption, imports, and global, NZ, and Chinese exports respectively over the decade beginning in 2000. The third chapter reviews the literature that deals with past research and relevant information in this topic and builds up the theoretical framework for the study. The fourth chapter explains the research methodology, including research procedures, and methods of data analysis. The fifth chapter outlines the main findings of the study and

in sixth chapter the research results are compared and contrasted with the literature review and key findings relevant to the research objectives are discussed. In the last chapter conclusions are drawn and recommendations made concerning the future development of the exportation of NZ wine to China and concerning topics for future studies.



## **CHAPTER 2: Background information**

This chapter is in three sections. The first provides an overview of the performance of the wine industry globally since 2000 to assist in understanding wine production, consumption, imports and exports from a global point of view. Subsequently this chapter provides pertinent detail, separately, concerning the New Zealand wine industry and then the Chinese wine industry.

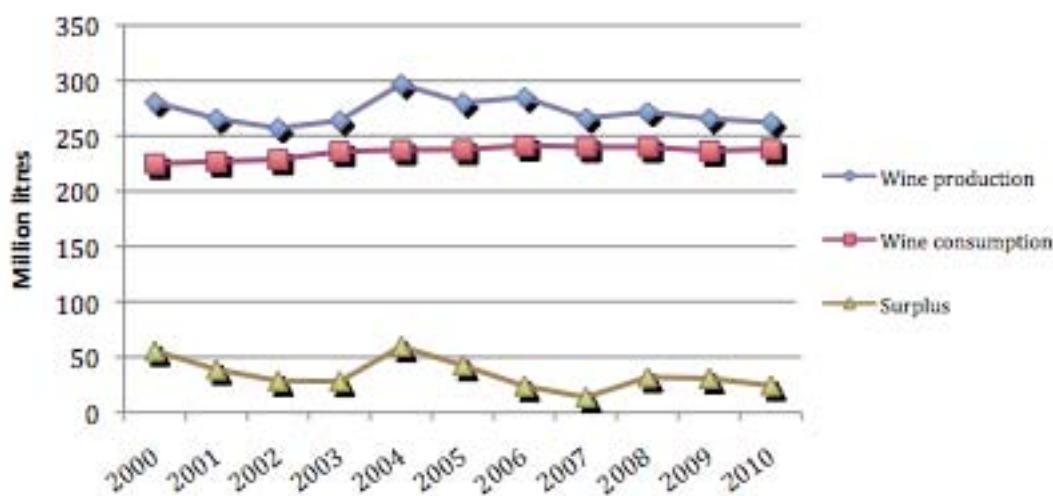
## 2.1 Global wine industry

The wine industry has changed dramatically over the last decade. Wine market performance in Old World countries such as France, Italy, and Spain has trended downward overall in both production and consumption while, in contrast, in New World countries such as Australia, United States, New Zealand, China, and Russia, wine has gained more popularity with local consumers and businesses and the market performance of wine has been rising (FAOSTAT, 2011).

### 2.1.1 Global wine production

Figure 2.1 below demonstrates the global wine production, consumption and surplus from 2000 to 2010.

**Figure 2.1:** Global wine production, consumption and surplus 2000-2010



**Source:** FAOSTAT (2011), OIV (2011), and Wine institute of California (2009)

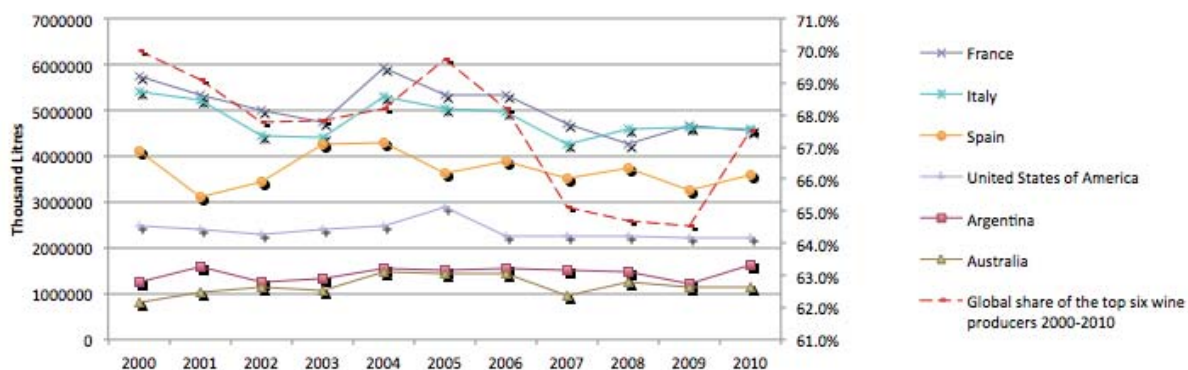
As shown above in Figure 2.1, world wine production has remained in the range of 25.9 to 28 billion litres since 2000, except for 2004 when production edged to just over the 30 billion litre mark (FAOSTAT, 2011; Wine Australia, 2009). The peak in 2004 reflected the increase of the world's total vineyard surface area (FAO, 2009). After 2004, the world's total production declined at a compound annual rate of 4 percent due to the difficulties experienced by producers in selling their wines in the Old World, especially France and Italy (FAO, 2009; Wine Australia, 2009). In 2008, this downward trend was halted and world wine production increased marginally by

0.3 percent to 27 billion litres because of a relatively large increase in Australian, Italian, and Spanish wine production (FAO, 2011; Wine Australia, 2009) (Figure 2.2). Good weather conditions, especially in Italy and Spain, contributed to this, helping vineyard yields improve after their significant fall in 2007 (Wine Australia, 2009). However a new downward trend started after 2008 due to the significant decrease in size of the vineyards in Old World countries (including France, Italy, Spain, Germany, Portugal and Hungary), as a result of the economic crisis in 2008 (which shrank margins) and the new Wine Common Market Organization (CMO) reform in the European Union (which cut surpluses by encouraging voluntary withdrawal from vine growing by decreasing subsidies and compensating producers by offering alternatives) (Baldi, 2011; FAOSTAT, 2011; FAO, 2009).

### Major wine producing countries

Figure 2.2 below demonstrates the production and global share of the top six wine producers in the world.

**Figure 2.2:** Wine production and global share of the top 6 wine producers 2000-2010



**Source:** FAOSTAT, 2011

As shown in Figure 2.2, the top six wine producers in the world are France, Italy, Spain, the United States (US), Argentina, and Australia since 2000, among which France and Italy have periodically exchanged first and second places with Italy overtaking France in 2006. In general, Old World (France, Italy, and Spain) wine production has decreased since 2004, while New World (US, Argentina, and Australia) wine production has been relatively stable.

As shown in Figure 2.2, in 2010, the top six wine producers in the world were Italy (4.58 billion litres), France (4.54 billion litres), Spain (3.61 billion litres), US (2.21 billion litres), Argentina (1.63 billion litres), and Australia (1.13 billion litres). Together they accounted for 67.5 percent of the wine produced in the world, down 2.5 percentage points from a peak share of 70 percent in 2000. Their share declined to 67.8 percent in 2002 and recovered to 69.7 percent in 2005. It continued to decrease until bottoming out at 64.5 percent in 2009, after which it climbed again to reach 67.5 percent in 2010. The top three Old World countries' decrease (France, Italy, Spain) in production from 2004 was the main reason for the top six's total global share to decrease. However in 2010 the top six's global share had recovered 3 percent points from its lowest point of the reported period, largely because Spain and Argentina increased their wine production while the rest of those countries' wine production remained stable.

Other wine-producing countries from 2000 to 2010 were Germany, South Africa, Chile, China, Portugal, Romania, Hungary, Bulgaria, and New Zealand (NZ) (FAOSTAT, 2011; Wine Australia, 2009).

### **2.1.2 Global wine consumption**

As shown in Figure 2.1 above, after an uninterrupted period of growth from 2000, a downward trend in global wine consumption has started in 2006, and although some recovery has been made by 2010, it has not reached the peak recorded in 2006. According to OIV (International Organization of Vine and Wine) report 2010, this is because wine consumption in traditional wine producing and consuming countries such as France, Italy, Spain and Argentina have been declining because, firstly, consumers have been offered more choices of drinks such as beer and other alcoholic beverages and, secondly, some wine consumers have been trading down to less expensive wines, and many have chosen to limit the volume they consume during the recession (Baldi, 2011). East Asia (mainly China), the US, Canada, Australia, Russia and Chile enjoy a more steady growth in wine consumption, which stand out against the downward trend starting in Old World countries: global wine consumption in the

EU decreased by 0.5 percent between 2006 and 2007, while non-EU countries saw an increase of 0.9 percent in the same period (Foxcroft, 2009).

### Major wine-consuming countries

Table 2.1 below demonstrates major wine-consuming countries from 2000 to 2009.

**Table 2.1:** Major wine-consuming countries 2000-2009

Country	Total Consumption (million litres)					Per Capita Consumption (Litre/capita)				
	2000	2003	2005	2008	2009	2000	2003	2005	2008	2009
France	34.50	34.08	33.53	30.80	29.30	58.29	56.58	54.98	49.65	45.23
Italy	30.80	29.34	27.02	26.17	24.60	53.39	50.36	46.07	43.9	42.15
US	21.20	23.80	26.30	27.95	27.25	7.44	8.1	8.77	8.97	8.96
Germany	20.15	19.74	19.85	20.75	20.25	24.48	23.9	24.01	25.22	24.44
Spain	14.05	13.80	13.69	12.17	11.27	34.92	32.77	31.54	30.03	27.81
Argentina	12.49	12.34	10.97	10.68	10.34	33.85	32.46	28.32	26.77	25.16
China	10.79	12.11	12.65	13.72	15.37	0.25	0.26	0.34	0.57	0.80
UK	9.70	11.58	13.14	13.48	12.68	16.41	19.34	21.74	21.94	22.38
Russia	4.70	8.68	10.50	11.33	11.45	3.19	5.97	7.29	8.01	7.84
Portugal	4.60	5.32	4.90	4.54	4.52	44.93	51.06	46.54	42.51	42.49
Australia	3.90	4.20	4.52	4.92	5.20	20.37	21.15	22.27	22.65	23.19
South Africa										
Africa	3.89	3.46	3.40	3.56	3.38	8.57	7.35	7.09	7.17	6.97
Canada	2.76	3.44	3.72	4.04	3.34	8.98	10.88	11.52	12.16	11.63
Chile	2.27	2.55	2.64	2.34	2.61	14.74	16	16.23	13.92	13.85
Japan	2.63	2.54	2.53	2.63	2.36	2.07	1.99	1.98	2.06	2.05
Sweden	1.18	1.50	1.54	2.01	2.01	13.33	16.77	16.98	21.81	22.65

**Source:** OIV Statistics (2011), NZTE & Redfern Association (2010), and Wine Institute of California (2009)

As shown above in Table 2.1, the five countries consuming the greatest volumes of wine between 2000 and 2009 were France, Italy, the US, Germany, China, and UK. However, as discussed, in the Old World countries, especially France, Italy, Spain, and Portugal, both total wine consumption and per capita consumption decreased. This downward trend also occurred in some traditional wine-drinking New World countries such as Argentina, Chile and South Africa, also caused by more diversification of drinking choices, such as beer (Hennicke, 2011). For example,

Chile's average per capita consumption declined from a high of 52 litres per person in 1982 to 13.85 in 2009, which was very low among all major wine producing and exporting countries; while the beer consumption increased substantially, exceeding 27 litres per capita during the same period (Hennicke, 2011).

In contrast, some New World countries like the US, Russia (the US, China and Russia were key contributors to growth in global wine consumption before the economic crisis), Japan and Canada had constant increases in both total consumption and per capita consumption since 2000 until the effects of the economic crisis in 2008 were felt; and thereafter experienced decrease in one or both of the consumption figures in 2009 and 2010 (OIV, 2011). However, a few countries, like Australia, China, and Sweden, have shown marked improvement and sustained constant growth after the economic crisis (OIV, 2011).

### **2.1.3 Global wine trade**

The major players in global wine trade are separated into major wine importing countries and major wine exporting countries.

#### **Major wine importing countries**

Table 2.2 below demonstrates the top wine importing countries from 2000 to 2009.

**Table 2.2:** Top wine importing countries 2000-2009 (tonne/thousand litres)

Country	2000		2005		2009	
	Quantity (tonnes)	Unit Price \$/litre	Quantity (tonnes)	Unit Price \$/litre	Quantity (tonnes)	Unit Price \$/litre
Germany	992,225	1.68	1,258,950	1.75	1,411,070	1.96
United Kingdom	887,803	2.87	1,315,750	3.14	1,102,910	3.91
United States	447,940	5.22	712,919	5.53	926,883	4.52
France	435,013	0.98	544,451	1.09	576,715	1.27
Russia	162,346	1.01	622,702	0.82	471,736	1.24
Netherland	201,365	2.02	372,021	2.36	360,901	3.17
Canada	235,757	2.46	280,873	3.71	328,224	4.46
Belgium	255,236	2.53	282,924	3.56	306,124	4.1
Denmark	179,398	2.01	185,181	2.97	189,458	3.31
Switzerland	180,859	3.33	180,087	4.23	189,198	5.37
Japan	165,747	4.76	158,034	6.37	193,867	5.57
Portugal	188,635	0.49	139,658	0.55	160,308	0.67
Sweden	119,168	2.21	128,660	3.3	148,520	4.27
Czech	66,394	0.4	115,655	0.93	152,546	1.11
Italy	56,492	3.27	168,701	1.98	143,207	2.44
China	41,237	1.41	70,542	2.08	184,219	2.85
Poland	59,033	0.79	67,658	1.65	84,060	2.19
Angola	24,800	1.08	75,191	0.91	79,747	1.59
Norway	46,757	2.37	76,061	2.98	77,223	4.41

**Source:** FAOSTAT (2011)

As shown in Table 2.2 above, the traditional world-leading wine-importing countries in the reported period were Germany, United Kingdom (UK), the US, France, the Netherland, Belgium, Canada, Japan, Denmark, Switzerland, and Portugal (FAOSTAT, 2011). Russia and China increased their wine imports rapidly in the last decade and were emerging as major markets for wine exporters in the world (Euromonitor, 2011; FAOSTAT, 2011). However, their total volume of wine imports was still very small compared with those of traditional wine importing countries. As

shown in Table 2.2, the top wine importing markets, in terms of volume, were UK, Germany, the US and France.

As shown in Table 2.2 above, in terms of average price per litre, Japan, followed by US, had the highest average prices of imported wine globally in 2009. However, the average price per litre of imported wine dropped significantly comparing 2009 with 2005 in both countries. That was because consumers in Japan were shifting from premium wines toward the mid-range category, and from on-premise to off-premise consumption (Aoki, 2011). In US the wine consumption was strongly affected by the economy's emergence from the biggest recession (2008) since the Great Depression (WSSA, 2011).

### **Major wine exporting countries**

Table 2.3 below demonstrates the top wine exporting countries in period 2000-2009.



**Table 2.3:** Top wine exporting countries 2000-2009 (tonnes/thousand litres)

Country	2000 in volume		2005 in volume		2009 in volume	
	Quantity (tonnes)	Unit value (US\$/litre)	Quantity (tonnes)	Unit value (US\$/litre)	Quantity (tonnes)	Unit value (US\$/litre)
<b>Italy</b>	1,467,530	1.52	1,552,080	2.40	1,918,410	2.53
<b>France</b>	1,482,510	3.40	1,367,840	5.13	1,215,990	6.33
<b>Spain</b>	777,302	1.45	1,364,750	1.39	1,457,610	1.57
<b>Australia</b>	310,885	2.91	695,475	3.04	771,949	2.36
<b>Chile</b>	402,351	1.43	411,233	2.13	691,823	1.99
<b>South Africa</b>	170,000	1.44	349,266	1.71	429,299	1.67
<b>United States</b>	276,943	1.92	345,905	1.79	397,397	2.20
<b>Germany</b>	241,437	1.46	284,490	2.36	349,530	2.91
<b>Argentina</b>	92,121	1.62	223,296	1.37	297,060	2.13
<b>Portugal</b>	187,551	2.50	251,459	2.60	230,903	3.30
<b>New Zealand</b>	38,257	2.35	57,400	5.78	128,555	5.00
<b>Republic of Moldova</b>	99,183	0.89	254,187	0.96	95,715	1.34
<b>Ukraine</b>	10,042	0.9	29,193	1.01	73,127	0.86
<b>Hungary</b>	80,225	0.80	61,262	1.13	72,675	1.22
<b>Austria</b>	32,281	1.16	69,555	1.49	71,854	2.33
<b>The former Yugoslav Republic of Macedonia</b>	82,409	0.35	65,590	0.55	68,718	0.77
<b>Bulgaria</b>	79,300	0.79	114,512	0.82	54,224	1.29
<b>United Kingdom</b>	19,490	8.03	37,479	6.13	43,815	11.19
<b>Denmark</b>	17,146	2.23	36,650	2.53	35,884	3.20

Source: FAOSTAT (2011)

According to Table 2.3, the major wine-exporting countries between 2000 and 2009 were Italy, France, Spain, Australia, and Chile. The top six wine producers were also major wine-exporting countries. As in wine production, France was the largest wine exporter in 2000 but was overtaken by Italy more recently. However, the average value per volume (US\$/litre) of exported French wine was more than double that of Italian wine in the reported period. Therefore, on the basis of value, France was still the leading wine-exporter in the world.

In the traditional old-world countries, the volume of wine exports varied, either declining (e.g. France), fluctuating (e.g. Portugal), or increasing at relatively small rates (e.g. Spain), although from much larger base levels than those of new-world countries. The only exceptions were Italy and Germany, which significantly increased their wine exports due to their market success within the European Union (EU), the US market, followed by the Russia and China market (Baldi, 2011).

Australia was ranked ahead of all the new-world countries in volume of wine exports in 2005 and 2009, despite producing less wine than US and Argentina (Table 2.3). This was because of a strong global demand for Australian wine (FAOSTAT, 2011; Wine Australia, 2009). Chile, South Africa, the US, and Argentine ranked second to sixth of all new-world exporters. NZ remained a small player in terms of volume; however, it recorded the strongest growth in the new-world countries in both exports and wine production, predominantly in Sauvignon Blanc (FAOSTAT, 2011; Wine Australia, 2009). However, this rate of increase seemed unlikely to be sustained as an over-supply of NZ wine occurred in the financial year 2009/10 (New Zealand Winegrowers, 2010; Wine Australia, 2009).

In terms of average price per litre, NZ wine attained the highest average price per litre in 2005 and 2009 (UK was not a wine-producing country), followed by France, Australia, Portugal, Spain, Italy, Germany, the US, Argentina, Chile, and South Africa. In general, the average value of old-world countries' wine exports were higher than that of new-world countries.

### **Wine exports to China**

Table 2.4 below demonstrate the major wine exporting countries to China and the shares of China related exports over their total wine exports.

**Table 2.4:** Wine exports to China 2000-2009

China oriented wine exports' share of total wine exports by country 2000-2009						
Country	2000		2005		2009	
	% China Share in Volume	% China Share in Value	% China Share in Volume	% China Share in Value	% China Share in Volume	% China Share in Value
Spain	2.55	1	2.06	0.74	0.77	0.95
France	0.37	0.3	0.95	0.77	3.94	2.85
US	1.76	1.3	1.68	1.93	2.94	3.98
Italy	0.41	0.22	0.32	0.22	0.45	0.62
Chile	0.85	0.59	2.13	1.46	7.04	3.9
Germany	0.4	0.58	0.32	0.65	0.85	1.26
Australia	0.16	0.21	0.76	0.84	5.14	5.22
South Africa	0.001	0.12	0.12	0.26	1.71	0.98
Argentina	0.59	0.34	2.25	1.25	1.3	1.12
Canada	24.77	16.46	8.07	7.46	2.98	16.44
Portugal	0.05	0.09	0.16	0.2	0.51	0.48
Hungary	0.04	0.05	0.19	0.52	0.4	0.87
New Zealand	0.06	0.07	0.19	0.26	0.93	1.43

*Source: FAOSTAT (2011)*

**Notes:** “% China share in volume” means one country’s China oriented wine exports’ share of its total global wine exports in volume terms

“% China share in value” means one country’s China oriented wine exports’ share of its total global wine exports in value terms

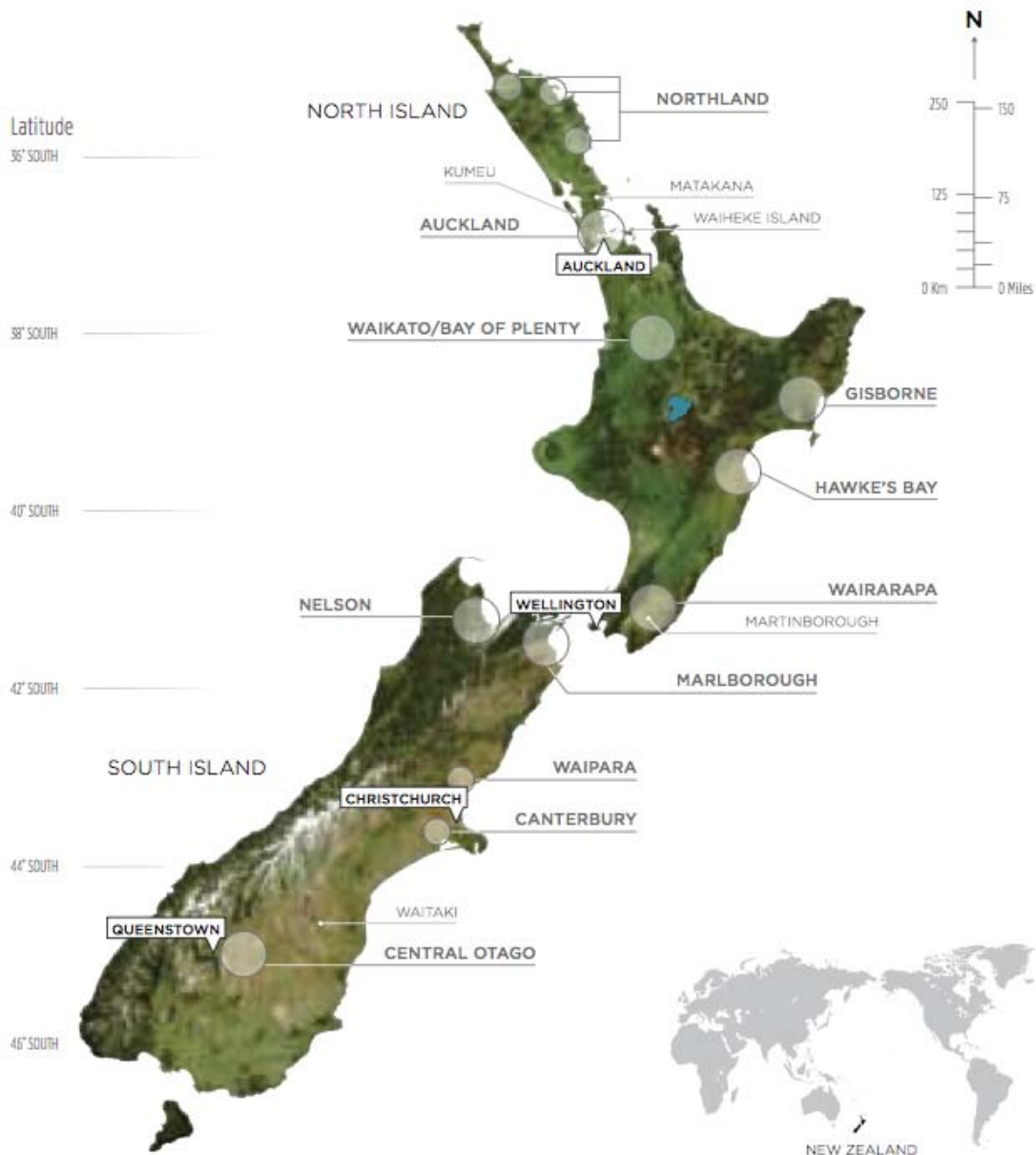
As shown above in Table 2.4, the top 5 countries exporting wine to China globally from 2000 were Spain, France, US, Italy, and Chile. Although the Chinese had become key consumers in the global wine market, this country was still a very small export destination for any of its major wine suppliers during the reported period with the exception of Canada, whose wine exports to China in value terms attained double digit percentages of Canada’s total wine exports (Canada was a very small wine producer and exporter according to FAOSTAT 2011). The reason for such low percentages in general was because the total amount of wine imported to China was very small compared with its domestic wine production (Wine Australia, 2009). However, it is forecast that China had great potential as wine importer and it is expected that its importance will increase (OIV, 2011).

## 2.2 New Zealand wine industry

New Zealand is a fast-growing competitor on the new world wine map. Its wine industry has a global reputation for providing upper premium, cool climate wines (New Zealand Winegrowers, 2011). Small by international standards, the New

Zealand wine industry expanded dramatically during the last decade (Scandurra, 2011). As shown below in Figure 2.3, the key producing regions are Northland, Auckland, Bay of plenty, Gisborne, Hawke’s Bay, Martinborough, Marlborough, Nelson, Waipara, Canterbury, and Central Otago.

**Figure 2.3:** Map of New Zealand’s major wine producing regions



Source: New Zealand Winegrowers, 2010

## 2.2.1 Wine/grape production

Table 2.5 below demonstrates the producing area in NZ by region from 2000 to 2010.

**Table 2.5:** New Zealand vineyard by area by region 2000-2010

Region	2000		2005		2010	
	Vineyard (Hectares)	Area	Vineyard (Hectares)	Area	Vineyard (Hectares)	Area
Auckland/Northland		393		514		550
Waikato/Bay of Plenty		119		148		147
Gisborne		1,681		1,890		2,083
Hawke's Bay		2,443		4,249		4,947
Wairarapa		327		779		871
Nelson		203		646		842
Marlborough		4,054		9,944		19,295
Canterbury/Waipara		442		853		1,779
Otago		280		978		1,540
Other		255		978		1,374
Total		10,197		21,002		33,428

**Source:** New Zealand Winegrowers (2007), and New Zealand Winegrowers (2011)

As shown above in Table 2.5, NZ's grape producing area tripled from just 10,197 hectares in 2000 to 33,428 hectares in 2010, covering more than twice the surface area of any other horticultural crop in New Zealand by 2010 (Scandurra, 2011; New Zealand Winegrowers, 2011). Marlborough was the dominant region, producing about half the country's wine in the reported period. Its share of the national total increased from 40 percent in 2000 to 58 percent in 2010, followed by Hawke's Bay, Gisborne, Canterbury/Waipara, and Otago. As a result of the rapid increase in grape production, New Zealand experienced a record grape harvest of 285,000 tons in 2008, up a massive 40 percent from the previous year, which led to an over-supply situation resulting in a decline in grape prices, a surge in bulk wine shipments, excess inventories, and a decline in the average export price in the face of a global downturn (Scandurra, 2011; Scandurra, 2010).

Table 2.6 below demonstrates the growth of number of wineries, grape growers, and total wine production in NZ:

**Table 2.6:** New Zealand wine production 2000-2010

	2000	2005	2010
Number of wineries	358	516	672
Number of grape growers	634	881	1128
Total wine production (Million Litres)	60.2	102.0	190.0

**Source:** New Zealand Winegrowers (2011), Scandurra (2011)

As shown above in Table 2.6, there were 358 wineries and 634 grape growers in New Zealand in 2000, and these numbers increased to 672 and 1128 respectively by 2010. While the sector was still dominated by small wineries and relatively small growers, there was a significant amount of international investment over this time. The six largest companies accounted for approximately 55 percent of total wine production and 19 percent of total grape production in 2010 (Scandurra, 2011).

New Zealand's total wine production tripled from 60.2 million litres in 2000 to 190 million litres in 2010 as shown below in Table 1.8. The number of productive hectares for white wine had increased rapidly by 15 percent to 17,540 ha in 2007; in 2008, the number jumped to 21,271 ha (increase of 21 percent); and in 2009, it reached 23,712 ha (increase of 11 percent). In contrast, the area in red wine production increased more slowly to 7,181 ha in 2007, which was a 7 percent increase compared with the previous year; and increased by only 2 percent in both 2008 (7,306 ha) and 2009 (7,453 ha). Hence, the weighted-average increase for white plus red wine was 12 percent (2007), 16 percent (2008), and 9 percent (2009) (New Zealand Winegrowers, 2010).

The most popular and widely-grown varieties since 2000 are: Sauvignon Blanc, Pinot Noir, Chardonnay, Merlot, Riesling, and Pinot Gris (Cabernet Sauvignon used to be the sixth popular variety but has declined constantly since 2003 and was replaced by Pinot Gris in 2006). Sauvignon Blanc was the dominant grape variety and covered over half of the total production area in 2010, up from 35 percent in 2005 (Scandurra, 2011; New Zealand Winegrowers, 2011). In 2010, Sauvignon Blanc took a 69 percent share of New Zealand's varietal mix; Pinot Noir (10 percent), Chardonnay (8 percent), Pinot Gris (5 percent), and Merlot (3 percent) ranked a long way behind (New Zealand Winegrowers, 2011).

## 2.2.2 New Zealand wine consumption

Table 2.7 demonstrates the sales and consumption per capita of NZ wine and all wines in NZ:

**Table 2.7:** New Zealand wine consumption 2000-2010

	2000	2003	2006	2008	2010
Domestic sales of NZ wine (million litres)	41.3	35.3	50	46.5	56.7
Total sales of all wine in NZ (million litres)	66.2	74.5	86	87.4	92.1
NZ wine as a percentage of domestic sales	62%	47%	58%	53%	62%
Consumption per capita of NZ wine (litres)	10.8	8.8	12.1	11.1	13.0
Consumption per capita of all wines in NZ (litres)	17.3	18.5	20.6	20.8	21.1

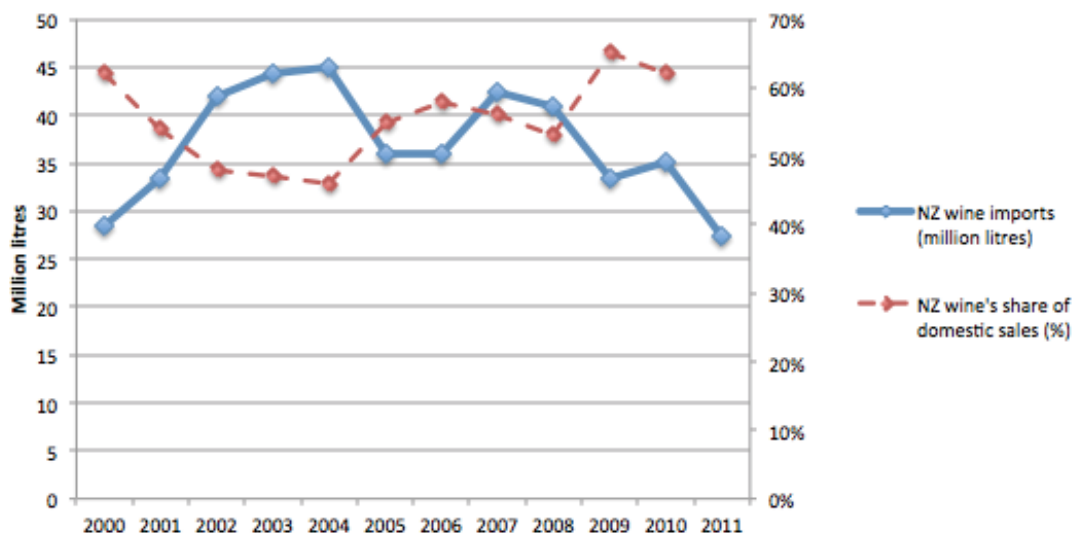
**Source:** Scandurra (2011)

From Table 2.7 above, both total and per capita wine consumption in NZ increased over the reported period. NZ domestic wine sales rose by 37.3 percent in 2010 to total 56.7 million litres compared with 41.3 million litres in 2000. Wine consumption increased by 39 percent to a total of 92.1 million litres in 2010 compared with 66.2 million litres in 2000. Although NZ wine production tripled in the last decade, its share of domestic sales remained static at 62 percent in 2000 and 2010 with slightly lesser shares in the interim in the face of market competition from imported wines. As can be seen in the table, consumption per capita of NZ wine was about 7-10 litres' lower than total consumption per capita of all wines in NZ in the reported period. From these figures we can tell that the growth in wine production was driven more by exports rather than domestic consumption.

## 2.2.3 New Zealand wine imports

Figure 2.4 below demonstrates the relationship between NZ wine imports and NZ wine's share of domestic sales:

**Figure 2.4:** New Zealand wine imports 2000-2011



**Source:** New Zealand Winegrowers (2007), New Zealand Winegrowers (2011), and Scandurra (2011)

Figure 2.4 shows that NZ's total wine import was fluctuating over the last decade. It rose from 28.56 million litres in 2000 to its peak of 45.03 million litres in 2004 before it decreased to the low for this period of 35.87 million litres in 2005, rose again to 42.38 million litres in 2007, but trended downward till 2011. This correlates negatively with NZ wine's share of domestic sales as shown in Table 1.9. In other words, when NZ wine's share of domestic sales increased, NZ's total wine imports decreased; when NZ wine's share of domestic sales decreased, NZ's total wine imports increased.

Table 2.8 below demonstrates the major wine exporters to NZ from 2000 to 2011:



**Table 2.8:** New Zealand wine imports by market 2000-2011

New Zealand wine imports by market 2000-2011						
Countries	In volume (millions litres)			In value (millions NZ\$)		
	2000	2005	2011	2000	2005	2011
Australia	20.66	24.34	22.51	83.10	106.57	92.41
Spain	2.48	0.40	0.23	3.96	2.13	1.92
Italy	1.89	1.63	1.00	6.76	9.31	6.96
Chile	1.09	0.67	0.06	3.25	1.20	0.37
France	1.01	0.90	1.10	23.35	21.61	30.39
Argentina	0.17	0.89	0.05	1.85	1.06	0.31
South Africa	0.19	6.15	1.71	1.56	4.89	6.37
Others	0.73	0.88	0.63	3.43	3.98	5.79
Total	28.56	35.87	27.29	127.26	150.74	144.52

**Source:** New Zealand Winegrowers 2000, 2005, 2007, and 2011

As shown in Table 2.8 above, Australia was the largest foreign supplier to the NZ market in both volume and value terms, followed by France, Italy, and South Africa. Among the top six wine exporters to the NZ market, Spain, Chile, and Argentina had very small market shares which were all decreasing in the reported period.

#### 2.2.4 New Zealand wine exports

Table 2.9 below illustrates the major destinations for NZ wine exports from 2000 to 2010 in both volume and value terms:

**Table 2.9:** New Zealand wine exports by market 2000-2010

Countries	In volume (millions litres)			In value (millions NZ\$)		
	2000	2005	2010	2000	2005	2010
Australia	2.40	9.76	45.94	23.86	88.03	327.10
UK	10.46	21.12	48.00	84.67	162.12	298.66
The US	2.51	12.98	26.36	26.53	113.24	211.61
Canada	0.65	1.48	7.14	5.64	13.91	59.14
Netherlands	0.68	1.72	2.75	5.28	12.69	21.58
Ireland	0.30	0.57	1.82	2.17	5.20	15.78
Singapore	0.09	0.29	1.03	1.22	3.56	12.46
Hong Kong	0.12	0.30	0.95	1.12	2.99	11.95
Japan	0.37	0.49	0.67	3.98	5.90	9.03
Denmark	0.30	0.53	1.01	2.38	4.61	5.95
China	0.004	0.05	1.43	0.04	0.54	17.17
Germany	0.23	0.31	0.59	2.42	3.29	4.95
Others	1.06	2.31	3.18	9.32	23.39	36.26
Total	18.88	51.37	142.03	166.26	434.86	1,040.53

**Source:** Statistics New Zealand (2011)

As shown above in Table 2.9, despite difficult market conditions, NZ wine exports grew by 26 percent in volume to reach a year-end total of 142 million litres in 2010 (New Zealand Winegrowers, 2010). As mentioned previously, as the fastest-growing wine exporters globally in the last decade, total NZ wine exports rose by over 752.3 percent in volume compared with 2000. NZ wine exports jumped from just US\$88 million (exchange rate between NZ\$ and US\$ in 2000 was 1: 0.53) in 2000 to US\$788 million (NZ\$: US\$ in 2010 was 1: 0.75) in 2010: a nine-fold increase (Scandurra, 2011). The NZ\$1billion barrier was broken for the first time in 2010, which was remarkable considering the high NZ dollar exchange rates, the global economic meltdown, and in-market price pressures (New Zealand Winegrowers, 2010). In 2011 (the NZ financial year 2010-2011 is from 1<sup>st</sup> of July 2010 to end of June 2011), exports grew to NZ\$1.1 billion in value, and wine was positioned as NZ's ninth-ranked export product (New Zealand Winegrowers, 2011). In 2011, the average price of exports decreased slightly more, down 3.5 percent to NZ\$7.07 per litre (New Zealand Winegrowers, 2011).

Sauvignon Blanc was still dominating NZ's wine exports, accounting for 80 percent of bottled wines sold overseas, while in markets such as China and Mainland Europe there had been significant numbers for styles such as Chardonnay and full-bodied red wines (New Zealand Winegrowers, 2011).

As shown in Table 2.9, the UK remained NZ's leading export market in terms of volume in the reported period with 34 percent of exports in 2010 (country volume/total volume), followed by Australia with 29.5 percent; however few opportunities for future expansion were forecast for either of these markets. The third export market was the US with a growth of 10.5 times compared with figures in 2000, up to 21 percent of NZ exports; followed by Germany (28 percent) and the Netherland (48 percent). Hong Kong and Japan were the two leading export markets in Asia, with greater than 30 percent growth in both markets. (New Zealand Winegrowers, 2011)

In terms of value, Australia overtook the UK as the leading destination for NZ wines, accounting for 33 percent of exports in 2010, up by 13.71 times compared with that in 2000; followed by UK, the US and Canada (these four countries account for 87 percent of NZ's wine exports in 2010). The Netherlands, China, Ireland, Singapore, Hong Kong and Japan round out the top ten markets. Exports to Asia were still small, at just 5 percent of total exports in value terms. Asian markets became a major focus for many NZ wineries in recent years (New Zealand Winegrowers, 2010).

Sales into Asia were up 30 percent on a US dollar basis in 2009 and China was the leading Asian market for NZ wine exports with sales up 73 percent in 2009 (Scandurra, 2010; Statistics New Zealand, 2010). As can be seen in Table 2.9, NZ wine export to China was up by 357.5 times in volume terms and 429.25 times in value terms in the reported period. While exports to Asia were still relatively small, China became a key focus for many NZ wineries seeking to expand their exports beyond the traditional markets (Scandurra, 2011).

In 2010 NZ winegrowers set three main objectives for their wine exports over the following decade: first, reaching \$2 billion of NZ wine exports by 2019; second, raise awareness of and build brand preference for NZ wine in international and domestic markets; third, expand the volume of premium-priced wines exported into developing

markets in Asia, Northern Europe, and North America (New Zealand Winegrowers, 2010).

### **New Zealand wine exports to China**

According to the FAOSTAT database, NZ wine exports to China had been increasing since 2000. The average growth rate was 137 percent annually from 2000 (6 tonnes) to 2010 (143 tonnes) in terms of volume; and 182 percent annually in terms of value, rising from NZ\$43,000 in 2000 to NZ\$17.17 million in 2010 (Statistics New Zealand, 2010; New Zealand Winegrowers, 2011).

NZ was ranked 11<sup>th</sup> globally in terms of volume, and 8<sup>th</sup> in terms of value, in 2010 (Redfern Associates, 2010). In terms of value, France, Australia, and Italy were the three top wine exporting countries to China, while New Zealand was ranked 9<sup>th</sup>. In terms of volume, France, Australia, Italy and Chile were the top 4 exporters, while New Zealand was ranked as 12<sup>th</sup> (Redfern Associates, 2010). In the bottled wine section, the volume of New Zealand wine imports to China had increased 84 percent and stood at an average price per litre of US\$6.05 (NZ\$ 8.64); and in Shanghai and Beijing, New Zealand wines were generally priced at between US\$40-US\$90 (NZ\$57-NZ\$130) per bottle; while the average price of imported bottled wine to China had decreased from US\$4.8 (NZ\$6.86) per litre in 2009 to US\$4.14 (NZ\$5.91) in 2009 (Redfern Associates, 2010). According to the New Zealand- China Free Trade Agreement signed in 2008, China's tariffs in the range 6-20 percent on NZ\$621 million of current exports will be eliminated by 2013, which will include wine products. Therefore, future growth can be expected for New Zealand wineries in exporting wine products to China.

### **2.3 China- the target market for New Zealand Wine**

The People's Republic of China is situated in eastern Asia on the western shore of the Pacific Ocean, with an area of 9.6 million square kilometres and a large population of 1.3 billion (Government of People's Republic of China, 2010). There are 56 ethnic groups and the Han race is the majority (Government of People's Republic of China, 2010). China's continental coastline extends for about 18,000 kilometres, and its vast sea surface is studded with more than 5,000 islands. According to the Constitution, the local administration of China is divided into 4 municipalities, 23 provinces, 5 autonomous regions and 2 special Administrative Regions (shown below in Figure 2.5). In economic terms, China is divided into three regions with east region (region along the coastline) being the most developed region, followed by middle region, while the west region is considered the least developed region (Government of People's Republic of China, 2010). With a population of over 1.3 billion, China is currently Asia's second largest food and beverage market by value after Japan (Australia Trade Commission, 2010). Foreign fine wine exporters have a great opportunity to enter the Chinese market as China's economy grows and an appetite for sophisticated consumer tastes develops (Australia Trade Commission, 2010).

**Figure 2.5:** Map of China

Administrative Divisions of the People's Republic of China (PRC)



**Source:** [http://www.gov.cn/test/2005-06/15/content\\_18253.htm](http://www.gov.cn/test/2005-06/15/content_18253.htm)

China is one of the fastest-growing wine markets, accounting for about 7 percent of the total global wine consumption (Wine Institute of California, 2010). Wine consumption in China doubled over the past five years to 1.156 billion bottles in 2010 (Suen, 2011). Since joining the WTO (World Trade Organization) in 2001, China's wine industry has been increasing rapidly (New Zealand Trade and Enterprise, 2009). The wine market has experienced an average annual growth rate of 17 per cent by volume since 2003, and held a retail value of US\$7.15 billion in 2009 (NZ\$10.21 billion) (Sun, 2009). The volume of market consumption in China almost tripled from 2003 to reach 1,046 million litres in 2009 (Redfern Associates, 2010). Sales of wine on the Chinese mainland in 2009 amounted to 44 billion Yuan (approximately NZ\$8.8 billion) in 2009, up 12 percent from 2008, according to global management consultants AT Kearney (China Daily, 2010).

As consumer demand for wine inside China has rapidly increased, there have been annual increases in China's grape harvest. In 2008, China's 453,000 hectares of vineyards produced 6.4 million tons of grapes, 10 percent of the world's production (OIV, 2010). According to Yves Bnard, the president of the International Organization of Vine and Wine (OIV) at the 11<sup>th</sup> China Qinhuangdao International Wine Festival, from 2006 to 2009, the surface area of Chinese vineyards increased by 6.1 percent, and grape production increased by 10.7 percent (OIV, 2010).

According to the China Wine Food Report, China's wine production had maintained 18.8 percent annual growth for seven years in a row since 2004 and the industry is showing great potential (China Non-staple Food Circulation Association, 2011). Using about 10 percent of the domestic grape production, Chinese wineries produced 665 million litres of wine in 2007, which was up 34 percent from the year prior (Sun, 2009). According to the National Bureau of Statistics, in 2009, China's wine production amounted to 960 million litres, an increase of 27.63 percent from the previous year (China Daily, 2010). In 2010, China's total wine production further increased to 1,089 million litres in 2010, up 13.4 percent year on year (ResearchInChina, 2011). However, all the domestic wine production is sold in the domestic market (Scandurra, 2009).

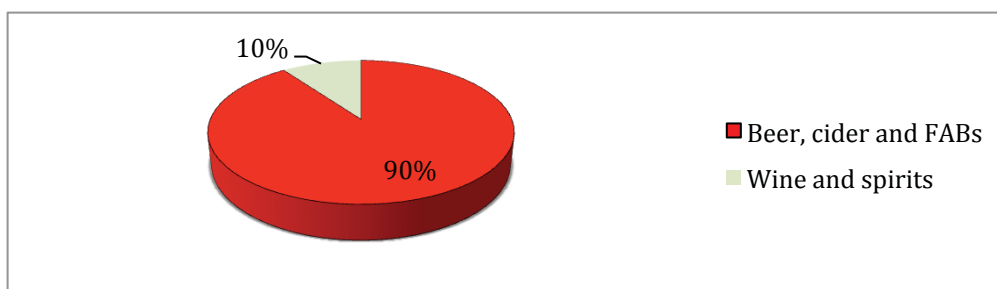
Among more than 500 wineries, there were three major Chinese companies that controlled around 40-60 percent of the total Chinese wine market: Great Wall, Changyu, and Dynasty (Redfern Associates, 2010; Sun, 2009). Though an international financial crisis occurred in 2008, it did not severely influence the Chinese wine industry and Chinese wine production totalled 698.3 million litres which was a 5 percent increase over 2007 (China Research and Intelligence, 2010).

China's wine consumption is concentrated in the economic centres, such as the Yangtze River Delta and Shanghai, including cities in Jiangsu and Zhejiang province; Beijing and its surrounding cities in Hebei province in the north and coastal cities like Dalian; southern areas are Guangzhou and Shenzhen which are two of South China's economic centres geographically connected to Hong Kong (Redfern Associates, 2010).

### 2.3.1 China's alcohol market

Globally, China ranked first in overall alcoholic beverage sector sales volume from 2009 (Pingali, 2011). Alcoholic drinks can be divided into two categories: traditional spirit drinks (grain-based alcohol), also known as baijiu-the traditional Chinese liquor known for its potency (up to 60 percent alcohol content in certain varieties), and modern drinks such as beer (including cider, and flavoured alcoholic beverages (FABs), which are sweet, relatively low-alcohol content beverages), wine and other imported spirits (Pingali, 2011; Drinks MarketWatch, 2010). As can be seen from Figure 2.6 below, beer (including cider and FABs) accounted for roughly 90 percent of the market's sales by volume in 2009 and 2010; while spirits and wine shared the remaining 10 percent of the market.

**Figure 2.6:** Alcoholic beverage market (in volume) in China 2009/2010



**Source:** Pingali (2011)

Being the traditional and national drink of China, baijiu is most commonly served during traditional occasions, such as holidays and formal events (Pingali, 2011). It is consumed at restaurants and homes, mainly by older people, but it is relatively expensive compared to beer (Euromonitor International, 2010). For most Chinese men, it is alcohol content that qualifies an alcoholic beverage as a 'man's drink'; therefore, baijiu remains the preferred drink among Chinese men during private and business drinking occasions and accounts for almost the entire spirits market (Pingali, 2011). However, according to Euromonitor International (2010), baijiu would lose ground to other types of alcoholic drink as competition increases and tastes diverge from the traditional spirit popular across the whole of China.

As shown in Figure 2.6 above, in recent years, beer, cider, and FABs had dominated the Chinese alcoholic beverage sector. The country's beer (including cider and FABs)



market became the largest globally, overtaking the US in terms of sales volume in 2009 and 2010 (Euromonitor International, 2010; Pingali, 2011).

In the remaining 10 percent of China's alcohol market, spirits took the larger proportion (Pingali, 2011; Euromonitor International, 2010). Wine recorded big increases in sales volume growth rates with red wine contributing nearly 62 percent of this in recent years because Chinese consumers were changing their drinking preferences and eager to experiment with Western brands and lower-strength products (Pingali, 2011).

### **2.3.2 Drinking culture in China**

Historically, liquor has played an important role in Chinese society and culture (Wang, 2009). In the Chinese setting, alcohol was seldom consumed alone, instead it was often enjoyed with food and as part of a long meal involving family, friends or business associates (Euromonitor International, 2010; Drinks MarketWatch, 2010). Therefore, celebratory functions involving family and friends have traditionally been the almost exhaustive remit of Chinese drinking culture (Euromonitor International, 2010).

Contemporary Chinese alcoholic drinking has been significantly influenced by increasing disposable incomes, which caused a rise in alcohol consumption, especially of wine, and changes in eating and drinking habits (Pingali, 2011). Changing social factors had also strengthened the potential of China's alcoholic beverage market:

Firstly, drinking alcohol moved far beyond the simple family function and into mainstream culture, leisure and recreation, and eating out became a huge part of Chinese socialising and dining habits, in line with the continued shift towards Western habits (Euromonitor International, 2010). For example, China's expanding bar/pub culture offered more avenues for people to consume alcohol such as wine (Pingali, 2011). But this remained expensive for Chinese consumers and was the domain of the rich in China's larger cities (Euromonitor International, 2010).

Secondly, a rise in the number of women who consumed wine expanded the Chinese alcohol market (traditionally women in China did not drink alcohol but recently they have begun consuming alcohol-especially wine) (Pingali, 2011; Sun, 2009). With increased health consciousness and the relatively low-alcohol content of wines, women, who culturally had not been encouraged to drink alcohol, began to add wine to their drink lists or those that already drank alcohol switched from baijiu to wine (Sun, 2009). It was estimated that 40 percent of wine drinkers in China were women (Sun, 2009).

Thirdly, the sharp contrast in consumer behaviour between the young and old opened up the opportunity to increase alcohol consumption, especially imported alcohol drinks (Redfern, 2010; Sun, 2009). China's one child policy had left a large demographic of young, singleton children, who were receptive to foreign products and willing to try imported wines due to a greater disposable income, education which included exposure to Western culture through studying or travelling abroad, and a low savings rate in younger demographics (Sun, 2009).

### **Wine drinking culture**

Wine cultures, rooted in the traditional drinking of liquor and influenced by modern society, were forming and developing fast in China (Sun, 2009). The drinking of wine became associated with western customs in China, and was viewed as fashionable, sophisticated, and worldly (Redfern Associates, 2010). Most wine purchases by local Chinese were made for a banquet dinner (drinking alcohol during celebrations and other gatherings) and retail gift purchases (Sun, 2009). Drinking wine was for friendship, business, and different degrees of bonding (Redfern Associates, 2010; Sun, 2009). Therefore, wine served as an elegant and tasteful gift to share or for others to enjoy (Redfern Associates, 2010).

The customs associated with the drinking of wine were still deeply involved with Chinese traditional way of dinking- 'ganbei' (bottoms up) (Redfern Associates, 2010). For example, wine was served in traditional wine glasses, replacing oversized shot glasses for beers and baijiu, however, it is taken with a 'ganbei' at the conclusion of each of a series of toasts (Sun, 2009). Such strongly established tradition means that

developing a culture of consuming wine as a complementary companion to food remained an ongoing challenge to wine producers (Sun, 2009).

Wine was becoming the next big status symbol in China (Euromonitor International, 2010). Many researchers found that Chinese people preferred red wine, especially dry-red wine rather than white wine (Pingali, 2011; China Non-staple Food Circulation Association, 2010; Redfern Associates, 2010; Sun, 2009; Rozelle et al., 2006). The reasons behind the preference for red wine were: 1) in efforts to preserve grains for food production rather than alcohol production, members of the National People's Congress in general assembly meeting trumpeted the health benefits of grape wine consumption over traditional grains-based wine, which helped establish red wine's healthy image among Chinese consumers (Pingali, 2011; Sun, 2009). A growing number of spirit drinkers were expected to shift towards grape wine due to rising consumer health awareness and increased taxation on spirits brands (Euromonitor International, 2011). 2) 'Red' holds positive connotations in Chinese culture and symbolizes good fortune, happiness, and celebrations therefore, the red colour was widely applied in traditional Chinese weddings, Chinese New Year, and other traditional celebrations (Sun, 2009).

### **2.3.3 Wine consumer demographics in China**

The average income in China has risen rapidly in the new century. Table 2.10 below demonstrates the national average annual gross income by age from 2005 to 2009 in China:

**Table 2.10:** Average annual gross income by age: 2005-2009 (RMB per capita)

	2005	2006	2007	2008	2009	% Growth
15-19 yrs	8,119	8,848	9,606	10,128	10,975	35.2
20-24 yrs	13,068	14,361	15,501	16,516	17,793	36.1
<b>25-29 yrs</b>	<b>15,388</b>	<b>17,084</b>	<b>18,558</b>	<b>20,010</b>	<b>21,506</b>	<b>39.8</b>
<b>30-34 yrs</b>	<b>15,591</b>	<b>17,379</b>	<b>19,062</b>	<b>20,214</b>	<b>21,723</b>	<b>39.3</b>
<b>35-39 yrs</b>	<b>14,784</b>	<b>16,428</b>	<b>18,012</b>	<b>19,332</b>	<b>20,771</b>	<b>40.5</b>
40-44 yrs	14,068	15,682	17,221	18,537	19,933	41.7
45-49 yrs	13,980	15,587	17,246	18,295	19,656	40.6
50-54 yrs	13,608	15,328	16,879	18,354	19,720	44.9
55-59 yrs	13,338	14,906	16,507	17,909	19,271	44.5
60-64 yrs	12,205	13,750	15,187	16,248	17,455	43.0
65+	10,913	12,362	13,614	14,442	15,530	42.3

**Source:** Euromonitor International (2010)

**Notes:** Constant value at 2009 prices

Wang (2009) in the USDA report identified Chinese people (male and female) aged 25 to 49, with average annual disposable income per capita of US\$2,750 and university education, who lived in urban areas as potential wine consumers. Wine consumers who could afford imported wine in China were wealthy urban citizens whose disposable income has been increased by the nation's economic growth. Disposable incomes in major metropolitan cities were nearly twice the national average, and about eight times higher than the rural areas (Wang, 2009). However, these statistics might have significantly underestimated the number of wealthy people within the total population as a major 2010 report from the China Reform Foundation estimated that a third of income was unaccounted for the purpose of evading tax. This was called grey income (Euromonitor International, 2010). Grey income was concentrated more amongst high-earning Chinese than amongst low-earners and was significant, and largely invisible, in official statistics (Euromonitor International, 2010).

Table 2.10 shows the highest average income demographic was aged 25 through 39, with an annual disposable income of around US\$2,500, which was consistent with the reality that about 80 percent of wealthy Chinese people, whose annual household income was in excess of RMB250,000 (around US\$39,370 (1US\$=6.35RMB)), were

under the age of 45 (Euromonitor International, 2010). These people were the rich population showing considerable interest in wine, with increasingly more private wine dinners, notable auction purchases, and private wine cellar installations (Wang, 2009). The two tables below (Table 2.11 and Table 2.12) demonstrate the annual disposable income per household from 2005 to 2009, and the forecasted annual disposable income per household from 2010 to 2020:

**Table 2.11:** Annual disposable income per household: 2005-2009 (number in thousand)

	2005	2006	2007	2008	2009
Above US\$500	352,779	360,390	368,688	376,450	381,437
Above US\$1,000	311,407	325,673	342,000	357,260	364,077
Above US\$5,000	70,920	89,528	117,586	155,535	170,163
Above US\$10,000	20,673	27,768	39,500	58,505	66,926
Above US\$25,000	4,324	5,555	7,692	11,571	13,504
<b>Above US\$45,000</b>	<b>2,123</b>	<b>2,568</b>	<b>3,263</b>	<b>4,443</b>	<b>5,054</b>
<b>Above US\$75,000</b>	<b>1,144</b>	<b>1,386</b>	<b>1,763</b>	<b>2,338</b>	<b>2,594</b>
<b>Above US\$150,000</b>	<b>494</b>	<b>600</b>	<b>764</b>	<b>1,015</b>	<b>1,127</b>

**Source:** Euromonitor International (2010)

**Notes:** Constant value at 2009 prices

**Table 2.12:** Annual disposable income per household: 2010-2020 (number in thousand)

	2010	2015	2020	% Growth
Above US\$500	386,266	409,420	428,370	10.9
Above US\$1,000	370,464	400,693	423,777	14.4
Above US\$5,000	184,076	265,833	337,758	83.5
Above US\$10,000	75,411	138,361	218,629	189.9
Above US\$25,000	15,569	33,771	67,477	333.4
<b>Above US\$45,000</b>	<b>5,758</b>	<b>12,007</b>	<b>24,823</b>	<b>331.1</b>
<b>Above US\$75,000</b>	<b>2,853</b>	<b>5,206</b>	<b>10,164</b>	<b>256.3</b>
<b>Above US\$150,000</b>	<b>1,239</b>	<b>2,130</b>	<b>3,555</b>	<b>186.8</b>

**Source:** Euromonitor International (2010)

**Notes:** Constant value at 2009 prices

The rich population group (those whose annual income is above US\$45,000) had numbered around 9.85 million in 2010 and was expected to grow rapidly and reach 19.34 million in 2015 and 38.54 million in 2020: in other words, this population group was forecast to double every five years till the end of this decade. Therefore, as a target consumer segment (disposable income above US\$45,000) this population group has great potential.

#### **2.3.4 China's wine imports**

According to China Non-staple Food Circulation Association (CNFCA)'s 2009-2010 China wine industry report, by the end of 2009, there were 24,137 wine import/distributor companies. Among these businesses, 73 percent dealt with mainly French wine. By the end of 2009, there were 1,386 foreign wine brands in China, and Shanghai was the largest port for wine imports; followed by Beijing and Guangzhou (China Non-staple Food Circulation Association, 2010). The average number of transactions imported wines pass through, from arrival at customs to the end consumer, is 4.6 (China Non-staple Food Circulation Association, 2010). The average time required for distribution is 7 months (China Non-staple Food Circulation Association, 2010). The key ports of arrival for wine were also major wine-consuming areas (China Non-staple Food Circulation Association, 2010). Most of the imported wine was dry red wine, followed by dry white wine, half-sweet white sparkling, sweet red wine and others (China Non-staple Food Circulation Association, 2010). Dry red wine and dry white wines occupied 97 percent of the total imports (China Non-staple Food Circulation Association, 2010). Imports of sweet wines, sparkling wines, and sherry were just in their infancy (Australia Trade Commission, 2010; China Non-staple Food Circulation Association, 2010). The four major retail channels were hotels & restaurants, supermarkets & hypermarkets, retail outlets, and wholesales (China Non-staple Food Circulation Association, 2010). These accounted for 95 percent of the total sales, while online retailing occupies less than 0.5 percent (China Non-staple Food Circulation Association, 2010). In 2009, over 70 percent of French 1855 Medoc Classification and Graves Grand Cru Classic (super-premium class) brands started their business in China (China Non-staple Food Circulation Association, 2010). The major wine consuming cities are Shanghai, Beijing, and

Guangzhou. (Redfern Associates, 2010; China Non-staple Food Circulation Association, 2010)

In 2009, there were 58 countries exporting wine to China and the leading players among these countries were: France, Italy, Germany, Spain, and Portugal from the Old World; and Australia, the US, New Zealand, Argentina, South Africa, and Chile from the New World (FAOSTAT, 2011; OIV, 2011; China Customs, 2010). Table 2.13 shows the major wine suppliers to China from 2000 to 2009 in volume terms:

**Table 2.13:** China's wine imports by origin 2000-2009 in volume (thousand litre)

Country	2000		2005		2009	
	Volume	% Share	Volume	% Share	Volume	% Share
Spain	20,927	50.75	23,549	33.38	8,365	4.84
France	6,507	15.78	14,725	20.87	44,537	25.77
US	3,628	8.8	4,940	7	9,953	5.76
Italy	5,949	14.43	3,323	4.71	7,215	4.17
Chile	1,854	4.5	13,080	18.54	49,596	28.7
Germany	805	1.95	598	0.85	1,831	1.06
Australia	569	1.38	5,052	7.16	38,073	22.03
South Africa	156	0.38	464	0.66	4,528	2.62
Argentina	151	0.37	3,228	4.58	4,509	2.61
Canada	133	0.32	372	0.53	340	0.2
Portugal	43	0.1	281	0.4	1,067	0.62
Hungary	27	0.07	117	0.17	259	0.15
New Zealand	16	0.04	108	0.15	1,065	0.62
Others	472	1.13	703	1	1,497	0.85
Total	41,237	100	70,540	100	172,835	100

**Source:** FATOSTAT (2011)

As can be seen above in Table 2.13, China's wine imports had increased to 172.8 million litres in 2009, more than quadrupling in volume from 41.2 million litres in 2000. Chile, France, Australia, Spain, Italy and the US were the six principal exporters to China throughout the entire reported period and accounted for over 90 percent of China's total wine imports. The Spanish, Italian and American shares of this Chinese market declined over this period, although the Italian's and American's loss was due to their export volume increases being less than the market's overall growth rate. Spain exported declining volumes of wine to China over the reported period. Other major wine exporters were South Africa, Argentina, Canada, Portugal, Hungary and New Zealand, among which South Africa, Portugal and New Zealand

increased very significantly after 2005. However, their wine exports to China were still very small in volume.

Table 2.14 below shows the major wine suppliers to China from 2000 to 2009 in value terms:

**Table 2.14:** China's wine imports by origin 2000-2009 in value (million US\$)

Country	2000		2005		2009	
	Value	% Share	Value	% Share	Value	% Share
Spain	13.94	23.89	15.11	10.32	19.10	3.63
France	18.86	32.32	60.31	41.21	235.84	44.87
US	8.86	15.18	12.54	8.57	32.06	6.1
Italy	5.63	9.64	7.60	5.19	28.77	5.47
Chile	2.78	4.76	16.53	11.29	60.30	11.47
Germany	1.86	3.19	2.90	1.98	9.19	1.75
Australia	1.74	2.99	18.75	12.81	103.16	19.63
South Africa	0.33	0.57	1.61	1.1	7.90	1.5
Argentina	0.37	0.64	3.69	2.52	8.01	1.52
Canada	1.21	2.08	1.94	1.33	3.67	0.7
Portugal	0.27	0.46	1.00	0.68	3.14	0.6
Hungary	0.05	0.08	0.30	0.17	0.62	0.12
New Zealand	0.07	0.11	0.74	0.51	8.57	1.63
Others	2.36	4.09	3.33	2.32	5.23	1.01
Total	58.33	100	146.35	100	525.56	100

**Source:** FATOSTAT (2011)

As it is shown above in Table 2.14, in terms of value, China's wine imports had increased to US\$525.6 million in 2009, from US\$58.3 million in 2000. France, Australia, Chile, Spain, US and Italy were the major wine exporters, accounting for around 90 percent of China's total wine imports in value terms. France occupied almost half of China's imported wine market in both 2005 and 2009 in value terms, which was a significant achievement when compared with their 32.3 per cent market share in 2000. 12 out of the 13 countries in Table 2.14 at least tripled the value of their wine exports to China between 2000 and 2009. Only Spain increased very slowly (37 percent growth). New Zealand was an excellent example and the fastest-growing exporter to China, the value of their exports increasing by a factor of more than 122 from 2000 to 2009.

### **Bottled wine imports versus bulk wine imports**

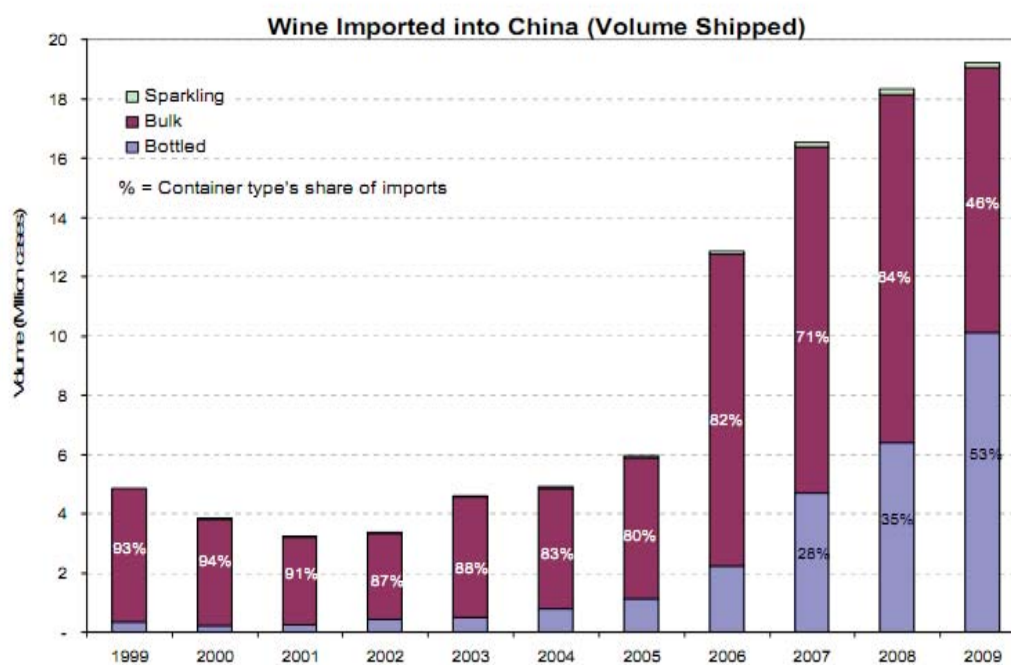


Wine imports to Chinese market mainly consisted of original bottled wine and bulk wine. Bulk wine referred to foreign wine bottled in China (foreign wine, foreign brands Chinese bottlers) and white labelled, mixed wines by Chinese brands (blends of foreign wine and local wine, Chinese brands) (China Research and Intelligence, 2010). There were at least 1,000 imported labels sold to bulk wine manufacturers in China, with French, Italian and Australian wines receiving the greatest recognition (New Zealand Trade and Enterprise, 2009).

The Chinese consumption of imported wine grew rapidly in recent years. In 2004, the value of imported bottled wine was around US\$25 million; in 2006, the value increased to US\$77 million; in 2007, the value of imported bottled wine reached US\$184 million occupying about a 5 per cent share in the Chinese wine market (Chinabizintel.com, 2007); in 2008, the value of imported bottled wine rose further, to US\$264 million (Li, 2009).

Figure 2.7 below demonstrates the changes in the proportional share of bottled wine, bulk wine and sparkling wine within the total volume of wine imported to China:

**Figure 2.7:** Wine imported into China (Volume shipped)



Source: Wine Australia (2009)

As shown above in Figure 2.7, imported bulk wine dominated China’s total wine imports before 2009. In 2009, the volume of bottled wine imported into China exceeded bulk imports for the first time (Wang, 2011; Wine Australia, 2009). In 2009, Chinese wine import volume and value amounted to 171.2 million litres and US \$441.7million (NZ \$631million), increasing by 4.93 per cent year on year and 22.91 per cent year on year respectively (China Research and Intelligence, 2010). In 2009, Chinese import volume of bottled wine reached 91 million litres with a value of US\$ 377.1 million (NZ\$ 481.6 million), rising by 58.3 percent year on year and 36.7 percent year on year separately (China Research and Intelligence, 2010).

Table 2.15 below shows the market share of both bottled wine and bulk wine of the major wine exporters in China on a volume basis.

**Table 2.15:** Market share of imported wine on Country-of-Origin (Volume)

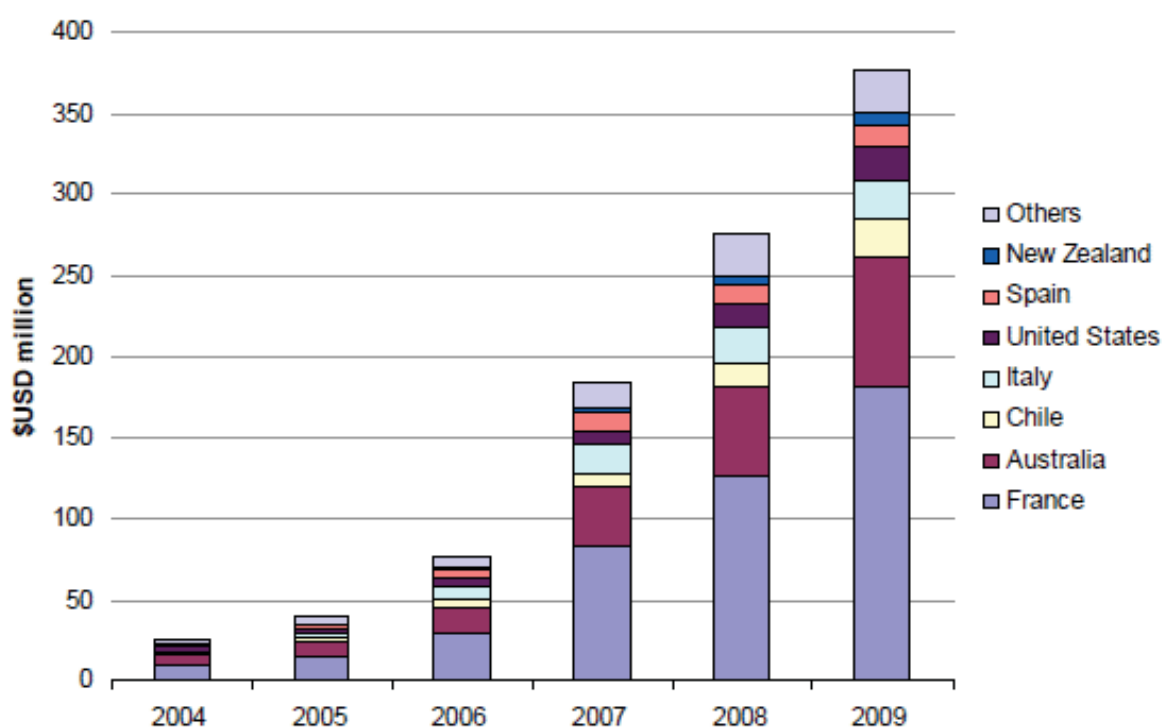
Country	Bottled wine			Bulk wine		
	2008	2009	2010	2008	2009	2010
New Zealand	2%	1.1%	0.92%	<0.1	<0.1	<0.1
France	46%	48%	46.3%	8%	5%	4.3%
Australia	20%	21%	16.2%	4%	27%	23.8%
Italy	8%	6%	7.7%	5%	2%	6.4%
Chile	5%	6%	7.2%	50%	47%	32.9%
Spain	4%	3%	6.5%	7%	3%	27.5%
USA	5%	6%	6.3%	5%	8%	2.6%
South Africa	1%	1%	1.6%	2%	3%	1.3%
Others	9%	6.9%	7.28%	17%	5%	1.2%

**Sources:** China Customs (2011); ResearchinChina (2011); Webley, et al., (2010); Wine Australia (2010)

The volume and value of Chinese bottled wine imports (excluding sparkling) have grown hugely from 7 million litres and US\$25 million in 2004 to 91 million litres and US\$377 million respectively in 2009 (Webley, et al., 2010). As shown in Table 2.15 above, the six principal exporters of bottled wine to China were France, Australia, Italy, Spain, the US, and Chile, which were also principal in terms of total wine exports to China. They accounted for 90 percent of bottled wine imports in China

(Xia, 2011). In 2010, bottled wines in China came mostly from France and Australia, occupying respectively 46.3 percent and 16.2 percent of the total import volume of bottled wines; bulk ones originated mainly from Chile, Spain, and Australia, with the respective proportion of 32.9 percent, 27.5 percent, and 23.8 percent of the total import volume of barrelled wines (ResearchinChina, 2011). NZ bulk wine exports to China were minimal.

**Figure 2.8:** Bottled Wine Imports 2004-2009 (Value)



**Source:** Webley, et al. (2010)

According to Figure 2.8, France had the largest share of market sales, controlling almost half of the market for bottled wine. It had approximately tripled the market share of the second greatest source of imported bottled wine, Australia: 46.3 percent versus 16.2 percent (Table 2.15). However, if the totals for bulk imports and bottled imports are combined, French wine importation was 8.31 million cases, while Australia's was 6.28 million cases: the gap in total volumes exported from these countries is not as great as the gap between them in bottled wine exports to China. (Xia, 2011).

Australia's market share in China stood at 16.2 percent after several years of being around 20 percent. The high currency exchange rates in 2010 were the main contributor to this difficulty for the Australian bottle wine exporters (Xia, 2011). However, Australian bulk wine imports were up 68 percent and reached 320 million litres: 3.62 million cases (Xia, 2011; China Customs, 2011). Although the total volume of bulk wine imports to China fell 24 percent in 2009, the volume of Australian bulk wine imported increased 532 percent during the same period (Redfern Associates, 2010). This is possibly because many local Chinese wineries needed Australian bulk wine for their top-end wine manufacturing, which would suggest that the taste and character of Australian wines suited the Chinese palate (Xia, 2011).

Italy maintained third ranking among the sources of wine imported into China for several years, with 7.7 percent market share in 2010 (Table 2.15). However, this was modest in comparison to the size of its wine industry and export potential, since Italy surpassed France and became the top wine producer in the world, accounting for about 17 percent of global wine production, in 2008 (FAO, 2009).

Chile took 7.2 percent of the imported bottled wine market in China in 2010 (Table 2.15). China's importation of bulk wine was mainly supplied from Chile and used for local blending (Webley, et al., 2010). Of the 26 countries supplying China, Chile alone accounted for approximately 53 percent of the total volume of bulk wine imported by China in 2009 (Redfern Associates, 2010). Chile and Australia together accounted for 77 percent (Redfern Associates, 2010). In the same year, Chile had surpassed France and Australia to become the primary bulk wine supplier (Redfern Associates, 2010).

Spain had the biggest growth among the six major contributors of China's bottled wine imports, up 105 percent over its market share in 2009, achieving 6.5 percent of the market share. However, this was a very small market share from Spain considering that it was the third-largest wine producing and exporting country globally from 2006 to 2008 (FAO, 2009).

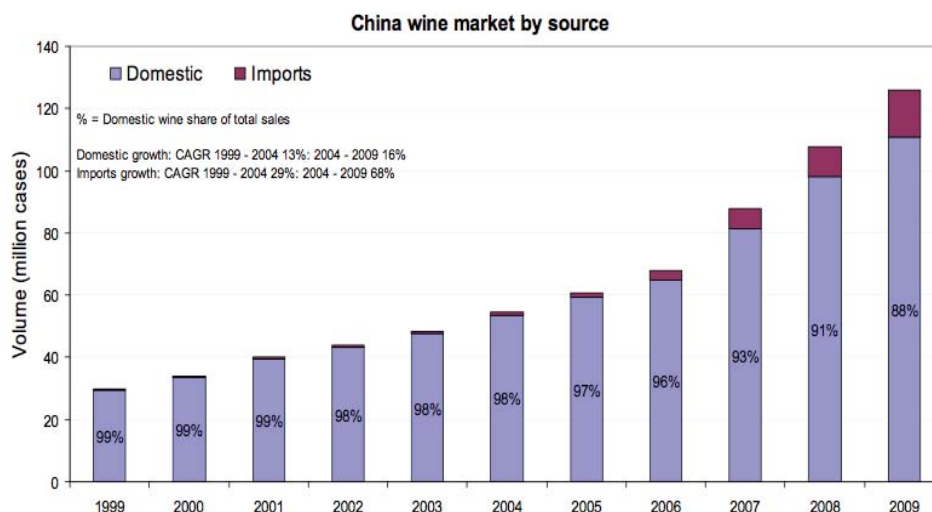
The United States maintained a stable market share in China. It made modest growth in 2010 in comparison with 2009.

Argentina ranked 7<sup>th</sup> in importing bottled wine into China in 2009 (China Research and Intelligence, 2010). Its position was usurped by Germany in 2010, and it ranked 8<sup>th</sup> in China’s market (Redfern Associates, 2010). Argentina relinquished its position as primary supplier bulk wine imports, decreasing their volume from 25 million litres (28 million litres, China Customs) in 2009 to only 2 million in 2010 (Redfern Associates, 2010).

### Wine imports versus domestic production

Figure 2.9 below shows the market shares of imported wine and domestic wine in China from 1999 to 2009:

**Figure 2.9:** China wine market by source



**Source:** Wine Australia (2009)

As shown in Figure 2.9 above, the market share of imported wine in 2009 reached 12-18 percent (Redfern Associates, 2010; Wine Australia, 2009; Sun, 2009) of China’s total wine consumption. According to National Bureau of Statistics of China quoted by Redfern Associates, the majority of wine consumed in China in 2009 was from domestic wine production which was 83 percent (88 percent, Wine Australia (2009)). Only 9 percent (6.36 percent, Wine Australia (2009)) of wine consumption in China

was imported bottled wine, the remaining 8 percent (5.64 percent, Wine Australia (2009)) of was derived from bulk wine.

Although domestic wine producers have dominated the market in China in 2009, the major wine exporting countries were expected to gain further market share as increases in demand were expected to exceed domestic production capability (Sun, 2009). Therefore in 2010, Chinese import volume and value of wine (including bulk wine) reached 286 million litres and US \$798.1 million, rising by 67 percent year on year and 80.7 percent year on year respectively (China Non-staple Food Circulation Association, 2011). The proportion of imported wines rose further to 20.6 percent in 2010 (ResearchinChina, 2011).

In the first half of 2011, the volume of imported wine reached 170.2 million litres (bottled imports at 103.6 million litres, 37 million litres more than bulk imports) (Wang, 2011; Red Wine Exchange, 2011). In comparison, the total production of Chinese local wine was 501 million litres, which meant imported wine had taken 25.4 percent of the China market share (Red Wine Exchange, 2011). It was forecast that the imported wine would take half of the market share in next five years (Red Wine Exchange, 2011). Bulk imports were expected to continuously lose market share to the bottled imports in the future (Wang, 2011). The drop of bulk imports was explained by the expanding surface area and production of vineyards in China (Webley, et al., 2010).

## **2.4 Summary**

The global wine industry has changed dramatically in the last decade. World wine production declined since 2004, which resulted primarily from the decrease of production in Old World countries such as France and Italy. Furthermore wine consumption started on a downward trend globally from 2006, caused by the decline of wine consumption in traditional wine-producing and consuming countries such as France, Italy, Spain and Argentina. The global economic crisis, which broke out in 2008, further postponed the recovery in these traditional wine-consuming countries. Therefore, finding new consumer markets for wine is essential for the prosperity of the global wine industry.

NZ, a young wine-producing country that has recently recorded the strongest growth amongst the New World countries in both exports and wine production, wants to further increase its wine exports globally. Its traditional exporting destinations are Australia and the UK. More recently, the NZ wine industry has started to focus more on the East Asian market, especially China, in order to further increase their wine exports.

China, as a giant market in both geography and economy terms, has enjoyed rapid growth in domestic and imported wine consumption since its joining of WTO in 2001, and its market stands out against the downward trend starting in the traditional wine consuming countries. It has become an important market for all international wine producers and attracted all the major wine players including France, Spain, Italy, US, Australia, and Argentina to enter its market.

### **Chapter 3: Literature review on foreign market entry**

This chapter provides a theoretical background on foreign market entry strategy theory in general and related literature on wine entry into China. It is aimed to enable a better understanding of the process of exporting NZ wine to China including market selection, market entry modes available, wine export process to China, and key elements and challenges relating to successful exports of wine to China.



### 3.1 Introduction

In order to better understand the process of NZ wine exports to China, common international business terminology needs to be defined. Following are explanations of several common international business phrases as collected from several scholars.

**International trade.** International trade refers to exports and imports (Neelankavil and Rai, 2009). It is the process of exchanging goods and services between two/more countries, and therefore, invariably subject to political, social, economic, environmental policies introduced by countries, and exchange rate differentials from time to time (Branch, 2006). The international trading scene is going through major changes, which affects the ability to access foreign markets, for example, the founding of the World Trade Organization (WTO) in the 1990s from its predecessor—the General Agreement on Tariffs and Trade (GATT); the new international trade focus towards bilateral trade agreements such as the European Union, the North American Free Trade Area, and Australia and New Zealand Free Trade Agreement (AANZFTA) (Fletcher and Brown, 2008).

**International business.** Businesses have been involved in international trade for thousands of years and international business has played a leading role in the international trade (Neelankavil and Rai, 2009). **International business** consists of all commercial transactions including sales, investments, and transportation and it takes place between two or more nations (Daniels, Radebaugh, and Sullivan, 2011). Therefore, international business involves understanding the external environment, analysing country risk, deciding on entry modes/strategies, managing the strategic functions, understanding the effects of foreign exchange transactions, and recognizing the value of global outsourcing (Neelankavil and Rai, 2009).

**International marketing.** International marketing, as one crucial part of the international business, refers to the process of planning and undertaking transactions across countries involving exchange, which ranges across exporting, licensing, joint ventures, wholly-owned acquisitions, and management contracts (Fletcher and Brown, 2008). It is the marketing of goods, services, and information across nations and therefore, includes the same elements as domestic marketing: planning,

promoting, distributing, pricing, and support of the goods, services, and information to be provided to intermediate and ultimate consumers (Albaum and Duerr, 2011).

**Export marketing management.** Export marketing management involves the management of marketing not only to, but also within, foreign countries, and thus export marketing is not only one of the major dimensions in international marketing but also a significant alternative entry mode (Albaum and Duerr, 2011). Other entry modes will be discussed later in this chapter.

**Internationalization.** Internationalization is the process by which a firm increases its awareness of the influence of international activities on its future and establishes and conducts transactions with businesses from overseas (Beamish et al., 2003). The process can be divided into three main stages: firstly, exporting to one or two geographically and culturally close markets; secondly, systematically beginning to identify foreign markets for export, prioritizing them and allocating specific resources to develop international business opportunities; lastly, companies develop a broad spread of international business activities and coordinate their international business strategy at a global level (Zou et al., 2009).

### **3.2 Market entry strategies**

The importance of the selection of overseas markets, and entry mode strategies to them, grows with increasing dependence of companies on international business for survival and growth (Koch, 2001). Similarly, a growing intensity of competition would call for the qualified overseas market and entry mode selection (Koch, 2001). Therefore, selection of overseas markets and entry modes lies at the very heart of any international strategy (Root, 1994) and the selection of foreign market and mode of market entry are two critical steps in the internationalization of a company (Albaum and Duerr, 2011).

#### **3.2.1 Market selection**

When a company has decided to expand its business internationally, international market selection is the first and critical step (He and Wei, 2011; Albaum and Duerr,

2011; Pacek and Thorniley, 2007; Branch, 2006; Brouthers and Nakos, 2005). Entering foreign markets involves major commitments of strategic, technical, managerial, and financial resources; therefore each business must decide which market to enter while considering the limitations of those resources and allocate them accordingly (He and Wei, 2011). Selection of overseas market must match the resources and capabilities of the business in order to optimize business performance (Brouthers, et al., 2009).

Approaches regarding international market selection are generally divided into two categories: systematic and non-systematic:

### ***Systematic market selection***

Yip et al. (2000) define systematic international market selection as using objective criteria to select export markets such as: international market research activities in selecting suitable markets abroad; visits to foreign markets on fact-finding tours before entry; monitoring of national and international business press for product-related activities; and the use of published statistical sources in differentiating foreign markets. Czinkota and Ronkainen (2002), Cavusgil, et al (2008); Zou et al. (2009) believe that most businesses follow the internationalization process and therefore adopt systematic ways in terms of international market selection.

However, Brouthers and Nakos (2005) point out that the process of selecting an overseas market is very subjective, which makes measuring it by a systematic framework, as suggested by many researchers and scholars, very difficult.

Many researchers (Albaum and Duerr, 2011; Zou et al., 2009; Branch, 2006) have investigated the factors that influence the selection of foreign markets and identified them very similarly. It is very important that companies selecting foreign markets for their exports successfully identify the factors that influence the target market's potential, its competitiveness, and its barriers to importation (Williamson et al., 2006). The following factors need to be investigated and considered when companies are deciding which foreign market to target with their exports: 1) country-related information including background, economy, government, and miscellaneous; 2) industry-related information including product, market structure, and trends; 3)

marketing-related information including media, distribution channels, customers, and backup services; and 4) competition-related information including basic data on competitors, marketing considerations, and product considerations/comparisons (Zou et al., 2009). The goal is to discover products that have a high potential as successful exports and the markets that have high demand for them (Williamson et al., 2006).

Although many researchers are in agreement concerning the factors that influence the selection of foreign markets, there are some differing views on this process (Koch, 2001). The two most commonly recognised fundamental patterns in market selection are Johansson's (1997) expansive pattern, and Root's (1994) contractible pattern (Koch, 2001).

Most models follow Root's (1994) contractible pattern and view the market selection process as being composed of three stages: screening, identification (in-depth screening), and selection (Koch, 2001). They suggest that in the screening stage macro-level indicators should be used to eliminate countries that do not meet the objectives of the companies (Koch, 2001; Root, 1994; Kumar et al., 1994). This involves an initial screening of different countries' markets, followed by a detailed evaluation of the more promising markets (Koch, 2001). During the identification stage, industry-specific information, which includes market size and growth, level of competition, entry barriers and market segments, are investigated and assessed (Root, 1994). The selection stage is the final stage of market selection, which involves studying firm-specific information such as financial positions and product compatibility with the existing portfolio (Koch, 2001). The contractible pattern is favoured by companies having a global business perspective because this method involves the systematic screening of most, if not all, countries and the detailed evaluation of more promising markets (Johansson, 1997; Root, 1994).

As in Root's (1994) structure of the foreign market selection process, Johansson's (1997) expansive pattern suggests four stages: country identification, preliminary screening, in-depth screening, and final selection. According to Johansson (1997), in identifying the target country factors such as population, GNP, growth rates statistics are considered. In the preliminary screening such things as political stability, geographic distance, and economic development are investigated to eliminate

countries and calculate costs of entry. In-depth screening, the third stage, includes examining and assessing industry-specific, product-specific, and market-specific factors, market potential, future growth rates, entry barriers, the limitations of company resources, and the strength/weaknesses of competitors. Final selection, the last stage, involves comparing and matching company objectives with sales revenues and cost forecasts to find the most appropriate country (Koch, 2001). This expansive pattern is favoured by those companies seeking new markets in countries with a similar culture to their current field of business (Johansson, 1997). Koch (2001) considers this to be due to the emphasis this pattern places on articulating the reason for international expansion, high-quality initial screening, and an increase in the exercise of judgement in the selection of new markets.

### ***Non-systematic international market selection***

Alexander et al (2007) argue that although firms are presumed to select international markets on a systematic/rational basis, however, the fact is that many businesses that make international market selection decisions use a non-systematic, strongly personalized and essentially belief-driven process. Some researchers describe this non-systematic behaviour by firms as market orientation (MO) (Harris, 2001; Slater and Narver, 1999).

MO is most frequently adopted by firms from developing countries that are still in the initial stage of international business expansion in which exportation is the primary means of achieving foreign market expansion (Hitt et al., 2006; Steensma, et al., 2005). This type of international expansion is typically without well-recognized international brands, strong financial position, foreign market knowledge/experience, or managerial expertise specialized in exportation or other international business activities (Hitt et al., 2006; Steensma, et al., 2005). These firms appear to employ MO as a means to overcome their disadvantages (Wei and Lau, 2008). He and Wei (2011) found that the higher the level of MO the firm possesses, the more likely it would choose a culturally distant market. Culturally distant markets may be chosen by firms equipped with MO because they will accept higher risks and uncertainty in exchange for their greater opportunities. However, there has been much debate regarding this marketing concept (MO) and other related constructs (Harris, 2001). Therefore, the exploration on what market orientation really is, and how it can benefit firms that

adopt it, will continue (Slater and Narver, 1999). Further study is needed to research the link between international market selection and MO (He and Wei, 2011).

### **3.2.2 Market entry mode**

An entry mode is defined as ‘a structural agreement that allows a firm to implement its product market strategy either by carrying out only the marketing operation (for example, via export modes) or both production and marketing operations there by itself or in partnership with others (contractual modes, joint ventures, wholly owned operations)’ (Sharma and Erramilli, 2004).

The market entry mode that a company adopts for entering an overseas market will significantly affect the success of the business and its long-term operations in that market (Agarwal and Ramaswami, 1992). The type of market entry mode selected is closely related to the company’s strategic motivation, available resources, target market analysis, and their capability (Ma, 2008). Companies that choose the right entry modes can save money and time, have strategic advantages, and lessen the risks associated with international operations (Neelankavil and Rai, 2009).

The selection and implementation of entry mode is an integral and vital part of a business’ internationalization process (Zou et al., 2009). The most commonly recognized market entry modes are: exporting (direct and indirect), contractual methods (licensing, and franchising), foreign direct investment (joint venture (JV), and wholly-owned subsidiaries), and strategic alliance (equity-based and non-equity-based modes) (Albaum and Duerr, 2011; Neelankavil and Rai, 2009; Zou et al., 2009; Fletcher and Brown, 2008). Different researchers had different methods and terms of understanding and categorising these market entry modes, which are summarised below:

Fletcher and Brown (2008) believe that foreign entry modes can be divided into those aiming to sell the product and those aiming to transfer know-how to the host country. Therefore, they group market entry modes into three categories:

- Export-based entry modes (indirect exporting, direct exporting, licensing, and franchising).
- Manufacturing-based entry modes (joint venture (JV), wholly owned subsidiaries (acquisition, and greenfield operation)).
- Relationship-based entry modes (contract manufacturing, offshoring, and strategic alliance).

Zou, Kim, and Cavusgil (2009) consider the modes of foreign market entry could be grouped into three broad approaches:

- Direct selling modes (representatives/agents, distributors/importers, and overseas retailers).
- Indirect market entry modes (indirect exporting (using intermediaries known as export management companies (EMCs), and export trading companies (ETCs)), licensing, franchising, and management contracts).
- Direct company presence modes (JV, wholly owned subsidiaries, and strategic alliances).

Neelankavil and Rai (2009) group market entry modes into two entry strategies:

- Exporting modes including direct exporting modes (representatives/agents, distributors/importers, and overseas retailers), and indirect exporting modes (EMCs and ETCs).
- Foreign direct investment (FDI) modes, which including licensing/franchising, JV, and wholly owned subsidiaries.

Albaum and Duerr (2011) categorise the market entry modes into:

- Export entry modes including: firstly, indirect export modes (using home-country based merchants e.g. export merchants, trading companies, and export desk jobber; home-country based agents such as export commission house, confirming house, resident buyer, broker, and manufacturer's export agent; and cooperative organizations, for instance, piggyback marketing, marketing cooperative associations, and export cartels); secondly, direct export modes including using home-country based built-in export department, separate or self-contained export department, and export sales subsidiary; thirdly, foreign sales branch including having storage or warehousing facilities, foreign sales subsidiary, travelling salesperson, and foreign-

based distributors and agents/representatives; fourthly, the Internet and e-commerce including Business-to-Business (B2B) and Business-to-customer (B2C) types; and lastly, free trade zones.

- Non-export entry modes including establishing a full manufacturing plant, setting up assembly operations, and forming a strategic alliance with one or more companies such as licensing/franchising, contracting, and joint venture.

Albaum and Duerr's (2011) classifications and the very similar Fletcher and Brown's (2008) structural analysis of market entry models have been adopted in this study, except in the case of direct market entry modes, in which Zou et al.'s (2009) classification has been applied.

### ***Export entry modes***

Albaum and Duerr's (2011) classification on export-based entry modes is described below:

- **Indirect export.** Indirect export occurs when the exporting manufacturer uses third-party organizations based in the manufacturer's country (also known as home country) (Albaum and Duerr, 2011). In addition, the exporting manufacturer could have a dependent export organization/department that works with the third-party marketing organizations and coordinates all export activities (Albaum and Duerr, 2011). In this situation the dependent organization/department does not actively participate in any international sales activities (Albaum and Duerr, 2011). The two basic types of independent wholesale marketing intermediaries are merchants and agents (Albaum and Duerr, 2011). The basic difference between these two is that the merchant takes ownership of the products to be sold, while the agent does not (Albaum and Duerr, 2011).

- **Direct export (home-country based department).** Direct exporting usually occurs when an exporter or producer sells directly to an importer or buyer based in a foreign market (Albaum and Duerr, 2011). Therefore, the third-party organization of the producer or a foreign-based marketing organization or customer is the one that actually handles the transaction flow between countries (Albaum and Duerr, 2011).



- **Direct export (foreign sales branch).** A producer that exports directly through a certain type of home-country based department, possibly even in conjunction with foreign-based importers or distributors/agents, may reach the point where they feel the need to have closer supervision over the sales made in a particular market (Albaum and Duerr, 2011). In this type of situation the firm can establish a foreign-based sales branch (sometimes with storage/warehousing facilities available), which looks after all of the sales, distribution and promotional work in a designated market and sells primarily to wholesalers and dealers or industrial users (Albaum and Duerr, 2011). Thus, the operating characteristics of a foreign sales branch are very similar to those of a foreign distributor except that the management is employed by the firm and is directly responsible to the home office (Albaum and Duerr, 2011)

- **E-commerce.** The e-commerce and Internet nowadays is considered as one tool of international marketing that companies could use for communication, a payment place and a source of information (Albaum and Duerr, 2011). There are two types: Business-to-Business (B2B) and Business-to-Consumer (B2C) (Branch, 2006; Albaum and Duerr, 2011). However, it needs to be noticed that the e-commerce has some limitations: first and foremost, internet is not truly global; second, it is open to misuse; last and not the least, it is not a substitute for international travel while the need for travel may be reduced but not eliminated in the current business world (Albaum and Duerr, 2011).

- **Free-trade zones.** A Free-trade zone is a defined area approved by the local government where trade is based upon the unrestricted international exchange of goods with customs tariffs applied only as a source of revenue but not as an impediment to trade development (Branch, 2006).

### ***Non-export entry modes***

#### ***Strategic alliance/relationship-based entry modes***

These types of market entry mode consist of a business partnership between companies with the target of achieving common interests while minimising leverage and benefiting from those facets of their operations that complement each other (Albaum and Duerr, 2011; Fletcher and Brown, 2008). Below is Albaum and Duerr's (2011) classification of strategic alliance:

- Licensing. Licensing refers to a contractual transaction where the company (the licensor) authorizes the usage of some proprietary assets such as brand or corporate image, technical innovation and etc. to a foreign company (the licensee), in exchange for royalty fees (Fletcher and Brown, 2008).
  
- Franchising. The company (franchisor), who gives the counterpart the right to use its trade names/brands, business models and know-how in a defined territory for a specific period of time in return for payment; and the counterpart (franchisee), who pays a franchisor for the authorization to use its involved resources and properties (Fletcher and Brown, 2008).
  
- Joint Venture (JV). Joint venture is a type of partnership, which foreign company agrees to share ownership and control and other resources with other partners to establish a new entity in the target market area (Albaum and Duerr, 2011; Fletcher and Brown, 2008).
  
- Contracting, including:
  - Offshoring/outsourcing. This mode involves relocating business processes to another country such as manufacturing and designing, which were previously undertaken by the firm itself (Fletcher and Brown, 2008). This arrangement is done through subcontracting the manufacturing of the business' (home-country) products to an overseas manufacturer and involves the transferring of know-how or technology with these arrangements (Zou et al., 2009).
  - Contract manufacturing. Contract manufacturing is one form of offshoring or outsourcing (Albaum and Duerr, 2011). Contract manufacturing basically means that the company only retains the responsibility for marketing and distribution of its products and arranges manufacturing part of, or even the complete product, by a local manufacturer (Albaum and Duerr, 2011; Fletcher and Brown, 2008).
  - Management contracts. A management contract refers to a business arrangement that allows other companies, e.g. international marketers, to manage a business in a target market area on behalf of a local investor of the country in which the company is based (Albaum and Duerr, 2011; Zou et al., 2009). Management contracts are formed with a local investor who provides the capital for the business,

and an international marketer who provides the necessary know-how to manage the company (Albaum and Duerr, 2011).

#### *Direct market entry modes*

This market entry strategy can be sought for a range of strategic and economic factors (Zou et al., 2009). Zou et al. (2009) and Fletcher and Brown's (2008) classifications are summarised below:

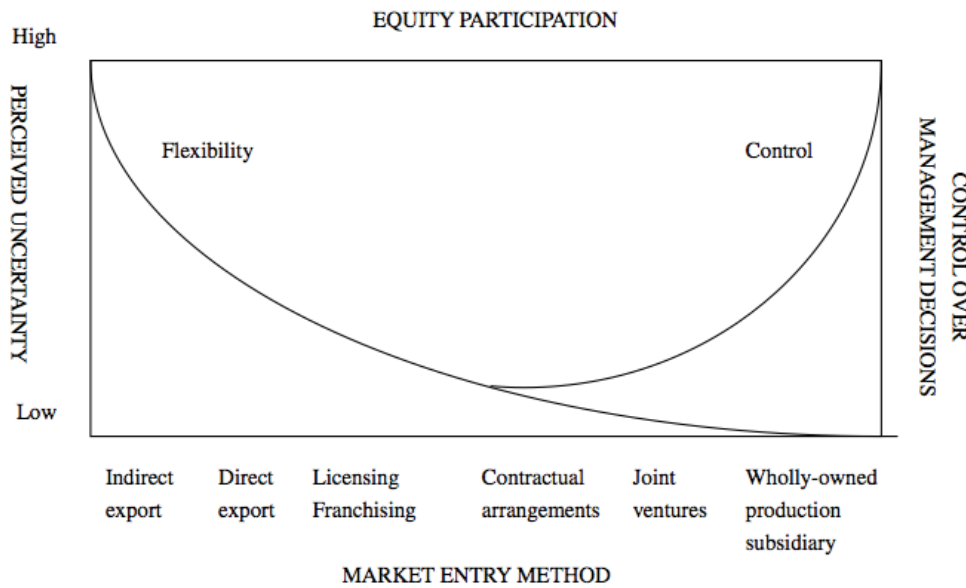
Wholly-owned subsidiaries (WOS). Companies may form wholly-owned subsidiaries in overseas markets if they want/need to control their business operations in foreign markets very closely (Zou et al., 2009). Such companies may require a high degree of control in order to protect their proprietary knowledge, marketing and manufacturing. (Zou et al., 2009).

- **Acquisitions.** Acquisitions refer to a company that enters a foreign market by acquiring an existing business in the market. Multinational companies that are in strong financial positions often select this mode (Fletcher and Brown, 2008). The benefits of acquiring an existing operation are: firstly, it enables rapid entry into the target market; secondly, it usually provides a developed distribution channel and customer base (Zou et al., 2009). It is a desirable strategy in situations where the competition is very intensive or where there are substantial market entry barriers for new entrants (Fletcher and Brown, 2008).
- **Greenfield operation.** Greenfield operation refers to a company establishing its own manufacturing plant in a foreign market by using its own funds (Fletcher and Brown, 2008). This is an alternative mode for consideration if there are no suitable businesses to acquire or the company needs to build its own operation because of some other business considerations (Zou et al., 2009). The company can apply the latest production technologies and choose the most ideal locations by selecting this mode (Fletcher and Brown, 2008).

### 3.2.3 Comparisons of market entry modes

In considering these different entry modes, it is important to notice that they involve a trade-off between the degree of control and the commitment of resources (Fletcher and Brown, 2008). In other words, the desired extent of involvement is the critical determinant of the entry mode decision (Punnett, 1994), which is significantly involved with level of risk and control (Doole and Lowe, 2004). Punnett (1994), Ma (2008), and Albaum and Duerr (2011) clarify different entry modes based on the trade-off between degree of control and commitment of resources: firstly, for indirect exporting mode, they believe that commitment of resources is minimal and degree of control is non-existent; secondly, for direct exporting mode, they believe that although more resources are required, the company in home-country can gain more control over delivery of its products/services and how they are represented; thirdly, for licensing the manufacture of a product or franchising, the commitment of resources is relatively low and degree of control is minimal compared with equity investment modes; lastly, equity investment modes, such as entering into a joint venture or wholly-owned subsidiaries, have the most involvement and the greatest requirement of resources (Albaum and Duerr, 2011; Ma, 2008; Punnett, 1994). Figure 3.1 illustrates the trade-off associated with risk and control.

**Figure 3.1:** Relations between risk and control in market entry modes



**Source:** Adapted from Young et al. (1989), Ma (2008)

In order to clarify the differences among different entry modes, a detailed comparison of trade-off between control and commitment of resources on each entry mode in terms of risk, return, control, costs and market knowledge required are summarised in Table 3.1 below:

**Table 3.1:** Advantages and disadvantages of different modes of market entry

Entry mode	Advantages	Disadvantages
Indirect exporting	<ul style="list-style-type: none"> <li>• Low commitment in terms of resources</li> <li>• Low risk</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of control</li> <li>• Lack of contact with foreign market</li> <li>• No learning experience</li> <li>• Potential opportunity cost</li> </ul>
Direct exporting (home-country based department)	<ul style="list-style-type: none"> <li>• More control (compared with indirect exporting)</li> <li>• More sales push</li> </ul>	<ul style="list-style-type: none"> <li>• Need to build up export organization</li> <li>• Little learning experience</li> <li>• More demanding on resources</li> </ul>
Direct exporting (foreign sales branch)	<ul style="list-style-type: none"> <li>• More control (compared with direct exporting)</li> <li>• More sales push (compared with direct exporting)</li> <li>• More learning experience</li> </ul>	<ul style="list-style-type: none"> <li>• Need to build up foreign-based organization</li> <li>• More demanding on resources</li> </ul>
Licensing	<ul style="list-style-type: none"> <li>• Little or no investment</li> <li>• Rapid entry</li> <li>• Means to bridge import barriers</li> <li>• Low risk</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of control</li> <li>• Potential opportunity cost</li> <li>• Need for quality control</li> <li>• Risk of creating competitor</li> <li>• Limits market development</li> </ul>
Franchising	<ul style="list-style-type: none"> <li>• Little or no investment</li> <li>• Rapid entry</li> <li>• Managerial motivation</li> </ul>	<ul style="list-style-type: none"> <li>• Need for quality control</li> <li>• Lack of control</li> <li>• Risk of creating competitor</li> </ul>
Joint Venture	<ul style="list-style-type: none"> <li>• Risk sharing</li> <li>• Less demanding on resources (compared with WOS)</li> <li>• Potential of synergies</li> </ul>	<ul style="list-style-type: none"> <li>• Risk of conflicts with partner(s)</li> <li>• Lack of control</li> <li>• Risk of creating competitor</li> </ul>
Contracting	<ul style="list-style-type: none"> <li>• Little or no investment</li> <li>• Overcome import barriers</li> <li>• Cost saving</li> </ul>	<ul style="list-style-type: none"> <li>• Need for quality control</li> <li>• Risk of bad press</li> <li>• Diversion to grey or black market</li> </ul>
Acquisition	<ul style="list-style-type: none"> <li>• Full control</li> <li>• Access to local assets (e.g. plants, distribution network, brand assets)</li> <li>• Less competition</li> </ul>	<ul style="list-style-type: none"> <li>• Costly</li> <li>• High risk</li> <li>• Need to integrate differing national or corporate cultures</li> <li>• Cultural clashes</li> </ul>
Greenfield operations	<ul style="list-style-type: none"> <li>• Full control</li> <li>• Latest technologies</li> <li>• No risk of cultural conflicts</li> </ul>	<ul style="list-style-type: none"> <li>• Costly</li> <li>• Time consuming</li> <li>• High political and financial risks</li> </ul>

**Source:** Adapted by Albaum and Duerr (2011), Ma's (2008), Kotabe et al. (2005)

As shown in Table 3.1, these market entry modes differ in the degree of control, the amount of investment and risk over foreign operations (Albaum and Duerr, 2011; Fletcher and Brown, 2008; Ma, 2008; Kotabe et al., 2005). Lekaviciene and Keblyte (2011) estimate that the most popular international market entry modes among the scholars are export, FDI, joint ventures, franchising; moreover, licensing and exports have been widely chosen as ways to enter foreign markets, which is the initial step towards internationalization. Export modes are divided into direct and indirect, which differ in terms of risk level and number of intermediaries; licensing is the right to use intellectual property objects and requires little investment, has low risk but low financial returns; franchising is a contract between two independent parties with assuming the rights (the authorization of using the trade name) and obligations; joint venture is a business partnership formed by establishing a new legally independent organization and sharing the capital of investment, which reduces the risk for each investor; FDI is established with capital of foreign origin, with foreign investors owning all the assets, employing the management, controlling the company and bearing all the risk (Lekaviciene and Keblyte, 2011; Albaum and Duerr, 2011; Fletcher and Brown, 2008; Kotabe et al., 2005; Armstrong and Sweeney, 1994).

In 2008 Tipples found few studies of market entry modes specifically applying to wine products because little empirical research had been focussed on that particular product. Testa (2011) discovered that food SMEs (small and medium enterprises) in Italy adopt various entry modes including exporting, acquisitions, and green-field FDIs. Chiao et al. (2010) found that companies with more firm-specific assets/resources, more operating experience in foreign markets, and who are able to match existing customer preferences in foreign markets are more likely to enter those markets by means of wholly-owned subsidiaries.

### **3.2.3 Influencing factors on selection of market entry modes**

Selection of an appropriate entry mode in a foreign market is one of the most crucial strategic decisions that an international firm has to make as it can have far-reaching consequences on a business' performance and survival (Ma, 2008; Root, 1994); poor modal choice can lead to the failure of the market entry or even the business (Dickson and Giglierano, 1986).

Researchers have different ways of categorizing the crucial factors that influence the choice of entry mode. For example, Zou et al. (2009) and Zhao et al. (2004) consider that a company's choice of a foreign market entry mode is governed by a number of internal and external factors which include product-related factors, market-based factors, and organizational factors; Similarly Fletcher and Brown (2008) also divide them into factors internal to the firm and factors external to the firm, including management characteristics, firm's characteristics, product characteristics, overseas market potential, government regulations and trade barriers, and assistance from government and other bodies.

In general, researchers (Zou et al., 2009; Fletcher and Brown, 2008; Pacek and Thorniley, 2007; Branch, 2006; Zhao et al., 2004) suggest that companies' choosing target markets entry mode can be broadly divided into two groups:

1) Collecting and analysing data on external environment-specific criteria (understanding the external environment should be by continuous and extensive research rather than a one-off exercise (Pacek and Thorniley, 2007)):

- Market environment including assessment of market potential, understanding of consumers and customers, culture, competition, political and economic environment of the selected market.
- Business environment including finance, labour market, taxation, legal system, bureaucracy, crime/corruption, local transportation system, telecommunications infrastructure, environment of international trade, current and future cost of doing/creating a business.

2) Collecting and analysing data concerning internal criteria, including business objectives and the business capabilities necessary to match market requirements for both developing business opportunities effectively and minimising the risks identified during the external study. Previous literature (Osborne, 1996; Root, 1994) points out the importance of company size in influencing market entry modes' selection. Hollenstein (2005) points out that the market entry modes' selection for SMEs involves limitations of resources in a form of finance, information and management



capacity. Osborne (1996) suggests that smaller NZ SMEs tend to prefer no equity modes (low level of control), while larger SMEs tend to prefer equity modes (high level of control).

In addition, researchers (Hollensen, 2001; Root, 1994) have discovered that product-related factors can significantly influence companies' choice of entry modes. Hollensen (2001) considers the product complexity and differentiation could significantly influence the choice of entry mode. This influences the cost of shipping, economies of scale, technology transfer, and already existing know-how. In addition, Root (1994) also states that the quality, quantity, and cost of production (e.g. raw materials, labour energy and other productive agents) have a strong impact on entry mode decisions.

As there are several market entry options available and the factors that influence the final selection of the entry mode are various, the decision process for choosing entry mode could be either simple or complex: simple processes occur when the decision is based on one or two variables such as desire/need for control, risk, cost, etc.; while complex processes occur when companies consider a larger range of factors in making their entry mode selection (Park and Sternquist, 2007). Larger companies choose entry modes in a highly sophisticated process involving the consideration of many factors (Ma, 2008), but small and medium-sized companies, limited by their resources and their size are often forced to choose a simpler and more affordable entry mode to international markets (Lekaviciene and Keblyte, 2011).

### **3.2.4 Export marketing plan**

Entering the export market for the first time is a significant commitment for most firms as it involves dealing with unfamiliar customers and markets that are often geographically distant; therefore a good plan is essential for a good outcome (Zou et al., 2009). There are several important reasons why an export marketing plan is needed:

- It is part of a company's business plan and explains not only where the sales revenue will come from, but also how much of each product produced can be

exported. Therefore, it is a vital factor in the production and financial planning process.

- It enables the company to react to change in market environments.
- It assists in implementing changes in company strategy.
- It helps control a firm's export activities by measuring and assessing its export performance.
- It makes communication and coordination within the firm and across export channel partners easy. It provides goals and directions to the organization and export partners (Cavusgil et al., 2008; Czinkota and Ronkainen, 2002):.

The necessary elements in preparing an export marketing plan are: firstly, assessment of the past performance of the company; secondly, evaluation of the market competitors; thirdly, study of export markets to find opportunities and avoid pitfalls; fourthly, determination of the export marketing objectives; lastly, determining the method of achieving the desired strategy (Zou et al., 2009).

At this point of this study the discussion of the theoretical framework of market entry strategies is complete, as no further details are required by the focus of this research.

### **3.2.5 Key elements of successful market entry**

Firms can overcome '*the liability of foreignness*' through learning (O'Grady and Lane, 1996). Companies improve their business performance in the host country as their knowledge and expertise regarding the host country's markets improves with experience (Albaum and Duerr, 2011). There are several key elements provided by previous researchers in regard to successful market entry process:

**1) Deciding upon the distribution channel** plays an essential role because it cannot be easily changed once it has been set up. It is even more important for new market entrants who may find limited access to existing host-country distribution channels and whose home-country distribution channels are very different from those in the markets they are seeking to penetrate (Kim, 1993; Kim and Daniels, 1991). Kim (2001) points out that the choice of either using the existing distribution channels or establishing new ones is the classic issue of 'make or buy' in the vertical integration

business strategy. He believes that the benefits of a firm having third-party distributors would be that the firm can use their advantages as specialists including economies of scale, and can escape from its internal bureaucratic problems (Kim, 2001).

Albaum and Duerr (2011) suggest the importance of the careful selection of foreign-based distributors or agents cannot be overstated. Companies must ensure they have control over their distribution channels (Pacek and Thorniley, 2007). Therefore, they should: select the distributor carefully; ensure as much control as possible over the distribution network; communicate clear goals to their local distributors; never let the distributor define and build the brand; control pricing carefully; keep distributors under pressure to improve performance; provide training for distributors; develop strong personal relationships with the distributor; be flexible and adapt to local circumstances; and handle key accounts themselves (Pacek and Thorniley, 2007). Albaum and Duerr (2011) recommend that it is critical to clearly write a contract covering all relevant aspects of the relationship and details of obligations and expectations of both parties in order to ensure successful partnerships.

Webley et al. (2010) suggest that success in China comes down to distribution channels and brand recognition. A few successful examples have been found in China, such as Mazet from French Castel, Jacob's Creek from Australia, and Golden Butterfly from Spain (Webley et al., 2010). Some other Chinese wine distributors also work on a franchise model with different investor partners in different provinces spreading the promotional cost but allowing the wines in their range a broader reach (Webley et al., 2010). These wine brands have become famous in China because of the successful brand-building input by their wine distributors there. However, Webley et al. (2010) further argue that these leading domestic wine distributors have a near-full complement of brands and are reluctant to take on new brands and smaller foreign wineries unless these wineries come with considerable promotional backing.

Sun (2009) and Webley et al. (2010) identify three key distribution channels for wine export to China: corporate and government organisations who buy wine by the case for business meetings and functions or for distribution as gifts at festive times, retail trade (supermarkets and speciality stores in the major cities aiming at high end

individuals), and hotels, restaurants, and bars. The most proven successful focuses are institutional sales (to both government departments and corporate businesses), followed by top-end hotels and restaurants, and then institutional food-service and entertainment venues (Sun, 2009). Although supermarkets and hypermarkets are good sales channels (around 54 percent of wine sales in China are made through supermarkets, hypermarkets, and other retail chains), they charge shelf and promotion fees and wines are quickly dropped if they do not sell sufficiently well (Webley et al., 2010).

2) It is a necessity for the international marketing manager to develop an **effective communication system** that effectively allows feedback information to be received from all channel members by the manager (Albaum and Duerr, 2011). This puts the manager in a position to evaluate rationally the channel's effectiveness. However, achieving this is very challenging since the communication has to cross the barriers of different languages and different socio-cultural backgrounds, which can sometimes lead one party to believe that the other is either intellectually incompetent, or deliberately uncooperative, or even combative (Rogerson-Revell, 2010). Therefore, when using English as an international language one should be aware of cross-cultural variations in international business communications, and maximize his or her ability regarding negotiating, accommodating, and accepting plurality of norms (Bhatia, 1997).

3) **Frequent visits to the overseas market** are a vital aspect of conducting overseas business because they allow the company to keep in touch with existing clients, as well as identify and develop new business accounts (Branch, 2006). Such visits can not only demonstrate a firm's total commitment to the host market and their customer base, but also provide opportunities to keep a close observation of market potential and risk, while evaluating the legal, political and competitive environment (Branch, 2006). Beverland (2009) further addresses the necessity of following through the whole distribution process after selling wines to local partners in order to ensure that all inventories are stocked and transported properly in the market visits.

4) The development and evolution of a positive and long-lasting **business relationship** is very important. Beverland (2009) has discovered the importance of

the business relationship with local business partners in China. However, he states that relationships are necessary as a form of brand protection, but they only go so far in terms of their effectiveness in the wider marketplace because Chinese businesspeople tend to have a short-term orientation to some degree, and be transaction and sales focused, rather than margin focused.

Albaum and Duerr (2011) state business relationships are enhanced by mutual trust between the parties involved and trust should be built at early stage of all relationships within an international distribution channel. Research has shown that building trust early is more dependent upon matching rather than exceeding the business partner's expectations (Marshall, 2003).

Branch (2006) lists seven strategies in developing customer/client relations: improving performance, sharing experience, reducing costs, fast response, long-standing relationship, meeting objectives, and providing training.

**5) Dealing with corruption** is a daily task in many emerging and developing countries and very few companies are completely free from bribery even if they insist that they are (Pacek and Thorniley, 2007). Similar concepts of the importance of personal relationship in the context of business are common to many Asian cultures such as Japan, Korea, China and India (Ambler, 1995) However, *guanxi* (relationship) in China is sometimes considered to be another word for corruption because in the wrong place, at an inappropriate time, with unsuitable people, the obligations of *guanxi* can turn into a trap that is difficult to escape (Ambler, 1995). Internal corporate control is the most effective way to solve the problem of corruption, which means firms should provide clear guidelines for managers who are asked to pay a bribe, including to whom they should report the incident and what procedures they should follow (Pacek and Thorniley, 2007).

**6) The logistics system** is an essential facility for the development or exploitation of economic resources on an international or national scale, and must be efficient and facilitate trade development (Branch, 2006). In general, logistic systems include canals and inland waterways, international air, road, and rail transport (Branch, 2006).

Gilmour and Gale (2002), in their China-related distribution and transport study, identify that an improved transport infrastructure can make the economy's food marketing system become more efficient in sending price signals that will realign regional production patterns, eliminate spot shortages, equalize prices, and ensure food is transported, stored, and marketed efficiently. They point out that cold storage capacity in China is only 20-30 per cent of growing cargo demand, and spoilage losses of up to 33 per cent of perishable freight are common, and that the lack of temperature-controlled equipment and logistical problems make it costly to transport foods, particularly frozen and perishable foods.

**7) A clear understanding of the challenges in the host-country.** Cui (2002) and Johnson and Tellis (2007) have discovered drivers of failure and risks of entry in emerging markets include political instability, enormous uncertainty in market demand, sudden policy changes, lack of foreign currency, government control, shortage of adequate personnel, ineffective distribution strategies, inadequate protection of intellectual property rights, and competition from domestic and other foreign firms.

### **3.3 Entry modes to the Chinese wine market**

China wine market has become very promising to global wine exporters (Redfern Associates, 2010). A few entry modes for wine have been identified by previous studies.

#### **3.3.1 Entry modes for wine into China**

Multiple entry modes such as direct exporting modes, joint ventures, Greenfield operations, free trade zones as well as some other entry modes have been identified in previous studies:

**Direct exporting entry mode** is proposed by Sun (2009) for the exportation of US wines to China: some US companies have begun shipping wine in bulk to China and bottling domestically to reduce costs and become more price-competitive. In addition, a report prepared by the government of Canada (2011) describes four distribution

channels under the direct exporting entry mode: firstly, through contacting a retailer directly; secondly, through an agent; thirdly, through a wholesaler/distributor; and fourthly, through a wholesale mart (the difference between the distributor and selling agent is shown below in Table 3.2).

**Table 3.2:** The difference between the distributor and selling agent

<b>Selling agent</b>	<b>Distributor</b>
Not financially involved	Buys for own account
Leaves importation to the buyers whose orders he passes to the principal	Imports the products
Is paid a commission at an agreed percentage on orders secured	Marks up the supply price to cover his profit
Any service necessary is rendered by the buyer	Where necessary undertakes responsibility for the service
Carries no stock except for showroom purposes	Normally carries a stock
Unlikely to be involved in publicity except where required to give advice or report on impact	Publicity
May be authorized to engage sub-agents	Appoints sub-distributors
No control of resale prices	Controls selling prices in countries where retail price maintenance is possible
Leaves distribution to the buyers	Undertakes distribution in the market

**Source:** Branch (2006)

**Joint Venture** entry mode has also been identified separate from direct exporting entry mode. The studies prepared by the government of Canada (2011) and Sun (2009) outline another modal option, which is the building of a JV winery either in the home country (Canada) or in China.

**Greenfield operations** are another option used in China's market. According to Webley et al., (2010), European wine houses are starting to move from export to the production of wine in China using Greenfield operations. An example of this is the famed Chateau Lafite label, and furthermore, Domaines Barons de Rothschild- one of

the biggest names in Bordeaux wine, has announced the planting of a vineyard in China.

**Free trade zones.** Sun (2009) identifies a new avenue for entering the Chinese market using bonded areas in major ports in China. This method makes use of the duty-free nature of the bonded area, in which wine companies rent large warehouses tailor-made for wine storage and contract import agent/distribution services, showroom space, storage, and sample delivery without paying any duty. Sun (2009) points out the benefit of using this mode is that these services allow the foreign wine companies to control their distribution channels and inventory with efficiency, while postponing customs duties until the product leaves the bounded area.

**Acquisitions.** Suntory Holdings Limited, a Japanese multinational group, acquired ASC Fine Wines, the largest and the most well-known foreign wine importer and distributor based in China, in 2009, in order to enable greater expansion into the surging domestic wine market, secure the group's distribution channels in China, and grow local business (Suntory Holdings Limited, 2009).

**Other entry selection methods.** Wine exporters vary in their selection of cities (e.g. first tier cities and second/third tier cities) as their business start in China: the first tier are those cities that have a strong, but still growing, wine culture, and second and third tier cities are those that have begun emerging as viable markets since 2008 (Webley et al., 2010). Some exporters start by entering the top markets: going straight for first-tier cities such as Beijing, Shanghai, Guangzhou and Shenzhen that have relatively larger populations and richer citizens; while others have chosen second, third, or fourth-tier cities where there is less competition (Sun, 2009).

### **3.3.2 Export process of foreign wine entry into China**

As discussed in the background information chapter, China's wine market has experienced very high annual growth rates since the beginning of this century and more and more studies have begun to focus on China's wine market in recent years. According to the United States Department of Agriculture's GAIN Report on China's national wine market prepared by Sun (2009), there are seven steps involved in the



exportation of US wine to China based on the direct exporting entry mode (this is the only entry mode the author recommends):

- **Step One:** Market research. An exporter should be informed enough to make a decision whether or not to proceed; however, too much research is never a negative factor.
- **Step Two:** Find interested distributors. In addition to privately researched distributor and importer company contacts, exporters should contact the trading organizations founded by the home-country governments for further contact information. After the initial communication, provide samples, pricing information, and brochures to companies that express interest. Shipping samples via post is advisable.
- **Step Three:** In-market visit. Before arriving in China, prepare a marketing strategy for the exporting company and identify goals. Negotiating the relationship agreement between the two parties is quintessential to a healthy business relationship and successful marketing strategy. The relationship should address: firstly, a single market strategy and branding image to be followed in China; secondly, each party's involvement in promotional and new market seeking activities; thirdly, payment distributions for in-market charges; fourthly, sales goals; lastly, payment methods.
- **Step Four:** Discuss shipment logistics and payment method. Sea freight is typical for wine. It is important to confirm the time schedule and certificates required.
- **Step Five:** Ship product. Upon receiving arrival confirmation follow up on payment.
- **Step Six:** Communicate throughout marketing strategy implementation. At this point many exporters believe their involvement to be over; whereas, in fact, communication at this point is most essential. Ensuring the marketing strategy is being followed as planned, and gauging sales patterns, is needed for proper evaluation. Continual communication is the only way to be certain the importer is following through as planned.

- **Step Seven:** Reevaluate the situation. After a given period time reevaluate the importer against the initial agreements and redefine the company's marketing strategy. Determine whether the market strategy fits the product.

### **3.4 Summary**

Market and market mode selection are critical in the company's international market entry. Many researchers believe that most businesses follow systematic methods in foreign market selection, which generally involve three or four stages: country identification/screening, identification (in-depth screening), and (final) selection. The factors influencing foreign market selection can be grouped into four categories: country-related information, industry-related factors, marketing-related factors, and competition-related factors. In contrast, some researchers argue that many businesses use a non-systematic, strongly personalized and essentially belief-driven process in selecting international markets rather than a systematic way.

Market entry modes' selection refers to selection of the optimized entry mode that can best fit the company's objective among a number of entry modes. There are two main categories: export-based entry modes (indirect export, direct export) and non-export entry modes (licensing, franchising, JV, Contracting, and WOS). Critical to the decisions of the entry mode selection are several factors influencing selection of market entry modes, which include external and internal criteria.

## **CHAPTER 4: Methodology**

This chapter describes the research process of this study. It contains: research problem identification, aims and objectives of this research, research methods, data analysis, and limitations of the study.

#### **4.1 Research problem identification**

In order to expand their business in China, many NZ wineries and exporters have used different market entry modes for accessing China's market due to their various business operations, size and expectations. China is a very big market in terms of geography and very complex in terms of market infrastructure therefore, NZ wine exporters need to carefully analyse their market access options as well as the distributions channels, wine distributors/agents in China, and business and marketing challenges.

In the last few years, many studies have been done on international business between China and western countries (including NZ) covering many aspects including the China wine market overview, successful entry strategies in China, impact of Free Trade Agreement (FTA), business relationship in China, and successful factors in wine exporting such as Rozelle et al (2006), Olsen et al (2007), Gao and Knight (2007), Ma (2008), Beverland (2009) and Redfern Associates (2010). Limited studies have been done on collecting primary data from the NZ wine exporters and China based NZ wine importer/distributors on their understanding and views of NZ wine's entry into China.

#### **4.2 Aims and objectives of the research**

The aim of this research is to identify and analyse how to export NZ wine to China successfully. The specific objectives are:

- to review both global wine trends and Chinese wine consumption and imports;
- to identify and analyse the current market entry modes undertaken by NZ wine exporters to China;
- to identify key elements of successfully exporting NZ wine to China

### **4.3 Research methods**

#### **4.3.1 Research strategy for this research**

Research strategies are neither ‘good’ nor ‘bad’, nor are they ‘right’ or ‘wrong’; it is better to think of strategies in terms of their usefulness and appropriateness (Denscombe, 2010). Past studies of NZ exportation to China mainly chose qualitative approaches. Research methods which included conducting interviews with businesses were widely adopted, such as New Zealand Trade and Enterprise (NZTE) and University of Otago (2004), Gao and Knight (2007), Ma (2008), and Beverland (2009). In 2004, in order to identify success strategies for NZ food and beverage firms in China, NZTE and University of Otago (2004) used the quasi-inductive approach (a modified version of grounded theory) and interviewed 11 NZ companies (16 companies were approached) (NZTE and University of Otago, 2004). In 2007, in order to determine whether country of origin of imported food products was an important consideration in purchase decision-making in the food distribution channel in China, Gao and Knight (2007) used an exploratory research design and conducted 17 personal interviews in five main commercial centres in China. In 2008, in order to discover the most important considerations for the NZ wine industry’s entry into the Chinese consumer market, Ma (2008) used a qualitative research strategy and conducted semi-structured telephone interviews to collect data from 8 hotel and restaurant managers and 12 local consumers in Nanjing City, Jiangsu Province of China. In 2009, in order to understand the development and evolution of business relationships in China, Beverland (2009) used an exploratory research design and interviewed 26 marketing and export managers including 15 Australian wineries and 11 NZ wineries.

In general, scholars who conducted social research projects on NZ exportation to China have conducted exploratory research by adopting a qualitative research strategy and using interviews to collect data.

Focusing on identification of the recent experiences that NZ wine exporters have in exporting wines to China, this research is exploratory, using qualitative methodology with semi-structured interviews method.

### **4.3.2 Data collection**

#### **Questionnaire and interview method**

The interviews approach enables the researcher to gain insights into things such as people's opinions, feelings, emotions and experiences, sensitive issues, and privileged information (Denscombe, 2010). For the purpose of this study, the semi-structured telephone interviews approach has been adopted for collecting primary data because different respondents were located in distant geographic regions.

With semi-structured interviews, the interviewer still has a clear list of issues to be addressed and questions to be answered; however, the interviewer is prepared to be flexible in terms of the order in which the topics are considered, and, perhaps more significantly, to let the interviewee develop ideas and speak more widely on the issues raised by the researcher (Denscombe, 2010). Therefore, semi-structured interviews based on a questionnaire were used in this study. The questionnaire consisted of five parts: firstly, the background questions covering company's background and wine exports to China (e.g. year of establishment, year of first China entry, and sales); secondly, the market access strategies and business partners chosen by companies (e.g. what market access strategy has been used, business status of the business partners, and platforms for finding partners); thirdly, the value chain (e.g. logistics and distribution channels); fourthly, marketing and branding (e.g. consumer segmentation and brand building); lastly, other practical issues (e.g. payment methods, the exporters' competitive advantages). The researcher also designed slightly different interview questions for the China-based wine distributor participants.

One-to-one telephone interviews can give several benefits: firstly, they are easy to arrange and control; secondly, it is straightforward for the researcher to locate specific ideas with specific people; thirdly, it is far easier to transcribe a recorded interview when the talk involves just one interviewee (Denscombe, 2010). For these reasons, the researcher selected one-to-one interviews generated by telephone calls.

## **Secondary data**

Secondary data was obtained from publicly available data archives and from other researchers and projects (Engel & Schutt, 2009). In this study, secondary data was collected from reports undertaken by the NZ/Australian governmental/industrial bodies such as New Zealand Winegrowers, NZTE, and Wine Australia. Some important statistics were collected from publicly available data archives such as United States Department of Agriculture (USDA) and Food and Agriculture Organisation of the United Nations (FAO). Other important wine industry related data resources were obtained from the Chinese governmental/industry bodies/organisations such as China Non-staple Food Circulation Association (CNFCA), Chinese Customs, and China Grape Wine Information Network (Wine China). This is a collection of official and refereed statistics and reports and it provided both reliable and rich information regarding the current development of the Chinese wine industry (e.g. wine consumption and imports) and the current development of the NZ wine industry (e.g. wine production, exports, and varieties).

## **Selection of research participants**

Primary data was collected through conducting 14 semi-structured telephone interviews. The respondents in this research were selected based on Kompas New Zealand database. Some of the NZ wine exporters listed in the Kompas data base were not active any longer so recommendations from the regional NZ Trade and Enterprise office were also considered when selecting the sample. Kompas database is a business search engine that provides business users with comprehensive information about companies, people, products and services (Kompas.co.nz). The interviews included NZ wine exporters such as NZ-based multinational wine and spirit distributors, NZ wineries, NZ-based wine brokers; and China-based wine importer/distributors. Three China-based wine importer/distributors, recommended by New Zealand Winegrowers and some NZ respondents, were also interviewed in order to understand their view of NZ wine exports.

Table 4.1 shows the participants in this study. Fourteen respondents participated in this study. Interviewees included seven NZ wineries, two NZ multinational wine and spirit distribution companies and two NZ based wine brokers.

**Table 4.1:** Samples of the interviews

Target groups for the research	Number of interviewed companies
New Zealand multinational wine and spirit distributor Category	2
New Zealand winery category:	7
Including: NZ big sized winery category	1
NZ medium sized winery category	4
NZ small sized winery category	2
China based wine importer/distributor category	3
New Zealand based wine broker category	2

Ten out of fourteen interviews were conducted between April to May 2011, covering the entire NZ medium-sized winery category, NZ small-sized winery category, NZ-based wine broker category, and one respondent from the NZ multinational wine and spirit distributor category, and one respondent from China-based wine import distributor category. The last four interviews were conducted in July 2011. The average time taken by each interview was around one hour. All data was collected by making phone calls in New Zealand and recorded by Dictaphone.

#### **4.4 Data analysis**

Qualitative data analysis was used for analysing the data collected for this research. As discussed by Denscombe's (2010), examining, categorizing and tabulating were the key stages for qualitative analysis. All the primary data collected in this study was transcribed and some data was translated from Chinese into English. The specific procedure for the data analysis of this research included the following:

##### **4.4.1 Data management**

All the interviews were repeatedly listened to in order to draw out categories and summarise each interview. In the process, they were checked for accuracy, new



categories were drawn out and errors were corrected. The core of data transcription was typing the text from the interviews into word processing documents.

The first task was to become thoroughly familiar with the data after transcribing the interviews by reading and re-reading the transcripts. All transcripts of 14 interviews with four different groups (listed in Table 4.1) were carefully read through and cross-referenced to enable a better understanding of the data in context and identify themes in the data by making notes that suggested possible categories and interpretations. These transcripts were coded and categorised into groups and themes, which reflected factors affecting the exportation of NZ wine to China.

#### 4.4.2 Data description

Based on the primary data collection, a logical description of the entire data was created in this study as a base for further discussion by developing a hierarchy of codes, categories and themes. The description has then been iterated and cross-checked with evidence from different aspects by refining the categories and concepts. This step was revisited several times in order to provide the developed and refined facts (codes, categories and themes) relating to the development of the data description, which could ensure quality for the future analysis.

An example of categorisation is shown in Table 4.2 and 4.3.

**Table 4.2:** Responses to the open-ended question. *How did you set up your business in China?*

Interviewee responses	
-	We need to find businesses in China that can look after our wine
-	We have been to several tradeshows and met some businesses
-	We have not proceeded because they would not give prepayment or a letter of credit
-	Some wineries and owners suggested to meet with a company representing wine in China
-	We are happy with that company because we are pleased to see the products introduced to high-end restaurants and hotels

**Table 4.3:** Categorisation of responses to the open-ended question. *How did you set up your business in China?*

Inductive categories	Interviewee responses
Entry modes	<ul style="list-style-type: none"> <li>- Businesses in China that can look after the product</li> <li>- A company representing wine in China</li> </ul>
Distribution channels	<ul style="list-style-type: none"> <li>- Products introduced to high-end restaurants and hotels</li> </ul>
Methods of finding business partners	<ul style="list-style-type: none"> <li>- Attending tradeshow</li> <li>- Introduced by other wineries and owners</li> <li>- Meeting businesses</li> </ul>
Challenges	<ul style="list-style-type: none"> <li>- Hard to get prepayment</li> <li>- Lack of proven credibility</li> </ul>

The NZ wine exporters were also asked about the steps of building wine export business in China and the interviewee quoted above indicated the need of businesses representing their wine in China. The distribution channels were through high-end restaurants and hotels. The methods of finding business partners included attending tradeshow, being introduced by others, and meeting business personnel themselves. The challenges the interviewee identified in setting up their export business were the difficulty of getting prepayment and the lack of proven credibility of the Chinese business.

These data-bits were categorised as entry modes, distribution channels, methods of finding business partners, and challenges. The final step of analysing the data was to integrate, synthesise, and refine the data based on collective points that addressed the aim of the research.

#### **4.4.3 Discussion and analysis**

An analysis of the data description was provided by using the higher-level codes and categories as the basis for identifying key concepts (reasons for selecting China, entry modes, key elements of export process and challenges) in the China-oriented NZ wine exports. The detailed steps of NZ wine exporting to China are listed and the challenges are determined.

#### **4.5 Ethical considerations**

Ethical issues have been of high concern in this research because some business related information, sensitive opinions and topics are involved in the questions. Protection measures were taken to ensure confidentiality and anonymity of participants. All data were presented in aggregate form with no identified individual participant identified. And it was also made clear in the interviews that the no individuals' details, such as respondents' real names and companies' names, would be revealed at any time in the future.

#### **4.6 Limitations of the study**

There are several limitations to this study, which include the following:

- The research project is limited by the time frame for the completion of the study.
- This study was limited as it involved only 14 companies in both New Zealand and China with experience in exporting New Zealand wine to China. It is also acknowledged that this is a relatively small sample, from a rapidly-growing sector in which it is difficult to identify new members, and that care must be taken in extrapolating results to the wider population of wine exporting and distribution channel members in both New Zealand and China.
- The sample size from China-based import businesses was very small. Therefore, bigger size would have brought more reliable results.
- The researcher is Chinese, speaking English as a second language. The interviews (most spoken in English) and data transcription, as well as translation into English for the few interviews spoken in Chinese and other secondary data from Chinese may have affected the documentation of the research respondents' intended meaning, which could have limited the quality of the analysis of the primary and secondary data.

#### **4.6 Summary**

Qualitative methodology was used for the purpose of this research. Eleven NZ wine exporters and three China-based wine import distributors were studied. They were selected based on Kompas New Zealand database and recommendations from the regional NZ Trade and Enterprise office.

Primary data was collected through recorded semi-structured interviews with NZ multinational wine and spirits distributors, NZ wineries, NZ wine brokers and China-based wine import distributors. Fourteen interviews were conducted using a questionnaire. Secondary data was collected from official and refereed statistics and reports and it provided both reliable and rich information regarding the current development of China wine industry. Ethics issues were a high concern in this study, particularly relating to the respondents' privacy and confidentiality. The results were compared and contrasted with literature and recommendations and conclusions were made, which provide export patterns and processes for future study in market entry area from a NZ perspective.

## **Chapter 5: The analysis: market entry for NZ wine exporters**

In this chapter, the key factors which influence the export of New Zealand wine to China are identified, including target country selection, market entry modes adopted, key elements in accessing the Chinese market, and challenges and risks that New Zealand wine exporters have encountered.

The first section provides a brief introduction of the wine exporters who participated in this research, followed by the selection of the target market, the modes of market entry adopted, and the internal and external factors that influence the selection of market entry modes. The second section provides details of the process of successfully exporting wine to China. The last section discusses the some other related findings such as challenges that face NZ wine exporters to China, and some new efforts in wine marketing put by NZ wine exporters.

## Respondents profile

In this study, 14 wine exporters were interviewed. Participants in this study were: seven NZ wineries, two NZ multinational wine and spirit distribution companies, and two NZ-based wine brokers. Three China-based wine importer/distributors were also interviewed in order to understand their view on NZ wine market position.

These personnel included 5 wine exporting company owners; 5 export/sales managers; 4 brand and marketing managers.

Table 5.1 below briefly introduces the background of the NZ-based interviewees in this study:

**Table 5.1:** New Zealand-based wine exporters

Company	Year of first being in China	Number of NZ brands in China	Number of distributors/importers	Volume of sales per year
NZMWS Category-New Zealand Multinational Wine and Spirit Distributor				
Company A	1992	2	1 sister company	7,000 cases, less than 3% of NZ total wine export to China
Company B	1997	9	1 national distributor	2,000 cases, 0.1% of total export
NZW category-New Zealand Winery				
NZBW-New Zealand big sized winery				
Winery C	2000	4	1 national distributor	1% of total production
NZMW- New Zealand medium sized winery				
Winery D	End of 2006	1	2 national distributors, 8 regional distributors	Just increased from 1,000 to 3,000 cases average to 7,000 cases in 2010, 1.5% of the total income

Winery E	2006-2007	4	3 distributors and another party in negotiation	1,000 cases, less than 1% of the total income
Winery F	2008	1	2 distributors	5000 cases, 5% of total income
Winery G	2008	1	1 Joint Venture, 3-5 distributors, and a few government accounts	10,000-20,000 cases, 9%-18% of the total production
NZSW- New Zealand small sized winery				
Winery H	2009	1	2 distributors	1000-2000 cases, 20%-30% of total production
Winery I	2007	1	1 traditional wine distributor	250 cases, 2% of total income
NZBWB category-New Zealand Based Wine broker				
Company J	2009	26	7-8 Chinese distributors. Some of them are not very active and order every other several months	15,000 cases with 26 NZ wine brands. 18% of total export volume to China with NZ and Australia wine all together
Company K	2010, but one of its cofounder have already opened an subsidiary in 2007	9	4 importers. Another few large-sized Chinese government-owned businesses would order in July 2011. The company is preparing for their subsidiary in South China	Classified

### 1) New Zealand Multinational Wine and Spirit Distributor- NZMWSO Category

New Zealand multinational wine and spirit distributor category refers to the New Zealand-based divisions of global wine and spirit distributing companies. These divisions own some New Zealand wineries and distribute their New Zealand wine products globally.

### **Company A**

Company A is part of a large global wine and spirit distributor. It is one of the largest New Zealand wine businesses in terms of both domestic and export sales. The New Zealand division of the company owns more than ten New Zealand wine brands. In addition, the company also has champagne, spirits, and other kinds of beverages. It initially entered China in 1992. It worked very closely with one leading fine wine importer in China for a few years until 2005. Beginning in 2005, after a major acquisition in China, company A has built up their own Chinese import distributor company. The volume of sales in China was around 7,000 cases (labelled under 2 brands).

### **Company B**

Company B is a subsidiary of a large US-based global wine and spirit distributing company that owns four wineries in New Zealand. It is one of the largest New Zealand wine businesses in both domestic and export sales terms. Company B, together with Company A, accounted for significantly more than half of New Zealand's wine production (Campbell, 2008). The company was partnered with a leading fine wine importer in China. The volume of sales in China was around 2,000 cases, which was minimal compared with their 2 million cases of export each year. The company was building their Hong Kong based Asia division by the time the interview was conducted in 2011.

## **2) New Zealand Winery- NZW Category**

The NZW category refers to wineries that produce wine in New Zealand. According to definitions given by New Zealand Winegrowers, there are three categories in the NZ wineries: Category 1 (large wineries) refers to wineries with annual sales exceeding 4 million litres. Category 2 (medium wineries) refers to wineries with annual sales between 0.2 million litres and 4 million litres. Category 3 (small wineries) refers to wineries with annual sales below 0.2 million litres (New Zealand Winegrowers, 2011).

1 large winery, 4 medium wineries, and 2 small wineries participated in this study.



## **a) New Zealand Big Winery Category- NZBW**

### **Company C**

Company C is the one of the largest New Zealand family-owned and multi-award winning wineries. They have wineries in both Auckland and Marlborough regions. The company was exporting 4 wine brands to China, which took around 1 per cent of their total production. However, the sales figures are classified. The company has partnered with one leading fine wines import distributor in China since 2000. With the expansion of this fine wine import distributor in China, Company C has expanded their presence in both first-tier cities- Shanghai, Beijing, Shenzhen, and Guangzhou, and provincial capitals- Shenyang, Hangzhou, and Chengdu. In addition, they also have a presence in Macau and Hong Kong.

## **b) New Zealand Medium Winery- NZMW**

### **Company D**

Company D is located in Hawke's Bay region. The company exports 1,000 to 3,000 cases on average to China each year. They achieved 7,000 cases in 2010, which was around 1.5 per cent of their total production. Company D has 10 Chinese distributors: 2 national distributors and 8 regional distributors. They have been in China's market since the end of 2006. They have market presence in first-tier cities of Beijing, Shanghai, and Guangzhou; provincial capitals of Zhengzhou, Changchun; second tier cities of Chongqing, Wenzhou, Dalian, Qingdao; and Hong Kong.

### **Company E**

Company E is a leading and multi-award winning winery. They have vineyards in Hawke's Bay, Marlborough, and Central Otago. Company E started exporting to China in 2006 with 4 brands. The volume of sales on average to China was around 1,000 cases, which was minimal in comparison to the winery's total production (less than 1 per cent). Company E had 3 Chinese distributors and was in a business negotiation with another Chinese party in 2011. Shanghai and Beijing are the main markets for this company.

### **Company F**

Company F is one of the oldest New Zealand wineries, located in Hawke's Bay. The company owns 50 hectares of vineyards, but also sources grapes from many other

vineyards. The total production for Company F is around 1 million bottles (750,000 litres). The company exports around 5,000 cases a year on average to China with only one brand. They have 2 local distributors in China. Their main markets are in Tianjin (seaboard city north of China) and Fujian province (seaboard province south of China). The company also has a presence in Shanghai. Company F started exporting to China in 2008.

### **Company G**

Company G is based in Auckland, although their winery is in Hawke's Bay. The company produces around 1 million litres a year. China was one of their major export markets. Company G started to export to China in 2008. The volume of sales is between 10,000-20,000 cases on average, which is around 9-18 per cent of their total production (the interviewee did not wish to give more accurate figures). The major consuming regions for Company G in China are in the southwest: Sichuan province, Chongqing, Hainan province, and Hunan province. Guangxi province and Jiangsu province were two new regions penetrated in 2010.

### **c) New Zealand Small Winery- NZSW Category**

#### **Company H**

Company H is a Canterbury winery. The winery is very small in size and has only three full-time employees: the couple who own the business and the winemaker. Company H started to export to China in 2009 with two distributors based in Hong Kong and Beijing. The company produces around 7,000 cases in total a year and their export to China is around 1,000-2,000 cases a year.

#### **Company I**

Company I is a Central Otago winery. The company produces around 12,500 cases in total a year. Their export to China is 250 cases each year, which was around 2.5 per cent of their total production. The company had one Chinese distributor representing their wine products in first tier cities- Beijing, Shanghai, and Guangzhou.

### **3) NZBWB Category- New Zealand-Based Wine Broker Category**

#### **Company J**

Company J is a large logistics and supply-chain company that has market presence in New Zealand, Australia, Taiwan, and mainland China. The company was established in 1998. Wine is a side business for this company and was only begun in 2009. Company J has 26 New Zealand wine brands represented in their wine portfolio. Their total wine export to China is around 1 million bottles (750,000 litres) a year. New Zealand products occupy 18% per cent (15,000 cases) of the total income. Company J had 7-8 Chinese distributors and had market presence in the northeast regions (Jilin province, Liaoning province, Heilongjiang province), southwest regions (Sichuan province, Chongqing City), first tier cities (Beijing and Shanghai).

#### **Company K**

Company K is a New Zealand-based wine broker cofounded by two New Zealand wineries in 2010. The company is representing 9 New Zealand brands from 9 producing regions in New Zealand and has 4 Chinese distributors. The company was invited to attend the FTA ceremony signed in Beijing by prime ministers from both New Zealand and China. A few large-sized Chinese government-owned businesses have signed agreements with Company K for delivering wine and expect to start ordering in July 2011. The company is preparing to open their subsidiary in South China.

### **4) China-Based Wine import Distributor- CHBWID Category**

Table 5.2 briefly introduces the background of the China-based interviewees in this research:

**Table 5.2:** China based import distributors

CHBWID category-China Based Wine Import distributor				
Company	Year of first being in China	Number of NZ brands in China	Number of distributors/importers	Volume of sales per year
Company L	2005	8	Have market presence in over 60 cities in China.	The company sells more than 1,200 wine brands in China. Some of them are imported directly from the wineries; some are purchased from other wine importers in China.
Company M	2005	2	7 regional primary distributors in China. The company is the sister company of Company A	NZ wine sales only occupy 1% of sales in the portfolio. The company has increased their focus on NZ wines but the main focus is still on French and Australian wines.
Company N	March, 2008	4	About 10 distributors. Based in Shanghai with breaking small size to medium size in China market (second tier business below 4 or 5 market leader like ASC)	Chinese business sales represent 25% of their total income from 4 NZ brands and 15 California brands

**Company L**

Company L is a New Zealand-owned fine wines import distributor based in Shanghai. It started in 2005. The company has a market presence in over 60 cities in China and represents over 1,200 wine brands. Some of them are imported directly from the

wineries; some are purchased from other wine importers in China. Company L had 8 key New Zealand wine brands in the portfolio in late 2010.

### **Company M**

Company M is a China-based import distributor of a global wine and spirit distribution company. The company was founded after China signed the WTO (World Trade Organization) agreement in 2001. The company has a nation-wide presence with 7 major distributors in China. They are representing 2 New Zealand wine brands.

### **Company N**

Company N is an American fine wine import distributor specializing in Californian and NZ wines, based in Shanghai. The Chinese office started in 2008 and represents 4 NZ and 15 Californian wine brands. The company has about 10 major distributors.

## The process of exporting NZ wine to China

The results of the study also analysed the different key phases of successfully exporting NZ wine to China. The chronological procedures are shown below in Figure 5.1:

**Figure 5.1:** The process of exporting NZ wine to China



## 5.1 China market

### 5.1.1 The reason for choosing the Chinese market

China was the chosen market for the NZ wine exporters interviewed for three key reasons: a) market research carried on by the wine exporter or the company's parent group; b) the company was visited by wine distributors/agents that had ongoing business in China; c) the company's management team or owners had strong personal belief regarding the potential for future business success in China having observed some recent business success achieved by international wine brands (especially Australia) in China. Although most of the wine exporters selected China because of reason A and reason B listed above; some exporters (e.g. Company D) were motivated by combinations of these two factors.

### 5.1.2 Market entry modes

Table 5.3 demonstrates the market entry modes adopted by the wine exporters interviewed: direct exporting, indirect exporting, joint venture, and acquisition.

**Table 5.3:** Market entry modes

	Indirect exporting	Direct exporting	Joint venture	Acquisition
Number of NZ wine exporters	5 (Company D, E, F, H, and I)	4 (Company B, C, J, and K)	1 (Company G)	1 (Company A)
Type of wine exporter	Winery 2 Broker 1 Distributor 2	Winery 1 Broker 2 Distributor 1	Winery 1	Distributor 1

As shown in Table 5.3, different market access modes were adopted by different NZ wine exporters. Indirect exporting was adopted by three medium-sized and two small wineries. They chose this market entry mode due to their weak financial positions and lack of in-depth understanding of the Chinese wine market. Direct exporting was

adopted by one large winery, two NZ-based wine brokers, and one NZ multinational wine and spirit distributor. These firms were relatively larger in production therefore, were able to afford overseas offices in China. Joint venture was adopted by one NZ medium winery (NZMW-G), because the Chinese owner of the company has a good understanding of the Chinese wine market and the Chinese consumer. This entry mode allows NZMW-G to gain more control over their products, access to market information and networks, and obtain greater margin in the value chain. Acquisition was used by one NZ multinational wine and spirit distributor (NZMWSD-A). This company is a leading multinational wine distribution company and therefore, had strong resources to support this entry mode.

NZMWSD-B, a giant multinational wine and spirit distributing company, using direct exporting, and are in the process of analysing the potential of a Greenfield operation proposal based in Hong Kong.

### 5.1.3 Factors for market entry mode selection

Table 5.4 demonstrates the major factors influencing NZ wine exporters in their selection of their entry modes. They are grouped into 2 main categories: internal factors, and external factors.

**Table 5.4:** Factors of entry modes' selection

Internal factors		External factors
Organizational factors	Product-related factors	Market-base factors
1. Company size 2. Financial resource 3. Managers/owners' attitude	1. Unknown image of the NZ wine in China 2. Limited product range/production	1. Complexity of the China market 2. Market power of distributors/importers in China 3. Low wine education in China



## **1) Internal factors**

### **a) Organizational factors**

**Company Size** is widely considered to be a fundamental factor that needs to be taken into consideration as all the respondents consider that company size is critical in their consideration of market entry modes. This research discovered that the larger NZ wine exporters were more likely to choose entry modes with a higher degree of control such as direct exporting, JV and WOS, while small NZ wine exporters preferred less costly entry modes with a low degree of control, such as indirect exporting.

**The financial resources** that a company can access are also another critical element that the NZ wine exporters consider. Every respondent mentioned this factor. This study discovered that large wineries and multinational wine distributors with relatively strong financial positions are more likely to choose entry modes with a higher degree of control which are more costly; while medium-to-small wineries with tight budgets can only afford relatively less expensive entry modes.

**Managers/owners' attitude** is another key factor identified by 7 respondents. It was found that the expectations of market achievements in China that managers and owners have varies. This causes differences in the amount of resources they allocate to their China-oriented businesses and differing choices of entry modes based on costs and risks.

### **b) Product-related factors**

**Lack of recognition of NZ wine in China** is an important factor for the NZ wine exporters to consider. This study identified that NZ wines have not been widely recognized by Chinese consumers/customers in comparison with French or Australian wines. All companies took this into consideration in their decision-making concerning entry modes, although companies still selected a variety of entry modes according to their differing estimation of the importance of this factor. Companies that considered this lack of market recognition a great barrier preferred using indirect exporting methods, so that they did not need to market their products themselves. In contrast, companies that had more confidence in overcoming this challenge preferred direct exporting modes in order to stay closer to their customer.

**Limited wine product range/production** was another factor that impacted NZ wine exporters' (mainly medium-sized and small wineries) selection of market entry modes. This study found that a few NZ wine exporters (e.g. NZMW-D) were not selected by the top wine distributors in China because of their limited wine range/production on offer. As a result, most of the NZ wine exporters were only able to find small and relatively unknown wine import distributors in China with limited distribution capacity. This has negatively affected the overall business performance of the NZ wine exporters in China as poor wine sales or loss of business positions in the distributor's wine portfolio can result. Eventually, the business cooperation between the NZ wine exporters and their China-based business counterparts can fail. For example, one of the medium-sized wineries in this research chose the indirect exporting mode and delivered several types of wine to the supermarkets in China; however, their brand was not looked after well and sales were low. As a result, the company was very disappointed and cancelled the contract and planned on moving from indirect exporting to direct exporting to gain more control of their products in the market. Two NZ wine exporters (NZMW-D and NZBWB-J) overcame this challenge by looking for more agents in China to diversify the risk.

## **2) External factors**

### **Market-based factors**

**Complexity of the Chinese market.** This study identified that the main reason for most NZ wine exporters to adopt indirect entry mode was because of the complexity of Chinese wine market. The market in China is very different from NZ in terms of customers, distribution channels and business culture. It is very challenging for NZ wine exporters to transfer their western country-oriented business modes to China. Therefore, at the initial stage of doing business with China, indirect exporting mode was very popular because the distributors/importers with local expertise and knowledge could provide great support to NZ wine exporters and consumers.

**The distributors/importers in China have great influencing power** on wine promotion and sales. The distributors/importers play the key role in the NZ wine exporters' market success in China. All wine exporters participating in this study understood this point. This research revealed that exporters who relied on the market

knowledge of the distributors/importers chose indirect exporting modes; exporters who wanted to have more market control over their wine and wanted to measure the performance of the wine import distributors in China adopted entry modes with a greater degree of control such as acquisition, joint venture, and direct exporting mode.

**The low level of wine education among Chinese consumers** made wine sales more relevant to non-product factors like distribution network, relationship (guanxi), and packaging rather than the product itself. As a new entry brand with little or non-recognition, it is easier to use Chinese distributors for the NZ wine exporters. In addition, good local wine distributors can add credibility to the NZ wine products they represent in the market.

#### **5.1.4 Food match**

This study suggested that food match with wine is important to wine consumers in China. A good match with food and wine can improve the banquet experience. This research collected the specifics of NZ wines' food match with various Chinese cuisines based on the knowledge shared by the owner of NZMW-G, Asian marketing manager of NZBW-C, and NZ wine brands ambassador of NZMWSD-A, who are considered to have a relatively deeper understanding of Chinese wine consumption.

Chinese consumers have very sophisticated palates in terms of flavours and tastes. It does not matter whether it is Cantonese, Shanghais or Hunan or Sichuan province; there are many flavours and many different textures in their cuisines. Wines with different characters are needed in different regions to match their specific cuisines. Chinese consumers usually prefer well-balanced red wines (Merlot and Cabernet blends are good for the Chinese market) and white wines are suitable for cuisines involving seafood like the seaboard cities Dalian, Qingdao. In southwest China like Hunan or Sichuan region, dishes are quite strong with a lot of spices, therefore, wines that have a little sweetness, and a little acidity in the grape are an ideal match. In Southern China (Cantonese cuisines), the ideal wines are those with fruity but delicate flavours and also good acidity. Hence, NZ Sauvignon Blanc, Riesling, and Pinot Gris fit well in these regions. In Southeast China and North China where the cuisines

include a lot of chicken and pork, Pinot Noir and Merlot Cabernet blends tend to match well.

Medium-sized and large NZ wineries in the study tend to distribute different wine varieties to different regions in China based on the characteristics of the local cuisines. Some NZ wine exporters in the study are trying to export white wine into China since NZ is famous for Sauvignon Blanc. The target markets are seaboard cities and Cantonese regions, where the cuisines largely include fish and other seafood. In addition, several NZ wine exporters in the study have great confidence in the growing consumer segment of younger women between 20 to 35 years and believe they will become the dominant consumers for white wine in near future.

However, food matching with local Chinese cuisines is still under development at the time of this study. For example, NZ Syrah (Australian Shiraz) is popular in China in all regions including cuisines that are light or strong flavoured, or with hot, oily, sweet, or salty flavours. Syrah, however, has a relatively spicy flavour and would not normally be considered very suitable for eating with light dishes that are known for their freshness, such as Cantonese steamed freshwater fish. This popularity is due to appropriate pricing and the portfolio availability influencing Chinese consumers' purchase decisions rather than taste education.

### **5.1.5 Location**

China is considered as a combination of multiple markets by the respondents, therefore, it is impossible for the NZ wine exporters to have presence in the whole country in the early stage. The NZ exporters interviewed started their business in one specific region or city initially. Two alternative approaches were chosen by these NZ exporters: the first tier cities/coastal regions approach and the second/third tier cities approach:

First tier cities (including metropolises like Beijing, Shanghai, Guangzhou, and Shenzhen) and second tier cities in coastal regions are the dominant wine-consuming markets. Most of the NZ wine exporters in the study adopted the first tier cities/coastal regions approach, considering that penetrating these metropolitan areas

and seaboard provinces strategic for improving business profile and brand reputation as opinions and preference trends are formed in the big cities. A respondent stated:

*'We have a very strong growth plan. We want to be one of the most dominant New Zealand wine brands in the China market. So we have to start with the big cities and go out from there.'* (NZBW-C)

The second/third tier cities approach was not widely adopted by the participating NZ wine exporters. Just one medium-sized NZ winery (NZMW-G) chose to focus only on second/third tier cities because competing with the large number of foreign wine brands already present in the metropolises requires a far greater financial investment, exposing small NZ wine exporters to a greater risk of business failure. The respondent from NZMW-G stated:

*'I am not in a hurry to develop our business in first tier cities and coastal regions because there are too many foreign brands in these metropolitans, which levels up the required financial resources to make market noise there. So it is too risky because heaps of money would be needed to invest in the marketing there, and there could be no payback for what you have done. So we are avoiding the first tier cities and penetrating second and third tier cities on purpose.'* (NZMW-G)

This study revealed that NZ exporters (the multinational wine and spirit distributors and the large NZ winery) with relatively strong financial positions pay great attention to first tier cities because Chinese consumers follow the trends started in the first tier cities. In contrast, some small-to-medium-sized wineries that have adopted the first tier cities approach are also very interested in the second/third tier cities approach because it may boost their sales.

## **5.2 Distribution channels in China**

There are two types of wine distribution channels in China: the open market distribution channels and the hidden market distribution channels. Both types of distribution channels for New Zealand wine in China rely heavily on personal network and connections. Both wine distribution channels are important. As China is

a large market in terms of geography and population, any success achieved in either of these distribution channels can result in significant sales.

The open market distribution channel includes the food and beverage sector (hotels and restaurants), and grocery (super/hypermarkets). The hidden market distribution channel refers to institutional accounts (including corporate accounts, and government accounts).

### **5.2.1 The open market distribution channel**

#### **The food and beverage industry distribution channel**

The food and beverage sector is the key market for the NZ wine exporters (mainly top-end hotels and restaurants). There are two subcategories: domestically-owned top-end hotels/restaurants and internationally-owned top-end hotels/restaurants. This research found that internationally-owned hotel and restaurant chains are used by twelve out of the fourteen interviewees, while eleven interviewees use domestically-owned chains.

Top-end hotels in China mainly refers to four-star and five-star hotels, however, there are no clear industrial standards to define top-end restaurants. The international top-end hotel chains and restaurants are very different from Chinese hotel chains and restaurants, offering better customer service, premium food quality and range, and higher prices. A respondent stated:

*‘The bill paid in domestic five-star hotels could be only hundreds of RMB and only have 1 or 2 imported wine brands, while in the international chains you could probably look at 5000-6000 RMB with offers of many different wine brands from various countries.’ (CHBWID-L)*

Internationally-owned hotels and restaurants were the initial focus for most of the NZ wine exporters at their early presence in China. More recently, NZ wine exporters started to aim at the domestically-owned food and beverage industry as these Chinese businesses are improving the quality and range of food and wines they offer their customers. A respondent stated:

*'Today our predominant success is in the internationally owned hotels and restaurants. But that's slowly changing as the domestic market-- domestic restaurants and hotels start to catch up more.'* (CHBWID-N)

However, for the Chinese-owned wine distributors in this study, more than half of their sales of foreign wines is to domestic hotels and restaurants rather than the international hotels because the number of domestically-owned restaurants and hotels is far larger than those owned internationally. A respondent stated:

*'Most of our businesses are in domestically-owned hotels and restaurants. Internationally owned hotel business for us is very small.'* (CHBWID-M)

This study found that entertainment venues favoured by the young middle-class, such as domestic bars and KTV chains (Karaoke Television), have caught the attention of NZ wine exporters and their distributors in China (NZMWSD-A, CHBWID-L, and CHBWID-M).

*'Most of our business in terms of wine happens in traditional high-end Chinese restaurants but not international ones; followed by the bar and KTV (Karaoke Television) and then the off-trade.'* (CHBWID-M)

### **The grocery retail channel**

The grocery retail channel refers to off-premise retailers (not consuming in venues) to individual customers. There are two categories in the grocery retail channel: supermarket/hypermarket chains and wine shops/cellars, with the supermarket/hypermarket chains occupying a bigger share of the market.

This study discovered that, according to the China-based wine distributors interviewed, the in-store revenue of wine shops is not high. These cellars/wine shops are generally considered to be unprofitable sites for increasing business credibility or displaying wine portfolios to individual consumers, because most of their wine products are delivered through business accounts to other channels, such as hotels and restaurants and institutional accounts, which are the main source of their revenue.

The supermarket/hypermarket chains have been used by very few NZ wine exporters. NZ wine exporters who have dealt with this channel in China have divided opinions towards penetrating this channel. There were five NZ wine exporters (large and medium-sized wineries and multinational wine and spirit distribution companies) in this study penetrating the super/hypermarket chains in China (four won a contract, one failed). Three of them have had some negative experiences while the other two companies are satisfied. Several issues were identified:

Unprofessional handling of the wine: a large winery was disappointed by the unprofessionalism of wine handling from a very famous multinational hypermarket chain when the temperature control of wine handling was not well-managed. As respondent C stated:

*'It's small presence because in China the retail market is still very undeveloped. You've got major retailers like Carrefour, Metro, however, they are still very unsophisticated themselves... Carrefour's wine warehouses are not temperature controlled.'* (NZBW-C)

A medium-sized winery quit the supermarket/hypermarket channels because the high expenses of a slotting fee and promotional activities together with the low volume of sales, made the product unprofitable. A respondent stated:

*'We have had some experience in supermarkets in Shanghai. We had a distributor there, but it turned out to be very difficult because the very high entry fees relatively to what we can sell. The supermarket chain may concentrate on the turnover, the volume of sales rather than margin... It is a very expensive thing to do.'* (NZMW-F)

Some multinational hypermarket chains try to shorten the distribution chain between the wineries and themselves to reduce inventory costs as well as retail prices. This leaves no room for profit for New Zealand wine brokers and so they will not allow the hypermarket chains in China to contact the individual wineries without dealing with the head office. A respondent stated:



*'These supermarkets wanted to buy from the wineries directly to reduce the price... We certainly not allowed them to do that... We must keep the margin for ourselves.'*  
(NZMWSD-A)

Businesses in this channel have declined to deal with NZ wine brands: several NZ wine exporters such as NZMW-E tried to penetrate this market but failed because they were not competitive enough in terms of volume and range of production. As one respondent stated:

*'It was difficult to get an appointment with the hypermarkets. We had been to one hypermarket frequently enough when a business opportunity arose. However, another company got in there and into the deal.'* (NZMW-E)

In addition, it was discovered that only companies with good resources and strong financial positions show great interest and ambition to sell to the supermarket/hypermarket chains in China, especially the international hypermarket chains. Only outlets located in prosperous urban districts in metropolises like Beijing, Shanghai, Guangzhou have been taken into consideration as ideal distribution points for New Zealand wines. This is because hypermarket/supermarket outlets in different areas have different consumer segments and only people with high incomes can afford to buy New Zealand wines. As a respondent stated:

*'We are a big company... we are prepared to invest in our markets in order to build full wine categories; and build our brand. Because you have to invest to get people try your products so that they can begin to purchase on a more regular basis... You don't go with your product in every supermarket. You look for the supermarkets where westerner and rich people are shopping.'* (NZMWSD-A)

### **5.2.2 The hidden market distribution channels**

The hidden market distribution channel referred to corporate gifts accounts and government accounts. According to one of the largest NZ winery interviewed, the hidden market channel is as important as the open market distribution channel in China in terms of volume of sales. In this channel the wines are sold on networks and

connections. Who you know is critical to build up a successful business relationship and distribute the products in this channel. As a result, selling wine successfully needs more personal connections rather than marketing activities.

*'There are some small distributors who have got only one or two accounts, but can sell very large volume due to the guanxi (network) they have. For example, two small distributors of mine that have very small staff numbers sold an astonishing amount of wine very fast, just in a couple of days.'* (NZBWB-J)

All the medium-sized NZ wineries and wine brokers supply wine for this channel to increase their sales volume in China. However, large wine exporters (NZMWSD-A, NZMWSD-B and NZBW-C) show less interest, because products distributed through this channel will not improve brand image due to the fact that sales completely rely on personal network, and therefore the business will not be sustainable.

This study identified that guanxi (relationship) plays a very important role in reaching successful business deals with institutional clients like banks, the Chinese army, and government organisations. There are two key points to penetrating the corporate gifts category: firstly, building networks that can capture key people who make purchasing decisions inside a target organisation; secondly, eye-catching packaging plays a vital role. A respondent stated:

*'If you have the right packaging, right product, right price, and have the right contact, your business will be successful.'* (NZMW-D)

Wine education in the hidden channels is low and customers usually select products based on packaging and labelling rather than quality. For example, wine with corks is considered classic and traditional in China. However, 'New Zealand wines' packaging generally is not as eye-catching as French wines' (NZMW-D).

This study identified that the government accounts category is another major category in the hidden market distribution channels. This category mainly refers to government (including army) banquet consumption. Personal network and connections are the key elements of penetrating this category.

There is a distinct benefit to acquiring this type of customer: products used by government officials are generally symbols of superior social status in China. Therefore, people who are close to the government circle will follow the trend started by the local government officials. For example, local business people select the wine brands that their local governments have chosen in official banquets when entertaining their friends and clients to show their respect and sincerity.

*'I used my network to persuade some government accounts to group buy my wines for banquets. Local business consumers soon recognized my wine because it was appointed in the government-held banquets and events. This made my business expand rapidly. My business start-up in China was totally relying on network and word-of-mouth accumulated from sales to the government category.'* (NZMW-G)

However, the disadvantage of relying on this distribution channel is apparent: sales that are based on relationships may not be stable in the long run because the access to the governmental distribution channels can break down any time if the person who is in charge of the procurement leaves the position. In addition, wine products distributed through the hidden market channels accumulate no brand building because the wine bottles are neither displayed on the shelves nor seen on wine lists in hotels and restaurants. Therefore most NZ wine exporters do not consider this channel as their key, because it is not building sustainable product awareness in the Chinese market over the long term. A respondent explained:

*'It's not good for brand building because once it goes into that channel you don't see it in the main markets... You could work with one of the major banks or insurance companies that may take thousands of cases for mid-autumn festival. It looks great for your volume for that particular year. But will you get an order for the following year? It's not sustainable. So while it's very attractive, we would rather go for long-term business.'* (NZBW-C)

### **5.3 Suitable business partners in China**

All the NZ wine exporters in this study are using wine distributors in China. These wine intermediates between NZ wine exporters and the Chinese customers/consumers provide necessary knowledge of the top-end wine market (e.g. distribution network, marketing and sales, understanding of local customers/consumers) in China. Finding the right distributor is a sign of future success for the business.

#### **5.3.1 Platforms for seeking suitable candidates**

The NZ wine exporters in this study use multiple platforms to target suitable business partners for distributing their wine in China. These are: attending tradeshows and events held by New Zealand Trade and Enterprise or New Zealand Winegrowers; being introduced by other friendly wineries either in New Zealand or other countries; hiring wine specialists in China for targeting and observing the Chinese distributors; and being approached by the Chinese businesses or New Zealand business people having network/resources in China regarding wine distribution.

**Tradeshows and other events held in China.** The most commonly used platform is tradeshows and events held in China. Almost all the interviewees have used this platform. But their opinions concerning the usefulness of tradeshows and events differ. Some larger wineries interviewed consider holding tradeshows and tastings very useful because they help market their wines to their potential business distributors. For example, respondent C, a large winery, stated: *'It is brilliant. They are very good for helping you in wine sales'*. In contrast, some medium-sized and small wineries consider attending these events is not very helpful. As respondent E, a medium-sized winery, stated: *'The tradeshows tend to be looking a lot more for distributors... and it is expensive to attend. The 'rushing into the market and trying to sign up with as many people as possible' strategy does not match our long-term strategy.'*

**Approached by Chinese businesspeople.** Almost all the wineries interviewed have experienced being contacted by businesspeople with networks in China. Some wineries have reached business agreements with these businesspeople because the two companies share the same business value. Some wineries have declined business requests because these China-based distributors are not suitable. A respondent stated:

*'It is a matter of identifying where their strength and weaknesses are, and where they are based... The matter is trying to ensure the Chinese distributors fit for our brands... Otherwise, we look for others.'* (NZMW-D)

**Hiring wine specialist in China.** In this study, wine exporters with strong financial positions (NZ wine distributors, NZ wine brokers, a large winery, and two medium-sized wineries) are hiring people to stay in China for finding and cooperating with their Chinese business partners. According to these companies, it is very helpful in developing their wine sales, identifying suitable business partners, as well as maintaining strong business relationships with them. A respondent stated:

*'We are working with a consultant in Shanghai, who is actually targeting all the distributors from city to city... really investigates and analyses the strengths and weaknesses of these distributors and creates a formal approach for a reasonable and regularly based distribution. It is a great strategy.'* (NZMW-D)

**Being introduced by other businesses.** In this study, only a small number of medium-to-small NZ wineries have used this platform for identifying their business partners. This platform is only used at the very beginning of their Chinese export business set-up. Once the NZ wineries become more knowledgeable about the Chinese wine market, they start to seek suitable business partners themselves.

### **5.3.2 National versus regional import distributors**

In terms of geographic focus, this study revealed that wine distributors in China are broadly divided into two groups: national fine wine import distributors (dominated by foreign-owned fine wine import distributors) and regional-based (provincial or city) wine import distributors (mostly domestic wine import distributors). Both groups use the open market channel and the hidden channel in China.

The national fine wine import distributors have existed for over a decade. They have solid background on wine business e.g. having a skilled sales force to do wine education and wine branding, and having great credibility and recognition. The

findings revealed that only two multinational wine and spirit distributors (NZMWSD-A and NZMWSD-B), one large winery (NZBW-C), and one medium-sized winery (NZMW-D) use national wine import distributors. The national wine import distributors are indicators of a wider range of distribution channels, a larger number of customers, and strong credibility of wine quality.

This research found that no matter how large the national distributors are, several layers of distributors are still needed before wines reach the end consumer. The layers are: national import distributor, regional (provincial or city level) distributor, and then the frontline distributing accounts like restaurants and hotels.

Many of the regional wine import distributors are new businesses in the market which appeared after 2005. They are mostly small in size, appeared in recent years, and have limited wine skills and knowledge. These companies are in the wine business only because they have connections and networks, which help sell imported wines, like having connections with the local government organisations.

More than half of the NZ wine exporters in the study started with provincial or city-level distributors. The main reasons were: 1) there are not many vacancies left for NZ wine brands in the portfolios of the national distributors; 2) small distributors can put more focus on the wines as they have relatively smaller portfolios.

This study revealed two types of regional wine import distributors representing NZ wines. Some of these distributors are conventional wine businesses, which means they have a stable business model in the open market. They have their own wine shops or distribution channels through restaurants, hotels and bars. In contrast, some distributors are doing business only in the hidden market. Therefore, they are relying on 'key accounts' to distribute wine into the institutional sector such as governments, armies, and corporations. NZ wine exporters prefer the conventional regional distributors rather than the relationship-oriented ones, because the former ones are more professional in handling wine and therefore more sustainable in the business. As a respondent stated:

*'Wine needs to be stored and served correctly... They (the relationship-oriented distributors) are from a completely different business and just trying to take business opportunities out of the wine... Lack of knowledge is the thing that has been difficult with distributing wine ... It's something that's a little bit scary.'* (NZSW-1)

### **5.3.3 Business partners and relationships**

The **first** task for initial business partnership set-ups after the NZ wine exporters have found the candidates is verifying business partners by doing background checks, which include business visits and investigations of historic volumes of sales, sales force skills, strengths in terms of distribution channels, marketing ability, niche market (consumer segments), and an understanding and enthusiasm for NZ wine. As one respondent stated:

*'We would like to know what their niche markets and consumer segments are. We will do research on their sales force to see how well they understand the market, what the market needs are, how big the market size is in that region. We need to understand these before we make any further decision.'* (NZBWB-K)

Another respondent added: *'I suppose (what I need to know) is what their traditional business sales volume was in the previous 3 years, what strength they have in this business, sales power they have, which channels they want to go into, their understanding of New Zealand wine and enthusiasm for New Zealand wine.'* (NZMW-D)

The **second** activity is sending samples to the potential business distributors in China. This is an indication that this China-based business candidate has been shortlisted by the NZ wine exporter. A respondent stated:

*'No matter what businesses we are dealing with, sample is always the first step after they have passed our checks. Although we can get samples free from our cooperating wineries, we can't give them to everyone as easily as handing out fliers in streets.'* (NZBWB-K)

It was also suggested by two NZ wine exporters (NZMW-G and NZBWB-K) in the study that on top of sending samples, it is also crucial to have communication between NZ based winemakers and the China-based wine importers (e.g. quality

management departments) to adjust the tastes and characters of the wine. This is because the Chinese palates for wine are different.

The **third** step is negotiation for volume of orders with the China-based business partner. As one respondent explained:

*'The next step is the volume they can order. We are quite flexible on this. Our minimum requirement on that is any order, starting with at least one pallet. There are about 672 bottles in one pallet. But normally there are very few people who would order one pallet only due to the high shipment costs.'* (NZBWB-K)

NZ wine exporters have differing requirements for the minimum volume of sales from their Chinese business partners. For some small wineries, very small orders can meet their expectations, while medium-sized and large wineries are looking for larger volumes of orders. The smallest volume of sales in China in this study was around 250 cases a year and this NZ winery is happy with their Chinese partner and is maintaining their relationship with this distributor in China. The largest volume of sales in this study was around 20,000 cases a year and the NZ winery that achieved the sales target is still not satisfied. This indicates how different the expectations of these NZ wine exporters are towards wine sales in the Chinese market.

#### **5.4 Export management process**

It is very important to make sure both parties have a mutual understanding on the exporting process including the transportation, terms of sales, cost added on to wine, payment methods, and credit terms.

**Transportation.** This study revealed that sea freight is used by all NZ wine exporters. They perceive this as the most economical option for shipping wines in large quantity. Auckland, Napier, and Lyttelton are the main trade gateways for wine exports in this research. The most popular destination ports in China are Tianjin, Shanghai, Dalian, Qingdao, Guangzhou and Hong Kong. Shanghai is the main destination for NZ wine shipment and it is used by nine NZ wine exporters in the study. All the major ports in China have government-bounded warehouses (duty-free zone).



**2) Terms of sales.** The majority of the NZ wine exporters in this research (NZMWSD-B, NZBW-C, NZMW-D, NZMW-E, NZMW-F, and NZSW-I) use FOB (Free On Board) terms of trade. NZ-based wine brokers M and N, and NZMW-G are flexible using FOB, CIF (Cost, Insurance and Freight) and EXW (Ex Works). One small wine exporter (NZSW-H) prefers CIF.

**3) Cost-price structure of NZ wine in China.** This study revealed that the cost of a bottle of imported NZ wine after the first turnover in China (sitting in the warehouse and ready to be sold by the China-based importers) consists of the laid-in cost, including the cost added on from buying from the winery, insurance, delivering into the warehouse, tariff (will be eliminated in 2012 according to NZ-China FTA), and the respective tax paid to the Chinese government.

According to the China-based wine import distributors CHBWID-M and CHBWID-N, there are generally three pricing categories of imported NZ wines for different customer segments in China because different margins are required by different distribution channels that are associated with different expenses. The lowest price point category (also is considered as wholesale price points) is offered to distributors that can achieve large volumes of sales. The middle ranged price point category is offered to accounts like restaurants, bars and hotels that order directly from the import distributors because these businesses normally ask for slotting and delivery expenses. The highest price point category is offered to individual buyers who only buy wines in small quantities.

**4) Payment methods and credit terms.** The results of this study revealed that all the early transactions with Chinese distributors start by paying full amount upfront. With the development of mutual trust and business relationship, most of the respondents start to offer delayed payments from 30 to 90 days. However, most NZ wine exporters use US Dollar because RMB is not convertible. A respondent stated:

*RMB (Chinese currency) was not a freely convertible currency and therefore was very difficult to get money out of China'. (NZBW-C)*

There are also a small number of NZ wine exporters (e.g. Company G) that do not give any credit terms to their business partners in China in order to ensure payment security. Instead, they offer further discounts and require full payment upfront. Company G never gives credit terms to any of their business partners in China because of the negative experiences they have had in collecting the account receivables. *'It was extremely challenging and time consuming to collect the money receivable'* (NZMW-G).

### **5.5 Maintaining and developing business relationships**

Continuous investment in reinforcing mutual relationships is always important to stabilize and further improve the business and volume of sales. This study identified four commonly adopted methods:

#### **Email and telephone communications**

All the NZ wine exporters in this study maintain frequent communication with their business partners in China. Writing emails and making phone calls are the primary way of communication. The NZ wine exporters were all aware that it was important to maintain frequent communication with their Chinese business partners so that their brands would not get lost among the portfolios. As a respondent stated:

*'It is important to keep showing your face to the other party in China even by just informing them how our vintage was or what awards we have received recently'*. (NZMW-E)

#### **Market visits**

Market visits to China were very important. All the NZ-based respondents in the interviews (except one small winery) visited China at least twice a year. The frequency for medium-sized NZ wineries, and NZ wine brokers to visit China was from 4 times to 9 times a year. All the multinational wine and spirit distributing companies, the large winery NZBW-C, and the medium-sized winery NZMW-G had employees in China all-year round.

The activities involved in the market visits to China were generally review meetings on product performance, brands support for the sales teams, hosting wine dinners and banquets for key customer accounts, giving wine training and education, and checking on the competition at the frontline.

### **Providing business support**

This study discovered that NZ wine exporters could mitigate the risk of getting lost in their partners' portfolio by increasing their importance to the business partners in China. Providing efficient business support could contribute significantly in building strong business relationships. All the NZ wine exporters in this research agreed that by better supporting their business partners in China, they added value to their business relationships. As a respondent stated:

*'Becoming more important to them (China based wine importer/distributors) is exactly the word. It is something we are here in New Zealand trying to do. So rather than just selling the product and getting them packed and leaving them, we are trying to understand their businesses, and become more useful to their businesses.'* (NZMW-E)

NZBW-C voluntarily provided a per case based advertising and promotion budget (A&P budget) to their business counterpart in China, in order to further reinforce the business relationship and encourage their distributor to put the similar amount of money on their brand. A respondent stated:

*'We provide an A&P budget per case, but I don't need to do that. But that is my way of saying 'look, I really want to help you promote the wine.' Globally in our company, we generally give about 5% A&P. In China, because we are starting off, so we give a little bit more. So I always reinforce to them 'look, I am supporting you here. I don't have to give you this A&P budget.'* (NZBW-C)

### **Personal friendship building**

This study identified that there were broadly two ways of developing personal friendships with business partners in China: frequent business trips to China and hosting key accounts/business partners when they came to New Zealand.

This study found that some NZ wine exporters were very aware of the importance of developing personal relationships rather than just forming a pleasant relationship on the business level. In order to do so, these marketing/sales managers made longer business visits to China in comparison with their visits to other markets such as United Kingdom or Canada. The additional activities involved in the business trips in China were entertainment activities such as visiting scenic places, playing golf, going fishing, exchanging gifts, and drinking, which are very different from the straightforward business communications/meetings organised in western countries. All these entertainment activities were done prior to the business meetings. As one respondent stated:

*'I think you need to invest a lot in your personal relationship with them. And I think a lot of New Zealanders don't understand how long it takes to develop a friendship. We want to quickly do the business but in China you need to build a friendship and friendship can sometimes take months. Once you have a strong friendship then you will have a strong business relationship.'* (NZMW-F)

The other way of reinforcing personal friendships was hosting the Chinese customers/businesspeople on their visits to New Zealand. It was done by providing comfortable hospitality and spending time together to let the Chinese acknowledge the respect from their NZ business partners and thus felt their face had been saved and taken good care of, which shortens the personal distance between each other and ultimately helped stabilize the business relationship. As a respondent stated:

*'They (the Chinese distributor) sent a guy from a successful Japanese restaurant from Shanghai. He was coming to New Zealand for a holiday. They asked if we would mind showing him around. So we showed him around our winery, we took him on a tour, we gave him gift at lunch, you know, we made Chinese visitors feel special.'* (NZBW-C)

## Other relevant findings

### 5.6 Understanding of the NZ wines' marketplace in China

#### a) From the NZ-based wine exporters' perspective

The NZ wine exporters had very similar opinions on the following issues:

- In terms of wine competition in the China market, the major market competition for NZ wine was against the French wine.
- The NZ wines as a whole were of premium quality.
- Insufficient marketing activities and late market entry rather than the tastes and price points of the wines caused the small volume of sales in China.
- In general, the NZ wine exporters had a flexible attitude towards modifying the packaging of their products, but were reluctant to adjust the taste of their wines specifically for the Chinese palates. In general they considered that the Chinese consumers would eventually cope with the tastes of NZ wines when the market became more mature.
- NZ wines sales were dragged down by their higher prices in comparison to their opponents in China such as Australian and Chilean wines.
- The NZ wine industry as a whole was so small that they could not afford marketing and promotional activities to compete with players like France or Australia and thus, education was the key.
- The Chinese customers were poorly educated about wine so they do not understand the quality of NZ wines and unfairly discriminate against them, especially in comparison with French wines.

The citations below from 2 interviewees typically represented the opinions held by the interviewees in this research:

*'New Zealand has no problem in selling at the high end. New Zealand wines have very elegant styles. Selling NZ wine in China is a bit like selling BMWs and Mercedes and Audis. We don't sell as many as Ford or General Motors do. We don't want that, we want to be in the premium end.'* (NZMWSD-A)

*'I was asked to simplify the formula and make wine sweeter, which for me is very interesting. I think part of that comes from my perception that they are uneducated palate, oh sorry, inexperienced palate. So it's bit like when you first drink beer. Probably it didn't taste quite right. But you got used to it and learnt to enjoy it. Same thing with wine. So I can understand that people go 'Ew', you know, that's not my style. So I have requests to sweet enough the wine. Something that we can do, but none of the deals that actually ever come off from the trade mentality. If someone comes to us and say 'can you make us a label?' or want their own label designed, we will be more than happy to do that.'* (NZMW-E)

Therefore, all NZ wine exporters in this study considered that NZ wine were as good as French wine. The reason that NZ wine sales were falling behind French wines was mainly due to limited or ineffective marketing activities/campaigns, high prices and little wine education of the Chinese consumers.

#### **b) From the China based wine distributors' perspective**

The China-based national wine distributors had quite different opinions about the place of NZ wines in China's market:

- NZ wines should not aim to compete with French wines in China, because the NZ wines do not have any advantage over the French wines except for white wines. For example, when explaining winemaking history to Chinese customers, it is noted that many French wineries have hundreds of years of history, while the NZ wine industry appeared in 1970s and the oldest winery was founded in 1851.
- NZ wines as a whole should play an active support role rather than be a leading player in China, because they are limited in variety and production volume.
- They do not equate premium prices with superior quality, but rather that the high price of NZ wines is caused by high production costs, which was a severe disadvantage for the NZ wine industry because the Chinese wine market is price sensitive.
- The NZ wine industry needed to build their market identity around the unique characteristics of NZ wines, such as has been done with Sauvignon Blanc for

example, rather than trying hard to sell red wines that were similar to Bordeaux style.

As one of the China-based respondents stated:

*'The top French wines are better in quality; they are truly the leading wine producing country. They came to China in 1970s, that's already more than 30 years... For example, the (NZ) industry has seen the opportunity in China with Pinot Noir; however, there is still chaos about the future direction that New Zealand Pinot Noir should aim at inside the industry. So New Zealand wine industry really need to work hard on identifying their unique wine characters.'* (CHBWID-L)

To conclude, these China-based wine distributors thought the NZ wines were not very competitive in the China market; the price points were too high for their wines' market status in China; and the priority for the NZ wine industry should be developing wines that are more interesting and have unique characteristics for their Chinese customers.

### **5.7 New development in the China market**

This study found that a few NZ wine exporters have made new moves to improve their business in China. Although there is no supporting evidence to indicate that these in-market actions will become trends other NZ wine exporters will follow, they are worth examining.

#### **Shortening number of the intermediates**

Company M, a China-based national wine import distributing company, started to drive their customers to their direct wholesalers/distributors, to cut down the number of hands their products pass through, in order to make the price of their wines more competitive on the shelves. This respondent stated:

*'We drive the businesses to our primary wholesalers so that they can deal with them directly... We put the contacts with our relevant wholesalers that they can buy products from. Because we know what the price of our primary wholesalers have put on, so we say*

*'if you buy from them, they will charge you at this price.' It will be cheaper than what they can get from their local intermediates.'* (CHBWID-M)

### **Localizing wine tastes for the China market**

There were a very few NZ wine exporters in this study that started to make wines that appeal especially to the Chinese consumers' palate in order to achieve better sales in China. Those wineries have the philosophy that 'wine is only good when it fits the consumers' palate and makes them enjoy it and feel happy (NZMW-G).' They would like to provide wines which really improve the banquet experience of the Chinese consumers rather than making packaging or other marketing efforts irrelevant to the wine itself. And according to these wine exporters, the feedback from their China customers has been quite positive. The respondent stated:

*'I never think good wines must be expensive. So no matter whether I make \$5 wine or \$10 wine, if it can fit the customers, then it is good wine. So I have taken the Chinese wine consumers' palate into my consideration when I was making new wines for the Chinese market... In winemaking, you have the same grape, but the taste is different. Especially for China, the Chinese cuisines are very different from region to region. So I even need to do some minor adjustments for wines that are sold in different provinces for different food matches in order to make sure our customers enjoy their food when they are drinking our wine. We analyse what is suitable for the market every time before we enter a new region. But most New Zealand wineries haven't started to do that inside China at this stage.'* (NZMW-G)

### **5.8 The challenges**

This study identified and grouped the key challenges faced by the NZ wine exporters in entering the Chinese market into four categories: Challenges related to China, challenges related to NZ, challenges related to business culture, and challenges related to people:



### **5.8.1 Challenges related to China**

#### **China is a major red wine consuming country**

China as a whole has a bigger demand for red wine, while NZ was famous for Sauvignon Blanc (a variety of white wine). More than 80 per cent of wine consumed in China is red, while 70 per cent of NZ's wine production is white. This is part of the reason for the NZ's low position in the marketplace there. This issue was acknowledged by all research respondents. One respondent stated:

*'The big issue in China is that wine is 80% red wine over there. And we are 70% white wine. So we have another big challenge to educate what white wine is because some people look at a glass of white wine wonder whether it is wine, because they have never seen them before.'* (NZBW-C)

As the consequence, NZ Sauvignon Blanc has very limited market penetration and a very low profile in China.

#### **Difficulties in finding suitable counterparts in China**

The first challenge that the NZ wine exporters faced was selecting good business partners from China because the China market is big and very complex. It was a great challenge for medium-sized and small NZ wineries in this study to gain a detailed understanding of the market in China through just a few visits. Many issues like who you are selling to, who you are dealing with (e.g. logistics companies, distribution channels), and what market position the business partner is in are difficult to assess based on short visits to China. Without time and market knowledge, it is difficult to verify these issues or check the company's background. Hence, it is always difficult for NZ wine exporters to know whether they are working with a reliable party before they start working with them.

The differences in culture (e.g. business communications, relationship build-up) and market structure in wine distribution between New Zealand and China further increases the uncertainty of finding suitable business partners in China. These business models are totally new to the NZ wine exporters and take time to understand. One respondent stated:

*'The China market is so complex. That makes much harder for us to understand the market... It's really hard for us to look for partners.'* (NZMW-E)

The NZ-based wine brokers, the large winery, and the NZ-based multinational wine and spirit distributing companies in this research found finding suitable business partners less confusing because they had local employees in China all year round.

### **Low percentage of using equipped carriers/warehouses in China**

In China, there were not many carriers/warehouses well equipped with temperature control facilities because of the high costs. Even large multinational hypermarket chains could not handle the wine products professionally with cold chains throughout their logistics department. Research revealed that most NZ wine exporters were doing business with unequipped distributors in China because not many equipped logistics companies were available in the market. NZMW-G had built their own warehouse in Southern China and confirmed that they did not install any temperature control equipment in the warehouse because of the high cost:

*'To be honest, no temperature control facilities. It will add extra a couple of million RMB cost to do so. If the warehouse has good indoor ventilation and is less than 30 degree centigrade, normally the wine will be okay. If it is really hot in summer, we will turn the air-conditioning on.'* (NZMW-G)

Therefore as an alternative, a few NZ wine exporters (small and medium-sized wineries) tried not to ship wines during the summer time in China. This was the only 'solution' found regarding this issue. A respondent stated:

*'We have no control over how it stored. The weather in China is quite extreme during summer. We do everything possible not to ship our wine during the Chinese summer because we are aware that the temperature can be quite high. So if we can be shipping the wine at a cooler time of the year, summer is not our preference.'* (NZSW-H)

In addition, NZMW-G has identified one special method in transshipping in summers in China to prevent wine products from baking in the sun on the dock. This medium-sized NZ winery asked the freight forwarder to put their container below the water

level instead of above it, and then when the wines arrived in China and need transshipment, they sent their staff to the port and paid extra to ensure another container was placed on top of theirs to shade it from direct sunshine during summer time.

*'We tried to store our shipments under the water level instead of above the level... and send one of our employees in China to pay extra to ensure some container is on top of ours... is how we control the temperature in tranship.'* (NZMW-G)

The majority of the NZ wine exporters in this study mentioned that they had written requirements for wine handling and storage in the contracts signed with their distributors in China. However, only a very few NZ exporters (including NZ based multinational wine and spirit distributing companies and lucky wineries) were confident that their experienced (long existence in wine business) and national wine distributors (with large portfolios) in China had reliable cold chain facilities. The rest of the NZ wine exporters admitted that their wines were out of their control as soon as being handed to their partners in China. It was nearly impossible for them to have any influence on their partners when talking about the very heavy investment on temperature control equipment. One respondent admitted:

*'It can be hard to track our wine after it was passed over to our distributors. I can confirm that... The temperature does influence the wine quality strongly. And I think that is in searching for credible partners who understand wine. You would also hope that your business partners are for the long-term because then, it is the best for their interests to make sure the wine is in very good quality. However, if you are dealing with a trader or as such, just for one container or whatever it is, then you run far more risk of the wine not being stored in the right facilities.'* (NZMW-E)

### **5.8.2 NZ related challenges**

#### **Lack of recognition of NZ as a whole**

NZ is not well known and recognised by many Chinese people. In addition, the Chinese consumers believe that good wines should look classic, with a long history to tell. The perception in China was that French made the best wine in the world. NZ

was a very young country and thus, did not have much history or story to tell regarding wine making. This was considered a great disadvantage for NZ wine promotion in China. A respondent stated:

*'There is no point in talking about our brands with people who have no idea that we produce wine. When I was doing wine training, I asked for show of hands who has drunk New Zealand wine before. And I am often talking to people who have never tried NZ wine before, which is quite a privilege from my perspective but also reminds me 'oh my God, I have got so much work to do'. It's vast for me and other wineries to do.'* (NZBW-C)

### **Small scale of the NZ wine industry**

NZ wine industry is in very small scale from a global point of view. This limited the ability of NZ wine industry to invest on massive marketing campaign and wine education in China because no NZ wine exporter could afford these activities. None of the NZ wine exporters invested in TV advertisements or marketing campaigns for promoting NZ wines in this research. Instead, they expected their China-based partners to engage more in wine promotional activities. A respondent stated:

*'We are a family business and don't have the financial resources of some of the larger French, Australian, United States', large wine exporters that really have a lot of marketing behind them. So our effort would be prices that are set perfectly low or relatively low so that the marketing and sales promotion can come from the margin that our distributors make. Once again, it's another trust. We really hope they just don't pocket the difference but invest it on marketing.'* (NZMW-D)

### **Limited product diversity**

The number of varieties of NZ wine was relatively limited compared with French and Australian product range. All medium to small sized NZ wineries considered this as a barrier for their market penetration to supermarket/hypermarket chains because they were unable to provide well-diversified products with more competitive price points, or sufficient volume as demanded by these types of clients. A respondent stated:

*'We haven't had the abilities to market on the mass public so far because of production volume and varieties. According to my communicating with many wineries and distributors, they have the same problem with u.'* (NZMW-G)

### **High average price per litre of NZ wine**

All respondents in this study acknowledged that NZ wine had the highest average price per litre in the world due to its high quality, and thus they should not compete on price. However, as a wine producing country unknown in China, the prices of NZ wine were not cheap compared with some wine from famous countries such as France and Australia. This made the NZ wine less favoured by the China market because many consumers were price sensitive. Some NZ wine exporters considered this a challenge to their wine entry in China because when the unique character of NZ wines was not well known among Chinese consumers, high prices made it more difficult to market and promote NZ wines in China. Other NZ wine exporters treated the high prices of NZ wine as a competitive advantage because it helped differentiate NZ wine from other cheap/low-quality wine. However, it was still too early to tell which opinion would be more successful.

In this research the medium and small sized wineries were found to be facing pressure on price. One respondent stated:

*'In general, New Zealand wine brands are not designed for commodity but premium market. We are working on a new wine that we can produce in large quantity and squeeze the price under RMB200... What only we can do is to cut our profit and have low margin on each bottle to achieve a higher volume of sales. If we can provide low price wine from New Zealand, we will greatly encourage sales in our wholesale business.'* (NZMW-G)

The larger winery, multinational wine distributing companies and the NZ wine brokers in the study did not emphasize the challenge brought by high price points of NZ wine, instead, they used this fact as a marketing effort to persuade the Chinese customers that NZ wines were of premium quality. A respondent suggested:

*'...New Zealand wine quality is very premium. We have the highest average price of any wine sold in the world. So we have to do a lot of education to justify why New Zealand wine is the best...'* (NZBW-C)

Results identified the retail price range of entry-level NZ wines in China were around RMB180-200 (NZ\$36-40). The medium level wine products were ranging from RMB200-600 (NZ\$40-120). The high-end NZ wines were above RMB600 (NZ\$120).

### **NZ top-end premium wines' less competitiveness in China**

How to trade the Chinese customers up to more expensive NZ wines was another challenge. All respondents including the large companies and wineries that enjoy a high reputation in NZ faced this difficulty in China because their top-end wine products were lacking competitiveness in terms of market reputation rather than quality. The only effort being made to solve this problem was emphasizing consumer education about NZ wine and wishing the Chinese customers would increase their interest in the NZ wine products. No respondents in this research had worked out an effective solution:

*'We do sell more low-end wine (in all foreign markets)... if you compare our product mix in China with Australia or UK, the China's market has higher percentage of low-end wine. That's the French wine the competition really. Chinese people know France make good wine. So in order to let people know NZ also make good wine, we are going to work and educate in the market and tell people why New Zealand wines are so good.'* (NZMW-F)

*'Our challenge in China for the next while is to trade people up to our higher-priced wine. I don't want to get into a situation where we are just screwed on low-price wine all the time. You know we had that in too many of our markets.'* (NZBW-C)

### **5.8.3 Business culture related challenges**

#### **The complexity of the administrative work in China**

This study also identified that the administrative procedure for wine exporting to China was confusing. It took time for doing business in China in terms of preparing paperwork required by different government organisations like Ministry of Commerce and Customs. This bureaucratic experience that the NZ wine exporters had in dealing

with Chinese government organisations had frustrated some NZ wine exporters. They considered this bureaucracy as disorganisation. Two respondents stated:

*'In China we are never quite sure what we've got to provide and whether all the paperwork has been completely well documented without any problems. I think that is the challenge for us to know exactly what is required.'*(NZSW-H)

*'In the beginning, it was difficult and very labour intensive, very bureaucratic to get the export certificate and the wines approved for importation in China. There was a lot of information needed, which was quite stressful. A few times in a day, the party in China would be calling and asking for all sorts of things. Making it fine for Ministry of commerce in China is unique and only happens in China. The level of bureaucracy is frustrating in getting things done. That is a problem and discouragement for us as wineries.'* (NZSW-I)

Besides the complex administrative system in China, other problems could rise at any time in the import licence application or customs clearance process. A classic example is given below:

*'We initially shipped to Guangzhou. But we now use another port in a much smaller city. We were fined 100,000RMB (around NZ\$20,000) by the Guangzhou customs for a very ridiculous reason. Although we have done all the paperwork, they still can find problems if they want to. So we use smaller customs to clear our products. The officials in smaller places always are easier to get to know and they ask for less. So we would rather pay more freight expense and wait longer than passing through big customs.'* (NZMW-G)

### **Fast versus slow turnaround time**

China had faster work pace in comparison with NZ. Therefore, many requests from a supplier/purchaser could be done immediately with very fast turnaround time in China. In comparison, the NZ and western cultures were completely different. And it was even more difficult to deal with changes in short time frame in wine business because wineries only produced once a year, thus when the wine was bottled and gone, it was the finish and no further adjustment could be done. Unfortunately, some Chinese businesses were not aware of this difference and got frustrated when their new requests were declined by the NZ wineries due to this issue.

Therefore, it was suggested that anything regarding production details must be advised to the party in China before processing the order. This could reduce the probability of sudden requests of changing production, for example, asking for corks rather than screw caps. One respondent stated:

*'I think pretty well the challenge in China is relating to expectation. ....When the bottle has got a certain screw cap attached to it, you just can't put a cork in it. And I think it's through communications that help our Chinese business partners know these issues and have realistic expectations on our products and production. I am very, very mindful of that. It is quite a frustrating thing.'* (NZMW-D)

#### **5.8.4 People related challenges**

##### **Risk of being overpromised**

Another challenge encountered by the NZ wine exporters in the interviews was the risk of being over-promised by some Chinese businesspeople on their wine distribution ability. This risk of overpromising was quite unpredictable, NZ wine exporters could only get to know whether or not their business partners were reliable and they actually had the ability to deliver their promises over time. A respondent stated:

*'I have talked to a large number of Chinese businesses, who said we can do this or we have got that deal on the go, you know, about everything that I wanted. Therefore, I got the deal with some businesspeople in China. However, none of their promises has actually come off yet. There were full of promise and hope, and nothing so far has come.'* (NZMW-E)

The most serious consequence that the NZ wine exporters have suffered in this study is money loss. NZMW-G, a rapid growing NZ wine exporter experienced a very unsuccessful business partnership and lost their investment because their Chinese partner was not able to deliver their promise signed in the contract:

*'Last year (2010) we had lost significant amount of money because our partner failed in investing tens of millions of RMB into our cooperative project contract that we both agreed and signed. Their cash flow broke down. As the consequence, I had to go back to China and terminate the contract and the project. We spent the whole year on this project and*



*invested lots of money. So the loss was very big and the experience was very negative. We delivered all requests asked by the other party in the contract. We should have paid greater attention to this business details and kept checking on them. It was a lesson we have learnt on verifying the actual ability of the business partners.'* (NZMW-G)

### **Short term oriented trader's mentality**

As identified earlier there are a large number of Chinese businesspeople that have the mentality of constantly trying different wine products from different countries with no intention of maintaining long lasting stable business relationships. A large number of traders in China with this mentality ordered once or twice and then never ordered again because their interests are always shifting from product to product trying to find products that were more profitable. Businesses with this mentality treated wine as a product to sell for a profit in the short-term, rather than something they would like to work with long-term by looking after and building up the brands. Two respondents stated:

*'It has been worldwide that the first order is always good. Some make second and third orders, which confirm their ability to move our brand forward. And, you know, that thing is typical in China. It seems to be a very disproportionate number of traders versus people who actually want a long-term future with wine.'* (NZMW-D)

*'It will take some time for some serious importers to get established.'* (NZSW-I)

### **Internal gatekeeper barrier set by the Chinese distributors**

Internal gatekeeper refers to people inside the Chinese distribution companies who controlled wine portfolios' access to the market in China. The distributors' low interests in NZ wine products are a great challenge for the NZ wine exporters in promoting their wine sales in China. This barrier was caused by the very low market profile of NZ wine as a whole, and the very small volume that can be offered to the China market.

Most of the respondents in this study considered this point as one of the major challenges they faced in China. Even the sales of the two NZ based multinational

wine and spirit distributors who participated in this study were minimal and treated as supplements in the wine portfolios in China. As one of them stated:

*'At the moment (July 2011) it's about 2,000 cases a year, which for us is very small. Our total New Zealand business is around 2 million cases of export.'* (NZMWSD-B)

The reason for the relatively low market opportunity for NZ wine in China, was mainly caused by the low motivation of the China-based wine distributors towards promoting or marketing NZ wines. This situation was caused by: firstly, China market's reorganization of Bordeaux style; secondly, the Chinese consumers do not have much understanding of NZ wines and therefore were reluctant to try wine alternatives in other styles. Two respondents stated:

*'The (China market) focus is more Bordeaux style.'* (NZMWSD-B)

*'For New Zealand at the moment, the opportunity is very, very low... The Chinese trader are not very motivated to push New Zealand red wine, because they can have better success with other countries especially France and Australia... So our main focus is still on Australian and French.'* (CHBWID-M)

### **Low wine knowledge leading to biased perceptions**

China was an emerging market in wine consumption and this country was not a traditional market in wine drinking. The Chinese consumers had relatively low wine knowledge in terms of different wine varieties and characters, producing regions, and food match. A lot of Chinese wine drinkers treated wine as a normal type of alcohol like beer and spirit (Chinese rice wine) that does not have much differentiation, characters, and drinking culture or etiquette around it. Therefore, the consumers' purchase decisions were heavily relied on wine promotional activities rather than the drinking experience. So the popularity of imported wines in China depended upon its country of origin (e.g. France was the best) and marketing activities involving heavy advertising in mass media, for example, TV channels, newspapers and billboards.

Compared with NZ wines, French wines entered the China market much earlier and invested heavily in marketing campaigns, which had made the Chinese consumers think only the French made good wine. A respondent stated:

*'Many traditional wine producing markets are also going to China with millions of bottles of table wine. But the Chinese perception right now is the wine comes from France and have the word 'Chateau' in front of it must be very good... So what is happening in China is that people have seen big brands that have heavily advertised, well promoted with good distribution growing because of its availability and the witnesses it has.'* (NZMWSD-A)

As a result, although most of the respondents believed they should not compete with wines from other countries on price, price became the dominant factor of New Zealand wine sales in China. A respondent stated:

*'Most of the customers in China don't recognise the quality wines and make their purchasing decision based on packaging, marketing, and prices. The price does affect our wine sales significantly.'* (NZBWB-K)

## **5.9 Summary**

This research revealed that market entry modes' selection is very important to the success of exporting. Two types of geographic access strategies adopted by NZ wine exporters were identified: first tier cities approach and second/third tier cities approach. The first tier city approach enables the NZ wine exporters to penetrate the metropolitans and seaboard regions for improving business profile and brand reputation as consumers' opinions and preference trends are formed in these developed regions. In contrast, the second/third tier cities approach enables exporters to stay away from the intensive competition in large cities and focus more on boosting the sales without heavy and risky investments.

Two types of wine distribution channels were identified in this research: the open market distribution channels and the hidden market distribution channels. The open market channels include the food and beverage industry (hotels and restaurants), and grocery (super/hypermarkets). The hidden market channels include corporate

accounts and government accounts. Although both market channels require guanxi (relationship), the open market channels focus more on marketing and branding, while the hidden market channels rely completely on networks and connections.

Finding suitable import distributors in China is very important. This study identified four platforms to target potential business partners: a) tradeshows and events held by NZTE and NZ Winegrowers; b) introduced by other businesses; c) hiring specialists in China for targeting and observing the distributors in China; d) approached by the Chinese business people or NZ business people having network/resources in China.

Setting up wine exporting process to China is another critical element in a successful wine exporting business to China. This involves verifying business partners by background checks, sending samples to the potential business partners in China, negotiating minimum volume of orders, and managing transportation and payment.

Improving business relationships is the vital target the NZ wine exporters should work on continuously. This study revealed four ways of reinforcing mutual relationships: a) email and telephone communications; b) market visits; c) providing business support; d) personal friendship building.

## **Chapter 6: Discussion**

The entry of NZ wine into the Chinese market, including market selection, market entry modes and the factors to be considered when selecting them, the key elements of successful entry of the Chinese market by NZ wine exporters, and some of challenges faced in trading with China will be discussed in this chapter. Findings from published literature on market entry and the experiences of NZ wine exporters to China will be compared and contrasted with the data collected for this study.

China has great potential in the future as a destination for wine. The secondary data collected in this study reveals that China has become the fifth largest market of wine and accounts for 40 per cent of the total sales in Asia (equivalent to 1.1 billion bottles of wine). In view of such significant opportunities, this study focuses on the exporting of NZ wines to China.

This study has reviewed global trends and the great potential of the wine market in China, identified the entry modes used by NZ wine exporters, and outlined the challenges experienced by NZ exporters of wine to China.

### **6.1 Market selection**

Previous literature e.g. Zou et al. (2009) has concluded that companies generally utilise both external and internal information to help in the selection of a foreign market. This study discovered that many NZ wine exporters selected China because they learnt about the promising economic growth of that market, the increasing wine consumption by Chinese people, and the potential increase of the middle class, from the successful results already being achieved by the French, Italians, Spanish, Americans, and Australians in exporting wine into China. As late entrants to this market they relied on the experience of those successful early entrants there. In particular, the findings of this study revealed that many NZ wine exporters entering the Chinese market very recently did so because they saw the massive success achieved there by Australian wine exporters.

Differing from Yip et al.'s (2000) approach to market selection, which assumes that companies follow a systematic market selection approach, NZ wine exporters were found to have been relatively non-systematic in their approach. The majority had either been approached by Chinese businesspeople or had found wine distributors/importers based in China when attending trade-shows related to exporting to China, without any long-term planning or extensive research. Even those NZ wine exporters that entered China before 2000 were still following the pattern established by the pioneer wine exporters from countries like France. This study found that the manner in which NZ wine exporters select a market is more accurately described by

the theory of non-systematic market selection approach developed by Alexander et al (2007).

## **6.2 Market entry modes**

Direct exporting and indirect exporting entry modes were found to be those most commonly used by the NZ wine exporters in this study. Only one multinational and one medium-sized NZ winery adopted either an acquisition or a JV entry mode. In contrast, entry modes demanding high resources, such as Greenfield operations, JV and acquisitions were more often discovered being used by wine houses in Europe, such as French wineries (Webley et al., 2010).

NZ-based wine exporters in this study preferred to apply low-cost and low-control market entry modes, rather than high-cost and high-control modes, because the volume of their exports to China is such a small proportion of their total production. Scandurra (2011) suggests that the NZ wine sector is still dominated by small wineries and relatively small growers. This research confirmed that all the NZ wine exporters in the study considered themselves quite small in terms of production and exports when compared with other foreign wine brands in China. For example, the largest NZ winery in this study (also one of the largest wineries in NZ) occupies only around 1 per cent of the sales in their Chinese distributors' portfolio. So these NZ wine exporters have very limited resources, especially financial resources, to put into their wine business in China. Many export sales managers complain that their business loses control over their products as soon as their business counterparts take over in China, which is a consequence of selecting market entry modes that limit their involvement in marketing and sales activities in China.

Sun (2009) identifies two geographic approaches used by US wine exporters in entering China: the first-tier cities approach and third or fourth-tier cities approach, which are very similar to the access strategies adopted by the NZ wine exporters studied in this research. The majority of them exported to first tier cities or coastal regions; and just one exported to only second or third tier cities due to the high competition in the first tier cities.

### 6.2.1 Influencing factors

Many researchers and scholars consider that the factors influencing companies' selection of market entry mode are divided into external and internal factors (Fletcher and Brown, 2008; Branch, 2006; Luo and Suh, 2004; Root, 1994). The finding of this study is consistent with the literature.

This study's findings support previous literature by researchers and scholars, such as Luo and Suh (2004), Fletcher and Brown (2008), and Zou et al. (2009), concerning the factors which influence NZ wine exporters in their selection of market entry modes in China. These factors include internal factors, like company size, financial resource, product quality, and external factors, like market information and consumer behaviour, although none of that literature is related to the wine industry. In addition, some new factors such as limited production capacity, lack of education of Chinese consumers concerning wine, and the significant market power of distributors/importers were identified.

The key factors identified in this study were:

#### ***Organizational factors (internal):***

**Company size.** Company size has a direct relationship to a range of resources including production volume, financial, management. This research found no direct evidence showing that managers in larger wine exporters were more experienced or ambitious regarding their wine exports to China. However, it did confirm that the larger NZ wine exporters could usually invest more resources in their trade with China and conduct more business activities there, such as holding wine tastings, paying more frequent visits to China, employing people to look after the business in China, organizing wine and brand education. This was supported by Osborne's findings in 1996 on NZ SMEs: he discovered that smaller SMEs in NZ tended to prefer no equity modes (low level of control), while larger SMEs tended to prefer equity modes (high level of control). Root (1994) also supports this point as he states company size is frequently a critical factor in the choice of an entry mode.



**Financial resources.** Larger NZ wine exporters (large and medium-sized companies) prefer direct exporting methods in order to have more involvement and better understanding of their businesses in China. The smaller wine exporters prefer adopting indirect exporting methods from a cost-saving and risk-averse perspective. This is consistent with Hollenstein's (2005) finding, as he demonstrated that limitations of the resources of finance, information, and management capacity, influence the internationalization process and the selection of market entry modes to a much higher extent for SMEs compared with multinationals.

**Managers or owners' attitude or experience.** Company managers or owners who were highly interested in China's market had a greater understanding of their business and preferred to select entry modes which give more control over it in China. Managers or owners of smaller wine exporting businesses had less ambition for future business expansion and tended to select modes with low levels of control. These managers or owners would tend to use expressions such as, 'what our agent in China said was...', or 'according to whom...', when talking about something in China and relied on the distributors or importers to provide them information. Managers or owners with greater understanding of China discussed issues regarding China based on their own experiences and judgements and looked forward to being more involved with their business relationships with their counterparts in China. A few big multinationals and famous wineries from France and Spain, that have been operating in China for two decades, had passed the indirect exporting stage and established their own distribution business or even established vineyards in China (Greenfield Operations) (Webley et al., 2010). Carpenter et al. (2003) and Herrmann and Datta (2006) concluded that companies with longer international experience in a country more often use equity based entry modes, and these multinationals and French and Spanish wineries are examples of this.

***Product-related factors (internal):***

Researchers (Hollensen, 2001; Root, 1994) have discovered that product-related factors, such as quality, quantity, and cost of production can significantly affect the choice of entry mode made by companies. Hollensen (2001) also identified product complexity and differentiation among these factors. The findings of this study confirm this point of view.

**Lack of consumer recognition of NZ wine products in China.** This study found that NZ wine is not well known in China, when compared with French, Italian, and Australian wine. This disadvantage makes NZ wine exporters, especially small to medium-sized wineries, less confident to invest in high-resource-demanding market entry modes. As a result, most wine exporters in this study adopted indirect exporting entry modes. This was consistent with Hollensen (2001)'s research, as he points out that the amount of risk the company is willing to take significantly influences their entry mode selection.

**Small production capacity and higher than average price points.** This study identified that NZ's wine production is very small (1 per cent of the world's total production), which results in a relatively higher marginal cost. Because of the small scale of production, production costs are higher in NZ than in China. This contradicts Root's (1994) finding with regard to product-related factors. Root (1994) points out that high production costs in the home country and low production costs in the target country would encourage local production instead of exportation. However this study found that the Chinese perception that foreign wine is better quality than any wine produced locally in China is a disincentive for NZ exporters to China towards beginning production in China.

This study found no significant evidence indicating that there is any relationship between the price point or wine quality of NZ wine exporter's products, and the strategy they use for entry to, or distribution within, China. All the NZ wine exporters interviewed had very similar target consumer segments, such as upper-middle class/rich people, international businesspeople, and the corporate gifts market. Only these groups of customers could afford their wine because of their premium quality and high price points. This research identified that internal and external features of their company were the only factors influencing NZ wine exporters in the selection of market entry modes, and factors such as price point or wine quality were not found to be significant. This is because most of these Chinese wine consumers do not understand wine well and have not developed their own palates in wine, so price and quality are irrelevant to them. This finding is different from that of previous scholars,

as Root (1994) and Hollensen (2001) both agree that product quality and differentiation have a significant influence on the selection of entry modes.

*External factors (market-base):*

**Complexity of the target market.** China market is very fragmented and complex. The NZ wine exporters that were new to this market had begun with an indirect exporting method or JV with local companies in order to get better assistance regarding local market knowledge and distribution channels in China. Madhok (1997) suggests that success in local markets depends heavily on the company's ability to transfer their know-how to the local market; and not all potential foreign market entrants possess sufficient knowledge of the local market to earn required returns on their investments; nor they can develop that knowledge in a timely or cost-effective manner. This answers the question why the intermediaries such as wine importer/distributors are favoured by many of the NZ wine exporters in China and also illustrates the necessity of selecting indirect exporting modes for some wine exporters at the early stage of wine exportation to China.

**Market power of distributors in China.** In this study China-based wine distributors played dominant roles in influencing the NZ wine exporters' selection of market entry strategy, because these wine distributors were knowledgeable about the local distribution channels, the marketing and promotion of wine products, and access to local consumers or customers. Madhok (1997) points out that 'a firm might opt for entry modes based on collaboration with local agents when the unique environment of the host market blocks the application of practices that are characteristic of a firm'. The finding of this study was consistent with Madhok's (1997) opinion as the wine market in China is very different from that in western countries therefore, the local distributors were very useful intermediaries for the NZ wine exporters when they did not understand much about this market.

**Low level of wine education in China.** The Chinese consumers had very little wine knowledge and this study revealed that packaging and Country-of-Origin were two dominant factors influencing Chinese people's buying decision on wine. Therefore, wines from well-known and early entrant countries in China such as France, Spain, Italy, and Australia received high recognition by a wide range of the Chinese

consumers. The NZ wine exporters, as late entrants, are at a disadvantage. If French, Australian, and NZ wines are the same price Chinese consumers will usually choose to buy a French or Australian product.

As the NZ wine industry is comparatively small in size, it cannot afford many marketing campaigns similar to those of the French and Australian wineries. In order to overcome this challenge, the NZ wine exporters in this study used exporting entry modes and found capable wine distributors that could deliver their products to the top-end consumer market such as high-end restaurants/hotels, which assisted the Chinese consumers to believe that their wine was of premium quality. This finding about the Chinese market was consistent with the literature as Luo and Suh (2004), Fletcher and Brown (2008), and Zou et al. (2009) consider consumer behaviour is one important influencing factor of market entry modes' selection.

### **6.3 Important elements of NZ wine exportation to China**

Several researchers (Albaum and Duerr, 2011; Webley et al., 2010; Sun, 2009; Pacek and Thorniley, 2007; Branch, 2006; Kim, 2001) point out the key elements in a successful market entry such as distribution channel decision, business communication, frequent market visits, and the ability to dealing with corruption in emerging markets. This study confirmed and developed the literature in regard to the NZ wine exporters' market entry in China.

The most important elements of successful exportation of NZ wine to China identified in this research are:

#### **6.3.1 Distribution channels for NZ wine in China**

This study divided NZ wine distribution channels into two main categories: the open market distribution channels (top-end hotels/restaurants, wine shops/cellars, supermarket/hypermarket chains) and the hidden market channels (corporate gifts category and the government accounts category). The open market had been the conventional and primary option offered to most NZ wine exporters at the early stage of their exportation to China. In contrast, the hidden market was usually considered a

supplementary and developing option for some of the NZ wine exporters at a later stage. Therefore, the hidden market identified in this study can be described as a very important but controversial part of the Chinese wine market because NZ wine exporters have formed two contradictory opinions of it. This study found that, on one hand, some NZ wine exporters, understood the importance and potential of the hidden market, but on the other hand, seemed to be very cautious about entering this market as they questioned whether or not the sales generated from the personal connections could be stable and predictable in the future. In contrast, a few exporters have already penetrated the hidden market channels and boosted their sales. According to Webley et al. (2010), success in exporting wine to China comes down to distribution channels and brand recognition: both brand recognition in the open market channels, and distribution capacity in the hidden market channels, are necessary.

According to Euromonitor International's 2011 report baijiu (the Chinese spirit) is still the alcoholic beverage most used for Chinese business and social functions. However Pingali (2011) identified the popularity of wine is growing and an increasing number of spirit drinkers shifting to wine, and considered that this is due to the development of the Chinese economy which has led to changes in mainstream culture including socialising and drinking habits. This study has identified that the strong demand for wine from local government banquets and the purchase of corporate gifts has led to the development of the hidden market distribution channel, which is heavily dependent on the development of personal connections and networks.

The distribution channels used by the NZ wine exporters in China were consistent with the findings of previous studies. Sun (2009), Redfern Associates (2010) and Webley et al. (2010) found similar structure of wine distribution channels being used by the US, NZ and Australian wine in China. The findings of this study are consistent with prior studies and confirm that the distribution channels for NZ wine in China are very similar to those for the US and Australian wine in China.

According to Sun (2009), the distribution channels for US wine are divided into on-trade sector (hotels, restaurants, bars/clubs, and institutional channels), and off-trade sector (small grocery stores, specialty stores, hyper/supermarkets). Webley et al.

(2010) suggest Eastern seaboard capitals, Beijing, Shanghai and Guangzhou, are the major cities that have a strong, but still growing, wine culture. In these cities they found the distribution channels for Australian wines are corporate and government organizations, retail trade (supermarkets and specialty stores in the major cities aiming at high end individuals), and hotels, restaurants, and bars. The marketplace focuses that are most proven to be successful are institutional sales (to both the governments and businesses), followed by top-end hotels and restaurants, and then institutional food service and entertainment venues (Sun, 2009).

Because US, Australian and NZ wines use the same type of distribution channels in China, these international wine exporters must compete, not only for consumers, but also for wine import distributors. In other words, these international wine brands were targeting very similar distribution channels as well as consumer segments, making the competition between them very intensive. Therefore, in addition to expending effort to make NZ wine attractive to Chinese consumers, it is also important to put effort into working with promising wine distributors in China. NZ wine exporters should not hesitate to develop their business in the institutional sector, because this sector is very important to foreign wine sales and no NZ wine exporters can afford to miss the opportunities there.

### **6.3.2 Business partners in China**

This study identified that most of the NZ wine exporters considered that the Chinese wine market was very different from that in western countries and therefore, they felt that they were lacking in understanding of China. This was the key reason for the NZ wine exporters to use local import distributors in China. This finding was consistent with the previous literature, as Kim and Daniels (1991) and Kim (1993) argued that it is very important for new market entrants to select business partners in the export market because the new market entrants may find their home-country distribution experience completely different from that in the markets they are penetrating. This is why business partners within China are important for the NZ wine exporters in China.

Sun (2009) listed several criteria for the selection of wine distributors/wholesalers in China such as trade connections to open and maintain accounts, expertise in providing

the services to ensure satisfied customers, sales power (sales force, temperature-controlled vehicles), storage facilities, financial strength, and attitude towards the products. In addition, he suggested that the US wine exporters should contact the local Agricultural Trade Office (ATO) for further contact information of China-based distributors in order to mitigate the risk of being cheated and avoid companies that US wine exporters have had problems with in the past. This study confirmed that the criteria listed are critical. However, the NZ wine exporters who participated in this study found it was really hard to verify everything because some aspects were tangible (e.g. sales) but some were intangible (e.g. attitude-long-term interest/taking quick money, gatekeeper or not, real business focus and etc.).

In addition, this research revealed that even if NZ wine exporters are able to verify all the criteria and manage to sign a contract with their Chinese business partners, the Chinese side might not fulfil their obligations. Firstly, for example, they might not store the wine in temperature-controlled warehouses, as agreed, because cold chain transportation and storage is not generally available or because some large multinational hypermarket chains in China are not able to handle wine properly. The selection of entry modes with a low degree of involvement and control means that the stock is out of the exporter's control after it arrives in China and not making frequent enough market visits makes it difficult for the NZ wine exporters to verify every detail in the contract is being carried out. This is very different from Albaum and Duerr's (2011) recommendations. They believe that by clearly writing a contract covering all relevant aspects of the business relationship and details of obligations and expectations of both parties, the exporters can ensure the control over their distributors and successful business partnerships can be formed.

This study also identified that the NZ government has trade-support offices (NZTE) in China that support NZ wine exporters in locating reliable local wine distributors. So it could be useful for NZ wine exporters to make frequent contact with NZTE's overseas branches to get reliable information regarding the host country and suitably qualified business distributors.

### **6.3.3 Other elements of the NZ wine exporting to China**

Other elements identified in this study included setting up the export process in China, and developing business relationships, of which managing transportation and payment were considered very important in contributing to a successful NZ wine exporting business to China. The findings confirmed Sun (2009)'s research of the importance of payment method and usage of sea freight in establishing wine exporting partnerships in China.

**Improving business relationships** with the business partners/distributors was another critical finding in this study regarding the NZ wine exporting to China. Pacek and Thorniley (2007), Beverland (2009), and the Government of Canada (2011) identify that building personal relationship is critical in doing business in China. This study supports this opinion and suggests new methods of business relationship improvements including maintaining frequent email and telephone communications, organizing market visits, and providing business support.

### **6.4 Challenges of the NZ wine exporting to China**

Cui (2002) and Johnson and Tellis (2007) have discovered drivers of failure and risks of entry in emerging market such as China including political instability, enormous uncertainty in market demand, sudden policy changes, lack of foreign currency, government control, marketing efforts to maintain continuous growth, shortage of adequate personnel, effective distribution strategies, protection of intellectual property rights, and competition from domestic and other foreign firms. Rather than looking for general risks and challenges of market entry into China, this study identified the following challenges:

This study found it was difficult for NZ wine exporters to find the right business partners from China because of its large geography and complexity. As a foreign wine company far away from China, it was difficult to tell whether the business partner was appropriate right after the commencement of the collaboration. Therefore, identifying suitable wine import distributors was very risky. Sun (2009) also recognised this risk, but he did not give any recommendations. Therefore, this study provided suggestions such as frequent market visits, and generating adequate pre-market research.



However, in reality, these suggestions have their own limitations, as NZ wine exporters are mostly small in size and do not have much spare resource in investing on these activities.

This study found that there are not many carriers/warehouses well-equipped with temperature-control facilities in China because of the high costs. The majority of the NZ wine exporters in this study mentioned that they had written requirements for wine delivery and storage in the contracts signed with their distributors in China, however they found that it was difficult for the Chinese party to meet these requirements. This finding is supported by prior literature. As Gilmour and Gale (2001) suggest that China's cold storage capacity is only 20-30 per cent of its total perishable freight; and although most of China's food is still transported by rail there is still a lack of temperature-controlled equipment. As a consequence, logistical problems make it costly to transport frozen and perishable foods in China (Gilmour and Gale, 2001).

This study also revealed another challenge, which was that distributing companies treated wine brands inside their portfolios differently. This challenge threatened a few NZ wine exporters in this study. This was because the distributors in China were in favour of French and Australian wine, which meant the NZ wine might not be promoted well by these distributors. This problem was not only identified from the NZ wine in China. According to Sun (2009), the gatekeeper barrier was also identified among the US wine brands in China. Possibly this challenge could be a problem for the wine exporters from many countries. However, wine brands from France and Australia were much more popular among the Chinese wine distributors.

Apart from these challenges discussed above, the NZ wine exporters also need to pay attention to other challenges including the complexity of the administrative work in China, risk of overpromise, traders' mentality, fast (in China) versus slow (in NZ) turnaround time, China is a red wine consuming country, low wine knowledge of the Chinese consumer, NZ wine is not famous in China, small scale of the NZ wine industry, limited NZ wine range, high price points of NZ wine, and the less competitiveness of NZ top-end premium wine in China. Efforts regarding overcoming these challenges are in need in future.

## **6.5 Summary**

China has been selected as a market destination by NZ wine exporters largely because of its rapidly growing consumption of wine. For some wine exporters the decision to enter China is based on the intuition of their managers and others have been approached by Chinese businessmen. Entry has not generally been the result of long-term planning or market research. The NZ wine exporters adopted four major market entry modes to export wine to China: indirect exporting modes, direct exporting modes, JV, and acquisition.

The factors influencing the selection of market entry modes were identified from three main aspects including the organizational factors, product-related factors and market-base factors. The key distribution channels for the NZ wine in China are retail chains, institutional business accounts, and food and beverage industry, which are very similar to the distribution channels for the US and Australian wines. However, there are still some challenges faced by the NZ wine exporters such as lack of temperature-controlled facilities in wine transportation and storage, internal gatekeeper, and risk involved in selecting reliable business partners.

## **Chapter 7: Summary, conclusions, and recommendations**

This chapter outlines the summary and the conclusions of this study. In addition, recommendations to future NZ wine exporting to China are provided.

### **7.1 Summary of this study**

The main objectives of this research were: 1) to review trends in the global wine market, in the importation of wine to China, and in Chinese wine consumption; 2) to identify and analyze the current market entry modes used by NZ wine exporters to China; and 3) to identify key elements in successful exportation of NZ wine to China.

The objectives of this exploratory research were achieved by adopting a qualitative research strategy and through conducting interviews to collect primary data.

Secondary data was collected from national and international publications and reports such as FAO, New Zealand Trade and Enterprise, New Zealand Winegrowers Statistics New Zealand, OIV, and other relevant studies.

Primary data was collected through telephone semi-structured interviews. Interviewees were selected based on the Kompas database and recommendations from the regional New Zealand Trade and Enterprise Office and included seven New Zealand wineries, two New Zealand multinational wine and spirit distribution companies and two New Zealand-based wine brokers. Three China-based wine import distributors were also interviewed in order to understand their point of view. All fourteen interviews were conducted using an open-ended questionnaire.

The use of Dictaphone was very important to this study, due to the quantity of data collected and the informal nature of the interview process. The entirety of each recorded interview was carefully transcribed into written documents in order to capture every detail of the data. This ensured a much greater accuracy and breadth to the data than would have been possible if only written notes had been made during the interview process. Ethical issues were a high concern in this research relating to the participants' privacy and confidentiality.

The literature review shows that there are a number of entry modes available for businesses to choose from including indirect exporting, direct exporting, licensing, franchising, joint venture, contracting, acquisition, and Greenfield operations (Albaum and Duerr, 2011; Zou et al., 2009; Fletcher and Brown, 2008; Kotabe et al., 2005).

The major factors affecting businesses' selection of market entry modes include external and internal factors, which refer to market environment and business environment. However, different researchers have different ways of categorizing these factors, such as product-related factors, market-based factors, and organizational factors (Zou et al, 2009; Zhao et al., 2004); or management characteristics, firm's characteristics, product characteristics, overseas market potential, government regulations and trade barriers (Fletcher and Brown, 2008). In addition, the literature review covers some key elements to successful market entry, including distribution channel decision (Albaum and Duerr, 2011; Pacek and Thorniley, 2007; Branch, 2006; Kim, 1993; Kim and Daniels, 1991), effective communication systems (Albaum and Duerr, 2011), frequent visits to the overseas market (Branch, 2006), and the ability to deal with corruption (Pacek and Thorniley, 2007). The current research tends to confirm many of these opinions and has demonstrated a successful flow of NZ wine exporting to China as follows:

**Market entry modes:**

The market entry modes identified in this study are indirect exporting, direct exporting, joint venture, and acquisition.

This study revealed the characteristics of the NZ wine exporters selecting corresponding entry modes are different: a) exporters adopting indirect exporting modes have generally limited financial resources, and are lack of market access and knowledge in China; b) exporters adopting direct exporting modes have certain level of market understanding although are still lack of financial resources; c) the exporter adopting joint venture mode has advanced understanding of China; and d) the exporter selecting acquisition mode has strong financial resources.

This study revealed two types of geographic access strategies adopted by NZ wine exporters: first tier cities approach and second/third tier cities approach. The first tier city approach enables the NZ wine exporters to penetrate the metropolitan cities and seaboard regions for improving business profile and brand reputation as consumers' opinions and preference trends are formed in these developed regions. In contrast, the second/third tier cities approach enables exporters to avoid the intensive competition in large cities and focus more on boosting the sales without heavy and risky investments.

### **Key influencing factors of market entry modes' selection:**

This study identified a few critical internal factors (including organizational factors and product-related factors) and external factors (including market-base factors) that strongly influence the NZ wine exporters' decision on market entry modes.

The organizational factors identified are company size, financial resource, and managers/owners' attitude. The product-related factors identified are unknown image of the NZ wine in China, limited product range/production, and premium quality. The market-base factors identified are complexity of the Chinese market, market power of distributors/importers in China, and the low level of wine education in China.

### **Key elements in successfully exporting NZ wine to China**

Two types of wine distribution channels were identified by this research: the open market distribution channels and the hidden market distribution channels. The open market channels include the food and beverage industry (hotels and restaurants), and grocery (super/hypermarkets). The hidden market channels include corporate accounts and government accounts. Although both market channels require guanxi (relationship), the open market channels focus more on marketing and branding, while the hidden market channels rely completely on networks and connections.

Finding suitable importer/distributors in China is very important. This study identified four platforms to target potential business partners: a) tradeshows and events held by NZTE and NZ Winegrowers; b) being introduced by other businesses; c) hiring specialists in China for targeting and observing the distributors in China; d) being

approached by Chinese or NZ business people who have networks or resources in China.

Setting up the wine exporting process to China is another critical element in a successful wine exporting business to China. This involves verifying business partners by background checks, sending samples to the potential business partners in China, and negotiating the minimum volume of orders.

Managing transportation and payment is essential. This refers to deciding on freight forwarding methods, terms of sales, and credit terms.

Improving business relationships is a vital target the NZ wine exporters should work on continuously. This study revealed four ways of reinforcing mutual relationships: a) email and telephone communications; b) market visits; c) providing business support; d) personal friendship building.

### **The challenges of the NZ wine exporting to China**

Although this study demonstrated that exporting NZ wine to China could be successfully set up by paying attention to the key elements shown above, there were also challenges identified in China that threaten the success of the exporting businesses, including difficulties in finding suitable business partners in China, the complexity of the administrative work in China, risk of being overpromised, limited access to properly equipped carriers and warehouses, the short-term orientation of many traders' mindset, slow turnaround time of NZ wine producer, internal gatekeeper barriers set by business partners, low understanding of wine leading to biased perceptions, the predominance of red wine consumption in China, lack of public image for NZ as a whole, small scale of the NZ wine industry, limited product diversity, high average price points of the NZ wine, and the poor competitiveness of NZ top-end premium wine in China. These challenges could affect the development of the NZ wine exporting to China in a negative way.

## 7.2 Conclusions

This study focused on the topic of the NZ wine exporting to China. It has identified that China, as an emerging wine market, has been becoming more and more important on the global wine map. The country's wine consumption and imports have been enjoying double-digit growth annually. As fast-growing wine producers and exporters on the New World wine map, the NZ wine industry has begun to focus more on China.

In this research, the first question that needed to be answered was why many NZ wine exporters selected China. Three key reasons were identified: market research carried on by the NZ wine exporters, business opportunity introduced by Chinese businesspeople, and the NZ wine exporters' personal belief. Four market entry modes were identified: indirect exporting, direct exporting, JV, and acquisition. Due to the small scale of the NZ wine industry, the most popular entry modes selected by the exporters in this study were indirect and direct exporting modes because of the relatively low level of resources required. JV has been adopted by the wine exporter with a good understanding of China's wine market. Acquisition was adopted by the multinational wine and spirit company which had strong financial resources.

One of the most important findings concerning the successful exportation of wine to China was the selection of distribution channels. There are two distribution channels: the open market distribution channels and the hidden market distribution channels. Both are very important in terms of boosting wine sales. The distributors in each distribution channel are essential to the success of the business. Therefore, it is very important to use multiple platforms to find suitable business partners such as attending tradeshow and hiring wine specialists in China. In order to verify the quality of the potential business partners, the NZ wine exporters use multiple criteria to guide their background checks including business visits, investigations of historic volumes of sales, strengths in terms of distribution channels, sales force, marketing ability, and the understanding of NZ wine. This study also revealed that a strong business relationship was essential to the NZ wine exporting to China. In order to maintain a strong relationship with the local import distributors in China, the NZ wine exporters adopted several methods such as email and telephone communications,

market visits, and personal relationship building. In addition, this research revealed four categories of challenges faced by the NZ wine exporters towards market entry to China. They were challenges relating to China, challenges related to NZ, challenges related to business culture, and challenges related to people. These challenges were very real in many NZ wine exporters' business in China and required great patience and time to provide useful solutions.

### **7.3 Recommendations**

- Maintain and improve business and private relationships in China and gain deeper understanding of the market by making more frequent and longer market visits to China
- Invest more in the development of wines that NZ is famous for internationally- Sauvignon Blanc and Pinot Noir - because these two varieties are the core competencies of NZ wine makers.
- Conduct long-term strategic marketing and consumer education by closely cooperating with local qualified distributors to increase the awareness of NZ wine in the Chinese consumer. This requires sustainable investment from the government and industry body.
- Gain more control over logistics in China to ensure appropriate transporting and storage conditions. Solving the problems surrounding these issues will give such good returns that it would be worthwhile to make considerable effort now to discover solutions to them.
- Be open to using all the distribution channels in China, especially those in the hidden market. The perception that no increase in brand image will come from the hidden channel may be incorrect, since selling wine to these customers puts the products directly into the hands of the targeted market group of consumers in a prestigious situation, especially when it is consumed at government banquets.
- Although white wine consumption has not yet been developed in China, the NZ wine industry should prepare to be the leader in white wine sales in China when the consumer demand rises.



## **7.4 Further research**

This research recommends that future study should:

- Have a bigger sample of research from NZ
- Have a bigger sample of research from China
- Investigate more about the marketing of NZ wine in China
- Investigate more solutions to the challenges of the Chinese market.

## **Appendix**

### **Leading questionnaires for interviews of this research**

#### **Theme one: background questions**

Age, gender, occupation, experience in this company, experience in wine industry, experience exporting to China

1. How long have your company being established?
2. How much is your average annual sales?
3. How long have you entered Chinese market?
4. What are the sales figures in China?
5. Why and when did your company start exporting to China?
6. What are the wine varieties that your company is currently producing? How many of these varieties are they exported to China?
7. Which is/are the popular wines exported to China that have been sold in China?

#### **Theme two: Choose your business partner**

1. How do you get to know your Chinese partners
2. What is the current business status of your Chinese business partner—e.g. size of the company, age since establishment, sales, importing from NZ only or more countries, domestic owned/ foreign joint ownership
3. How do you select them among all Chinese importers
  - What are the challenges in terms of business relationship building and maintenance
  - Apart from trust, is there anything else that is important in this foreign business relationship?
4. Do you have intention to change business partner. Why?
  - i) No.
  - ii) If Yes:
    - What was the story?
    - What did you do to correct the mistake?
    - What lesson did you learn?

- 5 What type of business relationship is it between your company and Chinese partner? E.g. by taking over exclusive distributing right/ hand over your products and receive money?
- 6 How long has your company been in the relationship with this business partner?

### **Theme three: your business value chain**

1. Can you describe how your China orientated exporting business works?
  - Your logistic/ distribution channel from vineyard gate to Chinese end consumers—e.g. which port in China do you ship to; which region is your main target area; which region are you looking forward to push?
  - Do you think the current supply chain is efficient?
    - i. If yes. Why?
    - ii. If No. What is your ideal supply chain?  
Is there anything that you think you can do to upgrade your supply chain? E.g. cut middleman....
2. Do you consider that your company understand China's market and consumers quite well?
  - What are the fields that have been understood well
  - What are the fields that still need to be explored
  - What is the most important point (e.g. in Chinese consumer behaviors) do you think in terms of NZ wine promotion in China
3. Have you experienced any other problem in dealing with your Chinese agents? (e.g. Cultural differences; lack of trust; disagreement in market entry/ promotion strategy / branding / storage condition / margin; communication challenges)
4. Have you considered any strategic integration? For example: consortium with other NZ wineries or exporters; build JV with local Chinese partners; FDI.
  - If no. Why?
  - If yes. What have you done so far?

### **Theme four: after sales management**

- 1 Have you thought about maintaining your consumers' loyalty?

- If no. Why?
  - If yes. How are you doing it?
- 2 How do you get to know your consumer feedbacks?
  - 3 Which consumer segment is your targeted group? E.g. five-star hotel super-premium/ middle class/ foreigners living in China/ NZ expatriates. Do you go to China and talk with your major consumers?
  - 4 How do you build your own company brand in China in terms of competing with brands from other country and all other brands from NZ?
  - 5 Are you confident about Chinese consumers will prefer your product than others? What are the distinct advantages?

#### **Theme five: practical issues on sales**

- 1 How do you receive payments? Do you receive payments at front or after your products have been sold? How long would it take to collect the money?
- 2 Do you think your company is satisfied with the margin gained?
- 3 Have you thought about making individual contact with supermarket chains in China?
  - If yes. How was it?  
Why did you fail?
  - If no. Why not?
- 4 Is your Chinese exporting business heavily relying on your Chinese middleman?
  - If yes. How do you take observation/control over your partners/supply chain?
  - If no. What are your other exporting solutions/alternatives?
- 5 What are the difficulties in terms of selling your products (either to your Chinese local agents or to Chinese end consumers)

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