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**“HOW SMALL WINE ITALIAN COMPANY FROM PUGLIA CAN ENTER THE
CHINESE- Shanghai MARKET”**

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“HOW SMALL WINE ITALIAN COMPANY FROM PUGLIA CAN ENTER THE CHINESE- Shanghai MARKET”

Abstract

This paper encompasses the strategy for small-medium wine companies from Puglia (Italy) to enter the Chinese market. The study was conducted to understand the reasons why the excellent quality wine from Puglia has no penetration in the Chinese market.

The research took into consideration the position in terms of production, size and exports in the world of Italian producers from Puglia and their competitors in China. After analysing the market and the opportunities, the report develops a strategy of cooperation among the companies to obtain more resources and more power in order to better approach this enormous and difficult market.

Keywords: Wine, Puglia, China, Export

“To succeed in the Chinese market, EU SME wine exporters must master branding, distribution channels and targeted marketing” (Centre, 2011)

Introduction

The research has examined a strategy for the small wine companies from Puglia (Italy) to enter the Chinese Market. I have worked in Shanghai for 4 months and I realized that Italian wine, although its high quality, has no penetration in the Chinese market as it has in other countries. Moreover, the Italian wine is classified in the Chinese mind in fourth position, after French, Australian and Chilean wines.

Puglia is one the 20 regions in Italy, it is located in South Italy. Its boards are Adriatic and Ionio Sea on the sides. On the top and left side is surrounded by Molise, Campania and Calabria. Most of the wine produced in Puglia is red, full bodied and so versatile that it can be combined with a wide variety of foods. The (**Exhibit 1**) illustrates a PESTLE analysis of the region. Puglia is among the top producer regions of wine in Italy, with a production around 5,6 million HL per year. (**Exhibit 2**) it is the third **producer** of wine in Italy in terms of Litres produced (5,6 million HL). Puglia has had a growth trend in the years and it is estimated to continue in the future. The growth of the production is also followed by the increase in quality which was not common for Puglia producers.

To develop the strategy, have been analysed: The Chinese market, Chinese consumer behaviours, exporter versus non-exporter companies. Furthermore, the best mode of entry in the market have been analysed and I created the best strategy to be successful. Although I was in Portugal, I interviewed many companies from Puglia but it turned to be a difficult process because the distance and lack of participation from them.

Nevertheless, I have been able to reach them and conduct my research.

“In Italy, wine is food... wine and bread are as essential to an Italian dinner as a fork and knife (probably more so).” (MacNeil, 2001)

Overview of the Italian Market

For the impeccable combination of food, wine and culture, there is simply no better place than Italy. Italians did not invent wine, but for years they have demonstrated a deep passion for it with a wine heritage of thousands years. With an ideal climate suited to growing grapes, Italy is one of the most diverse wine-making countries in the world.

Wine is part of the Italian culture and lifestyle. Italian wine producers devote themselves to the quality and taste of wine. Wine production in Italy is spread in the whole country from north to south, from the cool site in the Alps to the dry cities in Sicily, every region has its own typical wine made from distinctive grapes.

Exporter Countries. Among the exporter countries, Italy holds the second position after France. (**Exhibit 3**). **France** exports 29,6% of total wine exports, with a value of 10,3 billion USD, **Italy** takes up only 19,65% of total wine exports which is worth 6,8 billion USD. Following Italy, **Spain** exports 9,8% of total wine export, with **Chile** and **Australia** at 5,4% and 4,8% respectively. Observing the data, the largest wine producer (Italy) is not the biggest exporter, and there is a difference of 10 percentage points with France, which has a value of 3,5 billion USD.

Italian producer of wine. According to the European Union Agriculture Office, by 2016, Italy is estimated to be the biggest producer of wine in the European Union. So far, France

has been holding the place as the largest wine producer with France and Spain but in 2016, Italy will be at the first place with 48,9 million HL. **(Exhibit 4)**.

Italian export in the world. The main market where Italy exports more is Germany with 5,9 million HL for a value of 971,6 € million. United Kingdom is the second country destination for Italian wine with a quantity of 3 million HL and a value of 655,7 € million. USA is in the third position as volume imported with 3,2 million HL, but it is in the first position for the value in million € 1.110,1. Followed by France, Canada and Switzerland with roughly 700.000 HL each. In the Chinese market, Italian export is very weak with an export production of only about 250.000 HL.

Italy is the biggest producer of wine but other countries export much more in China than Italy does. In fact, France's biggest market is China with 1.642.973 HL, followed by the USA market with 1.293.113 HL followed by Canada, Switzerland and Japan respectively for 553.753, 413.722 and 623.451 HL. **(Exhibit 5)**

Wine export of Italian regions. Taking in consideration the data from ISTAT¹, the region in Italy which exports more is Veneto with 34% of total, followed by Piemonte with 18%, Toscana 17% and Trentino Alto Adige 9%. **(Exhibit 6)**. Puglia has a very weak position in export, it is one the last regions in terms of trade. Puglian producers only distribute for 102 € million while the producers from Veneto, for example, trade 1.824 € million. There is huge gap between these regions even if the wines have the same quality, and the companies have the same size. Perhaps the entrepreneur attitude of producers in Veneto, historically, has been more open for trade and for business.

¹ Istituto Nazionale di Statistica. It is an Italian office of research and statistics

Overview of the exporter companies around the world

The outline in the (**Exhibit 7**) shows the most common way to import Wine in China.

Exporting wine to China is not an easy business, the winery must be aware that it will cost lots of money and time to enter the market, to study the market, and to create strong relationship with importers and clients.

Generally, Chinese requirements on labels and terms of quality are very strict and it is not easy for a company to access to China as it would be for other countries in the world.

In this research, various methods have been taken in consideration:

In **Australia**, private companies which are traders export large quantities of wine into China under private labels brands whereby the importer in China has exclusive usage of labels, enabling them control the price, supply and quality. In other words, the producer loses control of the product when the Chinese importers sell to the third party. They work with the distributor to define the label and taste that will match the Chinese marketplace.

The **EU countries**, which are highly recommended to connect with Chinese importer, generally follow this procedure: EU SME wine manufacturer agree to sell its product in the Chinese market, then an authorised entity clears the goods for export in the country of origin.

Large companies make contracts with companies which provide logistics. Then, the general administration of Customs is a directorial agency within the government of People's Republic of China. It is responsible for the collection of VAT², customs duties, excise duties and other indirect taxes. It is also responsible for managing the import and export of goods service into China. When the goods arrive in China, Inspections and Quarantine is responsible for the

² Value added tax

import and export commodity inspection, safety and quality licensing, certification, health certificate, export inspection requirements, Furthermore, at the port of entry, importers work with some specific printing company, informing them of the labelling requirements in order to print the right label for the product that is going to enter China where there will be a Chinese agency which will handle the international trading co-ordination. In particular: Export procedure, Tax, Custom duty and accounting, Documents preparation, Customs Clearance, Commodity inspection, Shipping arrangement. At this point the importer/buyer of wine from the European Union will have the necessary certificate (Product Standard, Labelling Standard, Health Standard, Production Standard) from the Chinese Government in order to get in China with assistance from the Chinese agent.

Historically, **France** has had different methods of entry into the market and particular circumstances, explaining the dominant presence of French companies in the Chinese market. The conditions of French wine company are completely different from the Italians.

Cooperative. (Exhibit 8). First of all, in France, every region has their own wine cooperative which are called *Cave*. In Provence like in all the other regions, it is possible to find a cooperative in every village. Wine cooperatives started, mostly because of economic necessity and since then they continued to flourish. They cooperate among each other to reach the same goal.

A wine cooperative consists of a building with winemaking facilities and a wine shop. There are more grape growers than winemakers, so the farmers bring all the grapes together and after having carefully selected the best grapes they will produce the wine.

The advantages of the cooperatives are:

- Reduced costs →Economies of scale

- Subsidies from EU
- Improved wine quality and adapt to an international wine market
- Increased financial power to enter new markets

However, Italians do not do this. Create cooperative should be the strategy for small companies to enter China. In an interview with the owner of the winery Tauroso in Lecce, Puglia, Sig. Taurino said, *“if I was in cooperation with other 10 or 20 companies to produce the same wine to satisfy the Chinese demand, I would do it.”*

Size of Company: Italian companies are smaller than their French competitors. In Puglia, companies are mostly familiar-owned companies which started to produce quality wine very recently. They do not produce big quantities and they do not invest into implementing machine production.

Historically in China. There are also historical reasons why French wine has a wider and more solid presence on the market. To begin, the incentives and facilities from export and the relations between the 2 countries. In Shanghai, from 1849 until 1943, French had an extraterritorial concession. For the majority of the 20th century, the area covered by the former French Concession continued to be the premier residential and retail district of Shanghai, and was also one of the centres of Catholicism in China.

The allowance ended in 1943 when the Vichy French government signed it over to the pro-Japanese puppet government in Nanking.

Wine tourism and large supermarkets in China (i.e. Carrefour) (See the **Exhibit 9** for more info about Carrefour in China) have been utilised by French companies to increase distribution and promote the brand image. French products stand out in French supermarkets, creating more awareness for the product and openness to buy these products.

Chinese addiction to luxury brands. Any luxury retailers would say that their most valuable customers are mostly from China. Half of the world's luxury spending come from Chinese wallets. The new Chinese middle classes still see luxury goods as a way to show their hard work. Usually, French wine is seen as high quality, considered an “upmarket wine”; hence, there is a large potential among the middle and upper class in China.

Focus on Companies from Puglia

An interview with one of the biggest wine companies in Puglia, Cantine Due Palme-Gilberto Maci, which exports to China, will be used to discuss the process of entry into this market. Since 1995, Cantine Due Palme has been exporting around the world, and they began exporting into China from 2001. They export in general 75.000 HL (the biggest market are Switzerland, USA, Holland and Germany) with 67% of the revenue and to China 4.900 HL (5% of the revenue). They export red wine, IGP³ and DOP⁴ wine. (culturally the Chinese drink and prefer red wine).

The company's management took around five years to finally decide to enter China and starting business. They still do not consider it a stable market even though they are growing. The factors which contribute to these growths are style and quality of the wine, and price and relationship despite the big political and social challenges.

As already discussed previously, many producers only sell their wine to a specialized importer. For example, Cantine due Palme, does not have a Chinese Partner. They only have an agreement, not collaboration, with the importer and they work together on the strategy of this market. In this strategy, they also have special client such as restaurants or wine bars

³ Indicazione Geografica Protetta

⁴ Denominazione di Origine Protetta

which are connected to the importer. Cantine Due Palme do not have a presence on the territory and they do not receive any help from UE, Government or China. There is only a limited support from ICE⁵

According to Laura Bonfrate, the manager of area export at Cantine Due Palme, *“One the biggest barrier of this country is cultural, Chinese are not educated to the wine culture, they are not used to drink it so the Chinese customization is complicated.”*

France does not have this problem because the French have been able to leverage their prestige and the reputation of their premium producers to create an attractive niche in the market. Moreover, it is interesting to know that there are countries such as Australia and Chile that have an agreement with the Chinese Government, so they pay low taxes for importations, but we do not.

Adapting to the Chinese taste is not easy. China is not a single country; in the south they drink rounded wine while in the north they prefer dry wine. Therefore, Cantine Due Palme does not need to adapt its wines because its area of production has wines which really fit the Chinese taste. They do not concentrate in a specific region, it is the importer who will study the strategy and create the market around China.

However, drinking wine is becoming trendy in China, people try to drink more wine at restaurants to appear more occidental; they give it as gifts or have it during dinner. In addition, because the taxes on the wine are becoming higher, only a richer segment of the market can afford it. Of course a better distribution could help the middle class.

China will become one of the top producers of wine in the world, the desert Ningxia⁶ has been transformed. (CBS News, 2016) More and more Chinese travel and bring back the culture of wine so they are becoming more aware of the product and mostly of the business

⁵ Istituto Nazionale Commercio Estero (Italian Institute for the export)

⁶ is an autonomous region of the People's Republic of China located in the northwest part of the country.

opportunity of the wine. On one hand, Chinese labels are growing even if they are considered of low quality, but it is thought they will be a big player on the market; on the other hand, fake labels are a problem for French top wines, for the Italian products there is more a problem of fake products.

“It is difficult to understand the rule of the markets because it is a huge market, various and not stable which do not follow the normal rules of the market.” (Bonfrate, 2016)

In order to promote the wine, they organize wine tasting, they participate at fairs but just for the importers, not for regular customers.

“Our advantages are quality and style of the wine, excellent price point and International awards.” Commented Laura, head of export office

An important point is E-commerce. E-commerce is growing all around the world and in particular in China which is growing rapidly. China’s e-commerce is booming with about 700 million users and among these half of them use it to purchase online. **(The Exhibit 10 illustrates the 7 reason why E-commerce is booming in China)** This combination makes Chinese E-commerce wine market such a good platform to sell, that also start-up of delivering is growing more and more.

About competitors we can not make a comparison with the French because they have been in the market for many years, and others like Australia and Chile have different situations. French wines are the market in China, the other two are well known Australia for i.e. because a lot of young Chinese go there for college and Chile for the reduction of importing taxes for the wines

In Conclusion, they do not consider Hong Kong as alternative channel, it does not work for the Chinese Market and creating some partnership with Chinese producers can be a great opportunity.

PESTLE Analysis of Shanghai

Political Factor

China has many political and bureaucratic requirements which regulates the import in the country of Food and Beverage products: Food standard imported, products used in the production, detergent and disinfectant used in the production, they are really done by AQSIQ⁷ or CIQ⁸. (**Exhibit 11** for the requirements). Distributors of alcohol products must be filed with the local bureau of commerce, if they are Chinese they do not have a cost. Furthermore, products must receive hygiene certification from the local government of the regions where the products will be sold. These certifications can be time-consuming and expensive.

In the end, two risks are likely in China: the risk of a tax raise on imported wine because the Government wants to incentive the Chinese production, and the risk of corruption.

Economical Factors

Gross Domestic Product raised on average by 10% in the last decade per year and consequently inflation can be raised. Inflation rate nowadays is: 3,5%, in Shanghai. 2,4% and overall in China (Bank, 2016, p. Deutsche) (Report, July 2015).

The urbanization phenomena will bring more population to the city that will adapt to western customs and lifestyle. An important factor is the growth of the middle class and consequently higher purchase power. Doing business in China is fairly convenient compared to many other European countries, Corporation tax in China is 25%, a value not considered high, whereas in Italy it is 31,4%. Further, VAT is 17%⁹ in China, which is not excessive, and in Italy is 22%.

(For comparison of Corporation Tax between China and other countries **Exhibit 12**)

⁷ General Administration of Quality Supervision, Inspection and Quarantine

⁸ Customer Information Quality

⁹ <http://www.ey.com/GL/en/Services/Tax/Worldwide-VAT--GST-and-Sales-Tax-Guide---Rates>

Social Factors

Consumption of wine is growing because Chinese are more aware of the Western culture.

Also, wine is identified as a high-status product of the consumer lifestyle; Finally, also because of the presence of a lot of expatriates, Shanghai is very international thanks to the presence of all multinational companies.

Emigration of Chinese to other countries for studying or leisure travels make them used to the Western lifestyle. Indeed, their lifestyle is more similar to Europe (e.g. purchase wine bottle as gift) and cities are assuming a European aspect (European restaurant, wine bars).

Technological Factors

E-commerce is growing fast and Internet is where most purchases are done. More Internet access in China gives a new distribution mechanism from European Bars, Restaurants, Hotels, Supermarket, Speciality stores to E-commerce Platform.

Legal Factors

There are many legal aspects to export in China are several. Labelling requirements are mandatory because all imported food and beverage are subjected to inspection and must receive a clearance certificate by the Customs authority (Treasury, 2016). Imported alcohol products must have a Consolidate Export Certificate which includes: Origin, Health/Sanitation and Authenticity. Licensing and registration procedures are the under the supervision of AQSIQ office. In the end, import procedure and taxes/tariffs are subjected to special procedure for alcoholic goods.

Environmental Factors

Some areas of China are favourable for the growth of grapes, in fact the wine production is growing and also some French companies are investing to buy lands. It must be taken in consideration the weather, similar to Europe, can facilitate the consumption of wine.

SWOT Analysis

<p><u>Strength</u></p> <ul style="list-style-type: none"> ● Chinese Government support the wine sector ● Growth of Economy and GDP ● Growth of Wine Demand ● Growth of middle-class ● Chinese people have a good image of European quality product ● Good image of wine, seen as natural product and sign of success 	<p><u>Weakness</u></p> <ul style="list-style-type: none"> ● Low consumption of wine per capita ● Mid-range wines are difficult to sell ● Free growth of the market and competition ● Lack of knowledge of wine products ● Significant differences of tastes in the regions ● Distribution can be complicated for bureaucratic and legal aspects ● Discrimination against foreigners
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> ● Potential in the second and third-tier cities (Exhibit 13) ● EU is the largest exporter to China ● It is estimated the demand for wine will increase 10% annually in the coming years ● China will become the biggest wine importing country in Asia by 2017 ● Chinese new generation are more open to the Western culture. Increasing of lifestyle ● Online Channel is booming 	<p><u>Threats</u></p> <ul style="list-style-type: none"> ● Competitions from France, Australia and Chile ● Distributors tend not to introduce new products in the market ● Huge investments in Marketing and wine taste events ● Government is incentivizing domestic production ● French wineries are leadering in the Chinese Market

STRATEGY (T O W S)

The best way for small Italian winery companies to enter successfully in the Chinese market, in particular **Shanghai**, is to collaborate and to create **cooperatives in Puglia of wine producers who follow a shared target**. The idea is to continue to have their own companies, own wines and brand. Only for the Chinese market they need to create cooperative, to produce a high-quality product and to export it to China for a niche market.

The cooperative can guarantee more power, more resources to better enter this huge competitive market. The choice of cooperative is justified because the small companies do not have the power (economical and entrepreneurial) to think to approach the Chinese market. Puglia has hundreds of wine companies but only few big companies export to China, the others do not even think to enter in that market. Only the big names as *Cantine Due Palme*, *Leone De Castris* (the biggest and most famous reality of Salento area) have been exporting for some years and they do it through a specialized importer. Moreover, the cooperative will have also an Italian representative in Shanghai who will report sales monthly and who will work in collaboration with the distributor to develop the contacts with clients, to set the price and to implement the promotion.

As the cooperative will point on the high-quality level, it will face the competitors from France and the medium-price wine will not be direct opponents. The discrimination against foreigners is an issue that will be solved with the high quality and the Made in Italy certificate, Chinese will recognise the brand and they will prefer western quality products which have a story behind. This will resolve the Chinese competitors' aspect. In the end, distribution is solved by the local distributor who is more expert of the market and he will use his channels.

Having relations with a small distributor will minimize the risk; a big distributor usually does not want to introduce new products in the market in fact a small one can focus on cooperative's product instead of having a wide portfolio. Huge investments in Marketing and Promotion are necessary, targeting the most strategic fairs (Vinitaly, Shanghai and Hong Kong International Wine and Spirits Exhibition) and participate to them is a way to reduce the expenditures.

The purpose is to create a unique label and to invest in marketing and promotion on it in order to raise the brand awareness, to generate a unique luxury brand which will compete with the famous brands of France. The cost of establish a cooperative is around 2500€ including bureaucracy compliances. Annually the management cost will be 1000€ in addition to the rent of office, salaries and general costs.

Decision Mode of Entry

The first option is to export with a specialized **Distributor** (Please see the definition of distributor and differences with Agents in **Exhibit 14**), who will manage the import and distribution of the product. The cooperative should sell the wine to the distributor and the distributor will sell it to the end consumer (Private, Ho.Re.Ca). **In (Exhibit 15), a list of wine distributors has been selected and updated.**

The decision to work with a specialized distributor will minimize the risk and the investments, it will have a higher speed of entry thanks to his knowledge of the market.

Acquiring info from the distributor companies is difficult but they used to charge 60% of the value of the bottle of wine landed in China. Many distributors bring in relatively small volumes of each wine and it turns in more expensive procedures.

There are some advantages regarding the use of distributors: quality of sales force, knowledge of the Chinese's law, market practices, relations with local government, products warranties, business connections and networking's structure of the industry in case. There are also some disadvantages: in fact, the producer may not have the control in the selling process and in the promotion of the wine. For this reason, a collaboration between the cooperative and the distributor is a decisive point, an Italian representative of cooperative will be located in Shanghai and the producer will still have the control of the product monitoring the actions of the distributor in order to implement strategy, promotion and pricing. (Please see Weak-Strength Map to have a vision of standard features of wine companies in Puglia **Exhibit 16**).

The best choice of the distributor is important, collaborating with a small distributor can guarantee that he will focus on the product and he will be incentivised to work well even if the distribution channel will be smaller compared to a big player. Regarding the cost, the distributor company has to pay the transport and customs costs but the cooperative, as there is collaboration, will support the marketing and promotion costs.

In the future, after the consolidation of the brand, another important channel in agreement with distributors can be the **E-commerce platform**. In a joint conference at Vinitaly (Wine fair in Verona) in April, 2016, Alibaba founder Jack Ma said that his aim is to increase the share of Italian wines from 6 to 60 percent of the bottles sold in his platform. *"Chinese people have a passion for all things Italian. Alibaba wants to be the gateway to China for Italian brands and small businesses"* (Ma, 2016). Basically, Jack Ma said that he wanted Alibaba to become the gateway for Italian producers in China. (**Exhibit 17**).

Ma said, speaking at Italy's Vinitaly wine fair in the northern city of Verona¹⁰. **Please see in (Exhibit 18) the different Mode of entry in an international Market with Advantages and Disadvantages.**

Implementation plan:

4 P Marketing Mix

Product

The Chinese Market of wine, especially imported, will continue to grow. In order and to be successful in this market, it is important to offer the market a niche high quality product.

To justify the high quality there are different factors: facing the French competitions, it is difficult to face with an average quality wine; a premium wine in China is not only a luxury, but it is also a condition to express a social status. The Chinese customer is buying the western style, the product will reflect the history of producers, it communicates the Italian style where the quality and status is important. Chinese usually prefer red¹¹ wine mainly due to its colour but also the stated health benefits. It is very important for the Chinese market to create a good brand awareness, to produce labels in Chinese with elegant colours which revoke the Chinese culture, still maintaining the Italian style. Producers in Puglia have focused on making great red wine by local grapes like **Negroamaro and Primitivo**.

The two most popular areas for wine in Puglia are Salice Salentino and Manduria.

¹⁰ <http://www.reuters.com/article/us-italy-china-wine-idUSKCN0X829Y>

¹¹ Red is the Chinese national colour and represents happiness, beauty, success and good fortune.
<http://www.chinahighlights.com/travelguide/culture/lucky-numbers-and-colors-in-chinese-culture.htm>

The Salice Salentino is an area in the Salento Peninsula located on the backside of the heel of Italy's "boot" that extends into the ocean. Salice Salentino is made from the Negroamaro grape, which means "black bitter" in Italian. Dry, red wine made from Negroamaro has flavours of ripe plum, baked raspberries, and spice-cabinet notes like anise, allspice and cinnamon.

Primitivo: The Puglian Primitivo is a richer, fuller-bodied red with abundant weight. Primitivo tastes of dark fruit like fresh figs, blueberries and baked blackberries. There is a distinct dried fruit-leather character to it as well. The word Primitivo does not mean primitive in Italian, but actually means early ripening, because these grapes accumulate a lot of sugar early in the season. The early ripening means the resulting wines are big, luscious and full of fruit. However, sometimes the grape bunches ripen unevenly, so green grapes will get harvested along with the ripe ones, which makes Primitivo very fascinating.

Price

In order to implement the Price of the Marketing mix, we have to consider that very cheap wines (€ 4-8) in China have a modest market but of course they do not reflect our theory of premium-quality wine which Puglia's wine represent. Moreover, Chinese competitors are a problem. Medium-range quality (€ 13-40) are difficult to sell to the Chinese consumer because they are not aware of it as they do not know the brand. High-quality wines (€ 200) have a reasonable market. Our price will be the price of high quality wine because it reflects the quality which it has and the label that it will represent. We are segmenting the medium-high class, it means they are not price sensitive and they are aware of the competitor's prices (French wine).

In order to understand the price to a distributor of a good quality Italian wine, a manager of Eataly (finest Italian store market of niche products) has been interviewed, he indicated that the high quality wines from Puglia have a price to the distributor of 20€ per bottle, so the research takes it in consideration. At the moment the container lands in the Chinese territory, it will be added a cost 50% of its value because of duties and taxes. Afterwards the cost of the importer will increase 60% more of the value which includes: transport cost (very high), the cheapest cost per pallet via container shipment from Italy to Shanghai is 700€, every pallet has 60 bottles; it means a cost near 12€ per bottle. The other costs for the single bottles are: Destination Charges 5€, Repacking and Labels 5 €, Custom fees 2,5 € and Delivery 1,70 €. **(To justify all the costs please see a detailed analysis of Italian wine cost and calculation in Shanghai in Exhibit 19).**

Therefore, the final mark up of Hotel, Restaurants and Bar is between 100 percent and 200 percent reaching a price of 175 €.

Place & Promotion

It is important to clarify that the distributor will manage the channel of distribution selling directly to the end consumer (Bar, Restaurants, Hotel) or supermarket. The Chinese consumer will buy/drink the wine for different occasions: Dining out (Shanghai is full of European bars and restaurant), and at hotels, all the luxury hotel chains will serve high quality product, especially from Europe. Based on my staying in Shanghai, Café and Bars in Shanghai have a strong influence from Europe and France in particular, it means they are used to the European lifestyle and going in these place will portrait a different social status.

Participating at international fairs and wine events will increase the consciousness of wine as a product and will publicise the wines from Puglia. The fairs are the best way to create brand

awareness and to build networks because Chinese prefer connection and visible contact. It is a great occasion to invest in network and promotion of the new brand, people will talk about it and as we know, *Word of Mouth is very Powerful*.

Participating at the fairs is very expensive, it is estimated to be **4000€** on average per fair and the costs of transport and accommodation must be included. It is necessary to consider that there are 10 main fairs in the world every year, but it is prudent to limit the participation only at 3 fairs during the years in order to reduce the expenses and because it is better to invest in the fairs with more Chinese presence: Vinitaly, Shanghai and Hong Kong.

(Costs of Stands in the Fairs, Flight, Transport, Hotel and other expenditure in Exhibit **20**)

Promoting via the Internet and through social network in China is clearly the best method to start the promotion, as we already said, Chinese are internet users and create the channel promotion will reach a large number of people. The costs to get access and be promoted online is estimated to cost a monthly commission of **400€** plus fees commission (5%) on sales. Wine tourism in Puglia is not very common but it could be an interesting point in order to develop it and to create awareness among the Chinese population. Organizing wine tourism with Chinese speaker guides, accommodation, transport, visiting the cities and the wineries would increase tourism and awareness of the product and its quality.

Wine tasting in luxury restaurant or bars located in Shanghai is a great chance to be known within the city, Shanghai usually is full of events and the people have a positive response on it, they will participate actively and our brand will have attracted their attention. The costs to rent a room can vary: some wine bars take advantage of it and not ask for a rent because it is also a way to sponsor their own bar; whereas, some hotel halls are expensive and can reach 1000€ per event.

4 M's

Man

Hiring one Italian representative who will work closely with the Chinese importer in China is necessary, the knowledge of English is required and the Chinese can be an asset. In fact, it is recommended to hire a Chinese speaker because of the difficulties to speak and to have relations with the Chinese clients, also during the fairs which is indispensable. The Italian representative will travel at least 2 times in Italy to have face to face meeting with the producers, and members of the cooperative and to give personal feedback and to report. Although, reports will be sent weekly to the central office in Puglia. The cooperative needs to hire a person in Puglia, who will be responsible to have contact with Chinese distributor and with the Italian representative in China.

Minutes

The major investment for the cooperative is to invest in a good Marketing Campaign in order to build brand awareness. To establish the marque and to create a valuable awareness around it will take at least 3 years. Furthermore, the time to enter in the Chinese Market has to take in consideration the time to create the cooperative in Italy, the time to obtain the certificate to enter in China and the time to start effectively the export. Usually to open a cooperative in Italy it takes one month, after that it is a fairly straightforward procedure. Obtaining the certificate to export in China will take four months, including filling, sending and receiving back documentations and certificates.

Money

No doubt, the biggest investment is the marketing campaign (Fairs, Online and Wine Tasting) to promote the new brand, which means a huge investment will be necessary.

An average price to participate at the Fair (e.g. Vinitaly) is **4.000€** (it depends on the size of the stand, positions, services) excluding transport and logistic costs which implies flights, hotels and expenses in several parts of the world, which has been calculated at **1000 €** per person.

It must be considered at such a high price only for Vinitaly, because the representative has to come from China to Verona. So the costs per person include: the price of a return flight from Shanghai to Milan (**900€**), the cost of transportation from the Airport of Milan to Verona (**80€** return), the cost of hotels and life expenditures (**120€** per day). The fair in Shanghai will have only the cost of stand **3000€**. The fair in Hong Kong is **4000€** plus the flight **80€** with low-cost airlines but the cost in Hong Kong will be **150€** per day. (**Exhibit 20**) contains detailed costs.

Creating an office in Italy for the cooperative will cost the rent and ordinary expenses which will be **7.500 €** annually. The representative in Italy has an average salary of **24.000 €** gross per year and in China will be around **42.000 €** per year (Arrivals, 2012). The cost of accommodation in Shanghai will be taken in consideration and it will be around **650 €** per month. The representative has to fly at least 3 times in Italy, and each flight costs **700 €**. The online advertisement is estimated to be **400 €** per month, with a total of **4800 €** annually.

The cooperative also has to develop a Website and to translate in English and Chinese. This would require an investment of **2000 €** according to the number of words present in the website and the style.

Memo (3 years)

	Objectives	Target	Measurement
Customer	<ul style="list-style-type: none"> - Build brand-awareness in Shanghai -Internationalization of Quality Made in Italy - Top quality Wine 	<ul style="list-style-type: none"> - 85 % of consumer satisfaction 	<ul style="list-style-type: none"> - Customer's response to the product -Penetration in the Market
Financial	<ul style="list-style-type: none"> - Revenues increase - Creation and growth of the market in Shanghai 	<ul style="list-style-type: none"> -Payback period in maximum of 3 years -Improve cost structure 	<ul style="list-style-type: none"> - Volume of Bottles Sold -ROI
Internal	<ul style="list-style-type: none"> - Quality of production -Excellent Promotion 	<ul style="list-style-type: none"> - Position in Chinese Market -Achieve operation excellence 	<ul style="list-style-type: none"> - Volume of sales
Learning	<ul style="list-style-type: none"> -Competencies in export in new Markets -Management growth 	<ul style="list-style-type: none"> - Improve the competencies, the knowledge of China Market 	<ul style="list-style-type: none"> - Market share comparison

Financial Prevision

To evaluate the Financial Prevision of the business export in the Chinese Market, three scenarios have been taken in consideration (Pessimistic, Normal and Optimistic). **To better understand the Financial Prevision please see the three scenarios, the graph and all explanations in the (Exhibit 21).** It is clear that fixed costs as Investment in Marketing and

Promotion, and personnel costs that have been explained in the 4 M's analysis, will remain constant in the three scenarios. The value which varies more is the variable cost of the production of the wine which also includes bottling.

Both Normal and Optimistic Scenario have positive Net Profits in the years, which will grow in the years because of the growth of brand awareness and market share in Shanghai.

Nevertheless, even in the Pessimist Scenario the Net Profit will be higher with the years, that is motivated by the slow penetration in the market but it does not mean there is no potential.

In conclusion, the three scenario have a positive effect on the project and it means the research is financially viable.

Conclusion and Recommendations

After all this research, the wine companies from Puglia should start a cooperative, to collaborate together and to invest in big markets like China where competitors are already present, so competing alone with them is the wrong strategy. The use of cooperative is justified because the wine companies from Puglia are too small and they cannot afford to make huge investments.

It is paramount to put together the resources and gain more power, to create a high level brand and to build a relevant brand awareness to obtain market share in this country. The common target is the internationalisation of the brand, high position in the Chinese market and the increase of revenue which can be obtained with building cooperatives and invest in excellence promotions.

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