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**ATTITUDES TOWARDS ITALIAN WINE
OF PRACTITIONERS IN THE CHINESE DISTRIBUTION**

Sergio MARCHESINI, HULIYETI Hasimu,
Maurizio CANAVARI, Alessandro FARNETI

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**ATTITUDES TOWARDS ITALIAN WINE
OF PRACTITIONERS IN THE CHINESE DISTRIBUTION**

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Abstract

China's economy has grown at an impressive rate after the integration into the global trading system (WTO) in 2001, a major turning point in the Chinese economic history. The opening policy has increased business opportunities for both local and foreign operators; however, in spite of the great appeal of such cooperation, many obstacles yet exist: language, culture, education, business practices, and industrial development.

Food products supply and access to the market are mastered by a relatively small group of businessmen: international buyers, purchasing agents, retailers and representatives of large-scale distribution chains. The perception they have of a potential source country is a key factor for a successful market approach.

The present study aims at understanding the attitudes of distribution practitioners in the Chinese market towards imported Italian quality wine, as well as the current communication, marketing, strategic and organizational advantages or deficiencies of Italian producers, compared to other European counterparts.

The primary data were collected through personal interviews with key informants in Shanghai, Beijing and Guangzhou. Such information has been completed with an analysis of the existing literature, meetings with sector operators as well as with talks and presentations of experts attending the "International Workshop on Chinese Wine Market", held in Beijing on August 8-10, 2007.

The interviews have been administered as conversation-like dialogues, on the base of a semi-structured interview outline, providing also the framework for a qualitative content analysis.

This paper is aimed at giving an insight on import and distribution of Italian wine in China, highlighting both positive and negative feedbacks on the effectiveness of marketing strategies of Italian wine trading companies.

1. Introduction and objectives

China is one of the most promising markets in terms of growth, being considered as the largest single market that has yet to be developed. The size of population, the rising number of high income consumers, and the good economic perspectives make the Chinese market highly attractive for foreign companies. Its value is strategic for global market share and increased competitiveness (Reuvid and Yong, 2003) especially for the EU, being China the EU's second largest trading partner since 2003. For these reasons, it is extremely important to explore the factors influencing purchase decisions in the Chinese market.

Primary goods are by far the most important category for China. The economic boom has triggered profound changes in food consumption habits, and is transforming the country's food sector, both domestically and in foreign trade, and foreign firms are playing a leading role. China's influence over the EU is rising, and the relationships between the two blocks are intensifying, both in terms of exported and imported volumes.

Agri-food products are meant to reach the general public, but those who actually supply the market belong to a relatively small group of businessmen: international buyers, purchasing agents, retailers and representatives from large-scale distribution chains. The importance of such powerful minority is sometimes underestimated. They are in fact the gatekeepers who decide the range of imported products available for consumers to choose from. They are responsible for deciding the product offerings on behalf of millions of potential consumers. Understanding the drivers for their purchasing decisions, and the perception they have of the source countries is therefore a key factor.

The present study is aimed at understanding the attitudes of distribution practitioners in the Chinese market towards imported Italian quality wine, as well as the current communication, marketing, strategic and organizational advantages or deficiencies of Italian producers, compared to other European counterparts.

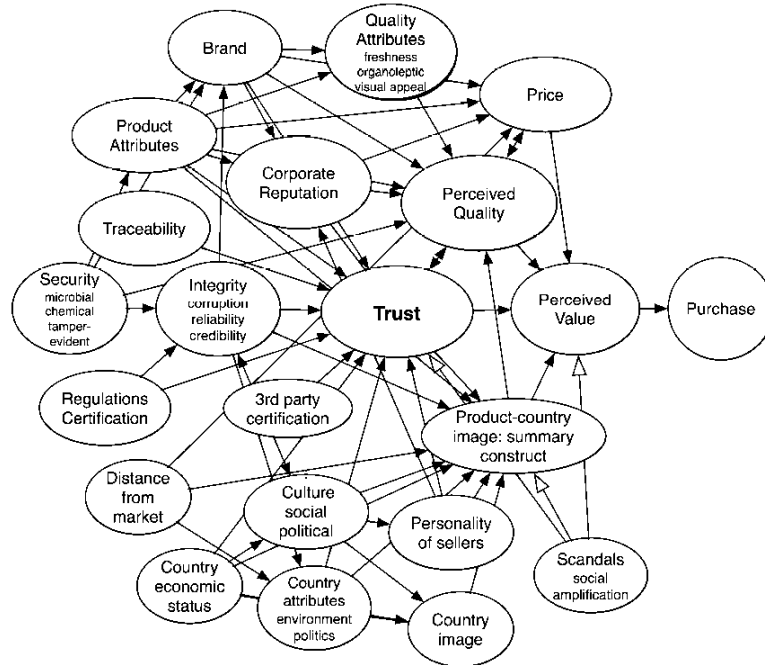
Aside from updating the available knowledge on import and distribution of Italian wine in China, this market-oriented study aims at pointing out the strengths and weaknesses of Italian food manufacturers in China, with the purpose of providing a cognitive basis on how to satisfy customer requirements as efficiently as possible.

The paper is organized as follows: Chapter 1 introduces the object of the study as well as the motivations underlying the selection of the topic, and provides a theoretical background for the analysis; Chapter 2 describes the economic and social environment, progressively closing up on distribution, retail and imported food retail issues, which is the object of the analysis; Chapter 3 shows the methodology utilized to acquire and process the data, as well as the characteristics of the respondents; Chapter 4 shows the results of the survey; Chapter 5 draws conclusions on the results, outlining the overall situation in relation to economic, social and cultural factors.

2. Theoretical background

The behaviour of professional buyers has been intensively studied in the literature on industrial marketing and trade. Buyers make decisions about quality of products on the basis of a process of acquisition, evaluation and integration of informational stimuli or cues, which can be intrinsic or extrinsic (Rao & Monroe, 1989). Taste and appearance are examples of intrinsic cues, whereas extrinsic cues include, among others, price, brand and country of origin. When intrinsic cues cannot be easily assessed (e.g., by tasting fruit before purchase), then consumers make greater reliance on extrinsic cues. This is particularly true of low-involvement products since the cost of evaluating intrinsic cues may greatly outweigh the benefit (Zeithaml, 1988). Extrinsic cues, particularly price and brand, are usually mentioned as key factors used in evaluating foreign food products (Gao & Knight, 2005). Liefeld's (1993) meta-analysis indicated that purchasing agents place even more importance on country of origin in their product evaluations than do consumers. A very relevant element influencing purchase decision in an international context is trust (Moorman et al., 1992; Moorman et al., 1993). Figure 1 shows Knight et al.'s (2005) contextual representation of factors influencing purchase of imported food products by gatekeepers (open arrows indicate inhibitory effects only).

Figure 1. Contextual representation of factors influencing purchase of imported food products by gatekeepers

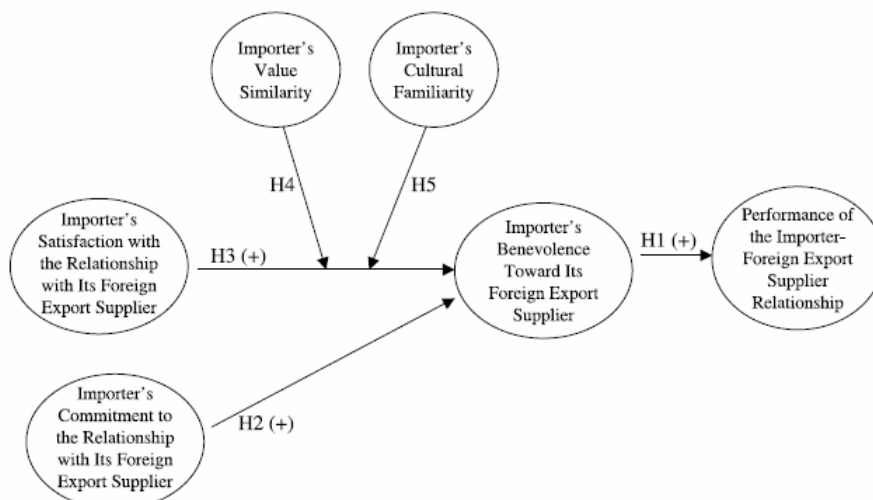


Source: Knight et al., 2005.

A relevant factor in purchasing decisions about imported food is psychic distance. Psychic distance can be defined as “The sum of factors preventing the flow of information from and to the market. These include difference in language, education, business practices, culture, and industrial development.” (Johanson & Vahlne, 1977)

The Chinese historical heritage is strongly present in the country. A clash between cultural pride, traditional relationship management rules, and the fast development followed to opening the economy and the need to cope with the western rules and business practice exists (Hooker, 2003), and a company approaching this market should be aware of this difficulty. Due to the complexity and size of the Chinese market having a complete overview of the cultural aspects of it is nearly impossible. Therefore it appears that even though a company should adapt culturally it might be beneficial to limit the process to a certain degree and choose familiar aspects from the home country that fit the Chinese market for the rest (Al Fahel et al. 2007).

According to the model hypothesized by Lee et al. (2007) cultural familiarity, “the degree to which an importer is familiar with its exporter’s country in terms of its language, business practices, political and legal systems, and marketing infrastructure”, is worth to positively moderate the relationship satisfaction influence on importer’s benevolence towards its foreign export supplier enhancing business performance (Figure 2).

Figure 2. The conceptual model of benevolence in the context of importer-exporter relationship

Source: Lee et al., 2007.

Of course, trade is also heavily subject to the influence of physical and regulatory barriers, including physical distance, customs regulations, tariffs, quotas, and other trade barriers like environmental, sanitary and phytosanitary regulations, transport infrastructures development, etc. (Lindqvist, 1991). To date, information and communication technology allows to easily get in touch with a business partner, but when it comes to goods delivery it's not that easy. There have been improvements in the customs regulations and other trade barriers department as well as a direct result of China's 2001 entry to the WTO (Wei et al., 2002). Various changes have taken place and one of the most important ones is increased freedom for foreign actors to set up joint ventures. Additional essential adjustments include lifted restrictions on capital markets and the removal of trade tariffs. The WTO entry has even been described to have increased the attractiveness of conducting business in China (Wang et al., 2003).

3. Background: trade and distribution

The importance of China as commercial partner for Italy has grown significantly in the last 5 years: the share of China on overall Italian export moved from 0.9% to 1.6% of the total. Analyzing the value of the Italian export by country of destination, it turns out that China only ranked 9th in 2000 and 6th in 2005 among the non-European countries. On the other hand, Italian products only represent 1.09% of China's overall imports (see Table 1).

Table 1. China's import-export volumes in 2006 (million USD)

| | Export | Import | Export Var. % | Import Var. % | Normalized trade balance |
|--------|---------|---------|---------------|---------------|--------------------------|
| Total | 969,072 | 791,613 | 27.2 | 20.0 | 10.1% |
| Europe | 215,371 | 114,857 | 30.0 | 19.1 | 30.4% |
| Italy | 15,973 | 8,603 | 36.7 | 24.2 | 30.0% |

Source: Ministry of Commerce in PRC, Department of European Affairs.

As far as the agri-food sector is concerned, in 2006 Italy ranked 30th among Chinese agri-food product foreign providers, with a market share of just 0.32% (Table 2).

Table 3 shows the composition of Italian agri-food export in China in 2004-2006. Cocoa, beverages, fats, oils and baking products were the categories that generated more revenues in terms of sales, even though they show different growth trends.

Considering wine (Tables 4 and 5), Italy ranked 3rd after France and Australia among countries exporting to China packages under 2 litres, while it's the 4th supplier of wines over 2 litres packages, this segment being dominated by Chile, Australia, and Spain.

Table 2. China total agri-food imports by country in 2006 (million USD)

| Rank | Country | Year 2004 | Year 2005 | Year 2006 | % share 2004 | % share 2005 | % share 2006 | % change 06/05 |
|------|------------|--------------|--------------|--------------|-----------------|-----------------|-----------------|-------------------|
| | World | 19,936.39 | 20,032.88 | 21,479.18 | 100.00 | 100.00 | 100.00 | 7.22 |
| 1 | USA | 4,983.12 | 4,299.56 | 4,095.46 | 25.00 | 21.46 | 19.07 | -4.75 |
| 2 | Brazil | 2,714.47 | 2,751.45 | 3,483.28 | 13.62 | 13.74 | 16.22 | 26.60 |
| 3 | Argentina | 2,671.73 | 2,959.01 | 2,361.33 | 13.40 | 14.77 | 10.99 | -20.20 |
| 4 | Malaysia | 1,427.15 | 1,326.33 | 1,699.35 | 7.16 | 6.62 | 7.91 | 28.12 |
| 5 | Russia | 822.08 | 1,115.15 | 1,241.18 | 4.12 | 5.57 | 5.78 | 11.30 |
| 6 | Indonesia | 858.71 | 898.06 | 1,229.10 | 4.31 | 4.48 | 5.72 | 36.86 |
| 7 | Thailand | 908.23 | 903.43 | 1,202.28 | 4.56 | 4.51 | 5.60 | 33.08 |
| 8 | Australia | 912.60 | 750.48 | 681.35 | 4.58 | 3.75 | 3.17 | -9.21 |
| 9 | Canada | 1,298.75 | 968.22 | 668.03 | 6.51 | 4.83 | 3.11 | -31.00 |
| 10 | N. Zealand | 475.80 | 474.90 | 520.92 | 2.39 | 2.37 | 2.43 | 9.69 |
| 30 | Italy | 32.87 | 45.64 | 68.26 | 0.17 | 0.23 | 0.32 | 49.58 |

Source: ICE statistics.

Table 3. Composition of Italian agri-food export in China (million USD)

| Products | Year 2004 | Year 2005 | Year 2006 | % share 2004 | % share 2005 | % share 2006 | % change 06/05 |
|-----------------------|--------------|--------------|--------------|-----------------|-----------------|-----------------|-------------------|
| Cocoa | 18.25 | 25.40 | 24.60 | 55.51 | 55.66 | 36.04 | -3.14 |
| Beverages | 3.79 | 5.53 | 16.29 | 11.53 | 12.11 | 23.87 | 194.80 |
| Fats and oils | 2.77 | 5.95 | 11.25 | 8.43 | 13.04 | 16.48 | 89.12 |
| Baking products | 2.62 | 2.98 | 4.73 | 7.96 | 6.54 | 6.93 | 58.62 |
| Dairy, eggs, honey | 0.38 | 0.70 | 3.87 | 1.15 | 1.53 | 5.67 | 452.78 |
| Preserved foods | 1.77 | 1.94 | 2.50 | 5.37 | 4.26 | 3.67 | 28.75 |
| Miscellaneous foods | 1.30 | 1.26 | 1.90 | 3.95 | 2.76 | 2.78 | 50.81 |
| Spices, coffee, tea | 0.81 | 1.23 | 1.86 | 2.47 | 2.70 | 2.73 | 51.02 |
| Grain, seed | 0.07 | 0.15 | 0.44 | 0.20 | 0.32 | 0.64 | 201.86 |
| Milling, malt, starch | 0.09 | 0.16 | 0.30 | 0.28 | 0.36 | 0.44 | 83.20 |
| Other | 1.02 | 0.34 | 0.52 | 3.15 | 0.72 | 0.75 | 4.00 |
| Italy total | 32.87 | 45.64 | 68.26 | 100.00 | 100.00 | 100.00 | 49.58 |

Source: ICE statistics.

Table 4. Statistics of China wine import and export in 2006

| | 2006 (1000 hl) | % change 05/06 | 2006 (1000 USD) | % change 05/06 | 2006 (USD/hl) | % change 05/06 |
|-------------------------|-------------------|-------------------|--------------------|-------------------|------------------|-------------------|
| Export under 2l package | 34.00 | 54.69 | 9,738.10 | 151.23 | 283.06 | 108.70 |
| Export over 2l package | 2.00 | -0.21 | 250.00 | -12.00 | 84.15 | -11.27 |
| Import under 2l package | 202.00 | 95.68 | 77,260.80 | 93.43 | 381.93 | -4.49 |
| Import over 2l package | 944.00 | 120.72 | 52,537.90 | 71.53 | 55.63 | n.a. |

Source: Wang, 2007.

Table 5. China Import Wines from Italy

| | million USD | | % Share | | % Change |
|------------------------|-------------|----------|---------|-------|-----------|
| | 2005 | 2006 | 2005 | 2006 | 2006/2005 |
| Italy TOTAL | 6,934.33 | 8,605.62 | 1.05 | 1.09 | 24.1 |
| Beverages | 5.53 | 16.29 | 0.08 | 0.19 | 194.8 |
| Wine from Fresh Grapes | 4.37 | 12.12 | 79.07 | 74.39 | 177.36 |
| Sparkling | 0.19 | 0.53 | 4.37 | 4.41 | 180.08 |
| Not Sparkling <2L | 2.83 | 7.52 | 64.82 | 62.04 | 165.46 |
| Other Wine | 1.35 | 4.07 | 30.81 | 33.55 | 202.03 |
| Grape Must >.5% | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

Source: ICE statistics.

Up to May 2007 China wine import have still registered growing trends, wine import under 2 litres package reaching 148,000 hectolitres with an increase of 164.68% and wine import over 2 litres package performing a 53.84% increase, 574,000 hectolitres (Wang, 2007).

3.1. Distribution

The distribution system represents one of the most problematic and important issues concerning the Chinese market: the ambiguous regulations, the transport system, the huge market and the extreme localization of the networks heavily hinder the penetration of foreign companies into the Chinese territory (Opey, 2003).

Before the reform all the products used to enter in China through the only existing channel, the state-controlled one; after the reform thousands distribution companies were born, companies that are officially state-owned but actually perform as private companies. Now the competition is increased by the development of the private sector. The big state-owned international trade enterprises have upgraded and expanded their activity, including the distribution phase besides the import-export. Although the product range is often limited, they have a widespread coverage. Private distributors are generally smaller and have a regional coverage, but they still have connections with the local and provincial authorities that make it easier for goods to be handled and delivered. Foreign companies often co-operate with these enterprises. However, the cooperation with such operators is not always hassle-free: they in fact work at the same time for the more competing enterprises, delivering rival products to the same stores, or with more distributors delivering the same products to the same stores.

So far the access to the Chinese market, as far as imported products are concerned, also passes through public trading corporations and, to a lesser extent, through private companies and Hong Kong agents, not to mention the few but huge foreign joint ventures that obtained the import-export licence and the permission to perform currency exchange operations. Although distribution networks are not as developed as the situation requires, and professionalism among the intermediate figures of the distribution chain, especially wholesalers, is still low, standards are rising very quickly.

3.1.1. Retail

Chinese retail market has undergone remarkable growth, as well as significant, profound changes. Traditionally, food products were purchased daily from local wet markets and dry goods from local State-run stores. Western-style retail stores have begun to replace the traditional structure. Today, hypermarkets, supermarkets and convenience stores have proliferated in the city providing convenience, reasonable prices and improved sanitary conditions, and urban consumer has accepted the evolved system with enthusiasm. Numerous forces are fuelling the rapid modernisation of the sector: rising incomes and expectations amongst the emerging middle-income segment; increasing ownership of refrigerators, eliminating the need for daily grocery shopping; changing lifestyles, with young couples both working and unable to make daily trips to the wet market; and growing concern about the proliferation of counterfeit and low quality goods following a spate of food related scandals and health scares.

Between 1978 and 2000, the retail sector grew at an annual average rate of 13.5%, and after the 1990s development has been even more remarkable. Store ownership has diversified considerably. Today, individuals, private businesses and foreign-invested ventures are active players in China's retail sector. The entry of foreign investment has injected new dynamics of competition, while at the same time speeding up the retail revolution process that has totally altered the retail structure and competitive landscape in China. China's retail market has begun to reach a much more advanced stage of maturity in recent years in the main urban areas, and almost all the new retail formats that have been developed in western economies have been introduced.

Local retailers are likely to exploit 3 key competitive advantages over their multinational rivals:

- they have a good understanding of the local customer;
- they enjoy strong relationships with central and local governments (essential when securing prime sites and winning permission to acquire local state-owned retailers);

- they have long-standing partnerships with suppliers (one of the more difficult tasks facing foreign retailers).

Yet food retailing is one of the few categories in which foreign retailers have made significant inroads, in part because they have brought more innovative formats to the market.

3.1.2. *Imported food distribution channels*

The food retail market is complex and multi-tiered. A combination of supermarkets, hypermarkets, department stores, convenience stores, wet markets and kiosks perform food distribution in the cities. However imported products distribution channels are not as much specialized and diversified, mainly for 2 reasons:

1. Small quantities of products are delivered on the market compared to local products.
2. People interested in imported products are limited in number and located in specific areas.

The lack of specialization limits the number of available distributive channels, which are mainly foreign Joint Venture department stores or hypermarkets that sell to foreigners who live in China (e.g. Beijing China World Mall, Shanghai Hongqiao Friendship Shopping Centre), or convenience shop chains (Lawson).

According to Mofcom statistics the leading foreign retailer in China by sales value in 2005 was Carrefour (France), ranking 9th on the overall list of top chain store retailers with sales of 2.2 billion USD. The other retailers in the top 30 were Wal-Mart (USA), Thai-invested Lotus Supercenter and Metro Jinjiang Cash & Carry Co (a joint venture between Metro of Germany and the Shanghai-based Jinjiang International Group). Carrefour had 78 mainland stores by end-2005, followed by Wal-Mart with 56 stores, and Metro, with 27 stores. Auchan (France), Tengelmann (Germany) are quite outdistanced. Even though they already have significant footholds in China, however Chinese retail chains are aggressively catching up to their foreign counterparts when it comes to management, logistics and marketing.

4. **Methodology**

This study explores B2B relationships for the agri-food sector in the international environment, analyzing the current situation that marketers from a single country (Italy) are facing for a single sector (wine) in a foreign market (Peoples' Republic of China), described from the point of view of the Chinese professional customers.

From a methodological point of view the study explores Supply Chain Management issues (SCM), Relationship Marketing issues (RM) and Category Management issues (CM). Moreover, this paper follows the trail of previous studies on Chinese distribution channels members from an international business environments perspective (Gao & Knight, 2005; Knight & Gao, 2005; Knight et al., 2005).

The primary data have been collected through personal interviews with key informants of trading and distribution companies. Such information have been completed with articles and reports available on Internet literature databases, meetings with sector operators as well as several presentations taken from the "International Workshop on Chinese Wine Market", that has been held in Beijing from the 8th to the 10th, August 2007. The interviews have been administered as conversation-like dialogues, with the help of a semi-structured interview outline. The responses have been evaluated in accordance with such framework, performing a qualitative content analysis.

17 distribution channel operators in the Peoples' Republic of China have been interviewed to outline the situation for imported Italian wine. Data have been collected through personal interviews with key informants of trading and distributing companies in three major centres: Shanghai (10 interviews), Beijing (4 interviews) and Guangzhou (3 interviews).

The enterprises were contacted via personal connections, adopting a non-probabilistic snowball sampling procedure. Since the aim of the survey was to acquire an insight on Italian wine trading companies' strategies in China, the sample has been selected providing they were

dealing with Italian food products; however, it turned out that 1 of the interviewee was not actually dealing with Italian wine. Their comments have been nonetheless registered, and such difference taken into account in the analysis of the information they provided.

Given the leading and strategic position of the respondents, the interviews have been structured as conversation-like dialogues rather than asking questions that impose categorical frameworks on informants, according to a semi-structured scheme. This solution permitted both to understand their point of view as a group, and to uncover a diversity of responses, whether or not these have been anticipated by the enquirer. The core information has been collected through open-ended questions, raised in no particular order, according to the interview outline.

The interview was structured as follows:

1. To obtain quantitative information on the characteristics of the interviewee's business: degree of involvement with Italian companies; source countries for wine and other agri-food products; characteristics of the company's distributive network; business size in terms of geographical coverage;
2. To obtain general information relevant to define the business environment: customs and import-related issues; general problems of the sector;
3. To point out the interviewee's preferences: attitudes towards Italian products; insights on the business relationship; likes, dislikes, and complaints.

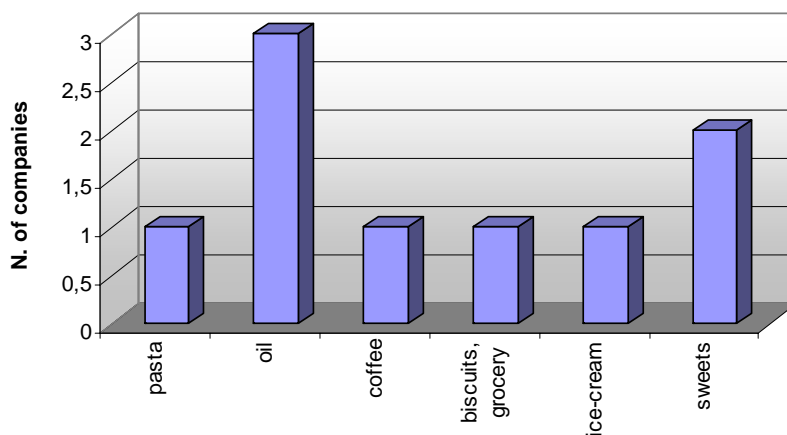
The duration of the interviews ranged from 10 to 30 minutes and in most cases they were conducted entirely in Mandarin language.

Since this is a relatively small sample, results cannot be generalized to the wider population of food channel members in such a huge market. However, the information obtained can be very useful for getting an insight on some relevant issues to be coped with when approaching this market.

The sample characteristics are reported only to give an overview of the main source of information for this study. Due to the small numbers, it is not useful to calculate percentages. Out of the 17 interviewees, 12 were exclusively wine dealers, while 5 dealt with both wine and other agri-food products. Considering the role in the supply chain, 14 interviewees were importers and distributors, while 3 were decision makers in locally owned supermarket chains. As far as the geographical coverage is concerned, most of the interviewed companies distributed their products all over China, some of them only in the major city centres (that is, from 1 to 5 big cities), and an equal amount of them distributed only locally (that is, in a single city).

Figure 3 shows the products other than wine distributed by the 5 interviewed wine/food dealers. Most of the respondents dealt also with pasta, oil and various grocery products.

Figure 3. Products other than wine distributed by the interviewed wine/food dealers



Source: Survey data.

Considering the geographical distribution, any noticeable difference among the three centres in terms of perceptions by the operators emerged.

5. Results

5.1. Wine market

The composition of the traditional Chinese diet is different from the western one, as well as the occasions in which foods are consumed. Chinese spend more than 40% of their disposable income on foods and beverages, and this percentage is likely to increase in the future; moreover, Chinese disposition to out-of-home consumption is higher than in the EU or in the US, for most important personal and social events revolve around food and beverages. Furthermore, wine market is somehow different from the other agro-food products. Chinese people are generally high sensitive for price; wine and spirits are however often given as gift in special occasions, and therefore less price-sensitive than the other agri-food products. The importance of gift-giving in the Chinese culture strongly differs from the western world, especially in the business environment. It is of utter importance to give prestigious gifts, for they represent the respect and financial strength of the company, and for they operate as a way to attract a possible future relationship. The gift reflects both the status of the donor and respect towards the receiver. However, since the social status conveyed by the product relies on the product notoriety, promotion plays a key role. Even though China is still an emerging market for wine, the arena is already sophisticated and very competitive. A decade ago the wine market in China was almost nonexistent; today there is much attention towards this sector and a small but loyal following in major urban areas (China has 8 millions wine consumers and the ones interested in wine are more than double) already exists, and it's likely to develop into a substantial market as wealth increases. Beijing and Shanghai are generally considered to have the largest markets for western foods, and most major hotels and restaurants feature wine quite prominently. Wine consumption, especially of imported wine, is virtually nonexistent outside of major cities, but there is a lot more room for growth. Smaller cities that are within a few hours drive of Beijing and Shanghai for example, offer long term prospects, but trade and consumer education will in many cases require starting from zero. In China, per capita consumption of grape wine is 0.3 litres per year, compared to a world average of seven litres (24 litres in Western Europe). The Chinese wine consumers stand out for their average-high incomes, are 30-45 years old, well-educated, and live in an urban area. Ordinary wage earners only drink wine in limited occasions. Wine consumption is often seen as a kind of social statement of their economic status: wine (especially red) is becoming fashionable at lounges, nightclubs, discos and upscale Chinese restaurants. Chinese consumers don't necessarily serve wine in the traditional western way: iced red wine and red wine mixed with colas are popular, as well as white wine combinations with lemon or lime sodas.

5.2. Distribution structure for Italian wine

What emerged from the interviews is that Italian products are mainly sold to supermarkets chains, and to Italian restaurants, but important professional customers for the Italian wine importers are also brokers, shops and hotels. A limited role seems to be played by wholesalers. The results of a questionnaire investigation on Beijing consumers' buying behaviour showed that supermarkets are the main channel for them to get a bottle of wine (Ma et al., 2007). Local agents play an important role, since they allow major importers to reach unfamiliar or distant regions, where distribution networks are not developed as in the major centres or well organized.

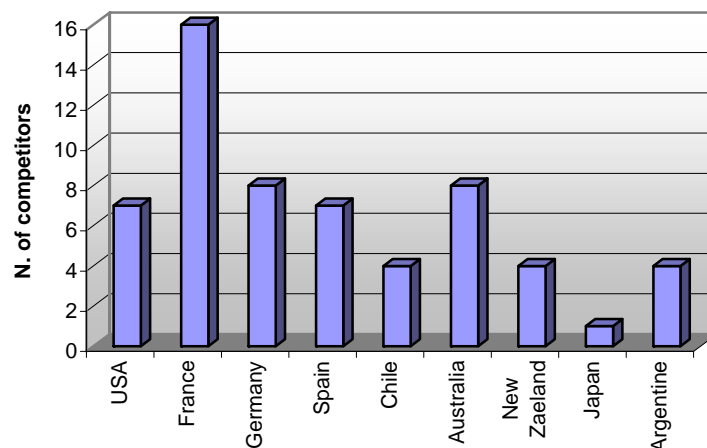
The role of supermarket chains and their share in the wine market is increasing. One of the most accepted methods to retail new products in the Chinese market consists in the payment of an "entrance fee", which permits the product to be exhibited in supermarkets' and hypermarkets' shelves. The price varies depending on the product and the market chain, starting from a minimum of 60 USD in the small markets up to 12,000 USD in the biggest

distribution chains; clearly the higher the fee, the higher the possibility for a product to be retailed. Alternatives are a commission on the sales or a free initial supply.

As can be easily supposed, there are many drawbacks: scarce selection and quality controls on products, surplus of luxury goods, unbalanced rate between the different typologies of products. Dynamic small enterprises, although offering a high quality product range, are forbidden to enter this market due to the lack of capital; on the other hand products that do not meet the favour of the public can't be discarded in time. It's likely that this barrier will be hard to lift, given the significant contribution it has on distribution chains' budgets. Moreover the fees applied are rising; hence it becomes increasingly difficult for small producers to maintain the grasp on their market shares, as revealed by 9% of the respondents.

Despite the scarce weight on the overall wine market, Italy is nonetheless one of the most renowned country for wine in China, being in the top 10 list of exporting countries mentioned by the interviewees together with France, Australia, Spain, Germany and US as stronger rivals (Figure 4).

Figure 4. Italy's competitors mentioned by the interviewees



Source: Survey data.

5.3. Italian companies' strategies overview

5.3.1. Marketing and organizational issues

At present, Italian wine companies' strategy in approaching the Chinese market seems inadequate under many aspects.

The major obstacle that prevents Italian companies from successfully penetrating the Chinese market is that they do not invest in promotion and marketing, and sometimes they are not concerned about what happens after the sale. Many of the distributors interviewed pointed out this issue, thus making clear why even though Italian exports are rising, the shares of Italian products are gradually decreasing to the benefit of other EU countries, notwithstanding their early arrival in China. Germans, American, Australian and above all French competitors developed effective long-term strategies, investing a lot in marketing and product image development, exploiting any communication channels available and constantly adjusting their offer to the market demands, thus gaining position to the detriment of other countries that sell similar products, like Italy. It inevitably emerges that also Italian companies' post-sale services are inadequate.

"Italian companies do not invest in their own products" (Shanghai distributor).

"Italians don't care much about what happens after the sale. Once the transaction is over nothing else matters" (Shanghai importer).

Chinese people are interested in Italian wine, but sometimes they don't know it well enough to end up with a purchase. There are many Italian restaurants in China, especially in the big cities, and they are a very powerful vehicle for promotion; however they are not supported by communication campaigns that raise the awareness on products traditions and background, therefore such interest is not necessarily converted to home consumption.

The second problem concerns the language and the fact that most Italian wine labels are in Italian. Since Chinese consumers are familiar with Italian language as much as Italians are familiar with Chinese language, even though Italian products are appreciated, their names are hard to remember for consumers, and a second purchase might not follow the first due to a scarce familiarity with the language. Moreover, there is a problem in translating the varietal names; some are translated phonetically, while others conceptually (e.g. there are three different translation for Chardonnay).

French and Germans usually provide English indications together with home-country language, so as to make easier for consumer to remember the name and acquire an insight on the product characteristics, while multinational companies entirely translate the labels. Italians simply export their products as such.

"Italians do not translate products name, therefore Chinese consumers do not remember them and do not buy a second time, even though willing" (Shanghai distributor).

"Italians use just Italian language for their products, they are not concerned if people will or won't understand. Unfortunately understanding can make the difference between buying or not" (Shanghai distributor).

According to some respondents, the Italian suppliers suffer of an organizational gap. Italian producers often approach the Chinese market individually or grouped by region, promoting local images instead of the country one, relying on the wrong assumption that Chinese consumers are familiar with Italian geography, and could easily separate single regions from the national context. Due to a substantial information lack this strategy has only the result of generating confusion, making them unable to refer to a strong country image.

Some foreign wineries see the joint venture method as the best way to compete in the Chinese wine marketplace. About 20 years ago during China's initial opening to the west, several joint venture wineries, mostly Sino-French or Hong Kong invested emerged and laid the groundwork for the current industry. Bernard Taillan, France's second biggest wine group, has developed plans to sell its wines in the China marketplace and also to invest in a joint venture with Beijing Agriculture, Industry and Commerce United General Corporation. Remy Cointreau (one of the 4 shareholders in the Maxxium group) established a joint-venture winery with the Chinese government making and marketing wines under the Dynasty label.

Organizational deficiencies, combined with scarce product image promotion and inadequate long-term marketing strategies lead to failure. The result is that Italian products are often sent, sold but not exported, due to the lack of continuity in the flow and due to a weak market penetration. On the other hand, the ability of Chinese agents is increasing, and so the number of agents that directly go abroad to supply instead of waiting for foreign agents to present their products.

The difficulty to cooperate with Italian suppliers, due to a scarce propensity to adapt to a new business environment, has also been reported by some respondents.

"When they fail, Italians return home, French come the day after with a new proposal" (Shanghai distributor).

For some of the interviewees the overall impression is that the target group for Italian producers in China is represented by their own nationals and the other Europeans living there, who are familiar with the Italian culture and products, instead of the China's mainstream public.

*"Italian companies export just for Italian people, not for Chinese"
(Shanghai distributor).*

5.3.2. Quality standards and recognition

Even though China reduced tariffs on wines from 65% to 14% according to the WTO agreement (which allows better access to imported wines and foreign suppliers are in a better position to target the emerging Chinese middle class), Italian and Chinese quality standards are not fully compatible yet.

Another obstacle relies in quality recognition. There is a lot of confusion in the denomination systems, as pointed out by 17% of the respondents. Italian quality system divides wines into 3 clusters: IGT¹, DOC² and DOCG³ but very few Chinese consumers are aware of such classification, or know the meaning of the acronyms. It's therefore possible that IGT wines gain more notoriety and prestige than DOCG wines, due to basic lack of information and opportunistic marketing campaigns. Moreover, since the information on the characteristics of the products shown on the label is in Italian, no other sources of information are available but the bare bottle layout.

*"It's hard to understand which wines are really good, for there is no clear distinction among the various appellations. It comes next that prestigious quality wines are easily outclassed by common wines"
(Shanghai distributor).*

Besides providing basic information, French arrange special courses to raise the awareness on their long wine production tradition and culture; Italians do not even insert a basic description of the products' characteristics in the label (Guangzhou distributor).

5.3.3. Chinese buying behaviour and palate preferences

Wine differs from other categories of foods and beverages because less price-sensitive, but not completely. From a recent study analyzing the buying behaviour of Beijing supermarket

¹ (IGT) Indicazione Geografica Tipica. Second level of Italian wine classification that ranks between the vino da tavola (VDT) and Denominazione di Origine Controllata (DOC) categories. IGT is similar to France's vin de pays and Germany's landwein. IGT wines are officially approved as being representative of their geographic region. Labels may contain the region, the grape variety, and the vintage.

² (DOC) Denominazione di Origine Controllata. Established in 1963 and implemented in 1966, the "Controlled Denomination of Origin" is Italy's equivalent to France's "Appellation d'origine contrôlée". DOCs are defined by the geographic area of production for each wine, the varieties that can be used, the minimum alcohol content, the maximum yield, and specifications for aging. The DOC system doesn't guarantee quality, but it does nudge a majority of the wines in that direction.

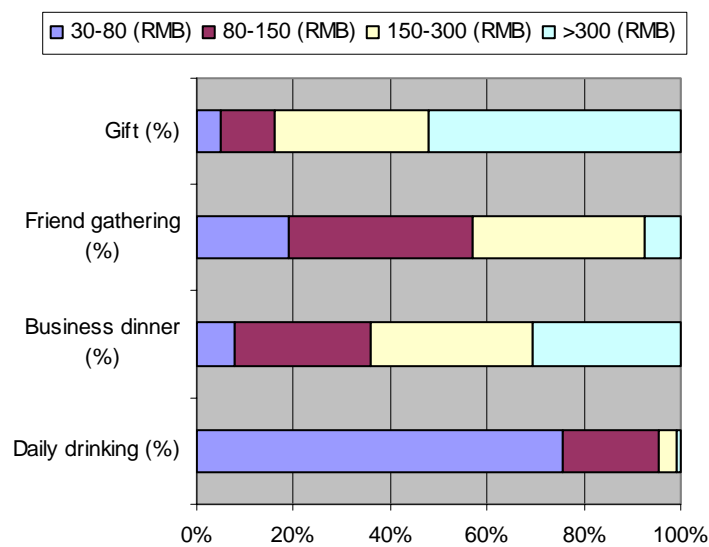
³ (DOCG) Denominazione di Origine Controllata e Garantita. Such category embodies a premier group of growing areas in Italy whose regulations encompass all laws of the Denominazione di Origine Controllata (DOC) but are even more demanding. Meaning "Controlled and Guaranteed Denomination of Origin," the Denominazione di Origine Controllata e Garantita focuses on the key word *garantita* – the Italian government's quality "guarantee." Government testers examine and taste the wines prior to awarding DOCG status. The producers then bottle the qualifying wines, securing them with a government seal (a colored strip placed over the capsule or cork). The words "Denominazione di Origine Controllata e Garantita" are incorporated into the label.

consumers it emerged that expensiveness of imported wines is the most important factor blocking the purchase of a foreign bottle, immediately followed by the ignorance about selection criteria (Ma et al., 2007).

Figure 5 shows choice on wine price with different purchase and consumptive purposes for Beijing supermarket consumers. Business environment and related gift-giving practices are unique occasions for price doesn't affect buying behaviour; otherwise daily consumption still concentrates on less expensive and well promoted, well known local brands of Chinese wine. Whilst Italian wines are quite unnoticed, French's are on the top of the choice when it comes to make significant gifts (Ma et al., 2007).

French wine is easy to sell because it's famous. Australian wine because it's cheap and yet of good quality. Italian wine is nor cheap nor famous (Shanghai distributor).

Figure 5. Choice on wine price with different purchase and consumptive purpose



Source: Ma et al., 2007.

According to the same research 50% of the interviewed consumers declared to read always the back label when buying a bottle of wine, with particular attention paid to the descriptive notes about aroma and taste.

Chinese drink wine voluminously and quickly, therefore their evaluation of wine quality is mostly based on two criterions: the first impact with wine taste and the lasting sensation at the end in the mouth. Moreover in Chinese cuisine all dishes are presented at once, and eating and drinking are separate activities during the meal (Zhao, 2007).

There are some misunderstandings about wine consumers' palate preferences from international producers and exporters. Chinese have a very complex and delicate palate:

1. Flavour: sweetness is preferred by beginners, sourness by females, Tannins by educated wine consumers; bitterness is accepted by few people, while oak taste has different impacts depending on the characteristics of the different markets.
2. Character: fruitiness is welcomed by the vast majority of wine consumers, spiciness is highly accepted by consumers who love strong flavour, earthiness is only detected and preferred by well educated and experienced wine consumers.

3. Structure: fuller bodied products give people impression of quality, most preferable by heavy drinkers, softer is more preferable for beginners, finishing could be the most ignored character in many tasting.
4. Faults: slightly oxidization and corkness are detectable only by well educated wine consumers; the majority of drinkers is sensitive only to heavy oxidization, volatile acidity and reduction, all perceived as signal of poor wine quality. The special taste of hybrids could be acceptable by some people who get used to it and be refused by others (Zhao, 2007).

Both local and foreign entrepreneurs limit wine marketing strategies to aspects such as aesthetics improvements in the design of the packaging (due to the fact that packaging design affects purchasing decisions more in China than in the western markets), whilst low attention is paid to products customization, wine education and cognisance and promotion: the higher will be the familiarity with wine, the higher will be the probability of arising consumers' interest in the future, and the higher is likely to be the demand for high quality products (Wang, 2007).

5.3.4. *Communicating brand image*

A best-worst scaling approximation applied in a questionnaire investigation to a group of 230 Beijing supermarket consumers (Ma et al., 2007) showed that wine extrinsic cues such as country of origin and brand are of major concern for the respondents.

Table 6. Top 10 brands in China's wine market

| Brand name | Market share (%) |
|---------------|------------------|
| ChangYu | 19.30 |
| Great Wall | 17.34 |
| Tonghua | 14.17 |
| Dynasty | 10.51 |
| Weilong | 3.99 |
| China Red | 3.76 |
| Qingdao | 3.41 |
| Baiyanghe | 2.19 |
| Yeli | 2.13 |
| Duke Dry Wine | 2.09 |

Source: Chow, 2007.

At present, Chinese wines are still on the top of the choice because of the price and because they have well known, well promoted brand names; essentially, they are easier to remember for a Chinese consumer.

Table 1 shows the most preferred wine brands in China. ChangYu has the largest market share of the wine industry; established with long history, price points to reflect consumers' spending power, focus on scale economies and simple labelling policy (e.g. basic information, emulate French traditional chateau wines front label) are marketing strategies that make ChangYu the number one wine brand in China (Chow, 2007).

Imported wines enjoy a higher reputation in a market currently dominated by low quality products; foreign brands should customize their strategy for China market, still being wary of regional differences within the country (brand localization).

Chinese are not easy with "big bang" advertising approach; a soft approach, like word-of-mouth communication strategies may work better (Chow, 2007). Nonetheless, most lifestyle magazines and newspaper lifestyle sections dedicated columns to wine promotion; wine topic is extremely popular in media advertising (except television, since only large scale spirits companies can afford mass market communication). As a results, wine typically classifies as luxury good, as a status symbol, and as a purchase aimed at satisfying self-esteem needs. Therefore, target consumers among Chinese nationals are businessmen, well educated professionals and high-income persons (Tong, 2007). Since China is a huge market, wine market segmentation is obviously a crucial issue.

5.3.5. *Wine agents*

Different expertises meet different demands. Agent's expertise in the wine business, knowledge of the products portfolio, understanding of the consumers demands and understanding of the marketplaces regulations are all crucial parameters to consider when seeking a suitable and successful partner in China. Table 7 gives an insight on agents' professionalism and characteristics in the chinese market.

Table 7. Wine agents classification

| Agent | Size | History | Expertise | Single brand attention | e.g. |
|--------------|--------------|------------------------------|----------------------------|------------------------|---|
| Capital | Small/big | Long for international trade | Uncertain on wine business | Uncertain | State-owned international trade enterprises |
| Traditional | Middle/big | Long for wine trade | High | Uncertain | Old importers specialized in wine business |
| Professional | Small/middle | Recent (2/3 years) | High | High | New traders with great potential |
| General | Small/middle | Variable | Uncertain | Uncertain | Local/regional marketers |

Source: Wang, 2007.

Promotion and communication skills play an important role; staff training, wine tasting experience, and awareness on the key events to attend are all winning factors in the wine business (Wang, 2007).

Importer's benevolence towards its foreign export supplier cannot be based upon utilitarian motives only. This implies the exporter's effort to increase the importer's cultural familiarity with its country of origin through close communication, person-to-person interaction, mutual visits and training to enhance cultural sensitivity (Lee et al., 2007). Long-term commitment and top management vision are required for an exporting program to be successful (Olsen et al., 2007).

6. Conclusions

Western wines are a new product in China and, at present, they are still considered as luxury goods. Italian wine is appreciated by Chinese consumers, and it seems to have very good future perspectives; even though growing, at present imported Italian wine in China show a much smaller market share compared to other countries, due both to intrinsic and extrinsic factors:

- Although growing fast, wine market is still in an early phase, and wine connoisseurs remain a tiny minority;
- Italian companies' marketing strategies are inadequate, for Italians do not invest in promotion and product image development while promotion is the key to educate and win future customers on a brand new market. Other countries such as France, USA, Germany and Spain regularly do that, and are therefore slowly taking over;
- A local supply made up of cheap products with a satisfactory quality for domestic customers competes with imported products;
- The distribution in China hinders the penetration of foreign products, and so far only the biggest urban areas are able to offer a retail service comparable to that of the western countries.

The result is that now Italian wine shows a market penetration not adequate to its potential.

Chinese' predisposition to food consumption is higher than in the western world, and due to the rising incomes it's likely to increase, not in quantity but in quality. Hence, Italian wine companies' approach towards Chinese market need to be changed quickly, and replaced by a market-oriented strategy. Country of origin itself appears to play little role in product evaluation by channel members, so it's all up to marketing and promotion. Grip and grab need to be tightened. Furthermore, since first mover status plays a major role in regard to product acceptance, both due to the long-term orientation of Chinese culture and to the prevalence of counterfeit products, the earlier the approach, the higher the possibilities of succeeding.

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