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**Italian wines and Asian markets:
opportunities and threats under new policy scenarios and competitive dynamics**

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1. Introduction

The world wine market is facing a particularly difficult situation. Both the EU and New World (NW) Countries are trying to manage this critical moment by filling reciprocal gaps in order to increase their competitiveness at a global level and to strengthen their position in key strategic markets.

On the EU side, one of the fundamental aspects of this changing framework is the evolution of the Common Market Organisation (CMO) for the wine sector. The first pivotal change is the fact that a parcel of land cannot host more than one designation of origin (either Geographical Indication – GI – Denominazione di Origine Controllata – DOC – or Denominazione di Origine Controllata e Garantita – DOCG), thus completely changing the approach to vintage choices, which characterised the Italian production in the last 50 years. A second important variation is the introduction of the possibility to show grape varieties and the vintage year on table wines (a strategy often used by NW producers). Conversely, on the NW side, the changes are mainly relative to the increase in the use of European grape varieties and the emphasis on the *region-grape* combination as an element of excellence.

In this context, Asian markets represents one of the most important targets for both EU and NW producers, as they show (and will presumably keep doing so) some of the highest growth rates at a global level. The five Asian countries that are often indicated as the most strategically valuable are China, South Korea, Japan, India and Singapore. China and Japan alone consume 90% of the wine imported in Asia, while South Korea historically is the highest alcohol consuming Country in Asia. India is one of the markets with the highest growth margins, and Singapore is tailoring a role of the ‘Asian Wine Hub’.

These aspects clearly point out why Italian producers must analyse and understand the dynamics of these markets in order to improve, or at least maintain, their position in Asia. In light of these considerations, this paper aims at describing the wine market scenarios in the five aforementioned Countries proposing a SWOT analysis to better focus on the positive and negative aspects of market relations.

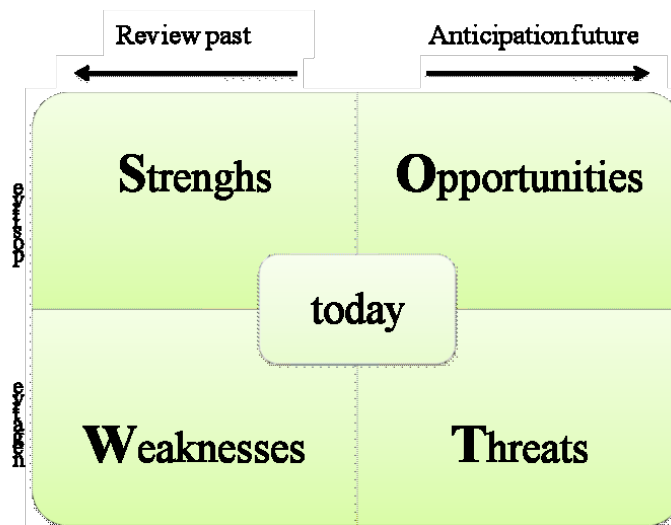
The paper is organised as follows. After this introduction, the methodology applied in this paper and data collection are presented, followed by a description of the strategic aspects characterising these markets. Then, some conclusions close up the work.

2. Methodology and data collection

The methodology applied in this paper refers to a well tested technique for the study of the strengths, weaknesses, opportunities and threats relative to the object or phenomenon under analysis: the SWOT analysis (Menon *et al.*, 1999). This technique has been largely used as a tool for the assessment of markets' competitiveness (Chakravarthy, 1986), not only due to the possibility to present results in an easy and understandable way, but also because it offers an important cognitive step for supporting decisional processes and planning adequate strategies, either at a public and a private level (Gasparini, 2008).

The SWOT analysis is based on the ability of recalling the past (review) and anticipating the future (anticipation), two steps complemented by a simple evaluation criterion (positive/negative). Therefore, the technique should not be viewed as a static method with an emphasis only on outputs, but should be used as a dynamic part of the management and business development process. This method brings to the creation (see Fig. 1) to a grid divided in four parts (Ruekert and Walker, 1987).

Fig. 1: Graphical representation of a SWOT table



The approach of the SWOT analysis turns out to be very useful if, as it is this the case, the aim is at examining the potentialities of a certain sector in foreign Countries (Hill and Westbrook, 1997). With this technique, in fact, it is possible to monitor the market environment and to identify key internal and external factors that are important for the achievement of the proposed objectives. Moreover, the SWOT analysis can be used to develop a strategy that takes into consideration several factors, maximising the potential strengths and opportunities, while minimising the impact of weaknesses and threats.

Operatively, the SWOT proves to be an adaptable and flexible technique allowing to (a) record different perceptions, (b) summarise and integrate various types of information, which are generally

known but not organically organised and elaborated, (c) match the resources and capabilities of a firm/sector/territory to the competitive environment in which it operates, and (d) present a set of influencing factors and their interdependence, providing the basis for a successful strategic planning (Armstrong, 2006).

In this paper, the SWOT analysis represents the synthesis of two main sources of information. On the one side, the weaknesses and strengths of the Italian wine sector emerge through an analysis of secondary data available from several Country-based statistical data available from ISTAT (National Institute of Statistics) (ISTAT, 2008; 2009), and ICE (National Institute for Foreign Trade) (ICE, 2009a; b; c) data. On the other side, the risks and threats come out from the analysis of the global wine scenario, with particular attention to the Asian area, obtained through an elaboration of the data collected from the OIV (International Organisation of Vine and Wine) (OIV, 2009a; b) and *Euromonitor International* reports (Euromonitor International, 2009a; b; c; d; e; f).

3. The Asian wine markets

3.1. China

3.1.1. The market scenario

Grape wine is largely perceived as a foreign alcoholic beverage in China, as opposed to rice wine, beer, or other national alcoholic beverages, thus causing some problems for a diffusion within the Country. Grape wine, however, is slowly finding its space on the market, thanks to the changing attitude towards foreign products and the increased efforts by producers, importers and distributors in promoting the benefits wine has for health, in particular against cardiovascular diseases. Because of this, the consumption and the culture of wine are expected to grow in the near future.

Between 2004 and 2008 the wine market developed considerably, with a 5.4% yearly growth rate, generating 6.1 billion USD in value terms in 2008. In the same year, a little less than 1 billion litres of wine were consumed in China, twice the amount drunk in 2004. Red wines dominate the market (72%), followed by whites (23%) and rosé wines (5%). Champagne accounts for a little less than 50% of sparkling wine sales (0.8 litres/year). Thanks to consumers who worked or studied abroad and foreign workers residing in China, the consumption of *premium* and *super premium* price wines are growing significantly.

National grape wine production increased between 2006 and 2007 (+34%, 660 million litres). It is largely located in the Xinjiang, Gansu and Shandong provinces, although grape wine is mainly consumed in big cities with higher revenue rates such as Beijing, Shanghai and Shenzhen. An increasing number of companies too are working in the wine business and, as a result, the sector is more fragmented than in 2007. However, the first six national producers are responsible for 40% of the total wine production (51%).

Wine imports were fifteen times higher than exports in 2007 (148 and 10 million litres respectively), with an estimated value of USD 258.2 million (86% more than 2006); bottled wine accounts for USD 184.1 millions. In this context, Italy ranks 4th among exporting Countries, with an 8% market share, behind France (37%), Chile (18%) and Australia (17%). Taking into account bottled wine only, however, Italy ranks 3rd (France 45%, Australia 19%, Italy 7%), while as for sparkling wines gets the second position (7%), behind France (82%).

A key aspect for understanding wine market dynamics in China is the fact that rice wine is a very popular and traditional beverage in the Country. In 2008, 1.7 billion litres of this product were consumed (+21% in respect to 2004). The city of Shaoxing, in the Eastern province of Zhejiang is famous for its rice wine; consumers from the North of China refer to it as ‘Shaoxing Wine’. Consumption is also high in the Eastern provinces of Zhejiang and Shanghai, especially because of over-40 years old consumers. Rice wine producers are implementing a new strategy that aims at the spreading the product on the entire national territory. Several sources indicate that the leader brands as *Guyue Longshan* and *Pagoda* had the best performances in the South-West of China.

The average price for grape wine has increased in 2008 in current terms, while further analyses show that prices decreased in constant value terms.

Sales for everyday consumption are concentrated in the USD 3 – USD 7 segment, with a prevalence of local wines. On the contrary, consumers drinking wine as a *status symbol* tend to buy imported wines in the USD14 – USD28 segment, sometimes spending even more especially for Champagnes and other prestigious wines.

It is important to notice that the price for imported wine includes a duty (14% for bottled wine, 20% for bulk wine), a tax on the product’s value added (17%) and a tax on consumption (10%). This means that the final price for a 0.75 litres bottle of wine includes 40% of government taxes, beside transport and distribution costs. In spite of this, Chinese taxes and duties for imported wine are considered low compared to those of other Asian Countries such as South Korea or India. Moreover, duties in China, as in the other mentioned Asian Countries, are decreasing constantly since 2005 (the level of duties was 43% of the value for both bottled and bulk wine in that year).

The most important forms of promotion for supermarkets and major retail chains in China are ‘buy-one-get-one-free’ and ‘buy-one-get-one-free’. In the on-premise sector promotion activities are mainly based on wine tasting events and food-wine pairings¹.

¹ *Vinitaly on Tour* stopped in China for the eleventh time in November 2009, specifically in Shanghai and Beijing. Beside the usual workshop for the creation or strengthening of B2B relations, the initiative aimed at spreading the level of education and knowledge of Italian wines among sector operators and consumers in China, organizing wine tasting events in hotels, restaurants and wine-bars.

On-trade wine sales (67%) are sensibly higher than off-trade (18%) ones, where sales of lower price wines are concentrated. With the opening to foreign retailers on December 11th 2004, the sector is becoming increasingly more dynamic. Beside the National *Bailan Group*, *Auchan*, *Carrefour*, *Metro*, *Tesco* and *Wall-Mart* are the most important foreign major retail chains in the Country. These grocery multiples have a strong bargaining power that forces producers and distributors to lower prices. As a consequence, the capability to implement business deals that allow economies of scale is perceived as a necessity and not just a possible choice.

However, China is still not endowed with an adequate infrastructure system for distribution. Even though the number of distributors and importers is very high, it is still rather complicated to place imported wine on supermarket shelves, given the lack of the necessary transportation and storing facilities.

3.1.2. Future trends and the position of Italy

Within 2013, the Chinese wine market is expected to reach USD 7.8 million in value terms (+27% with regards to 2008) and 1.7 billion litres in volume terms (+70% in respect to 2008).

In the next four years, *basic* and *premium* wines are expected to register good performances, helped by increasing income and constant efforts by producers and distributors to spread wine culture.

Due to the little quantities sold and low duties, Champagne is expected to achieve better results than red and white wines.

Discounts and price competition will not be winning strategies in the next four years. Prices should rise, along with the quality of products. The *National Wine Grape Standard* was created in 2008 to help quality controls on grape wines. New standards, for example, limit the production to a maximum of 0.15 tons of grape for each vineyard and the sugar content to a minimum of 180 grams per litre for high quality wines. Moreover, if the sugar content is lower than 120 grams per litre, grapes cannot be used for wine production. The introduction of new standards will force low quality wine producers out of the market, supporting virtuous producers and helping the increase of average prices.

Tab. 1: SWOT analysis results for Italian products on the Chinese wine market

Strengths	Opportunities
<ul style="list-style-type: none"> · Italy is perceived as a supplier of quality products, design, and a classic style. Wine could use the effects of this reputation to facilitate market gains; · Italy is perceived as the producer of healthy foods and beverages; · Several producers offer their wines to the Chinese market at a very competitive price; · Positive results of the Italian products in the on-premise sector (the leading distribution channel in 	<ul style="list-style-type: none"> · Increasing per-capita income; · Positive trend towards Western consumption habits, especially in food, and in big coastal cities; · Increasing tourism from and to China, and of the exchange students which have spent a period of time abroad; · Increasing trend in the willingness of consuming healthy and natural products;

China) especially when the Italian producers personally promote their products.	Decreasing tariff barriers.
Weaknesses	Threats
<ul style="list-style-type: none"> · Constant difficulties in creating synergies among Italian wineries; · Dairy products are the first mentioned Italian products instead of wine; · Low internationalization ability of the Italian wineries which sell at a price range that, after taxes, duties and transport and distribution costs, is preferred by Chinese consumers (14 USD- 28 USD); · Scarce knowledge of the Chinese system by the Italian wine companies; · Difficulties in creating appealing promotional events and shows; · Lack of Italian MRCs and hospitality structures. 	<ul style="list-style-type: none"> · Strong ties between the local population and their gastronomic traditions; · Lack of infrastructures in the local distribution channels.

3.2. South Korea

3.2.1. The market scenario

The South Korean population traditionally consumes alcohol, but wine became a more popular beverage with the 1988 Olympic Games in Seoul, although annual consumption is still only 0.75 litres per capita after twenty years. Until 1988, consumption was limited to local products, was perceived as a luxury product and was usually consumed in restaurants only.

The wine business in South Korea generated sales for USD 637.4 millions in 2008 (18% more than 2008). A 95% of it is represented by still wine, in particular by red wines (76%). Sparkling wines (3% of sales in value terms, USD 18.9 million) show the highest growth rates, led by the spectacular performance of Champagne, a category that has a great success among female consumers. The total amount of wine sold in 2008 is 31.3 million litres, 16% more than 2004, but the global financial crisis, together with the weaknesses of the local currency and the increasing competition in the business, impacted significantly in South Korea, and the growth rate of wine sales decreased in the 2007/2008 period.

South Korea does not produce wine, as local stakeholders cannot compete either in terms of prices and quality. All the wine consumed in South Korea is imported, with Old World (OW) producers playing a major role in the market. France is the market leader (40% of imported wine in volume terms), ahead of Chile (17.8%) and Italy (14.5%), which showed an impressive growth (+23%) in the 2007/2008 period.

Compared to China, taxes and duties represent a very strong barrier for the entrance of foreign products on the local market. Before transportation and distribution costs, taxes and duties account

for 65% of the price of a bottle. The EU is negotiating a deal with South Korean authorities to reduce taxes on imported European wines, in order to achieve a 45% level of taxation².

As wine is still mainly perceived as an elite product, the design and content of labels play a very important role for South Korean consumers. The labels on Italian wine bottles generated some arguments with local operators, as in many cases, and in the absence of specific standards, there is no clear distinction between the name of the wine, the vineyard, or the estate.

In 2008, 75% of wine sales was concentrated in the USD8 – USD20 segment, but the average price is increasing because of two specific factors: on the one side, consumers who are willing to try more prestigious wines pushed prices up, on the other side, the crisis of the South Korean wine market in 2008 made importers deciding to increase prices from 10% to 25%.

More specifically, retail sales are mostly concentrated in low (USD9 – USD12) and medium (USD12 – USD17) price ranges³, while on-premise sales are concentrated in the high end (USD17 – USD22) tier.

Promotion activities in South Korea are still mainly limited to the on-trade sector and media⁴. South Korean newspapers publish articles about wine on a daily basis, as journalists frequently travel to producing Countries, often invited by local operators.

The on-premise sector is the main distribution channel for wine (46% of the total wine sold), followed by specialised shops (34%) and supermarkets (20%). Distribution dynamics are very similar to the US scenario: importers sell to distributors and retailers, who then sell to consumers. Very few importers have licenses that allow consumers to buy directly from them. Wholesalers are very important and are utilised by large companies to sell their products outside from Seoul. This system, however, is endangered by the consumption crisis that is challenging the importers; many of them are facing financial difficulties and some of them are starting to go bankrupt. Even the largest importer, *Doosan*, was forced to sell to the *Lotte* group, which became the most important import wine company in the Country.

3.2.2. The future and the position of Italy

Market forecasts relative to the next four years show that sales of wine will grow in volume terms (+9% with regards to 2008), reaching a total value of USD956 million (+50% compared to 2008), thanks to the evolving and more mature wine demand in the Country. South Koreans will drink a little bit more, but they will be also looking for higher quality wines. In this context,

² The EU is trying to achieve the same level of taxation (45%) already applied on wines from other Countries, such as Chile.

³ From October 2009, a new pricing rule for many products, including wine, was introduced in supermarkets and major retail chains in South Korea. In order to protect consumers from the insidious practice of indicating a high 'suggested retail price' (SRP) associated with frequent discounts, prices per litre will be indicated, so that consumers can better understand the real price of a product.

⁴ *Vinitaly on Tour* was in Seoul in November 2009, organising events with a similar aim as those proposed in China.

Champagne will be benefited by the increasing success among young women. This, together with higher transportation costs and the devaluation of the local currency, will push prices up. The 0.375 litre format ('3S' wine – *Small, Social, Slow*) is expected to grow, firstly in the on-premise and then in the retail channel.

Tab. 2: SWOT analysis results for Italian products on the South Korean wine market

Strengths	Opportunities
<ul style="list-style-type: none"> · Italian local vines may attract the interests of evolving consumers; · A better quality-price ratio than major competitors (France, Chile, Australia, etc.); · Success of promotional events. 	<ul style="list-style-type: none"> · Growing interest towards health and welfare aspects related to food and drinks; · Duties on imported alcoholic beverages are lowering; · Average prices are increasing; · In 2007, wine was voted one of the ten products of the year; · Wine consumption is gaining popularity (more consumption occasions, constant presence of articles about wine in newspapers, etc.).
Weaknesses	Threats
<ul style="list-style-type: none"> · Ability to communicate the large variety of local vines; some of them may be difficult to understand for the consumer; · Labels are not often easy to understand; · Italian wine companies that succeed in the price range USD14 – USD18 still have a scarce ability to move in the international arena. 	<ul style="list-style-type: none"> · €/won ratio devaluation; · Distribution systems are complex, difficult to manage and push average prices up.

3.3. Japan

3.3.1. The market scenario

The Japanese wine market is very different from the other Asian markets. Japan has been producing and consuming wine for a very long time and the wine culture is well spread and solid. Japan consumes about 30% of the total Asian wine consumption and 60% of the wine imported in the continent. This makes the market particularly interesting, especially for high quality Italian wines, also due to the curiosity of Japanese consumers towards the product.

The Japanese market is rather mature, and consumption has been slowly decreasing at an average 2% rate in the last four years (229.5 million litres in 2008). Some problems are also evident on a value side, as data shows an average decline of 0.4% in the same period, down to a total of USD 3.9 billion in 2008. Sales of still wines are worth USD 2.9 billion in 2008 (73% of the total value), while Champagne and other sparkling wines sold for USD 503.8 million (13% of the total value).

Organic products play a very important role in the still wine category, as the attitude in favour of products with polyphenols and organic acids completely changed in the last few years. Food safety is an issue of utmost importance in Japan today, together with the tendency of consuming products where 'nothing-must-be-added-to'. Another current trend relates to the success of new

wines, especially *Beaujolais*. Beaujolais always played a fundamental role for Japanese wine consumers', but it is currently losing its appeal in favour of cheaper wines.

Champagne was definitely the most dynamic product on the market in 2008, with a +16% in volume terms (*Taittinger* gained an impressive 30%, but *Moët & Chandon* is still the category brand leader). The value of other sparkling wines, now perceived as a cheaper alternative to Champagne, increased by 7%.

Japanese wine is almost totally consumed *in-loco*, as domestic consumption represents about a 75% of the entire production in value terms. Japanese wine making is having a great success, driven by a massive exposure on media (especially newspapers) and the reputation of good cellar improvements to meet the population's growing concern with food safety. Viticulture is spread in the entire country, but it is mainly concentrated in the Yamanashi province. Both local and international vines are grown regularly, together with some hybrid varieties that try to meet new consumer preferences and tastes.

The other 25% of value sales is imported from all around the world. While France is the undisputed leader, Spain and Italy are close competitors with similar market shares. Italy is the 2nd most important still wine importer (15%), behind France (59%) but ahead of the United States (7%). As for the sparkling wine segment, France represents the undisputed market leader (80% in volume terms in 2008), while Spain and Italy holds an 8% and a 7% respectively. It is interesting to observe that Italian imports held their position much better than French products in the critical economic scenario.

Taxes and duties for imported wine in Japan are not very high, but the related set of rules is particularly complex: different custom tariffs based on product typologies and formats are combined with a consumption tax and a tax on alcohol. Importers are also required to produce a document that certifies the compliance to the very restrictive *Food Sanitation Law*, while selling activities by retailers and wholesalers require a specific license for alcoholic drinks.

The legislation about labelling is also very detailed and complex. Moreover, importers and distributors are responsible for recycling used bottles and packages (this aspect is at the base of Japanese producers choice towards transparent glass bottles).

The Japanese wine market can be described using four main price range segments:

1. **Less than USD5.34**: most of the local wines and a few bag-in-boxes (BIB) are sold in this price range, exclusively in supermarkets, discounts and *izakaya* chains. The products sold in this price range, though not very appealing, played a major role in the development of the Japanese market, which only later shifted towards higher quality and higher prices.

2. **USD5.34 – USD9.08:** some local wines and some imported wines with a strong commercial power are sold in this price range. Moreover, this is the tier that made the BIB format and functional wines successful in Japan.
3. **USD9.08 – USD16.02:** together with the previous fascia, this accounts for a 50% of wine sales in Japan. Most of the imported wines, as well as wines with a good quality/price ratio and attention to advertising and other promotional activities, are sold in this range.
4. **More than USD16.02:** this price tier accounts for a very small portion of the market, as all the wines sold here relate to particular consumption events. This led many market experts to believe that the Japanese market will be one of the very few to register a good success for high quality and icon wines. Moreover, all organic products are sold in this range.

Promotional strategies in Japan are changing as consumption shifts from an occasional event to an everyday habit. As a consequence, promotional campaigns try to reach a larger share of the population and persuade consumers to spend more. The Japanese natural curiosity towards new products and a better understanding of wine culture and traditions helps in determining the success of new promotional campaigns.

A very important role in terms of promotion is also played by newspapers, by weekly and by monthly magazines as well as *manga* series (e.g. *Kami no Shizuku*) entirely based on the world of wine and its culture. In particular, the impact of *manga* on the wine market cannot be underestimated, as it was able to influence distribution policies of certain importers and to increase prices and volume sales of certain wines.

The environmentalist trends that are currently developing among Japanese consumers represent another very important issue from a promotional point of view: new organic products with environment-friendly packaging entered the market and were very successful.

Supermarkets and major retail chains (MRC) dominate the Japanese market with a 43.3% share, followed by wine shops (33.2%) and the on-premise sector. MRC power significantly increased in recent years, especially after the introduction of the *open price* system for imported wines to replace the SRP system in 2001. Big wholesalers benefited from this change, widening their portfolios, while specialised wholesalers were forced to restructure and reorganise their supply. Moreover, discount stores continue to lose power in favour of new retail typologies as home centres and drug stores. The liberalisation of retail licenses in 2006 was perceived as a possible benefit for the growth of convenience stores, but their limitations in terms of supply and sales area counterbalanced the beneficial effects. The power of supermarkets and wine shops, on the other

hand, is still growing, as these outlets concentrate on the selection of quality products and on tailored customers' services. Restaurants, a strategic channel for Italian wines in Japan, are also performing well, thanks to the sales of both still and sparkling wines.

The length of the distribution chain is a particularly interesting issue in Japan. Importers usually sell to wholesalers, but sometimes a second wholesaler can intervene, especially in case of restaurants and retailers that do not have adequate storing facilities and need more frequent supplies. However, importers may also sell directly to retailers. Depending on the length of the chain, the price of wine can exceed Ex-Works (EXW) price by three to five times.

3.3.2. The future and the position of Italy

The Japanese wine market is expected to be rather stagnant in the next four years. In value terms, levels should not be very different from the USD 3.9 million registered in 2008, while a slow reduction in volume terms (-1% on a yearly basis) is expected during the same period. The performance of Champagne appears to be quite good, although not as much as for other Asian markets, due also to the devaluation of the Yen against the Euro.

Food safety and environment issues will be among the most important concerns for consumers, and they will continue to have a very strong role in their choices. This will lead to the introduction of new products both in the retail and the on-premise sector.

The average price of wine is expected to rise for all kinds of products, and there are high expectations for the performances of high quality and *icon* wines.

The continuing growth of supermarkets and MRCs will also play a major role in the definition of new promotional campaigns that will focus on customer loyalty.

Tab. 3: SWOT analysis results for Italian products on the Japanese wine market

Strengths	Opportunities
<ul style="list-style-type: none"> · The success of Italian products in the on-premise sector and, in general, whenever Italian producers are required to expose themselves directly; · Sparkling wines are improving their performances; · Organic wines are growing; · Italy is the 2nd importer of wine in Japan, behind France; · Italian wines have very competitive prices in the Japanese market; · Promotional activities already take place in the Country; · Development of Italian regional cuisine in Japan. 	<ul style="list-style-type: none"> · Growing concerns related to food safety and the environment; · Japanese curiosity for new products; · Sounding food and wine culture; · Prices of wines are increasing; · Wine is now perceived as an everyday drink.
Weaknesses	Threats
<ul style="list-style-type: none"> · Use of transparent glass for packaging can be an issue for wine transportation; · Growing power of supermarkets and MRCs; · Weak understanding of the complex Japanese commercial structure; 	<ul style="list-style-type: none"> · Stagnant market; · Complex commercial structure; · Timely payments, otherwise a bad reputation can be dangerous for the wine companies; · €/Yen ration devaluation.

Weak understanding of Japanese; Promotional activities can indeed be improved.	
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3.4. India

3.4.1. The market scenario

The growing welfare, the slow improvement of social issues and the current deregulation are supporting the expansion of the alcoholic drinks sector; the business impressively grew in the last three years. Even though wine represents only 1% of the alcohol consumption in India, recent trends and those expected in the next four years make it a very interesting reality.

The sector is dynamic, local distribution companies are increasing their power and prices are becoming more attractive for Indian consumers. International companies are improving their performances as well, but taxes and duties, as well as the small market dimension, push prices of imported wines to a level that is still too high for consumers. Anyway, the process of industrial and commercial liberalisation will probably help imports growth in the next few years.

Wine sales reached a value of USD 253.2 million in 2008, showing an average growth rate of +21% in the 2004/2008 time period. Still wine is the most profitable segment (USD 198.3 million, 78% of total sales in value terms), followed by fortified wines (USD 30.3 million, 12%) and sparkling wine (USD 24.7 million, 10%). Consumption grew by 18% per year in the same period, reaching 8.8 million litres in 2008.

The success of still wine is mainly due to the fact that this kind of product could be more easily found at accessible prices, but also to the series of tasting events organised by local and international operators. A huge difference between the Indian and other Asian markets relates to the consumption of white wines, whose share is almost equal to that of reds in volume terms, but it is even higher with regards to volumes. This is due to the style of the Indian cuisine, which is spicy, rich of vegetables and that only rarely uses red meat. Indians prefer light and aromatic wines such as Sauvignon Blanc, Gewurtztraminer, Riesling or Chenin Blanc, that match better with local traditional dishes. The consumption of sparkling wines is low for the same reason: difficult food&wine pairings.

80% of the wine consumed in the Country is produced in India, and export are practically inexistent. The local wine industry is still young and supported by the Government, but it is very dynamic at the same time. Local companies aim at increasing production, therefore stimulating more local operators to enter the market arena. Indian wine companies were only 2 in 2002, but become 50 in 2008, and the internal competition is rapidly growing even if the larger part of the market is still concentrated in the hands of few, big companies, the first three holding a 75% market share.

Production is mainly located in the Maharashtra State (90% of the total production), while the rest is produced in the Bangalore State. International grape varieties are grown in large quantities, together with a limited number of local ones.

The low wine culture in India, together with the high level of taxes and duties, makes imports still limited to a 20% of the wine consumed in the Country. The main foreign players are France (42% of the wine imported), Australia (16%) and Italy (13%).

The minimum custom tariff for imported wines is 150% of the product value. Other heavy taxes make prices rising up to six times the initial value of the imported good. If transportation costs, mark-ups and other unavoidable costs are added to those just mentioned, prices rise up to nine times the original value. Taxes and duties, however, are slowly decreasing thanks to market liberalisation processes. Indian consumers are very price sensitive. Half the bottles are sold at less than USD 10, a segment populated by well-known brands. In the retail sector, average prices decreased in 2008, with sales led by local brands in the *basic* segment (less than USD 5) and by frequent promotions (in particular, the buy-one-get-one-free). The on-premise sector is subject to similar trends, because of reduced hotel mark-ups⁵.

Advertising wine, as well as all the other alcoholic drinks, is illegal in India. Despite this, promotional events for consumers and operators are more frequently organised. As a result, a good knowledge of the product is spreading throughout the Country⁶.

In the retail sector, discounts on prices, distribution of free samples and the 'buy-one-get-one-free' campaigns are basic but common promotional tools. On the other hand, the on-trade channel bases its promotion activities on tasting events and food&wine matching sessions, which are usually organised in luxury hotels. Moreover, some of the local companies are starting to explore the potential of wine tourism, especially in the Nashik region (Maharashtra State), offering vineyard and cellar tours and hospitality in resorts.

The on-premise sector is leader in wine sales in India, with a 63% market share in volume terms. Therefore, wine consumption is still linked to special events. The fact that hotels could import duty free wine considerably contributed to the leadership role of the sector. On the other end, the retail sector is expected to grow by 50% in the next four years. Because of the current popularity of supermarkets and the fact that it is not considered appropriate for a woman to buy wine in shops, women and youth are expected to be the main engines for the success of MRCs. Local and imported *premium* wines dominate the on-trade sector, where higher prices are more suitable for educated,

⁵ The government decided, under the lobby of local producers, to limit the maximum mark-up of hotels on imported wines to a 220% of the original value. Hotels were used to adding imported wines to their menus without paying any customs tariff, and, by applying higher mark-ups, they were able to make imported wines very competitive.

⁶ The 2009 stage of the *Vinitaly on Tour* in Mumbai and New Delhi was cancelled because of terrorist attacks, but activities and events should again be held in 2010.

older and rich consumers. Local *basic* wines find their way in the retail sector, where consumers are oriented to local, sweeter, and simpler products.

About 40 importers control wine imports in India, with the larger three companies having a 60% market share. Imported wine is mainly directed to New Delhi, Mumbai, Bangalore and Goa. A specific and interesting characteristic of the Indian wine market is the vertical integration of some of the largest local wine companies: *Chateau Indage*, for example, opened 3,000 shops around the whole Country, and it is believed that the company will extend its control over 5,000 shops by 2013.

3.4.2. The future and the position of Italy

The Indian wine market is expected to grow by 149% in value terms (USD 630.8 million) and by 146% in volume terms (21.6 million litres) by 2013. The main drivers of this expansion are believed to be:

- a) the raise in per capita income and general wealth in the Country: the Indian middle class (about 300 million people) is drastically increasing the amount of goods consumed), while the upper class (about 30 million people) already have life standards similar to Western Europe;
- b) the shifting cultural attitude towards wine consumption: wine is becoming progressively more popular among women and young people (25-45 years old); wine is starting to be perceived as a healthier drink than other alcoholic beverages and, at the same time, as an everyday beverage.

Local companies will continue to expand their production and to diversify their portfolios. More operators will enter the market, with precious experience and background in the beer and spirits sector. Small companies are expected to grow as well, thanks to Government's support and the activities of the *National Wine Board* and the *Indian Institute of Vine and Wine*.

White and red wines will continue to grow and will be increasingly more oriented to the *basic* segment, thanks to aggressive marketing strategies. The average price of wine will grow slowly: the effects on average prices due to large volumes of retail sales in the *basic* segment will be balanced by an increase in the consumption of *premium* wines, also thanks to a reduction of taxes and tariffs on imports.

The *National Wine Board* will contribute to the organisation of promotional activities and events with the aim of stimulating wine culture and knowledge.

Large companies will continue in the direction of vertical integration, opening more wine shops and wine bars in order to expand their distribution power.

Tab. 4: SWOT analysis results for Italian products on the Indian wine market

Strengths	Opportunities
<ul style="list-style-type: none"> · Italian wines are already known and appreciated in the Indian market; · Promotional activities already take place in the Country; · Italian vines can be used to produce wines that perfectly match Indian cuisine. 	<ul style="list-style-type: none"> · The market is expanding. Everyday consumers are growing, as well as consumers who demand higher quality; · Young people studying abroad return to India with a new knowledge of wine; · The market is open for small producers; · Average prices increase.
Weaknesses	Threats
<ul style="list-style-type: none"> · Italian wine faces major difficulties to enter the retail channel; · Italian companies lack a complete understanding of the Indian market. 	<ul style="list-style-type: none"> · Taxes and duties on imports are still too high; · Indian consumers are very careful about prices; · Tougher competition because of new operators entering the market; · The lobby of Indian wine producers is very strong and can push the government towards protectionist measures; · Small number of importers; · Local producers increase their distribution power by vertical integration; · Lack of adequate storage facilities in the Country.

3.5. Singapore

3.5.1. The market scenario

Although the Singaporean wine market is still very small, it represents a very stimulating and interesting reality.

Internal consumption is growing due to higher per capita income, a developing interest in Western cuisine styles, a diffuse perception of wine as a social drink and a better knowledge towards wine, mainly driven by promotional and educational events. Moreover, Singapore is tailoring the role of commercial and distributive ‘wine hub’ for the entire continent. Therefore, all wines exported from the main producing Countries travel through Singapore before reaching South-Western Asia as well as China, Taiwan, Hong Kong and Macao. The strategic geographical position, together with good relationships with exporting Countries, endow Singapore with a reputation of excellence in the import-export business and make it the perfect place for promotional activities, storage and distribution of wine.

Wine sales reached a value of USD 187.4 million in 2008, with an annual growth rate of 8% in the last four years. In line with this, wine sales in volume terms grew by an average 7% a year during the same period, up to a total of 7.2 million litres in 2008.

The reason behind these positive market performances is mainly due to the knowledge of the beneficial and healthy aspects of wine consumption by Singaporeans. Moreover, wine companies, importers and retailers have been organising more tasting events and other activities in order to increase consumer awareness on the pros of wine consumption and wine culture.

In this context, still wine sales are the most profitable segment in the market, generating a value of USD 124.9 million (66% of total value), followed by sparkling wines (USD 57.1 million, 31%) and fortified wines (USD 5.4 million, 3%). In particular, still red wines showed the highest growth rate in 2008. Local and international stakeholders are making impressive efforts to import a large number of labels, at more competitive prices than before, in order to better satisfy consumer demand. White wines too are performing well, although not as much as red ones. Conversely, fortified wines are progressively losing ground, probably due to the lack of marketing campaigns aimed at spreading the specific knowledge among consumers. Sparkling wines, and Champagne in particular, are dynamically gaining from the renewed consumers' perception that they could be drunk beyond special occasions.

It is also interesting to point out that organic wines are not successful in Singapore, as health related aspects of wine consumption are becoming more important among the population, but also due to the small number of organic products and concerns about the quality of these products.

There is no wine production in Singapore. All the wine is imported (22.9 million litres in 2008, USD 405 million), but only a part of it is consumed in the Country, while the rest is exported (12.1 million litres in 2008), where the most important export destinations are Indonesia, Malaysia, Thailand, China, Hong Kong (for still wines), Japan and Australia (for sparkling wines).

Australia is the market leader in still wine imports (34% of total volume), followed by France (27%) and Italy (6%). The leader in sparkling wine imports is, of course, France (over 90% of the total volumes), while Italy imports only small quantities (97,000 litres in 2008) even though they are significantly growing (+20% in 2008).

Compared to other Asian Countries, Singapore taxes and duties are very low. All alcoholic drinks are subject to a USD 49 tax per litre of alcohol and a 7% tax on value added, which does not apply to exported wines.

The average price of wine moderately increased in 2008. On the one hand, *premium* wines (over USD 25) are improving their performances thanks to older, more educated and demanding consumers⁷; on the other hand, cheaper wines (especially from the NW) are proving to be more successful in both the retail and the on-premise sector. In particular, still red and white wines in the USD15-USD25 price range account for 55% and 50% of still wine sales respectively, while cheaper wines registered a quite stagnant performance in 2008.

⁷ The opening of new wine shops led to exclusive brands entering the market. In the on-premise sector, tourism and foreign consumers working in Singapore are expanding the wine&food culture, with preferences shifting towards more prestigious and expensive wines.

Promotional activities in Singapore are mainly organised within the on-trade sector and by wine shops. Companies are very active as well, coordinating campaigns together with MRCs and the most important national and international magazines.

The on-premise sector is the leader channel for distribution, with a 57% share in 2008, followed by wine shops (23%) and supermarkets (20%). The majority of hotels buy from large import companies, but the loyalty towards producing Countries is rather low: Singaporeans are eager to try new wines and new tastes, and, at the same time, tourists from all over the world push towards a supply that can match a much differentiated demand.

Wine shops and supermarkets are gaining power in the Country, and many shops are opening in residential areas and malls in order to target mass consumption.

3.5.2. The future and the position of Italy

The Singaporean wine market is expected to continue growing in the next four years, but at a slower pace. Sales of wine will reach a value of USD 238 million (+27% in respect to 2008) and a volume of 8.5 million litres (+18.2% compared to 2008). The development of the entertainment industry will lead to a further success of tourism, and this is expected to boost the wine business to a certain extent.

Red and white still wines should maintain their popularity and achieve the higher growth rates. Nevertheless, sparkling and rosé wines should improve their performances thanks to tourist influxes and the spreading of food&wine pairings knowledge. In particular, sparkling wines will be consumed more frequently, losing the halo of a product for special occasions. Moreover, new products (functional, organic, low alcohol wines) are expected to enter the market very soon.

The average price will continue to rise as consumers will be willing to pay more and will looking for higher quality products. Moreover, the success of wine should stimulate the attention of media channels towards this product and the organisation of more wine related events⁸.

Wine shops and supermarkets will gain larger market shares, but the on-trade sector is believed to maintain its leading position in the distribution.

Tab. 5: SWOT analysis results for Italian products on the Singaporean wine market

Strengths	Opportunities
<ul style="list-style-type: none"> · Italian wines are gaining market shares and consumer appreciation; · Italy is perceived as a producer of healthy foods and drinks; · Italian products are performing well in the on-premise sector, the dominant distribution channel in Singapore, and in situations where producers are required to expose themselves directly. 	<ul style="list-style-type: none"> · Per-capita income is rising; · Growing interest towards healthy and natural products; · Further development of tourist fluxes to and from Singapore; · Low taxes and duties; · Average prices are rising; · Strategic hub for commerce;

⁸ *Vinitaly on Tour* will stop in Singapore for the first time in 2010 (January 21st-22nd), organising events for wine operators, restaurant owners, hotel schools, journalists and opinion leaders.

	Very efficient logistics.
Weaknesses	Threats
<ul style="list-style-type: none"> · Synergies among Italian wine companies are chronically difficult to achieve; · Average size of Italian wine companies is too small to successfully implement promotional activities involving MRCs and wine shops; · Events focused on Italian wines are still in a limited number; · Growth of the retail sector. 	<ul style="list-style-type: none"> · Small Country, small market; · Low loyalty towards wines by on-premise operators towards producing Countries.

4. Conclusions

The results of the present work showed that an analysis of the five selected markets was necessary, so as to allow Italy improving or at maintaining its position in these Countries.

From a methodological perspective, the SWOT analysis let researchers evidence (a) market threats and opportunities with regards to volumes, values and categories of wine consumed, (b) the opportunities linked with different distribution channels (on- and off-trade), and an understanding of the most used promotional activities, (c) the main legal and cultural aspects that often represent the first and possibly main obstacle for the entrance and affirmation of any foreign product in these markets.

From a managerial point of view, the most interesting markets are China and South Korea. The former is expected to grow by 27% and 70% in value and volume terms respectively in the next four years, while the latter is expected to reach a market value of USD 956 million (50% more than 2008) and a volume of 34 million litres (+8.4% compared to 2008). Singapore and India show some interesting growth rates too, but starting from very low consumption levels. Italy is not a market leader in any of these markets, but it is definitely one of the key competitors. France dominates, (with the exception of Singapore, where Australia is the strongest importer), but the recent negative performances could help Italian wines get closer to market leaders.

The key strengths of Italian wines production on Asian markets are mainly related to high quality products, evoking classic values and being perceived as a *status symbol*. Only French wines share similar reputation effects. Moreover, food safety and environmental issues are gaining popularity, especially in China, South Korea and Japan. Italy can benefit from it as it has a long tradition in the production of organic and environmental-friendly wines. Another relevant aspect of Italy's potential competitiveness is related to the introduction of local vines in Asian markets: even though international vines are very popular, the Italian food-wine/vine matching can become a key promotional tool, especially in South Korea and wherever the attention to Western cuisine, income and out-door consumption are growing. This is also supported by the known ability of Italian producers in dealing with restaurants and hotels. The position of Italy is also good in terms of prices, especially with regards to the on-premise sector and to specialised wine shops. The majority

of wines sold in the Chinese, South Korean and Singaporean on-trade sector are in the USD14 – USD28 price range, while in Japan more than a half of organic wines are bought for an average of more than USD 16. On the other hand, half the bottles sold in India are sold for less than USD 10, as Indian consumers are more price sensitive. However, average prices are expected to rise in all Countries in the next four years. Taxes and duties are determinant in the Asian market, as they vary from 40% in China to 500% in India, but they are decreasing almost everywhere. Singapore, with its very low duties and quick customs procedures, represents an exception, favouring import-export relations between Countries.

The main concerns for Italian wines are mainly related to promotion and distribution issues. In order to implement adequate and effective promotional strategies and activities, in fact, Italian producers should understand better local legislation and trade practices. Most of the times, the inability to communicate using local idioms (or even English) makes it difficult to establish human and trade relations. Moreover, the information provided at fairs and events is not always complete and does not match the needs of sector operators and consumers. Another issue, especially with regards to the South Korean market, is related to the design and style of labels: information about wine, brand and vineyard are often confusing. In order to overcome this problem, in the Japanese market some labels carry additional information about taste, grape varieties and the history of wine. Despite this, it is important to underline that Italy can count on a series of interesting promotional events, such as *Vinitaly on Tour*, although a next necessary step will be the evaluation of the effects of such events on export growth and the international reputation of Italian wines. With regards to distribution issues, a problem that all importing Countries have to face when entering these markets is the lack of adequate logistic infrastructures, especially in China and India. Despite this, Japan and South Korea have very long and complex distribution supply-chain that push prices up. Only Singapore has a very efficient logistics.

This study does not intend to cover all the possible aspects Italian wineries need to know about Asian markets, but it offers a base for further and deeper thoughts about the role of Italian wines in the most dynamic and challenging markets of the next twenty years.

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