



Declaration

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This Thesis/Dissertation/Research Project is submitted in partial fulfilment for the requirements for the Unitec degree of Master of Business

CANDIDATE'S DECLARATION

I confirm that:

- This Thesis/Dissertation/Research Project represents my own work;
- The contribution of supervisors and others to this work was consistent with the Unitec Regulations and Policies.
- Research for this work has been conducted in accordance with the Unitec Research Ethics Committee Policy and Procedures, and has fulfilled any requirements set for this project by the Unitec Research Ethics Committee.

Research Ethics Committee Approval Number: 2006:607

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Ruming Ma 4/11/2007

To My Wife Joy and My Parents

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Abstract

Driven by trade liberalisation, globalisation has been regarded as a predominant feature of world economy in the past fifty years. It has increased the interdependencies amongst world market and the diffusion of new ideas, technology, products and lifestyles through international market. No country or company can isolate itself from the integrated world economy and market that is emerging around us.

As a result of the adoption of the economic reform and open policy, THE economy of China has grown quickly over the past two decades. China consequently was the largest absorber of foreign direct investment in several past years and was the third biggest country of international trade in year 2005. Potential in the market has been targeted by almost all countries and companies in the world. Capturing shares of Chinese market is regarded by entrepreneurs as a vital for further development, even survive.

The ongoing negotiation of the Free Trade Agreement between New Zealand and China will provide New Zealand entrepreneurs with enhanced opportunities to enter this tremendous market, in this case, the New Zealand wine industry. However, whether New Zealand companies will successfully be there depend to large extent on what and how much they know about the market, including business environment and consumers' behaviours. By relatively intensive research, this paper provides essential knowledge of Chinese wine market and suggestions for the New Zealand wine industry on how to enter the market.

This research concludes that the New Zealand wine industry needs to enter Chinese market as early as possible. Suggestions on distributional channel

selecting, pricing, packaging and labelling, consumer approaching, as well as initiating promotional activities are discussed and outlined. With regards with characters the New Zealand wine industry, joint ventures and non-production involved wholly owned subsidiaries are suggested as most suitable entry modes for New Zealand wine entrepreneurs to enter Chinese market.

Abbreviations

ADS: Approved Destination Status

AFTA: Association of Southeast Asian Nations Free Trade Area

APEC: Asia Pacific Economic Cooperation

ASEAN: Association of Southeast Asian Nations

CEP: Closer Economic Partnerships

CER: Closer Economic Relationship

FTA: Free Trade Agreement

GATT: General Agreements on Tariffs and Trade

IMF: International Monetary Fund

ITO: International Trade Organisation

MFAT: Ministry of Foreign Affairs and Trade of New Zealand

MFN: Most Favourite Nations

MTS: Multinational Trade System

NAFTA: North American Free Trade Agreement

OECD: Organisation for Economic Co-operation and Development

RTA: Regional Trade Agreement

SER: Strategic Economic Partnerships

SME: Small and Medium-sized Enterprise

WTO: World trade Organisation

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1. Introduction

1.1 Overview

The importance of international trade to a nation's economic welfare and development has been heavily documented in the economics literature since Adam Smith's (1776) pioneering inquiry into the nature and causes of wealth of nations. Together with theories on trade flows between at least two nations and the nature and extent of gains or losses international trades have to an economy, effects of trade policies has composed the theories of international trade.

As multilateral trade systems, General Agreements on Trade and Tariff (GATT) and World Trade Organization have significantly contributed the trade liberalization of international trade. However, sluggish progress in multinational negotiations under the Doha Development Round has compelled world trade participants to pursue Regional Trade Agreements (RTAs) as a trade policy instrument and as a complementary to Most Favourite Nation (MFN). The Free Trade Agreement (FTA) which is negotiating by New Zealand and China is one of RTAs.

The approaching FTA between New Zealand and China is complex one covering trades of merchandize, service, investment, intellectual property, government procurement, and competition policy and customs cooperation. It will inevitably provide New Zealand entrepreneurs with enhanced opportunities to access huge and fast growing Chinese market. In this case, the New Zealand wine industry.

Development of the New Zealand wine industry increasingly depends on exports, and it has accumulated rich experience in overseas market, but has very little presence in Chinese market. In order to effectively enter the geographically and culturally distant market with minimized risk, New Zealand wine producers need to obtain knowledge in Chinese market and

understanding of Chinese consumers as much as they can.

1.2 Aims and objectives

The falling market demand in traditional wine countries together with increasing production capability enforce the New Zealand industry to seek for new market. Quickly expanding middle level class people have been targeted by companies in major wine countries. It is necessary for the New Zealand industry to make use of the advantageous brought by the FTA between New Zealand and China and to penetrate into this market as an earlier mover. The aims of the research are to provide the New Zealand industry with insights of Chinese wine market practice, factors influencing consumers' behaviour and entry mode choosing. Therefore the research questions is formulated as

What are the most important considerations for the New Zealand wine industry's entry into the Chinese consumer market?

In order to obtain complete answers to this question, the research is conducted in the following aspects:

- What current and future opportunities exist for the sale of New Zealand wine products in China?
- What kinds of initial market promotion should New Zealand wine producers undertake?
- What channels of distribution are suitable for New Zealand wine?
- What market entry strategies should New Zealand wine take to Chinese market?
- What specific strategic initiatives should be undertaken by the New Zealand wine industry to establish its brand in the Chinese marketplace?

Finally, the purpose of the study is to offer practical suggestions to the New Zealand industry in entry mode selection into Chinese wine market.

1.3 Outline

In order to meet purpose of the study, the paper starts with a review of existing literature, covering fundamental theories of international trade, multilateral and bilateral systems of trade liberation, undergoing FTA negotiations between New Zealand and China, entry modes and comparison of advantageous and disadvantageous amongst them and rationale of entry modes. After that, the paper discusses the research methodology, data collection, research questions, population and samples, research factors and propositions. Following the establishment of research methodology, the research data is analyzed and outlined in central themes. Finally, the author discusses the results and provides conclusions on how best to implement into Chinese wine market.

2. Literature Review

2.1 Introduction

The liberalisation of international trade and economic globalisation have been one of the most prominent features of the world over the last fifty years, and particularly in the last twenty years (Fletcher & Brown, 1999; Santos-Paulino & Thirlwall, 2004). As a unique multilateral trading system, GATT/WTO has critically driven this trend.

However, the sluggish progress in multinational negotiations under the Doha Development Round has compelled world trade participants to pursue Regional Trade Agreements (RTAs) as a trade policy instrument and as a complementary to Most Favourite Nation (MFN) (Crawford & Fiorentino, 2005). The Free Trade Agreement (FTA)'s negotiations undertaken by governments of New Zealand and China have attracted close attention from companies in both countries. Undoubtedly, FTA will provide New Zealand exporters with enhanced opportunities to enter the Chinese market where there is huge demand and tremendous potential. However, for many expectant New Zealand companies there are many aspects of cultural, political, legal and business distances from China. As a result, questions of how to enter the Chinese market and how to choose entry modes still remain inconclusive.

This part of the research will initially review fundamental theories of free trade, followed by a brief review of GATT and its successor WTO. Current characteristics of RTAs and FTAs will be introduced. Progress and consequences of New Zealand-China FTA will be explained as well. This literature review will finish with an analysis of the New Zealand wine industry and Chinese wine market, as well as a comparison amongst different market entry modes.

2.2 The economic rational for free trade

Over the past three centuries, there has been a gradual evolution of economic theories on international trade. Adam Smith (1723-90), David Ricardo (1772-1823), Eli Heckscher (1879-1952) and Bertil Ohlin (1899-1979), as well as Vernon Ray (1913-1999) have been regarded as the most influential economists and scholars in this field (Morgan & Katsikeas, 1997).

Adam Smith is often seen as the founding father of economics. His theory of absolute advantage was the basis of free market economy. His main work was 'The Wealth of Nations' (the actually proper title was 'An Inquiry into the Nature and Causes of the Wealth of Nations'), which was published in 1776. In this book, he stressed the benefits of the division of labour (specialisation) and the workings of the market mechanism (price system). In this view, a country should specialise in the production of goods in which it enjoys an absolute advantage – that is, goods can produce more efficiently than its trade partner. Such trade would increase wealth in both trade partners and could even increase wealth in a country that chooses unilateral trade liberalisation. With specialisation, total production increases using the same amount of resources, thereby increasing overall wealth (Condon, 2002).

The most famous concept associated with Smith was the 'invisible hand'. The market works like an 'invisible hand' adjusting economic activities and allocating resources. As Smith wrote,

. . . [E]very individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, **led by an invisible hand** to promote an end which was no part of his intention. (IV.ii.6-9, page 456 of the 1976

Glasgow Edition of Smith's works; vol. IV, ch. 2, p. 477 of 1976 U. of Chicago Edition.) (from Wikipedia)

This would happen because producers (in our case, entrepreneurs) would want to make profits by providing right goods and services at the right time to their own profit.

Adam Smith's system had two requirements. One was that the market needed to be free of government intervention, and the other was that there had to be competition. Forming a laissez-faire environment, public wealth would increase from competition organising production to suit the public.

In practice, it is hard for one country to maintain an absolute advantage in a product (Condon, 2002; Czinkota, Ronkainen, & Moffett, 1999). Moreover, theoretically, a country that has no absolute advantage in any product would, in theory, be ruined by international competition. David Ricardo's theory of comparative advantage filled in the gaps left by the theory of absolute advantage.

David Ricardo argued that, given two countries trading two products, free trade brings mutual advantage even if one nation has an absolute advantage in both products. In his now famous example focused on trade in wine and cloth between England and Portugal, he showed that if each specialises in the production of the good in which it enjoys a comparative advantage, both are better off by trade. Each country increases production by specializing in the product it can produce relatively more efficiently – that is, the production in which it has a comparative advantage.

Critics of this theory argue that it assumes that capital and labour are not mobile and that it therefore no longer applies in a world where capital moves freely and production can be moved to countries with lower labour costs (Condon, 2002; Fletcher & Brown, 1999). Another concern is that comparative advantage only works when competition is absolutely perfect. Free trade advocates would dissent, however, and say that modernization has decreased transportation and logistics costs through inventions such as the airplane and

internet unavailable in Ricardo's time making his theory ever more sound with time, furthermore, despite the increased movement of capital, differences in capacities of production are still wide, in fact, free trade creates a wider gap of production in many areas despite the larger increases it makes in absolute wealth. As to perfect competition, supporters of free trade claim that perfect competition is the result of universal free trade, not its precondition. For free trade advocates, comparative advantage is what a capitalist country must embrace to gain an advantage in an existing mercantalist world (Wikipedia, s.v. Comparative advantage). Thus the theory of comparative advantage still forms that basis of free trade policy.

In the 1920s, Heckscher and Ohlin's "factor proportion hypothesis" created the basis of modern trade theory. They argued that countries enjoy a comparative advantage in goods that use their abundant factors of production, such as capital, land or labour, more intensively. Countries should therefore export goods that use abundant factors in exchange for imports that use scarce factors. As they argued, "A capital-abundant country will export the capital-intensive good, while the labor-abundant country will export the labor-intensive good."

Both classical theory and modern theory have been shown to be deficient in explaining more recent patterns of international trade (Morgan & Katsikeas, 1997). For example, the leontief paradox, presented by Wassily Leontief in 1954, found that the U.S. (the most capital-abundant country in the world by any criteria) exported labor-intensive commodities and imported capital-intensive commodities, in apparent contradiction with Heckscher-Ohlin theorem. Significant technological progress and the rise of multinational enterprise in 1960's called for new theory of international trade to reflect the changing commercial realities (Leontief, 1966). The product life cycle theory of international trade was introduced as a framework to explain and predict international trade patterns and multinational enterprises expansion. This theory argued that a trade cycle emerges where a product is firstly

manufactured by a parent firm, then by its foreign subsidiaries and finally anywhere in the world where costs are at their lowest possible (Vernon, 1966, 1971). This theory can also explain how a product may emerge as an export for one country and ultimately become an import through products life cycle. In this theory, advance and diffusion of technology are regarded as the key factor in creating and developing new products, while market size and structure are influential in determining the extent and type of international trade.

While these theories are insightful in explaining trade flows between at least two nations as well as the nature and extent of gains or losses to an economy, they also imply that important considerations such as government involvement and regulation should be taken into account. Since the 1980s, global mobility of factors of production and increased sophistication in governmental industrial policies have led to a greater effort on the part of governments to shape comparative advantages. For example, government investment in human capital – education and research—helps to shape comparative advantage in knowledge-intensive industries; investment in public infrastructure, such as transportation and communication systems, can make a country more attractive as a location for industries that require the infrastructure; tax incentive and other policies can promote the growth of specific industries in which a country enjoys a comparative advantage.

Governments pass many laws and regulations governing business. Some are designed to favour certain business interests over others. Often, domestic business interests are favoured over foreign business interests. Free trade generates winners and losers. The losers oppose free trade and lobby for regulations that protect them from foreign competition. Such regulations are the focus of trade agreements.

2.3 GATT and WTO

Trade agreements establish limits on the kinds of regulations its members may use to regulate international business. They are contracts between countries, contracts that establish regulatory boundaries. The rules contained in trade agreements are not dictated by some global parliament; the countries themselves agree on the rules after lengthy negotiations.

The basic structure of trade agreement consists of general rules, general exceptions, narrow exceptions (Known as reservations), and dispute-settlement mechanisms (Condon, 2002). General Agreement on Tariffs and Trade (GATT), World Trade Organisation (WTO) and Regional Trade Agreements (RTAs) cover the multilateral or bilateral trading systems.

In 1947, twenty-three countries (including New Zealand) signed a “provisional” agreement to reduce tariffs on goods and begin eliminating other barriers to trade in goods. The agreement, GATT, became the primary vehicle for international trade liberalisation when negotiations to create a permanent “international Trade Organization” (ITO) failed. The ITO was meant to be one of the three pillars of postwar peace and prosperity, together with the International Monetary Fund and the World Bank (Condon, 2002).

After World War II, policy makers realised that protectionism, in the form of increasing higher tariffs and other trade barriers, had contributed to the severity of the global depression of the 1930s. The depression, in turn, had contributed to the rise of fascism and the war. They reasoned that countries that were prosperous and linked by international trade would be less likely to engage in war. The goal of the three institutions was therefore to raise living standards and form stronger links between member economies.

After successive rounds of negotiations, more members accessed GATT over the years; tariffs were reduced continuously. Meanwhile, a series of related agreements were created. The Anti-Dumping Code regulating the use of

anti-dumping duties was reached agreement in 1968; the Multi-Fibre Arrangement created a specific set of rules for trade in clothing and textiles was introduced in 1973; as well as Subsidies Code, a Standards Code and a Customs Valuation Code in 1979. However, GATT members could pick and choose which agreements they signed.

The Uruguay Round negotiations (1986-1994) led the creation of WTO. WTO came into being in 1995; it is the successor to the GATT. The past 50 years under GATT had seen an exceptional growth in world trade. Total trade in 1997 was 14-times the level of 1950 (WTO, 2005). Negotiations continued after the end of the Uruguay Round. In February 1997 agreement was reached on telecommunications services, with 69 governments agreeing to wide-ranging liberalisation measures that went beyond those agreed in the Uruguay Round. In 1997 too, 40 governments successfully concluded negotiations for tariff-free trade in information technology products, and 70 members concluded a financial services deal covering more than 95% of trade in banking, insurance, securities and financial information. In 2000, new talks started on agriculture and services. In November 2001, the Doha Development Agenda launched at the fourth WTO Ministerial Conference in Doha, Qatar. At this conference, China became a member of WTO. From the beginning, the divide between developed and developing countries threatened to derail the talks. The July 2006 talks in Geneva failed to reach an agreement about reducing farming subsidies and lowering import taxes and the current round of talks was scuttled. Of course, this makes bi-lateral trade negotiations such as between China and New Zealand all the more important.

GATT and WTO have helped to create a strong and prosperous trading system contributing to unprecedented growth. WTO outlines 10 benefits of its trading system (WTO, 2003):

- 1) The system helps promote peace
- 2) Disputes are handled constructively
- 3) Rules make life easier for all

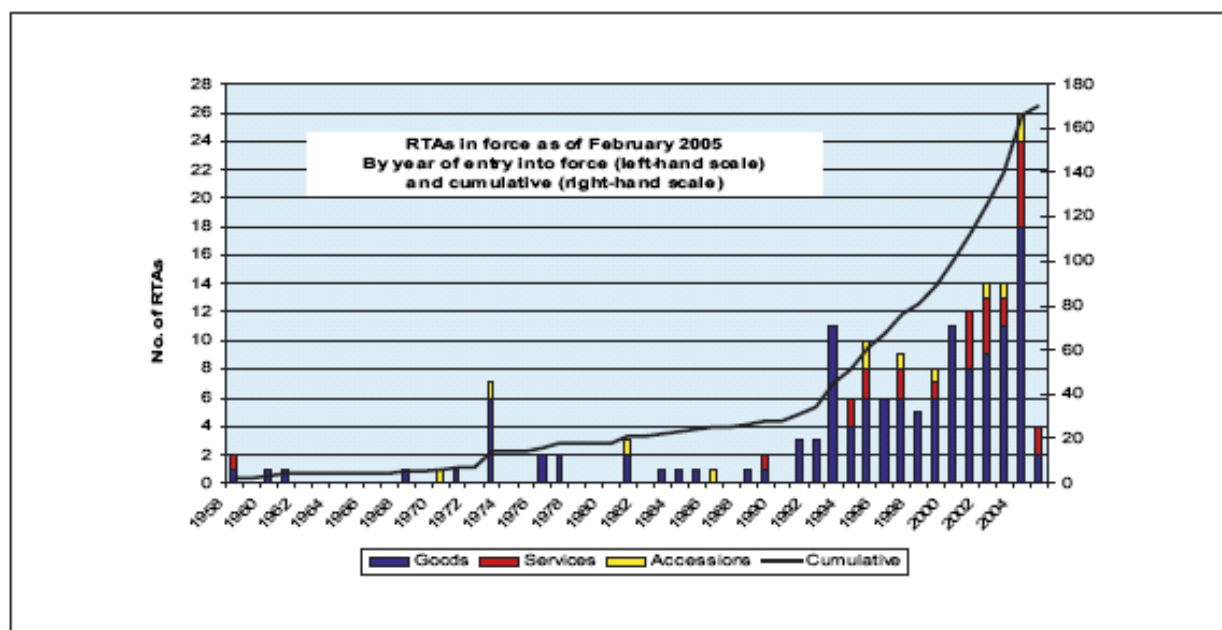
- 4) Freer trade cuts the costs of living
- 5) It provides more choice of products and qualities
- 6) Trade raises incomes
- 7) Trade stimulates economic growth
- 8) The basic principles make life more efficient
- 9) Governments are shielded from lobbying
- 10) The system encourages good government.

2.4 Era of Free Trade Agreement

2.4.1 Development and characteristics of Free Trade Agreements

Regional Trade Agreements (RTAs) are a major and perhaps irreversible feature of today's multinational trading system (MTS) (Crawford & Fiorentino, 2005). Sluggish progress in multinational trade negotiations under Doha Development Round appears to have accelerated further rush to forge RTAs. For example, between January 2004 and February 2005 alone, 43 RTAs were notified to WTO, making this the most prolific RTA period in recorded history (Crawford & Fiorentino, 2005). Moreover, the proportion of world trade that RTAs cover is significant. In case of North American Free Trade Agreement (NAFTA), intra-NAFTA merchandise imports in 2002 accounted for nine per cent of world imports, while intra-NAFTA merchandise exports accounted for 10 per cent of world exports (Crawford & Fiorentino, 2005).

Chart 2.1: Notified RTAs to the GATT/WTO (1948-2005) by entry into force



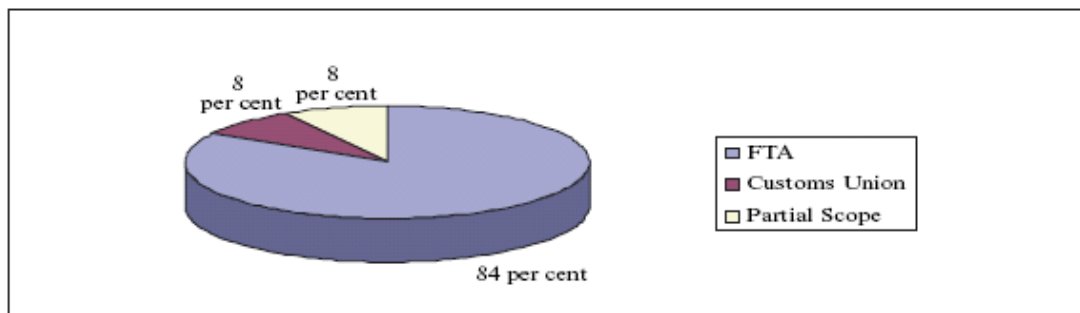
Source: (Crawford & Fiorentino, 2005)

According regional integration, RTAs can be catalogued in four, from order of looser to stronger integration (Urata, 2002). They are:

- Free Trade Agreement (FTA);
- Customs unions;
- Common markets and
- Economic unions.

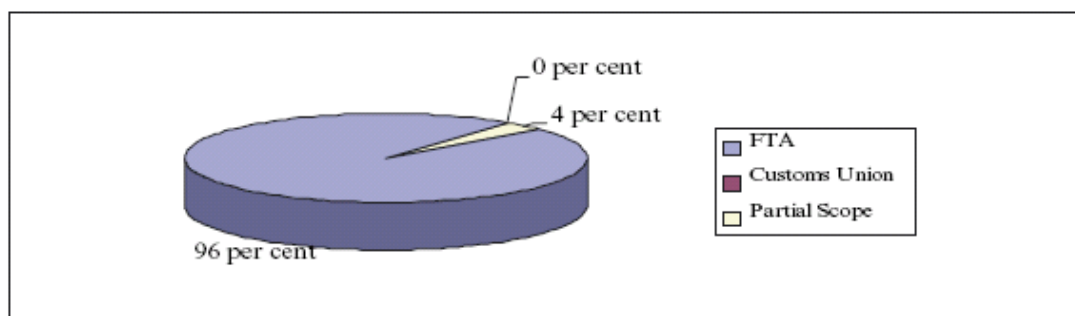
FTA is the most common category in all RTAs (Crawford & Fiorentino, 2005). Of the 131 notified RTAs currently in force, 109 are intended to be free-trade agreements, which account for 84 per cent; 11 are, or have the goal of becoming customs unions. The remaining 11 are partial scope agreements. Of the RTAs not yet in force, 96 per cent are FTAs and 4 per cent are partial scope (see Charts 2 and 3).

Chart 2.2: Notified RTAs in force, as of February 2005, by type of agreement



Source: (Crawford & Fiorentino, 2005)

Chart 2.3: RTAs signed, under negotiation and proposed, as of February 2005, by type of agreement



Source: (Crawford & Fiorentino, 2005)

Crawford and Fiorentino (2005) offer explanations of the predominance of FTAs over customs unions. First, FTAs are faster to conclude and require a lower degree of policy coordination amongst the parties since in an FTA each party maintains its own trade policy *vis-à-vis* third party. Customs unions, on the other hand, require the establishment of a common external tariff and harmonisation of external trade policies, implying a greater loss of autonomy over the parties' commercial policies and longer and more complex negotiations and implementation periods. Second, geographical consideration is an important factor. In custom unions, geographical considerations play a

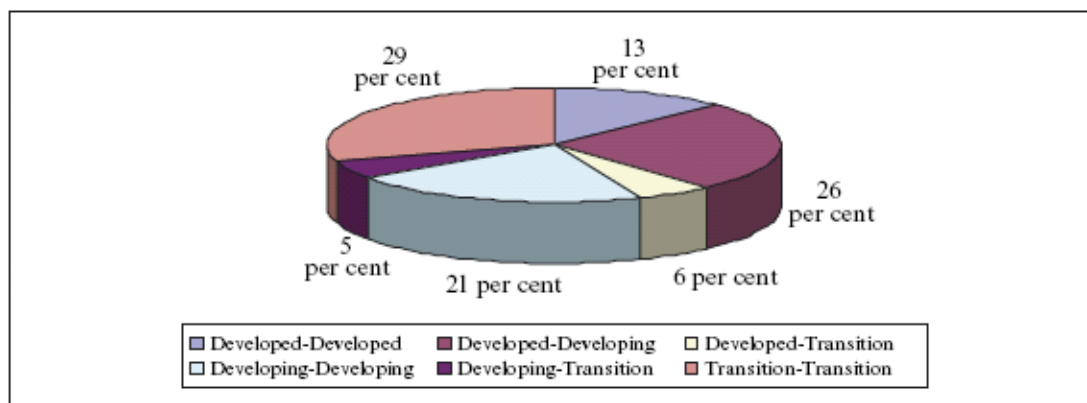
pivotal role in defining the objective of economic integration amongst the parties concerned. On the other hand, the majority of FTAs are concerned with strategic market access, often unbound by geographical considerations. Partial scope agreements are less attractive to countries because of limited coverage, poor implementation record and scarce visibility.

The motivations for the formation of RTAs are various factors which include economic, political and security considerations. Participation in RTAs provides partners further liberalisation at regional and bilateral level. Particularly in the absence of willingness amongst WTO Members to liberalise further on a multilateral basis. Easier accesses to larger markets can deeper partner's integration of economies, particularly for issues which are not fully dealt with multilaterally, such as investment, competition, environment and labour standards. Furthermore, governments seek to consolidate peace and increase their bargaining power in multilateral negotiations by securing commitment first on a regional basis, or as a means to demonstrate good governance and to prevent backsliding on political and economic reforms (Crawford & Fiorentino, 2005).

With the growth in FTAs, new characteristics are emerging (Crawford & Fiorentino, 2005; Urata, 2002). First, FTAs are getting expansion. For example, the Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA), which was established in 1992, was expanded from 6 to 10 countries in 2005. Second, FTAs are becoming complex. In addition to the more traditional objective of removing trade barriers, many of these agreements are moving to include liberalisation and facilitation of service trade and foreign investment, and agreements on dispute settlement. The Japanese-Singapore FTA is a very deep agreement that not only includes liberalisation and facilitation of goods, services, foreign investments, but also common rules in a wide range of areas, including labour mobility, intellectual property. The third characteristic is the increase in agreements between countries that are not necessarily in close proximity. Fourth, countries that have previously not participated in RTAs have

willingness to do so now. For example, the first-ever FTA of Japan with Singapore came into force in 2002. The fifth characteristic is cluster of RTAs of preferential agreements between developed and developing countries. See Chart 4.

Chart 2.4: Notified RTAs in goods by type of partner (as of February 2005)



Source: (Crawford & Fiorentino, 2005)

There are controversial views on whether FTAs help or hinder the liberalisation of multilateral trade under the WTO. FTAs and customs union are a system that discriminates against nations outside the region and gives preferential treatment to nations within the region. They are allowed by GATT/WTO as an exception to the general favoured nation treatment. On the one hand, some have argued that FTAs are an impediment of multilateral trade liberalisation because they form exclusive trade regimes; other suggests that increase in FTAs may complicate the global trade system and hinder trade; some worry that progress in WTO negotiation will be difficult because the time and energy of trade policymakers will be occupied in the pursuit of FTAs (Urata, 2002).

On the other hand, there is a view that, as FTAs promote liberalisation, the expansion of FTAs will actually facilitate trade liberalisation on a global scale. Under the current circumstance, in which WTO efforts at multilateral trade liberalisation are proving more and more difficult, many observers believe that

it would be difficult to achieve world-wide trade liberalisation if it were not supplement by RTAs, and the multilateral trade liberalisation will be accelerate by the reinforcement of trade liberalisation achieved by FTAs. In addition, rules for new areas under FTAs, for example, NAFTA includes rules on the environment and trade, which have not yet been established in WTO, can be introduced into WTO (Urata, 2002).

2.4.2 Impact of Free Trade Agreements on firm's behaviours

Firms' behaviours are significantly affected by free trade agreements. Authors also identify the strategies that SME can employ. On the one hand, FTAs provide access to new markets; on the other hand, FTAs increase the threat of enhanced competition for export market (Fraser, 1993). While product life cycle theory provides an explanation and prediction of international trade patterns of large multinational companies, researchers have only recently begun to pay closer attention to the effects of free trade on small business (e.g. Filion, 1990; Rugman & Verbeke, 1989). Authors conclude that, compared to most large firms, small and medium-sized enterprises (SMEs) are generally less well-equipped to face increases in international trade—lower productivity results in difficulties to compete, limited resources constrain ability to take advantage of the removal of tariff barriers. On the contrary, Albers & Kumar (1991) argue that the flexibility inherent in small businesses provides them with the ability to adapt to environmental changes more quickly than large enterprises. The lowering tariff barrier presents small firms with the opportunity to increase profit, prolong life cycles and open new distribution channels (Szekely & Vera, 1991; Wu & Longley, 1991). These findings offer implications to New Zealand, where more than 90% of enterprises are SMEs. More interesting is that both empirical studies of Campbell (1996) and Julien, Joyal, & Deshaies (1994) on SMEs' behaviours in Canada under NAFTA suggest that removal of tariff barriers may not exert a large influence on small

firms' exporting behaviour, and it is just one element of small business strategy for survival and development. The internal attitudes about export and resource constraints constitute export barriers. Accordingly, unless efforts are made to communicate the potential threat of increased competition under free trade, small exporters may find them ill-equipped to compete over the long-term. Further, governments must work on changing small business attitudes towards exporting and improving accesses to marketing and resources (A. J. Campbell, 1996).

The research of Julien, Joyal, & Deshaies (1994) reveals that companies take different strategies to build up defences or seek to take advantage of market globalization. These strategies are

- Product specificities
- The use of new technologies often with the addition of personalized innovations
- The creation of marketing and distribution channels
- Changes in organization

Similarly, an intensive study conducted by Knight (1997) implies the correlates between entrepreneurial orientation, strategic orientation, strategic levers and associated performance. Entrepreneurial orientation in this study was defined as the firm's propensity to engage in innovative, proactive, and risk-seeking behaviours in order to achieve strategic and performance objectives; strategic orientation refers specifically to the essential and dominant strategy (s) that management pursue on a continuous basis, it reflects the subconstructs of marketing leadership (innovative marketing techniques, highly skilled sales force, careful control of distribution channels), quality leadership (superior quality of products and services), product specialization, cost leadership, and manufacturing leadership (innovative manufacturing process, state-of-the-art plant and equipment); strategic levels consists of rationalizations (adaptation to both domestic and international market), technology acquisition and

automation of production, product quality and internationalization (tendency of businesses to expand their activities into foreign settings).

The researcher states that better performance companies under NAFTA are distinguished from poor performance companies with some characteristics.

These characteristics are

- Strong entrepreneurial orientation, stressing product/process innovativeness and generally pro-active approach to the external environment;
- Strong manufacturing leadership, stressing modern plant and equipment and production efficiencies;
- Strong emphasis on the automation of manufacturing processes;
- Strong emphasis on establishing or increasing intra-regional sales;
- Strong marketing leadership;
- Strong emphasis on rationalizing key activities since the beginning of formal regional integration;
- Strong emphasis on acquisition of technology through investment in R&D;
- Strong quality leadership, focusing on product quality.

Source: Knight (1997)

Knight's (1997) findings are overlap with findings of Julien et al (1994), but more detailed.

2.5 History of New Zealand international trade, and its current business relationship with China

2.5.1 Brief review to New Zealand international trade

New Zealand's international trade in the world has changed dramatically in the

last two centuries (TLN¹, 2005). Prior to the introduction of refrigeration into New Zealand in 1882, much of export of the country was based on unreformed natural resources with the beginning efforts to increase the export of value added goods. Rapidly increased export of animal products brought by the introduction of refrigeration raised New Zealand living standards to the highest international levels (about third place amongst nations). They remained there until the early 1950s. From a trade policy perspective, new important trends emerged during this period (TLN, 2005). As to export, its orientation rapidly swung towards the middle class consumers of South Eastern England and New Zealand's comparative advantages became concentrated into animal products for a single market. Moreover, the price of New Zealand goods was relatively high because they were often set by inter-governmental agreement. The trend concerns import policy was that New Zealand increasingly stimulated the import competing sector of the economy through tight import controls and high tariffs with aim to broad the base of jobs available in the economy which had become narrowly focused in the animal protein sector for export.

New Zealand paid high price for the inward looking strategy. British guaranteed export prices stopped in 1955; in addition, New Zealand's exports prospects were plummeted by the emergence and evolution of Western Europe Common Market (now EU) from 1958. New Zealand relative living standards had begun slipping badly in the 1950s and 1960s as the export sector was less and less able to pay for increasing imports for consumption and investment (TLN, 2005). By 1978 New Zealand's living standards had sunk to around twenty second place in the world rankings.

Since the early 1980s, New Zealand government has undertaken steps to expand market for New Zealand exports. A free trade agreement (CER) was signed with Australia in 1983; removal of import protection and tariff reductions were introduced to enhance firms' competitive capability. The efforts of New

¹ TLN stands for the New Zealand Trade Liberalisation Network Inc.

Zealand on trade liberalisation are on four tracks (TLN, 2005):

- Unilateral trade policy changes to enhance domestic competitiveness;
- Multilateral trade liberalisation via the GATT/WTO;
- Regional trade liberalisation particularly through APEC in support of the multilateral approach;
- Bilateral trade liberalisation building on Closer Economic Relations Agreements (CER) with Australia, with further agreements with New Zealand's trading partners where appropriate. These kinds of agreements, such as CER, also known as Strategic Economic Partnerships (SEP), Closer Economic Partnerships (CEP) or Free Trade Agreements (FTAs).

At present, New Zealand participates in the WTO, World Bank, International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), International Energy Agency, Asian Development Bank, South Pacific Forum, The Pacific Community, Colombo Plan, Asia Pacific Economic Cooperation (APEC), and the international Whaling Commission (Wikipedia, 2006).

Trade Agreements in Force

- Trans-Pacific Strategic Economic Partnership (Trans-Pacific SEP) - 2005
Brunei/Chile/New Zealand/Singapore
- New Zealand and Thailand Closer Economic Partnership (NZTCEP) - 2005
- New Zealand and Singapore Closer Economic Partnership (NZSCEP) - 2001
- Australia and New Zealand Closer Economic Relations (CER) – 1

Agreements under negotiation

- New Zealand and China Free Trade Agreement

- ASEAN-Australia/NZ Free Trade Agreement
- New Zealand and Malaysia Free Trade Agreement
- New Zealand and Hong Kong Closer Economic Partnership

(MFAT, 2006d)

2.5.2 Overview of New Zealand's international trade and economy

Prime Minister Helen Clark has said that trade is New Zealand's lifeblood. New Zealand's economy is considerably depended on trade. In 2004, 33% of its GDP was from overseas market (MFAT, 2004). At least two thirds of New Zealand's jobs depended on trade (Reynolds, 2004). Trade accounts for 60% of New Zealand's total economic activity (MFAT, 2006a).

In 2005, New Zealand's merchandise exports was \$31 billion (71% of which was with APEC economies), while service exports total \$12.2 billion.

Today 95% of agriculture production is exported, non-agricultural exports accounted for 46% of total exports in 2005 (MFAT, 2006a). Dairy products were New Zealand's largest merchandise export earner in 2005 (18% of merchandise exports), followed by meat (16%) and wood (6%).

Australia continues to be New Zealand's single largest export market, taking 21% of merchandise exports. The European Union receives 15%, the United States 14% and Japan 10.5%. China is New Zealand's fourth largest single-country export market, taking five percent (2005 figures) (MFAT, 2006a).

2.5.3 The economic and trade relationship with China

New Zealand contact with China started very early in our history, with trade, missionary, immigration and other links. For example, Hon Winston Peters, the Minister of Foreign Affairs and Trade, recently declared that Chinese and Maori are sharing same genes and Chinese are most likely the ancestors of Māori (The Dominion Post, 28 July 2006, P.1). Kiwifruit was introduced from

China and New Zealand is now the largest producer and exports a large amount of kiwifruit to China (Frederick & Kuratko, 2006).

In the past three decades, China has made great achievements in the terms of its economy. Since the adoption of “open-policy” and reform in early 1980’s, China has averaged growth of over 7% per annum (9% in the 2000s), absorbed sizeable investment, greatly expanded its international trade and built up US\$818 billion in reserves until 2005 (over one trillion US Dollars is estimated in 2006), and GDP per capita has increased from US\$148 in 1978 to US\$1700 in 2005 (MFAT, 2006c). China is now the fourth largest economy and the third largest trading nation in the world. In 2005, its total GDP was US\$1.9 trillion, total import was US\$631.8 billion and export was US\$752.8 billion (MFAT, 2006a).

China has been a member of APEC since 1992, and hosted the 13th APEC Ministerial Meeting in Shanghai in October 2001. China accessed WTO on 11 December 2001. China’s WTO accession package of improved market access for goods and reforms of its foreign trade regime has added impetus to its long-terms programme of economic reform.

As a global and regional power, New Zealand’s 4th largest trading partner, and a major source of migrants, students and tourists, China is important to New Zealand as a bilateral, regional and multilateral partner. New Zealand and China will celebrate 35 years of diplomatic relations in 2007. The China/ New Zealand relationship is characterised by regular high-level contacts, an expanding range of official dialogues, healthy and diversifying trade and economic flows in both directions, and strengthening people to people contact (MFAT, 2006c).

2.5.3.1 Merchandise trade

According to New Zealand statistics, two-way merchandise trade totalled NZ\$5.66 billion in 2005, accounting for 7.8% of our international trade. Our export were NZ\$1.56 billion, import were NZ\$4.1 billion. China is New

Zealand's fourth-largest export market, after Australia, US and Japan. It is also its fourth-largest source of imports (MFAT, 2006c). Taking account of New Zealand exports to Chinese mainland through Hong Kong, Singapore and other Southeast countries, according to China's statistics, the two-way merchandise trade in 2005 totalled NZ\$3.81 billion, with New Zealand export to China totalling NZ\$1.88 billion (China's 45th largest source of imports), and New Zealand's imports from China at NZ\$1.93 billion (China's 52nd largest export market).

The exports of New Zealand to China cover a large range of items from wool, forest products, dairy products and seafood to horticultural products and energy products and high technology products (especially telecommunications products). New Zealand imports from China include electrical machinery and equipment, textiles, clothing and footwear, toys, and a wide range of light consumer goods.

2.5.3.2 Trade in services

Education and tourism are major services of New Zealand exports to China. Since 1998, a huge increase in the number of Chinese students travelling to New Zealand for secondary, tertiary and English language study, the number peaked at 65,000 in 2003/4 contributing around NZ\$2 billion to New Zealand economy. Approximately 26,250 Chinese students are currently studying in New Zealand (MFAT, 2006c).

Tourist numbers from China have been climbing since New Zealand was granted Approved Destination Status (ADS) in 1999. In 2005, 85,000 Chinese visitors travelled to New Zealand, which were up 3% on 2004 numbers, and were in turn up 27.9% on 2003. Chinese visitors made an economic contribution of NZ\$404 million to New Zealand (MFAT, 2006c).

In November 2006 Air New Zealand will begin the first direct flights from New Zealand to Shanghai. Growth in visitor numbers and trade is expected to

continue.

2.5.3.3 Investment

China's investment in New Zealand are total in the vicinity of US\$800 million, most investment has been in the forestry sector. There is also significant investment in manufacturing and commercial construction.

New Zealand companies see investment in China as important to secure a long-term market for New Zealand products and to assist in the penetration of the enormous consumer market developing in China. New Zealand companies such as Fonterra, Richina Pacific, NDA Engineering and CHH have major holdings in China.

2.6 *The establishment of FTA with China*

Trade plays a pivotal role in promoting economic growth in modern economies and is particularly vital for New Zealand. New Zealand is a geographically-isolated country with a very small economy where it is difficult to exploit economies of scale. As one of the 23 founders of GATT, New Zealand has devoted itself to promoting trade liberalisation. It is an efficient producer and liberal exporter of a range of products, for example, agriculture products and dairy products, which are subject to some of the world's highest barriers to trade. Along with pursuing multilateral trade liberalisation via the WTO and regional liberalisation through APEC, New Zealand also tries its best to approach bilateral trade liberalisation by building FTAs. The FTA negotiation with China is on the bilateral front at present.

China is New Zealand's fourth largest trading partner and is the world's fastest growing major economy. Securing preferential access to China's economy has the potential to deliver significant gains to New Zealand's exporters. In addition, other countries are also lining up to negotiate preferential trade agreements

with China. Australia is following quite closely in establishing FTA with China behind New Zealand (Goff, 2006). Establishing an FTA with China will keep New Zealand's exporters in the 'game' and help defend existing market shares—particularly in areas where China is already New Zealand's largest international customer—such as milk powder, wool and education.

On the other hand, China is keen to sign an agreement with New Zealand, even when there are much bigger players waiting in line. Firstly, New Zealand has a very good relationship with China. New Zealand is the first developed country to sign off on terms for China's accession to the WTO, and New Zealand is the first OECD country that agreed that China has a market economy system². Secondly, New Zealand's small size offers China an opportunity to take its first steps into an FTA with an OECD economy that potentially involves a less complex negotiation than it would face with larger developed economy trading partners.

In October 2003, during his visit to New Zealand, President Hu Jintao and Prime Minister Helen Clark agreed to negotiate a Trade and Economic Cooperation Framework, which set out the areas where New Zealand and China both benefit through increased cooperation. It was signed by China's Minister of Commerce, Bo Xilai, and New Zealand's Minister of Trade Negotiations, Jim Sutton, in May 2004. In the framework, New Zealand recognised that China had established a market economy system. The two countries also agreed to undertake a joint feasibility study on a bilateral Free Trade Agreement negotiation.

The Joint Feasibility Study which released in November 2005 concluded that significant complementarities exist between Chinese and New Zealand economies and that an FTA would deliver positive benefits for both countries.

The first round negotiation was held in December 2004. Eight rounds of negotiation have now taken place, the most recent was in Beijing in August

² There is no universally accepted definition of a 'market economy', this concept has a very particular meaning in international trade terms – it relates to the way in which some countries treat China in a discriminatory way. A 'market economy system' means no or very little state control of the economy—MFAT (2004).

2006. During Chinese Premier Wen Jaobao's visit to New Zealand in April 2006, the two countries' leaders exchanged ideas on free trade and decided to achieve an FTA within the next two years (Xinhua-News-Agency, 2006).

An FTA should include (MFAT, 2006b):

- Comprehensive coverage of goods—elimination of all tariffs and removal of unnecessary non-tariff measures
- Coverage of services and investment
- Provision covering areas such as rules of origin, trade remedies, sanitary and phytosanitary [Pertaining to the health of plants] measures, intellectual property, government procurement, competition policy and customs cooperation
- New Zealand also seeks to outcomes on labour and environment, consistent with the Government's 2001 framework.

2.7 Summary

Theory of international trade has developed almost three centuries. Absolute advantage theory, comparative advantage theory, factor proportion theory and product life cycle theory composed its foundation. Trade liberalisation is strongly believed to increases all participants' wealth, overall welfare as well as strength the world peace.

Establishment of FTA with China is now the New Zealand government's largest commitment. Working along with IMF and World Bank, GATT/WTO as a multilateral trading system has significantly contributed the growth of world trade. However, sluggish progress in multilateral trade negotiations under Doha Development Round appears to have accelerated further the rush of forge RTAs in the next few years. Recent suspension in July 2006 of the Doha negotiations is extremely serious for New Zealand's commercial interests and wider systemic reasons (Goff, 2006). This makes the establishments of FTAs as New Zealand's priority. Till August 2006, eight rounds negotiation has made

successful progress to the agreement with China.

The FTA with China is relatively complex. It covers from market access on goods, services to government procurement and intellectual property protection. The FTA, of which Chinese Premier Wen spoke in favour, is a “comprehensive agreement which was of high quality, balanced and acceptable to both sides.”

Undoubtedly, the approaching FTA provides New Zealand exporters with enhanced opportunities to access the tremendous Chinese market, just as access local market, especially for agricultural, dairy, biotechnical industries where exists competitive advantage or abundant resources. The removal of tariffs and non-tariffs barriers in Chinese market will significantly open up market for New Zealand companies. For example, China is New Zealand’s largest market for wool. In 2005, it is worth NZ\$131.8 million in 2005 (Statistics NZ), however, exporters face tariffs up to 38% percent (MFAT, 2006b). Chinese average tariffs on industrial products are higher than of New Zealand, 9.5% compared with average New Zealand tariffs of 4.4% (MFAT, 2006b). On the other hand, increased imports with lower price from China, such as textile products and computer equipment, will improve the New Zealander’s welfare. The FTA can also enhance bilateral relations in terms of economy, political and New Zealand’s integration with Asian countries.

However, as to a specific New Zealand firm or industry, FTA just means opportunities, how to capture these opportunities and transfer them into a real economic growth and then contribute to New Zealander’s welfare as a whole is a challenge facing the government, researchers and entrepreneurs. The following parts will try to suggest a strategic framework for the New Zealand wine industry to enter Chinese market.

2.8 Analysis of New Zealand wine industry

2.8.1 Introduction for New Zealand wine industry

Grape growing and wine making have been human preoccupations for many thousands years (Bartlett, 2002). Under the Roman Empire, every town throughout the Mediterranean region had its local vineyards and wine makers. Wine was historically a peasant's beverage to accompany everyday meals, by the Middle Ages; the European nobility began to planting vineyards as a mark of prestige. Under the influence of immigrant from Old World Wine countries (traditional wine countries such as France, Italy, Spain and Germany), vineyards and wine producers has been set up in many New World wine countries (Australia, Chile, New Zealand, USA , Argentina and South Africa) beginning in the 18th century.

The last three decades have witnessed the significant growth of New Zealand wine industry. Grapevines were first planted in New Zealand around 1819. For the next 160 years nothing much happened. Then around 30 years ago, the New Zealand wine industry suddenly started to develop quickly. Between 1973 and 1983 wine production grew by a staggering 350%--a higher rate of growth than any other winemaking countries during that period (Thewineman, 2006). Fast growth has also been seen in the last decade in terms of number of wineries, total wine area and export sales. According to the annual report of New Zealand Winegrowers (Winegrowers, 2005), by end of June 2005, New Zealand had 516 wineries. This number had increased from 190 in 1994. The total vine area was 22,463 hectares (6,680 in 1994), and the producing area was 19,960 hectares (6,110 in 1994). The total sales in the past 12 months ended in June 2005 reached 96 million litres, of which the export sales exceeded 50 million litres (FOB,NZ\$435 million), accounting for over 53% of sales for the first time, an increase of 64 % on previous sales of 31 million litres (FOB, NZ\$302.5 million) for year-end June 2004.

New Zealand wines all reflect their maritime, cool-climate origin. The two

islands' long and narrow contours provide a maritime climate where the location is not more than 75 miles from the ocean. Wine regions cover 720 miles of latitude. Sunlight warmed by day and cooled by night sea breezes, New Zealand's vineyards are blessed with ideal growing conditions which are reflected in wines full of fruit and various flavours. New Zealand has over 24 different grape varieties planted in commercial quantities (Thewineman, 2006). The country specialise in grape varieties that suit cool growing condition. For example, Sauvignon Blanc, Chardonnay and Pinot Noir occupy the top three places in the national vineyard, and together they make up 78% of the country's total vineyard area in year 2005) (Winegrowers, 2005). Grape varieties that suit reasonably warm growing conditions are also grown in New Zealand but only in a small number of mostly North Island that boast higher ripening temperatures. In 2004, Marlborough, Gisborne and Hawkes Bay were responsible for 92% of the harvest of 166,000 tonnes. Other main areas are Wairarapa, Otago, Auckland/Northland, and Nelson. Producing vineyards cover 19,960 hectares in 2005 and that figure is expected to increase to approximately 22,000 hectares in 2007 (Winegrowers, 2005). In 2006, a record harvest was reached of 185,000 tonnes of grapes (Winegrowers, 2006).

The size of most wineries in New Zealand is relatively small. Of 516 wine makers in 2005, only 6 are in category 3, which means their annual sales exceeding 2,000,000 litres, while 44 are in category 2 (annual sales between 200, 000 to 2,000,000 litres, and 466 in category 1 (annual sales not exceeding 200,000 litres) (Winegrowers, 2005).

Wine export has been a relative long history and has become increasingly critical to the sustainable development of the New Zealand wine industry. Key figures in wine export history are showed in the following table.

Table 2.1 Key figures in New Zealand wine export history

Year	Remarks
1963	The first significant export
1970	\$41,000,
1980	\$393,000,
1984	Over \$2 million, Australia was the largest market
1988	\$11.6 million; 2.9 million litter by volume
1992	\$34.7 million,
1993	Near \$50 million
1996	Over \$60 million
1977	Over \$70 million
1998	\$97.6 million
1999	\$125.3 million, export exceed 30% of total volume of sales
2000	Over \$160 million
2001	Over \$200 million
2005	\$435 million, accounting for 53% of total sales
2006	Over \$500 million

Source: compiled by the researcher, data adopted from NZTE (2006) and Wingrowers (2005).

Other details of wine export are in Appendix 2.1: Wine export by volume and value 1995-2005.

The major markets for New Zealand wine by volume are New Zealand accounting for 47%, United Kingdom 22%, United States 14% and Australia 10% (Winegrowers, 2005). The markets for exports by earning are United Kingdom 41%, United States 25%, Australia 19%, Canada 3%, Netherlands 3%, Denmark 1%, Ireland 1%, Japan 1% and Germany 1% (Winegrowers, 2005). See appendix 2.2: Exports by market June year end 2005.

Supported by expansion of the national vineyard area (forecast to increase at around 2,000 hectares per year) (Winegrowers, 2005), total sales of New Zealand wine is projected 1.5 billion dollars by 2010, in which, exports will be of 1 billion.

2.8.2 Global wine industry and New Zealand position

General information on the global wine industry is introduced in this part. A comparison between Australia and New Zealand is particularly made to highlight the position of the New Zealand wine industry in the world market.

Table 2.2 Figures of major wine countries and New Zealand position in 2002

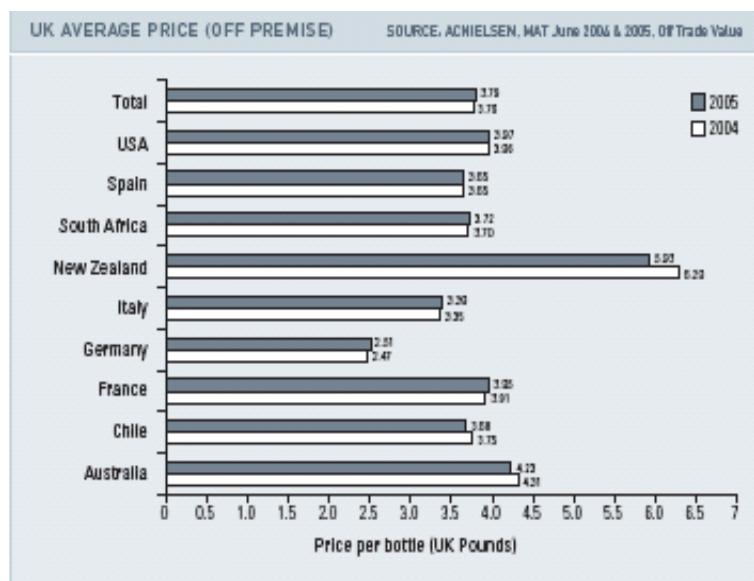
	World wide 100%	Italy %	France %	USA %	Spain %	Australia %	NZ %
Grape production tonnes	61,782	12.0	11.1	10.8	9.5	2.8	0.19
Wine production ML	26,090	17.1	19.2	7.8	14	4.4	0.34
Wine consumption ML	22,783	12.2	14.7	8.9	3.2	1.4	0.14
Wine export ML	6,723	22.6	23.1	4.0	14.3	7.0	0.34

Source: compiled by the author. Data from (AWBC, 2004; Winegrowers, 2005; Winetitles, 2006)

It can be deduced from above figures that the New Zealand wine industry is very small in terms of productions of grape, wine, domestic consumption and market share in the world market. The reasons could be relatively small size of

vineyard and population compared with major player in this market. However, one thing that New Zealand wine makers are proud of is that the quality of New Zealand wine is enjoying a high reputation; this is embodied by the average unit price in the UK market. (See the figure 2.1)

Figure: 2.1 UK average prices in 2005 and 2004



Cited from Winegrowers (2005)

The relatively dominant position of Old World countries (mostly in EU) in production, consumption and export has been significantly weakened by the combination of a dramatic decline in domestic consumption and fierce competition from New World countries. In the mid-1960s, per capita consumption in France and Italy was around 120 litres annually, by late 1980s it had fallen to half that level. Similar steep declines occurred in other countries during the same two decades—Spain dropped from 60 litres to 30 litres, Argentina from 80 to 40, and Chile from 50 to 15 (Bartlett, 2002).

Over the last ten years, imports in EU have grown by 10% per annum, while exports are only increased slowly (FineFactsTeam, 2006). On the other hand, most New World countries enjoyed dramatic increase of exports—South Africa

(+770%), Australia (+500%), Chile (+270%), and United States (+160%) between 1991/1993 and 2001/2003 (FineFactsTeam, 2006).

In response to falling demand and tough competition from New World brands, EU recently launched plans to increase the competitiveness of EU wine producers, strengthen the reputation of EU wines, win back market share, and balance supply and demand. For example, EU will reduce production of low-quality wines by paying winemakers a total of EUR2.4 billion over the next six years to take 988,000 acres of vineyard out of production (MarketWatch, 2006); the EU will end many of the restrictive rules on labelling and winemaking practices that have made it harder for European wine makers to compete with producers in New World countries, such as Australia and New Zealand (FineFactsTeam, 2006).

The fierce competitive battle between New World and Old World wine producers will inevitably bring about significant challenges on the New Zealand wine industry. Nowadays, European markets accounts for 46% of exports of New Zealand wine (Winegrowers, 2005). Moreover, the EU-wide wine consumption is declining by about 750,000 hectolitres annually (MarketWatch, 2006), which equals 1.5 times of New Zealand export of year 2005.

Encountering falling market demand in key markets together with increasing production capability, it is necessary for the New Zealand wine industry to take steps to meet these challenges. Besides solidifying shares of traditional key markets, the present researcher believes that access to new markets, such as Asian countries, especially China, is a strategy which dominates the sustainable development, even survival of New Zealand wine industry.

2.8.3 Huge potential in the Chinese market

In 1996, the Chinese government declared a policy of encouraging consumption of fruit-based alcoholic beverages instead of grain-based due to health and food security reasons (AWBC, 2005). In addition, with rapid development of China's economy, a huge middle-class is emerging which regards wine-drinking as an adoptable part of Western culinary habits. Therefore, wine consumption in China has hugely increased and demand has nearly doubled between 1994 and 2002 (Economist, 2005). In 2004, consumption was 375 million litres (Datamonitor, 2005). That is only one-quarter of a litre per person compared to 11.2 litres in New Zealand in 2005 (Winegrowers) and 25 to 26 litres per head in Australia (AWBC, 2005), 50 litres in Italy and 56 litres in France in 2003 (G. Campbell & Guibert, 2006). Not only is the growth of the market inevitable, New Zealand wine's export level is currently entirely negligible: Only 50 thousand litres of New Zealand wine were exported to China during the period from 2002 to 2004, less than 0.008% of Chinese consumption in 2004 (AWBC, 2005)³. Consumption is set to grow by 8-10% annually in the next few years (Economist, 2005). The Chinese wine market was predicted around 480 million litres in 2009 (Datamonitor, 2005). China's indigenous wine industry has grown since 1996 and now counts around 400 vineyards. But it is struggling to meet demand, owing to very low productivity (Economist, 2005). WTO commitments required China to reduce tariffs on imported wines from 46-65% in 2001 to 14% in 2004. Nonetheless, foreign wine had only a 5% market share in 2004. Most imports are un-branded bulk wine (Economist, 2005). Bulk wine imports into China from 2002 to 2004 were 36.7 million litres (Chinese-Customs, 2006). In 2004, still wine import in China (not sparkling wines, packed in <2 litres/Bottle) were 7.1 million litres, an increase of 53.77% from 4.6 million litres in 2003 (Chinese-Customs, 2006). The Chinese market is dominated by domestic brands. The top four Chinese brands are Changyu, Great Wall, Tonghua and Dynasty. Their total market

³ AWBC stands for Australia Wine and Brandy Corporation

share tops 60%, with Changyu accounting for 19.30%, Great Wall 17.34%, Tonghua 14.17%, and Dynasty 10.51%. The wine market of China has great potential in the eyes of leading international enterprises; some of them have already taken steps to enter into this market. For example, Remy Cointreau owns nearly 25% stock of Dynasty Fine Wines Group Ltd., and Illva Saronno in Italy owns a 33% share of Yantai Changyu.

To sum up, huge potential is there in China, New Zealand-China FTA will offer golden opportunities to New Zealand wine producers. Current situation in the world market and the growth of production drive the New Zealand wine industry to capture the provided opportunity. Moreover, to maximize profitability in China market, competition from other countries also enforces the New Zealand wine industry to enter into this market as early as possible.

2.9 Literature review on market entry

Different market entry modes have their inherent advantages and disadvantages. The adoption of one or another mode of foreign market entry is closely related with firms' target market analysis, strategic motivation, available resources and its capability. In other words, internal and external factors of a firm determine its choice of entry modes. The following parts in this section initially summarize alternative market entry modes, followed by a comparison between modes in terms of advantages and disadvantages. After a discussion of the theories behind modes, factors influencing selection for the New Zealand wine industry to enter Chinese market are discussed also.

2.9.1 The alternative market entry modes

An entry mode is an institutional arrangement that a firm uses to market its

product in a foreign market in the first three to five years (Root, 1994). Modes of entry can be divided into those that aim to sell the product and those that aim to transfer know-how to the host country (Fletcher & Brown, 1999). Entry modes are also identified as exporting (direct and indirect), contractual methods (licensing and franchising), foreign direct investment (joint ventures and wholly owned subsidiaries) (Armstrong & Sweeney, 1994; Driscoll, 1995), as well as equity-based and non-equity-based modes (Pan & Tse, 2000). Here follows Fletcher & Brown' (1999) classification.

- Export-based entry

- ✧ Indirect exporting. This refers to the use of agencies in the home country to sell the product into the foreign market. These agencies can be an export management company, a trading house or simply a broker (Kotabe et al., 2005). Indirect exporting is often used by firms who lack experience in the international market or who just want to “test” the international waters. Once demand for the product takes off, they can switch to another, more active, entry mode (Doole & Lowe, 2004; Kotabe et al., 2005).
- ✧ Direct exporting. Under direct exporting, the firm sets up its own exporting department and sells its products either directly to or through an intermediary to end users in the foreign market.
- ✧ Licensing. Licensing is a contractual transaction where the firm, the licensor, offers some proprietary assets, such as technical innovation, brand or corporate image, to a foreign company, the licensee, in exchange for royalty fees.
- ✧ Franchising. Two players in this mode are franchisor, who gives the counterpart the right to use its trade names, business model and know-how in a given territory for a specific time in return for payment; and franchisee, who pays a franchisor for the right to use its involved properties.

- Manufacturing-based entry
 - ✧ Joint venture. In a joint venture, the foreign company agrees to share equity and other resources with other partners to establish a new entity in the target country. Joint venture is the commonest form of foreign market entry (Doole & Lowe, 2004; Fletcher & Brown, 1999). Joint ventures are a means by which the firm can limit its equity exposure in an overseas market. It also can provide a vehicle for entering markets where the economic systems and marketing environments are so different that it is necessary to have a local partner in order to be successful.
 - ✧ Acquisitions. This involves entering an overseas market by acquiring an existing company. It is often employed by multinational firms that are cash-rich.
 - ✧ Greenfield operation. This occurs when a firm decides to build its own manufacturing plant in an overseas country using its own funds. Acquisition and greenfield operation are normally called Wholly Owned Subsidiaries (WOS).

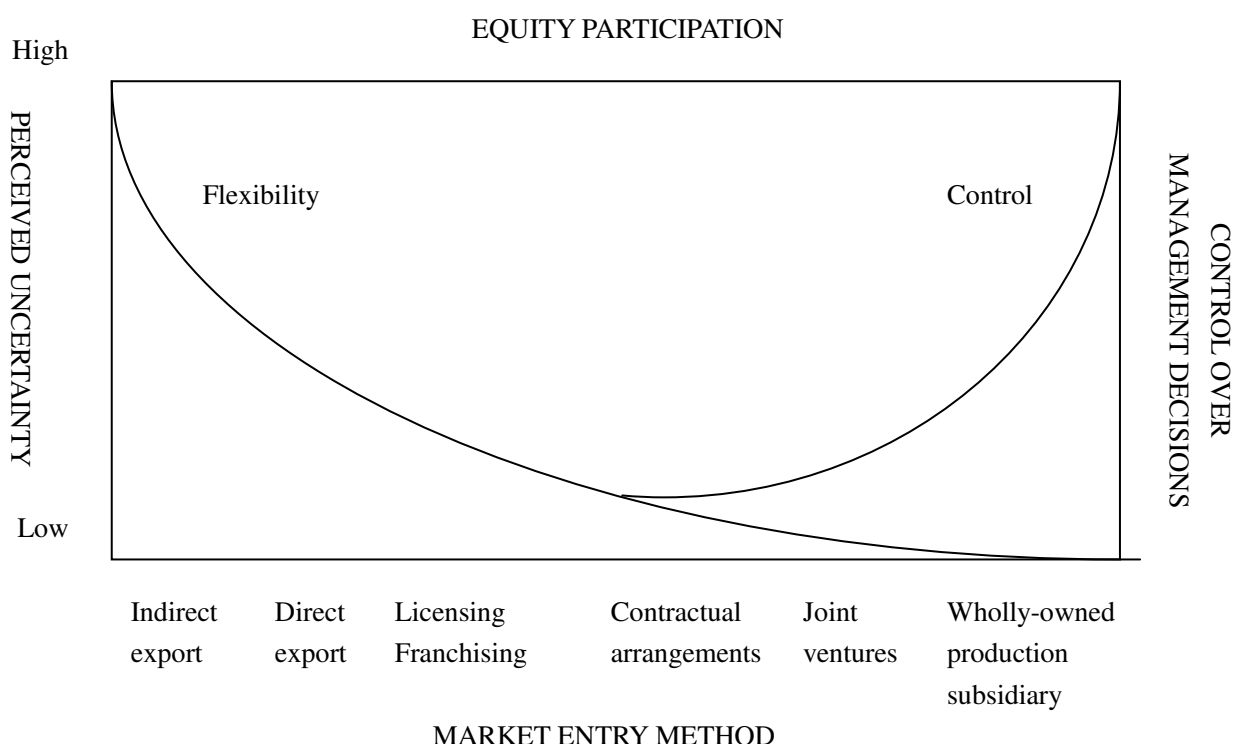
- Relation based entry
 - ✧ Contract manufacturing. With contract manufacturing, the company arranges with a local manufacturer to manufacture part of or even the entire product but retain control over marketing of the product.
 - ✧ Strategic alliance. This is a partnership between businesses with the purpose of achieving common goals while minimising leverage and benefiting from those facets of their operations that complement each other. Kotabe et al (2005) claims that strategic alliances come in all shapes and sizes. It can be based on a simple licensing agreement between partners, or it may consist of a thick web of ties.

2.9.2 Evaluation of market entry modes

One of the most important determinants of the different entry modes is the level of involvement of the firm in the international operations. The level of involvement has significant implications in terms of level of risk and control (Doole & Lowe, 2004). Risk here is related with the firm's commitment of resources and uncertainty in foreign market. Various modes involve a trade-off between degree of control on the one hand and commitment of resources on the other (Fletcher & Brown, 1999). For example, with indirect exporting, commitment of resources is minimal and degree of control non-existent. With direct exporting, more resources are required, but there is more control over what happens to the products/services and how it is represented. A similar trade-off applies to contractual forms when comparing licensing the manufacture of a product with entering into a joint venture.

In the international business literature, entry modes have long been regarded as closely associated with varying degrees of resource commitment, risk exposure, control, and profit return (Pan & Tse, 2000). Figure 2.2 illustrates the point, which shows various methods of supplying international markets in terms of capital investment (resources commitment), perceived uncertainty (risks), and desired role in managerial decisions (control).

Figure 2.2 Relations between risk and control in market entry modes

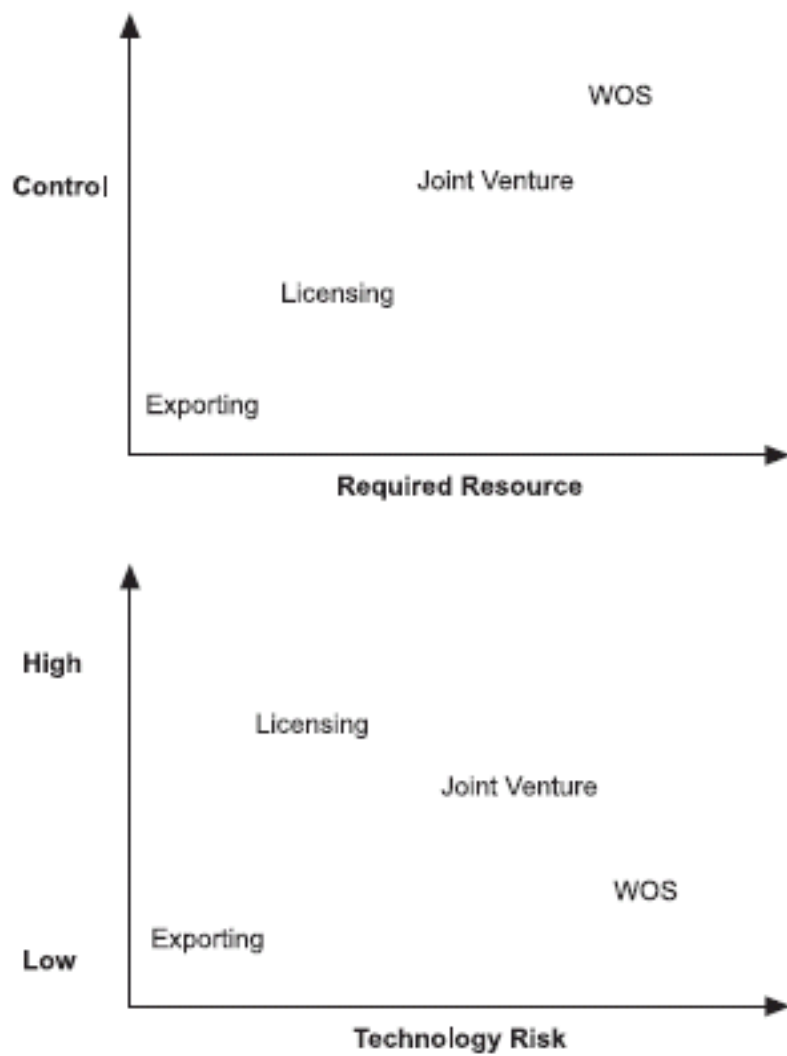


Source: Adapted from Young, Hamill, Wheeler, and Davies (1989)

Exporting, licensing, joint ventures, and wholly-owned subsidiaries are the four major alternatives in market entry (Root, 1994). They may be differentiated according to three characteristics: quantity of resources commitment required; amount of control and level of technology risk (Maignan & Lukas, 1997; Woodcock, Beamish, & Makino, 1994) Similarly, Osland, Taylor, & Zou (2001) formulate a figure illustrating the relationships between these elements and entry modes. In this figure, resource commitments are the dedicated assets that cannot be employed for other uses without incurring costs. Resources may be intangible, such as managerial skills, or tangible, such as machines and money. Control is the ability and willingness of a firm to influence decisions, systems, and methods in foreign markets. Technology risk refers the potential that a firm's applied knowledge (tangible and/or intangible) will be unintentionally transferred to local firm. These three characteristics are highly

correlated (Woodcock et al., 1994). Increased control leads to lower technology risk, but it requires increased resources commitment. Further, different entry model have different performance outcomes based upon their resource and organizational control demand. The empirical test conducted by Woodcock et al (1994) illustrates that new ventures outperform joint ventures, and joint ventures outperform acquisitions.

Figure 2.3 Key characteristics of modal alternatives



Source: adapted from (Osland, Taylor, & Zou, 2001)

The inherent trade-off between control and commitment of resources results the existence of advantages and disadvantages in each mode in terms of risk, return, control, costs and market knowledge required. Table 2.3 summarises the key points of each entry strategy.

Table 2.3 Advantages and disadvantages of different modes of entry

Entry mode	Advantages	Disadvantages
Indirect exporting	<ul style="list-style-type: none"> ● Low commitment (in term of resources) ● Low risks 	<ul style="list-style-type: none"> ● Lack of control ● Lack of contact with foreign market ● No learning experience ● Potential opportunity cost
Direct exporting	<ul style="list-style-type: none"> ● More control (compared with indirect exporting) ● More sales push 	<ul style="list-style-type: none"> ● Need to build up export organisation ● More demanding on resources
Licensing	<ul style="list-style-type: none"> ● Little or no investment ● Rapid entry ● Means to bridge import barriers ● Low risk 	<ul style="list-style-type: none"> ● Lack of control ● Potential opportunity cost ● Need for quality control ● Risk of creating competitor ● Limits market development
Franchising	<ul style="list-style-type: none"> ● Little or no investment ● Rapid entry ● Managerial motivation 	<ul style="list-style-type: none"> ● Need for quality control ● Lack of control ● Risk of creating

		competitor
Contract manufacturing	<ul style="list-style-type: none"> ● Little or no investment ● Overcome import barriers ● Cost saving 	<ul style="list-style-type: none"> ● Need for quality control ● Risk of bad press ● Diversion to grey or black market
Joint Venture	<ul style="list-style-type: none"> ● Risk sharing ● Less demanding on resources (compared with WOS) ● Potential of synergies (e.g. access to local distribution network) 	<ul style="list-style-type: none"> ● Risk of conflicts with partner(s) ● Lack of control ● Risk of creating competitor
Acquisition	<ul style="list-style-type: none"> ● Full control ● Access to local assets (e.g. plants, distribution network, brand assets) ● Less competition 	<ul style="list-style-type: none"> ● Costly ● High risk ● Need to integrate differing national or corporate cultures ● Cultural clashes
Greenfield	<ul style="list-style-type: none"> ● Full control ● Latest technologies ● No risk of cultural conflicts 	<ul style="list-style-type: none"> ● Costly ● Time consuming ● High political and financial risks

Source: Adapted from (Kotabe et al., 2005)

2.9.3 Theoretical background of market entry

Considerable research has been undertaken into the factors that cause firms to manufacture in the overseas country rather than export to it (Fletcher & Brown, 1999). Market entry modes all have roots in theories of neoclassical economics and organizational behaviour (Anderson & Gatignon, 1986;

Buckley & Casson, 1976; Rugman, 1980; Williamson, 1975). The internalization theory and eclectic theory are the two best known paradigms of explaining the choice of international entry mode (Ekeledo & Sivakumar, 2004a; Fletcher & Brown, 1999).

Internalization theory explains why a firm would own and operate a production in a foreign market instead of using export or licensing with a local business in the foreign market. In addressing this issue, the internalisation theory relies heavily on transaction costs analysis. It is also viewed as the transaction costs (TC) theory (Madhok, 1997; Rugman, 1980). A market transaction involves costs associated with negotiating, monitoring, and enforcing a contract (Williamson, 1975). The theory argues that choice of entry mode should be that which maximises long-run efficiency. When transaction costs are high, the FDI (WOS or JV) is more likely occur (Anderson & Gatignon, 1986; Williamson, 1975). The theory assumes perfect competition, homogeneous firms and mobility of resources amongst firms, including perfect transferability of know-how between a parent company and its foreign subsidiary (Ekeledo & Sivakumar, 2004a).

Transaction costs include environmental and behavioural uncertainties, opportunism, and asset specificity (Rindfleisch & Heide, 1997). Therefore, In this case, the New Zealand wine industry needs to identify and analysis factors existing in Chinese wine market which will incur transaction costs. For example, sociocultural distance will create enormous information needs, hence high information cost for wine exporters; business uncertainty and unpredictability likely to undervalue foreign investment thereby result in a smaller investment involvement and smaller equity share in a JV. On the contrary, opportunism is tightly related with people's self-interest seeking, to minimize costs of opportunism, JV and WOS modes are preferred.

Eclectic theory (Dunning, 1977, 1980, 1988) shows that market entry modes are influenced by Ownership advantages, Location advantages and Internalisation advantages (OLI). Ownership advantage refers to competitive

or monopolistic advantage that helps a foreign firm overcome the disadvantage of competing with local firms. Location advantage refers to market potential and country risks that make conducting business in the foreign market profitable. And internalisation advantage refers to more profitable or not by FDI than via licensing arrangement (Agarwal & Ramaswami, 1992; Brouthers, Brouthers, & Werner, 1996).

Eclectic theory addresses the question why production, by either the company or a contractor, should be located abroad (Griffin & Pustay, 2002). FDI will take place when the three kinds of advantages come together (Galan & Benito, 2001). The three advantages are interconnected and affect indistinctly the likewise interconnected decisions of 'why', 'how' and 'where' to internationalize. These three questions provide guidelines for the New Zealand industry to select Chinese market entry modes to obtain competitive advantageous over its competitors. Which modes do benefit New Zealand wine to most effectively transfer intangible assets (quality and reputation) or product innovations (new varieties which meet Chinese consumers' preferences)? Which modes can best offer the New Zealand industry the capacity to coordinate and manage activities in the whole value added chain? Which modes (production in China or New Zealand) can be most profitable for New Zealand industry?

However, Madhok (1997) argues that neither transaction costs analysis nor eclectic theories provides a complete explanation of entry mode choice by firms in today's environment. Firstly, perfect competition is rare, because there are always barriers to free flow of products and know-how between countries. Secondly, TC theory fails to recognize that strategic considerations, such as capability development or enhancement, may be the motivation for adopting a collaborative mode of entry (Kogut, 1988). In addition, TC does not explain the role of location advantages in entry mode choice, despite its explanation of FDI (Ekeledo & Sivakumar, 2004a).

Although eclectic theory overcomes some shortcomings of TC theory, it does not provide a unified perspective in the explanation and prediction of entry

mode choice (Tallman, 1991). For example, it does not explain why two firms in the same line of business and with similar ownership, internalisation, and location advantages would not necessarily choose the same entry mode in the same foreign market (Dunning, 1993). Furthermore, it ignores the impact of broad product characteristics, home country factors, and boundary variables (e.g. weight to values ratio of the product, logistics or transportation costs and currency exchange rates between home and host countries) on choice of entry mode (Ekeledo & Sivakumar, 2004a).

Resource-based theory has been identified as an useful complementary tool to explain and predict selections of market entry modes (Ekeledo & Sivakumar, 2004a). Resource-based theory points out that a firm's success in the marketplace may depend not only the environment in which the firm operates but also on the firm's contribution in shaping that environment (Conner, 1991). It explains not only the differences in entry mode choice observed across firms in an industry, but also why all firms in the industry do not and cannot pursue strategies that are likely to offer highest returns (Ekeledo & Sivakumar, 2004a). Firms only adopt strategies that their resources can support. The resource-based approach to entry mode choice incorporates the core notion of strategic management, the notion that a firm competes well in a setting in which there is a fit between the firm's resource and external opportunities (Conner, 1991; Hambrick, 1981; Vasconcellos & Hambrick, 1989). A firm specific resources includes its capabilities, organizational culture, specialized assets, large size, reputation, and business experience (Aaker, 1991; Amit & Schoemaker, 1993; Arogyaswamy & Byles, 1987; Barney, 1991; Grant, 1991a; Hall, 1992; Williams, 1992; Williams, 1992)

Resource based theory provides the New Zealand wine industry with unique insights in entry modes selection. Transaction cost minimum is only one consideration in mode selection; possessing advantages of all OLI is unnecessary, integrations of one or two advantages with external factors also lead opportunities of success. In practice, relatively small size, isolated

geography, little presence in China market and no brand reputation are weakness for New Zealand wine to compete with other players there. However, factors such as high quality, unique taste and country image set up by well protected environment, coupled with FTA between New Zealand and China, as well as huge market potential offer New Zealand wine with opportunities to pave a way of success in a niche market in China.

Internalisation theory, eclectic theory and resource-based theory have their own strengths from different perspective in explaining and predicting international market entry modes. Internalisation theory stresses that level of transaction cost determinates the choice of entry modes; eclectic theory recognises FDI reflects the OLI advantages a firm have; resource-based theory emphasises entry mode should match the fit between firm's resources and environmental opportunities. However, one similarity that unites them all is need for environmental scanning. Environmental scanning is the acquisition and use of information about events, trends and relationships in an organisation's external environment, the knowledge of which would assist management in planning the organisation's future course of action (Aguilar, 1967; Hambirck, 1981).

2.9.4 Factors influencing the New Zealand wine industry's entry modes into Chinese market

The selection of an appropriate entry mode in a foreign market can have significant and far-reaching consequences on a firm's performance and survival. It is one of the most crucial strategic decisions that an international firm has to make (e.g. Davidson, 1982; Gatignon & Anderson, 1988; Root, 1994; Terpstra & Yu, 1988). Poor modal choice can lead to "sinking the boat" or "missing the boat" (Dickson & Giglierano, 1986).

A crucial step a firm should take before selecting entry mode is market selection. Companies adopt many different approaches to choose target markets by collecting data, comparing data with key indictors, rating the

countries in the pool and decision making (e.g. Doole & Lowe, 2004; Fletcher & Brown, 1999; Hill, 2005; Kotabe et al., 2005). These analyses are made in terms of host target countries' politics, economy, finance, legislation, infrastructure, market potential, culture and competitors. However, in practice, market selection and market entry mode selection should most appropriately be looked as two aspects of one decision process rather than as two related but essentially separate decisions (Koch, 2001).

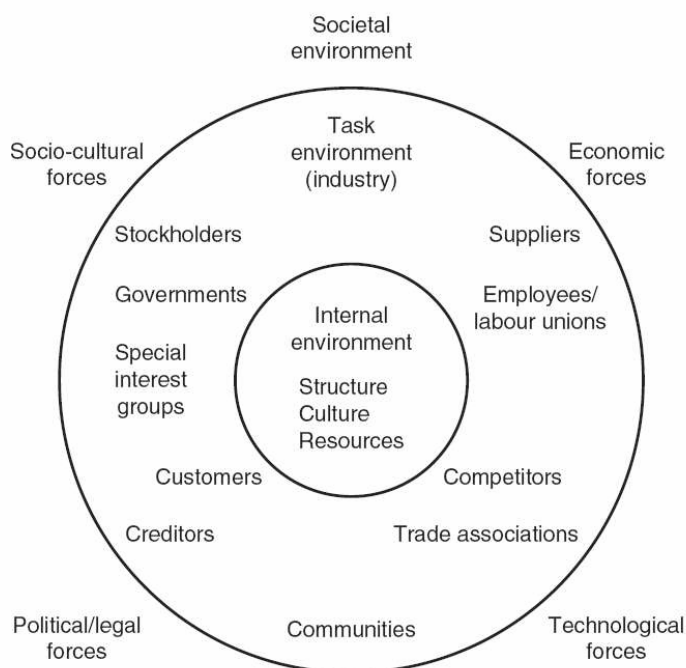
In practice, the entry mode decisions are highly complex. Besides the qualities and characters discussed above, there are host of target market factors and within-company factors that may affect decisions making (Osland et al., 2001). Similarly, Kotabe et al (2005) suggest that choice of market entry criteria can be broadly divided into groups: external environment-specific criteria and internal firm-specific criteria. External criteria include market size and growth, risk, government regulations, the competitive and local infrastructural. Internal criteria include company objectives, the need for control, internal resources, assets and capabilities, and strategic flexibility.

Rationale behind factors appraising in mode selection is related with the theories of environmental scanning and strategy management. Environmental scanning services as the first link in the chain of perceptions and actions the permit an organization to adopt to its environment (Jennings, 1992). Organizations' competitiveness depends on the ability to monitor and adapt strategies based on information acquired through environmental scanning activities (Boyd & Fulk, 1996). Influences of an environment in which a firm operates exist in two layers(Duncan, 1972). The first layer is the task environment, which directly impacts business strategy and performance; the environmental elements include competitors, suppliers, customers and regulatory bodies. The second is the general environment. It often involves economic, political, social and technological factors, which indirectly affect organization. Robbins and Barnwell (2002) classify these factors into three levels, General environment, specific environment and domain(a firm's niche).

The rationale they hold is same with Duncan's, despite the different terms. However, for most strategy decisions, the core of the firm's external environment is its industry, which is defined by its relationships with customers, competitors and suppliers, extensively environmental analysis is unlikely to be cost effective and creates information overload (Grant, 2002).

Factors which influence New Zealand wine industry to enter into Chinese market are discussed in accordance with theories of environmental scanning, strategic management and resource-based view, obviously, the foundation of these theories is relatively overlap. Factors are classified into external and internal groups (Kotabe et al., 2005).

Figure 2.4 Environmental Variables



Source: (Wheelan & Hunger, 1997)

- External factors
 - ✧ Political factors. China is a member of WTO and committed to open its market. Combined with its relatively social stability, China was the

largest host country of FDI. The concluding FTA between New Zealand and China will cover trade of goods, service, and the protection of intellectual property; the New Zealand wine can adopt WOS modes.

- ✧ Economic growth and market potential. As discussed in the above part, rapid growth of Chinese economy makes the potential in Chinese wine market tremendous; WOS entry modes help the New Zealand wine industry to reach it's the long term goals. Because WOS modes benefit them know more about Chinese market, the more they know about Chinese market, the more possible for them to expand business.
- ✧ Culture. China and New Zealand are with considerable cultural distance. It is a determinant in market entry mode selection. Just from this point, exporting mode should be suitable for New Zealand wine makers.
- ✧ Competitors. Besides the four domestic competitors mentioned in industry analysis part, Chinese market has attracted attentions from companies in large wine countries. For example, Australia has targeted China as a main market for sustainable growth of its wine industry (AWBC, 2005), especially, Australia is closely back New Zealand on the way to conclude FTA with China; the second largest wine company in the world from France has signed a agreement with Jiangsu Sugar and Alcoholic Corporation in September 2006 to distribute wine in Jiangsu province (*Yangtze Evening*, September 10, 2006). Competition in China market has huge impact on New Zealand wine industry's entry mode. More information will be got by primary data collection, and most likely answers to this challenge can be found in the part of discussion in this research.
- ✧ Infrastructure. Majority of Chinese wine consumers are in main cities, especially these are along east coastline. There are many ports and airports; infrastructure cannot be a hindrance to wine import or delivery.

- Internal factors

- ✧ Size of New Zealand wineries. 90% of New Zealand wine producers are of Category one and relatively small. This means they are most likely lack of strong financial support, target one or several Chinese cities is realistic. This factor can hugely influence entry mode choice. They should select low resource commitment market entry modes.
- ✧ Experience of overseas market. The New Zealand wine industry is successful in export market, because its export has increased quickly over the past two decades, especially, more than half of its production in 2005 went to overseas. However, New Zealand wine makers are lack of experience in Asian market, particularly in China. Low risk entry modes sound necessary.
- ✧ Reputation and brand influence of New Zealand wine. The average price in the fierce competitive United Kingdom market show that New Zealand wine enjoys high reputation. To shift and protect (control) its reputation and brand influence make setting up wholly-owned subsidiaries is reasonable.
- ✧ Strategic flexibility. Understanding Chinese consumers and meeting their demands, even reshape their behavior of wine consumption can be effective ways to promote New Zealand wine, to smoothly carry out these kinds of strategy, high control entry modes are necessary.
- ✧ New Zealand companies' culture. The cultural merger of two companies has been proved difficult, New Zealand wine companies which have completely different organizational culture with Chinese companies, need selecting export or WOS entry mode.
- ✧ Know-how in wine manufacturing. The marine climate makes New Zealand grape unique in world, high quality and unique taste also come from unique manufacturing, high control entry mode is most necessary to New Zealand wine companies.

In conclusion, managers who attempt to seize new opportunities for growth and/or cost reduction in foreign market face complex, significant modal decision. Firstly, managers need to understand the nature of each of their modal choice. Modes vary in terms of the level of control, the quantity of required resources, and the amount of technology risk. Secondly, key internal and external factors of the firms must be identified and analyzed to select most profitable modes.

New Zealand wine producers who keen to explore Chinese market are quite aware of their own abilities, sources and business direction (internal factors), but they know considerably little about Chinese wine market (external factors). Their desires of acquiring information in Chinese market, understanding Chinese consumers, familiarity of Chinese business practice the research are the aims of the research. The following chapters demonstrate how the research was conducted, research results, as well as suggestions on market entry by combining findings from research and literatures.

3. Methodology

3.1 Introduction

This chapter describes the research methodology adopted by the researcher in conducting this research. Research design is the 'science (and art) of planning procedures for conducting studies so as to get the most valid findings' (Vogt, 1993, p. 196). That is why the author started this research with a research purpose, followed by literature reviews with the aim to offer alternatives of market entry modes for the New Zealand wine industry. Now in the research methodology, the author elaborates questions which lead to the findings and conclusion for the research. In this chapter, the author firstly examines the research paradigm, then the research population and samples, research questions, as well as methods of data collection and analysis.

3.2 The research approach

The main purpose of the research project is to provide a China-market entry or expansion mode/strategy for New Zealand wine industry under FTA background from a consultant's perspective. In order to reach this goal, qualitative methodologies are identified as a dominant research method to carry out the project. The reasons are:

- The research problems focus on uncovering and understanding a phenomenon (for example, customers chose one brand of wine instead of others) about which little is known (Ghauri & Gronhuag, 2005).
- The research is interested in understanding why something is happening rather than being able to describe what is happening (Ghauri & Gronhuag, 2005). For example, even though prices are the same and taste is quite similar, what factors do influence Chinese customer selection?

The author believes that the social world in which consumers are living is constantly changing and the researcher and the research itself are part of this change (Collis & Hussey, 2003). The findings are subjective owing to the application of the author's background and previous experience. The qualitative research allows the author to explore and probe deeply into attitudes towards products classes, brands, trends and behaviour (Ghauri & Gronhuag, 2005). Furthermore, adopting a qualitative approach enables the author to formulate a market entry mix for the New Zealand wine industry, because this kinds of knowledge is based primarily on constructivist perspectives or advocacy perspectives or both (Creswell, 2005).

While qualitative research methodology is adopted in the research, the necessity of applying quantitative methods cannot be ignored. However, these data will be analysed only descriptively using frequency counts and possibly proportions.

3.3 Population and Sample

The research theoretically targets people who make wine purchase decisions in China. Considering the geographically huge territory and population, as well as imbalanced economic development between areas in China, and particularly that wine-drinkers are mainly middle-class people, this research seeks to find an efficient representative compromise. Therefore the researcher has chosen a sample from Nanjing city, because this city is a representative of Chinese major cities as explained below. Research results from this mid-level market will be more applicable to New Zealand wine industry's entry into China in general than a "distorted" markets such as Shanghai or Beijing. The researcher is from Nanjing, received MBA there, and worked in this city ten years. I know this city very well from which I can generalize to other large cities.

- Nanjing city is the capital of Jiangsu province with 6.28 million people. Jiangsu is one of the most developed east coastline provinces, and it

adopted Open Policy in China in 1980's.

- The GDP of Nanjing in 2005 was RMB240 billion (USD30 billion), ranking around 8 in 35 major cities, after Beijing, Shanghai, Guangzhou, Hangzhou, Suzhou, Tianjing and Chongqin.
(http://www.nanjing.gov.cn/cps/site/nanjing/102005/njxw-mb_a2006070961632.htm)
- Nanjing is located quite near to Shanghai (about 3 hours away by train). It has significant influence on consumer fashion on other big regional cities, such as Hefei, the capital of Anhui province, Jinan, capital of Shangdong province. It has similar living standards and consumers' habits with major cities such as Shanghai, Beijing, Chongqin, Chengdu, Qingdao, Suzhou, Hangzhou, Guangzhou, Zhengzhou, etc.
(<http://www.ccforum.org.cn/viewthread.php?tid=51558&extra=page%3D1>)

Within those parameters it is necessary to select a relevant and approachable population of potential respondents who are characterised as wine purchase decision-makers.

In the interest of re-applicability and external validity, my research relies upon and is informed by an important Australian report on China wine market entry strategy, which after careful analysis arrives at the following segmentations of the potential wine market: (1) four and five star hotels, (2) high-quality and independent restaurants, (3) national level supermarkets, and (4) corporate and private consumers (AWBC, 2005). Recent statistics show that 90% of New Zealand wine makers cater to category 1 (the annual output of less 200,000 litres), (Winegrowers, 2005). Of course, the size of a firm is often an indicator of its competitive advantage in financial, physical, human resources, technological, or organizational resources (Ekeledo & Sivakumar, 2004b), and New Zealand wine firms are mostly small. Firm size places a constraint on what a firm can do (Grant, 1991b). Given these two facts, the author believes

that New Zealand wine producers should not target national level supermarkets. In addition, establishing business relationships with corporate and private consumers is time consuming and it can only be carried out by local companies who possess excellent knowledge and skills in Chinese personal interactivities.

All of this leads me preliminarily to conclude that it is the luxury hotels and restaurants that should be the primary niche markets for New Zealand wine producers. Based on successes in this segment, the New Zealand wineries can then pursue expansion in other sectors of the Chinese marketplace.

Since four/five-star hotels have quite similar characteristics to high-quality and independent restaurants in terms of food price, consuming environment and service level, and in the interest of research efficiency and homogeneity of the sample, the researcher has limited the sample to CEOs or managers of restaurants at four and five star hotels. The researcher trusts that they can provide adequate information in answering research questions, even though they are not theoretically familiar with market entry of New Zealanders. In Chinese business practices, they act as intermediaries between wine distributors/producers and sellers. On the one hand, they work on behalf of hotels and restaurants to order wine from distributors, so they have the knowledge of what support measures and services they can get from distributors, as well as what they should offer. On the other hand, they sell wine to customers at their restaurants; they have ample first-hand experience in understanding and servicing customers. In short, they know what factors can dominantly influence customers purchasing behaviours.

Moreover, as incredible as it may sound annual sales in one large Chinese restaurant could occupy one or two New Zealand wineries' entire output. For example, a restaurant named 'Hongni' in Nanjing city normally has 600 customers for lunch and 1200 for dinner everyday. If two of them consume one bottle, consumption is 900 bottles one day and around 320,000 bottles one

year! There are about 20 four or five star hotels in Nanjing city. The author conducted interviews with the eight managers of restaurants at these luxury hotels. The eight samples consisted of hotels which managed by overseas centralised office, such as Hilton and Sheraton, Softel hotels and independent local hotels, such as Jinling Hotel and Phoenix Plaza Hotel.

Views on wine market from consumers' perspective benefit reliability of the research. Interviews with 12 consumers were also conducted. The majority of wine drinkers in China is middle class consumers, thus, the author randomly selected the interviewees, but with two criteria: received bachelor degree or above, and at middle level positions or above in business organisations or governmental department.

3.4 Data Collection procedure

The primary data were collected by using semi-structured telephone interviews. Before the interview was conducted, a letter with Unitec logo was sent to potential respondents. These letters contained a brief introduction of the research and the researcher an outline of information sought, as well as contact details of the researcher. These letters initiated a relationship with them and let them have time to prepare verbal response.

Follow-up calls were made two week later, by the time the introductory letters were received by them. Consents were obtained and interview times were settled down.

Further, secondary data were also collected from public databases, governmental statistics and archives on New Zealand wine industry, Chinese wine industry. Particularly, research and reports on entering Chinese wine market from other sources, such as Chinese or Australia institutions, have been intensively reviewed to triangulate the findings from the research project.

3.5 Research questions and sub-questions

The question of the research is

- What are the most important factors to consider for the New Zealand wine industry's entry into the Chinese consumer market?

Sub-questions are:

- What current and future opportunities exist for the sale of New Zealand wine products in China?
- What kinds of initial market promotion should New Zealand wine producers undertake?
- What channels of distribution are suitable for New Zealand wine?
- What market entry strategies should New Zealand wine take to Chinese market?
- What specific strategic initiatives should be undertaken by the New Zealand wine industry to establish its brand in the Chinese marketplace?

Accordingly, the questions asked to interviewees are in eight main categories:

- Factors influencing consumers' wine selection;
- Price range;
- Expectations for wine producers/exporters;
- Expectations for wine distributors;
- Opinion of New Zealand wine and New Zealand;
- Packaging and labelling;
- Alcohol and sugar levels;
- Suggestions on market entry for the New Zealand wine industry.

3.6 Data analysis

Data collected from the interviewees were analysed by using methods suggested by Saunderson, Lewis, & Thornhill (2000): classifying data into meaningful categories, unitising data to the appropriate categories, generating categories and reorganising data according to them and developing and testing new knowledge. Node search in N6 was used. The data analysis was guided by the research questions discussed above.

3.7 Summary

A qualitative approach was predominantly adopted for this research project. The purpose of the research was to suggest the New Zealand wine industry suitable market entry modes for the Chinese market. Interviews over telephone were conducted with open-end questions on factors influencing wine choice, price sensitivity, services of wine distributors and other related issues.

4. Results

4.1 Introduction

The results of the research are shown in this chapter. The qualitative interviews were conducted with two groups of interviewees: eight managers of restaurants at hotels with five/four stars and 12 consumers. The collected data were accordingly analyzed in two categories. This chapter explores the most significant finding as closely related to the research questions. In order to identify main factors which influence wine consumers' behaviour from both wine end-sellers' and consumers' perspectives, seven central themes are taken from transcriptions of the interviews and discussed in this section. This chapter starts with research challenges, and then examines the central themes.

4.2 Research challenges

Research challenges I encountered in arranging and conducting interviews perhaps an understanding of Chinese culture and business practice. These challenges usefully implicate ways of how to approach key persons in wine promotion and sales.

The first challenge is the difficulty in approaching general managers. Introductory letters were sent to general managers at hotels in advance. However, when I wanted agree upon interview time, my calls were even unable to reach them! The clerk working at phone transfer refused to put me through to them. As their regulation, call from a stranger is not allowed to be directly transferred to general managers in avoiding unnecessary interruption. The clerk asked who the caller was and for what purpose, then she put the call to the general manager's personal assistant to decide whether the call should be answered by the general manager or not. The personal assistant normally

replied that he/she will report your call to general manager, and then he/she would give you the manager's feedback by reply call later. The fact was that I never a reply call.

In actual fact, I called almost all 20 hotels with five/four stars in Nanjing city, and failed to reach even one general manager. Thus, I had to ask clerks at phone transfer to put my phone to restaurant managers, and then introduced the research and stressed that their help was crucial to the progress of my research. Despite hard work, I only got five to accept my interview from nearly 30 managers. In order to have enough respondents, I had to seek help through my previous relationships (Guangxi⁴). With assistance from friends, I easily approached three general managers, and then conducted interviews with managers at restaurants or bars recommended by them.

Another challenge was that most interviewees were not active in expressing their opinions. I tried various ways to motivate them to tell me their understanding or observations on wine consumption as much as they know. However, amongst the respondents, interviews with the three recommended managers were conducted especially successfully. They were very cooperative and showed strong willingness to offer their comments, understanding and interpretation on consumers' behaviours. The problem was perhaps that they had regarded interviews as a task arranged by their bosses; they thought that my feedback to the bosses may influence their performance appraisal.

These two challenges imply that, firstly Guangxi plays important role in business in China. Without a Guangxi, you can hardly "knock" on the door, let alone "open" it. Secondly, with help from a key person, the effectiveness and efficiency will be improved quickly with same even lower cost.

⁴ In China, Guangxi is good relations amongst some people which were established in past.

4.3 Central themes

4.3.1 Patterns of wine consumption

Interviews show that the fundamental pattern of wine consumption in China is completely different from Western countries, for example, New Zealand.

- Non of the interviewees in consumers group drink alcoholic beverages at home, including wine, spirit and beer. They only have drinks at restaurants or bars. Wine is normally consumed at home as meal accompaniment in New Zealand; in contrast, in China wine is predominantly used as lubricant for social events. For social aims, consumers drink wine usually with spirits or beer. For example, if 10 people have a meal at one table, they will consume two bottles of spirit, four bottles of wine and many bottles/tins of beer without an order of drinking. The time for a dinner can be last three hours.
- Bills for alcoholic beverage are mostly paid by governmental departments or state-owned or private business companies. This means that drinks are free for consumers, and of course meals are free as well. This perhaps is one unique feature in the Chinese hospitality market. Such costs are reported to be in the range of RMB200 billion (NZ\$38 billion) per year in total in China.
- As to the proportion of wine amongst alcoholic drinks (spirit, wine and beers), seven hotels claimed that it was about 30-40% in sales by value. Only one hotel (owned by local government and servicing governmental receptions and activities), said that the proportion is above 60%. This figure is supported by data collected from consumer groups. They believed that the wine consumption was about 30-50% in their total alcoholic consumption. Spirit has the largest share in Chinese alcoholic market, more than 50% by price.
- Demographics of consumers. There is no obvious segmentation in age of wine consumers. This illustrates that consumers cannot be grouped by

age. This result is contrary to Lin's (2003) finding. He claims that the average consumer in China is between 20 and 35 years old. In contrast, most interviewees from the consumer group claimed that they would increase wine drinking and reduce spirit drinking as they age. Because spirit has high alcoholic level and is not good to health. In contrast, Chinese regard wine beneficial to health. For female consumers, overall prefer wine to spirit. Two five-stars hotel said that half of their wine consumers were coming from overseas. These two hotels enjoy high reputation in Nanjing area in terms of services. Overseas consumers show high loyalty to wine brands and producing area, the amount they consume is not big, say one or two glass. Consumers of the rest six hotels are mostly local people.

- Dry red wine dominates wine sales. At all hotels, 90% of wine sales come from dry red wine. White wine sales are very small in China. It is said that red is a lucky colour, and white is usually associated with bad things. The proportion of fortified and sparkling wine is also considerably small. Half of hotels do not even have a stock of fortified and sparkling wine. This result is supported by data from consumers; they claimed that they just selected dry red wine, because red wine was reported to be good to health and they didn't think white wine doesn't have such benefits.
- Imported bulk wine and re-bottled by local companies is regarded as low quality.

4.3.2 Brand awareness and effects of country-of-origin

Brand is identified as the most influential factor of wine selection. Restaurant managers mentioned that most consumers choose wine directly by brand. For example, when consumers were asked what wine they would drink for a meal, most of them would mention a specific brand, or would ask the waiter whether a brand is available at this restaurant.

This result is supported by finding from the consumers' category. Almost all interviewees from the consumer group stated that they would select wine by brand, and they even believed that brand weighs more than price in wine selection. They trust brand because it represents quality and taste. They usually don't take risks on a new or strange brand, especially at present when there were many fake and counterfeit products in Chinese market. In Western countries, wine selection is closely related with food and consumers' expectations from wine. For example, in Australia, consumers relate wine and food on three aspects: complementary, the social context of food and drink, and lubrication (Pettigrew & Charters, 2006). Four segments of wine market are in French market, they are food (consumers expect food complement), fun (consumers seek standards and enjoyment), tasting (consumers seek special taste and particularities) and art (consumers seek an emotion) (Guibert, 2006). The most popular brands of wine out of all overseas and local brands in the Nanjing market are two domestic ones: Changyu and Great Wall. This finding is same as the findings of Sinomonitor's research mentioned in the chapter of industry analysis. All 18 interviewees mentioned that the two brands were consumers' most favourite brands. The other brand, which is less popular but also has high rate of preferential mention, is Dynasty. They believed the reasons were that these brands had been in the market for about 20 years, and had very little negative comments on their quality and service. Changyu is a brand with almost 80 years history.

Regarding awareness of overseas brands, few interviewees could mention specific overseas brand name. However, France enjoys very high reputation of wine making. All respondents believed that the best wines are made in France. They also indicated that a large proportion of Chinese consumers regarded that all French wines were of high quality.

Only two of managers were aware that the major wine producing countries were grouped into Old World and New World countries. Some of them knew that Australian wine had a presence in the Nanjing market. But they perceived

that the quality of Australian wine was lower than wine from France, and the price was a little lower accordingly.

Regarding New Zealand wine, just three in the 18 respondents knew that New Zealand produces wine (although two of the three respondents had been New Zealand before). The rest believed that New Zealand was not a suitable place for high quality grape growing in terms of climate and soil. All of them were very surprised when I told them that New Zealand wine had unique taste and flavour owing to maritime climate, and that its quality was perfect and its average price was the highest in UK market, which was the most significant competitive wine market in the world.

However, almost all respondents had very nice impression of the country of New Zealand. In their mind, New Zealand is a very clean, green and well environment protected agricultural country with very kind and honest people.

4.3.3 Price sensitivity

Price was ranked as the second important factor after brand in wine selection. However, the exact accepted unit prices for the respondents were different. For domestic brands, the price at restaurants ranged from RMB 100 to 300 (NZD20--60)/bottle, and RMB200 to 600 (NZD40--120) for imported brands. Prices of items under the brand umbrellas of Changyu and Great Wall were diverse to meet different levels of demand. The extreme price of imported wine can be or more than 2000 (NZD400). One five-star hotel assumed that margin of wine was around 50-60%, and for beer was 70-80%. Impact of prices in wine selection was closely related with Chinese culture, relations between drinkers and factors in consuming environment. (Price mentioned in this part is price/bottle at restaurants, which is normally two times higher than retail price at supermarket, as respondents mentioned. Some imported brand can only be bought at hotels rather than from supermarkets.) Some factors related with price sensitivity are outlined:

- Due to the lack of wine knowledge, the impact of price in wine selection was related to the quality perception of wine consumers. Price was used as an indicator of quality. Interviewees believed that for most Chinese the higher the price, the better the quality, consumers might even reject cheaper items just to avoid the risk of dissatisfaction. Consumers agreed that they have never drunk wine under RMB60 (NZD12/bottle). One fact revealed by manager at an international hotel showed that an imported wine sold better at RMB800 (NZD155) than at RMB300/bottle (NZD60). However, customers are getting more rational. The best selling wine now range from RMB300 to 450/bottle (NZD60—75) for both domestic and imported brands. Investigation of this corresponds to research by Lockshin & Rhodus (1993) on influence of both internal and external wine attributes on perceived quality shows that extrinsic cues such as price, package, brand name and label tend to be more influential to consumers who are with little wine knowledge rather than intrinsic cues including grape variety, wine style and alcohol content.
- As mentioned above, consuming alcoholic beverages including wine drinking is mainly for social events and bills are paid by governmental departments or private companies. In China, many business agreements are reached during eating. The atmosphere created by meal and wine helps reaching these kinds of agreements. The high price of meals and drinking makes the treated person or people (normally most influential people in a transaction) satisfied. Thus, the buyers of meals and wine normally pay more attention on the achieved extent of the 'aims of the meals' (social and symbolic value) than the price they pay. Respondents also mentioned that for friends meeting, they preferred reasonable price wine because an enjoyable atmosphere of friends' meetings is created by relationship rather than meals and wine.
- Both the consumers and managers suggested that suggested the New Zealand wine price should not be higher than famous Chinese spirits

(Baijiu). New Zealand wine will be a new entrant in Chinese market. In order to minimise the risk and short the time of acceptance, all respondents agreed that the right price was necessary. They stressed that the top-end Chinese market was dominated by traditional famous domestic Baijiu brand, such as Wuliangye and Maotai, with prices at about RMB500-600/bottle (NZD100-120). Coupled with less presence and recognition than French wine in Chinese market, the price of New Zealand wine should be a little lower, say RMB300-500.

- The price of beverage consuming at meals is also influenced by the budget of the meals. One manger offered an example. When a person wants to treat several people a meal for some specific reason, he has a rough budget of cost for food and drinks. Then he will target these wines which price meets the budget. Moreover, the selected wine can also make treated people feel graceful and respected. For example, if the prices are similar amongst some domestic and imported wine brands, the buyers prefer imported brands, because imported brands are normally regarded better and superior in quality. The imported wines provide the buyer more 'face' (social and emotional value)!
- Accepted wine price is also influenced by the place of consumption. For same brands of wine, some consumers thought the price could be and should be different depending on where the wine was consumed. For example, Jiebaina, a product of Changyu, had a price around RMB150/bottle (NZ30) at a middle level restaurant, but the price was as high as RMB300 (NZD60) at Jinling Hotel, a highly recognized five-star local Hotel.

4.3.4 Consumers' wine knowledge

It is can be deduced from the colleted data that wine knowledge of the average Chinese consumer is somewhat limited. The findings are supported by other research (e.g. Lin, 2003).

- Limited knowledge on how to recognise quality

In China, taste trails at the point of sale are quite rare. Consumers identify quality more by extrinsic factors. Respondents mentioned that they associated quality with price, package and advertisement. High price, nice package and more advertisement presence in the media translates into quality. Sometimes their perception of quality is also influenced by their peers' or close friends' opinions. Two respondents from the hotel managers group stressed how to identify wine quality is very difficult for consumers. What is more, even if wine from same bottle leads to different opinion. In spite of difficulties in quality identification, three reasons were believed the main drivers for wine consumption: (1) wine especially red wine is good to health; (2) wine has lower alcoholic content than spirit; (3) wine drinking is a western lifestyle. The three drivers influence the amount of wine consumption.

- Various taste preferences

Quality perception is closely related with the wine taste. However, consumers most likely have individual taste preferences. Respondents believed that widely recognized wines from New Zealand would find difficult acceptance by Chinese consumers. To deal with this issue, wine appreciation education was regarded necessary. One manager offered me an example used by a wine distributor on how to influence drinkers' perception of taste for a specific brand promotion. The company invited some consumers from the targeted market for a free trial at a luxury hotel. They firstly introduced the history and characters of wine to the audience and then had audience drink the wine to have a real experience. They alerted the drinkers that they would feel a little bitter taste after the first drink, and then sour after drinking more, lastly a sweet taste would emerge. Under the situation, most drinkers admitted that they had felt the indicated tastes.

- Other aspects of wine knowledge

Consumers' knowledge of wine history, wine classification and ways of wine drinking was also proved to be relatively limited.

Almost all respondents knew that European countries are the place of origin of wine. Even the two managers, who mentioned Old World and New World wine countries, knew very a little about the competition between wine countries and their current shares in the world market.

Knowledge regarding methods of wine production and storage (for example, adding oak flavour or regulations on wine labelling) was proved to be limited.

Consumers believed that the older the year of storage, the better the quality would be for all wine. They knew little about sparkling wine and fortified wine.

Some consumers regarded champagne to be sparkling wine.

Most Chinese wine drinkers were not aware of the pairing of food and wine.

Some consumers drink wine added with sparkling beverage or with ice cubes.

Some consumers even drink wine, beer or spirit alternatively at one meal.

4.3.5 Influence of stewards in wine selection at restaurants

Answers to the question of whether restaurant stewards have influence on consumers' wine consumption were contradictory. Managers of restaurants believed that stewards definitely had influence on wine choice and the quantity of wine consuming. However, majority of consumer respondents didn't think so.

Managers explained that stewards had influence in three ways.

- Stewards prepare just the wine which they want to sell on a particular day.

First they recommend a high price wine, because high price wine resulted to higher gross profits even if margin was same. Consumers have meals at a restaurant for several reasons, such as satisfactory service they experienced in past, excellent food taste, or comfortable dining environment. Availability of high quality wine is just one of the "other"

reasons. Thus, if the wine brand asked by consumers is not the brand the restaurant or stewards want to sell, the stewards would apologize for the unavailability, and recommend the brand which they want sell. Generally consumers will accept their recommendation without having satisfaction of service lowered. However, under this situation, the brand recommended by stewards is also a recognized brand instead of an untested one.

- Some wine distributors have trained stewards in wine education of the brand history and varieties. Sometimes customers ask for recommendations, and so stewards will introduce a specific wine brand and persuade customers to buy it.
- Wine distributors of new brands employ some girls as stewards at large restaurants, and the stewards are dressed in clothes with brand logo. Some customers who like to try different taste, or who are attracted by the logo, will normally ask the stewards to introduce the wine and most likely buy one or two bottles as a trail.

The respondent managers remarks are supported by findings obtained in Western countries. Research has found that popular methods such as training wait staff in wine education and suggestive selling techniques can increase beverage sales from 10-15 to 25 percent (Aspler, 1991b-b; Hochstein, 1994). Managers also believed that stewards were more influential with consumers who know little about wine. For knowledgeable consumer, stewards had less impact. Only when the brands the consumers wanted were unavailable at the hotel do stewards have the opportunity to recommend other brands.

On the other hand, most respondent consumers were of the opinion that stewards couldn't influence their behaviours. They stressed that their wine selection criteria were brand, quality, price and people who drink wine with them. Sometimes, they asked for more information on wine quality and taste. But, their final decision of wine choice was made on the basis of their own judgement. The amount consumed depended on the atmosphere of drinking. Just two of them agreed that they were partially influenced by stewards and it

happened in two situations. First, stewards must be quite familiar with wine or some wine brands in terms of history, varieties, harvest area, production year and years of storage. Second, after food was ordered, then stewards offered advice on the pairing between food and wine. Stewards needed to be confident and objective. If they can make some comparisons amongst different brands, their power of persuasion will be better. However, consumer respondents agreed that opinions from peers and friends could have a relatively high impact on their wine selection.

4.3.6 Packaging and labelling

Some distributors import bulk wine and bottle it in China. It is a way of saving transportation cost. However, respondents stated that Chinese consumers regarded bulk wine bottled in China as of lower quality. Perhaps they think some wine traders will add lower quality wine into high quality wine during re-bottle procedure. They also provided some opinions on Chinese preferences of wine packaging and labelling.

- Wine should be bottled in dark colour bottles, and the shape and size of the bottle should look classic. Most of respondents stressed that a wooden cork was necessary. They believed that wooden cork made wine to be looked classic and traditional; it benefited wine storage to keep quality as well. Two respondents told that the process of opening cork was part of wine appreciation despite the inconvenience of opening the bottle. So metal screws should be avoided.
- Managers believed that wine producers needed to pay close attention to wine labelling. Quality of label paper must be high. Characters and pictures printed in emboss are better. Golden and dark red were preferred. Vineyard, vintage, harvest area, manufacturing year or a brief introduction of the wine varieties should be on the labels. What showed on the label can be a support to stewards in promoting the brand. In general, all

respondents believe the label should be look simple, classic, informative and attractive. All contents in label must meet Chinese government's regulations.

- Wine can also be used as a suitable gift for social events in China. Spring festival and Moon festival are the two important time for gifts exchanges. Respondents suggested that two bottles in one well-designed wooded box would be welcomed. Adding one high-quality bottle opener to the box could improve customers' satisfaction. Detailed information regarding wine history, quality, taste and variety can be printed on the boxes as an effective 'soft' advertisement and a brand education. A CD or DVD video of vineyard, grape harvesting, wine manufacturing, even natural scenery of New Zealand was regarded by respondents as a way of establishing or strengthening New Zealand wine brand.

4.3.7 Expected services for exporters/distributors

Questions regarding export services were asked of restaurants managers because restaurants often work as intermediaries between wine distributors and drinkers. Not all hotels import wine from overseas. Hotels that do not import, purchase wine from distributors.

- New wine entrants should firstly make managers of restaurants and purchase departments well-acquainted with the new brands. The quality of wine must be good and consistent, price should be reasonable and taste must meet Chinese consumers' preferences. In-depth understanding of customers and business practice in the market is necessary.
- As a distributor, a local office and place for exhibiting wine and storing wine is necessary.
- There must be fast response to unexpected and urgent occurrences. For example, when a consumer finds that a wooden box of gift wine is broken at the selling, distributor should provide a new box as quickly as possible.

Furthermore, distributors are responsible for maintain stocks at hotels, this means, wine should be delivered to hotels on time.

- In China, payments are made after sale, or when the next order is made. Thus, distributors should have adequate funds for the deposit of wine at hotels. For wine exporters, pay in advance or letter of credit will be a safety term of payment, especially when they do business with new buyers. In addition, sellers are suggested to master the details of goods flow before the payment is made. Sometimes prior credit check is necessary.
- Adequate, appropriate advertisement. Respondents agreed that advertisement was necessary, but mass investment in advertisement was not suitable for wine. Long terms planning of promotion at establishing brands and gradual changing consumers' attitudes is important. Exporters and distributors should have the ability and understanding of how to protect established brands in China market. Because China is not well developed in intellectual property protection.
- Sponsorships for related promotion. It is quite frequent that hotels do marketing promotion. For example, an activity named "The week for tasting New Zealand lamb" will be held at a hotel, the hotel most likely would hope wine distributors to sponsor it with 30 to 50 bottles red wine. Of course, the sponsors are allowed to put some advertisements at the point of sale. Or, wine distributors and hotel can design a promotional activity together.
- Distributors were also expected to train stewards in wine knowledge together with hotels.

4.4 Summary

The research has provided some valuable insights on wine consumption by managers at four/five-star hotels and by consumers in Nanjing city. Respondents unanimously concluded that wine consumption had improved

over the past few years and they predicted a sustained increase. The challenges met in conducting the interviews implied that establishing relationships with influential people is absolutely necessary and was an effective way in reaching business aims including wine sales.

Brand was identified as the most influential factor in wine selection; it was regarded as an indicator of wine quality. The Nanjing wine market was dominated by domestic dry red wine brands, Changyu, Great Wall were the leading brands. Brands from France had highest recognition amongst imported wines. Consumers in this market had relatively little wine knowledge in terms of quality identification, taste appreciation, pairing between wine and food, and place of origin. Price was also regarded as an indicator of wine quality. Due to consumption patterns, e.g. bills were paid by government departments and companies, wine drinking is mostly for social purpose, consumers in China are not price sensible. For imported wine brands, retail prices of RMB300-500 (NZD60--100) are mostly likely acceptable at four/five-stars hotels. Stewards from standpoints of hotel managers have direct influences on wine selection and amount of consumption. Admittedly, consumers denied this point. Packaging and labelling also had impact on wine selection.

Most restaurants at four/five-stars hotels purchased wine from wine distributors at present. Consistent and super quality was the prerequisites for new wine brands. Close cooperation with hotels, reasonable price and quick response to consumers' demands were anticipated by hotels from distributors.

5. Discussion and implementations

5.1 Introduction

This chapter discusses the result of the research. The discussion brings together the literature and the key findings obtained in interviews in an effort to provide response to the research questions. Before moving into discussion, it is appropriate to reaffirm the purpose and questions of the research. The main purpose of the research is to provide a China-market entry strategy for the New Zealand wine industry within the background of the new FTA. Research questions are accordingly

- What are the most important considerations for the New Zealand wine industry's entry into the Chinese consumer market?

Sub-questions are:

- What current and future opportunities exist for the sale of New Zealand wine products in China?
- What channels of distribution are suitable for New Zealand wine?
- What kinds of initial market promotion should New Zealand wine producers undertake?
- What market entry strategies should New Zealand wine take to Chinese market?
- What specific strategic initiatives should be undertaken by the New Zealand wine industry to establish its brand in the Chinese marketplace?

This chapter is structured by answering these questions in turn. Each question has its own emphasis; admittedly, there are overlaps amongst them. All questions are discussed and answered, but not in linear order.

5.2 Prospects of Chinese wine market

The findings of the research are in significant agreement with literature review. Both primary data and literature reviews demonstrate the prosperous future of wine industry in Chinese market. Facilitated by FTA with China, the New Zealand wine industry will have more advantages than its competitors to access this vast market.

China's economic transformation and its accession to the WTO in 2001 have led to rapid growth of its gross domestic production and consequently fast expansion of middle class consumers who are keen to experience Western life styles, in which wine drinking is highly valued. Furthermore, the policy of encouraging low alcoholic content beverage consumption and change of habits of shifting spirit to wine drinking have inevitably expanded the customers' base of wine.

China, as the fourth largest trade partner of New Zealand, has a very cordial diplomatic relationship with New Zealand. The negotiation of the FTA with New Zealand is regarded as a milestone in the journey of trade liberalisation with the developed countries in the world market. Harmonious political and economical relationships with China provide New Zealand companies including wine producers with desired business environment and enhanced opportunities. Admittedly, some factors which negatively influence New Zealand wine sales in China cannot be neglected. For example, the lack of presence of New Zealand wine, compared with well recognized French brands in the China market, will undoubtedly be a hindrance to brand establishment. Another factor are the very low, even zero, tariffs on Australia wine brought

about the imminent FTA between China and Australia will offset price advantages of New Zealand wine.

Here are the main implications from this research for New Zealand wine entrepreneurs.

- A huge existing market with vast potential is already there in China;
- Key wine countries in the world have targeted this market for their sustainable development;
- The New Zealand wine industry should capture business opportunities promptly to take the advantages of early movers;
- Whether New Zealand wine will successfully make a place in Chinese market depends on how much it knows about this market and how effectively it enters and does promotions in this market to cater for consumers.

5.3 Options of distribution channels

The right choice of distribution channels can significantly determine the success of business activities in terms of lead-time, cost and firm's unique competitive strengths and weakness and promotion strategies (Griffin & Pustay, 2002). As mentioned previously, there are four options for wine distribution in Chinese market. The inherent advantages and disadvantages of each channel are discussed in the following by applying findings of the research and literature. Moreover, possible demands related to logistics from the point of wine manufacturing (New Zealand winery) to point of consumption are examined as well.

5.3.1 Five/four-star Hotels

Chinese consumers drink wine at restaurants rather than at home. Luxury hotels are regarded as primary place of the consumption. Wine roughly accounts for 30% of alcoholic beverage consumption at five/four-star hotels.

Wine consumed at luxury hotels has the characteristics associated with these hotels. Firstly, customers are at top-end, bills for their consumption are most paid by governmental departments and private business companies, not individually. They are exactly the consumers that should be targeted by premium wine. Secondly, price at these hotels is much higher than at supermarkets or normal restaurants. This means that bigger profit margins can be obtained. Thirdly, items consumed as luxuries are recognized as high quality and have huge influences on life style. If a new wine is welcomed there, then the brand of the wine can be established easily.

On the other hand, targeting the luxury hotels market has tougher requirements. Firstly, the quality should be good enough to match the price which consumers pay. The taste of wine should also meet Chinese consumer's prefers in terms of levels of sweetness and alcoholic content. Packaging and labels should be of high quality. Secondly, the quantity consumed at five/four-star hotels might be smaller than at supermarkets and normal restaurants. Thus this market is not suitable for wine producers who want to achieve competitive advantages through mass production. Thirdly, competition in luxury hotels is fiercer than in other markets because almost all well-recognized wine brands are competing in this segment for more market.

In sum, luxury hotels should be a highly sought after for the New Zealand wine industry, because this industry is characterized by small productivity, high quality, high price and unique taste. These characters enable New Zealand wine to play very well in a niche of top-end market, although tough competition is there.

5.3.2 High-quality and independent restaurants

High-quality and independent restaurants share many features with the luxury hotels in terms of food price, services quality and general consuming environment. Differences between them cannot be neglected. These restaurants are less reputable than luxury hotels; therefore, its influence of

them on life style is weaker than luxury hotels. Nonetheless consumption quantity is most likely higher than at hotels. For example, in Nanjing city there are several independent restaurants in which 1000 or more consumers can have meals simultaneously. These restaurants target middle- and upper-class level customers. Another difference is that the restaurants normally purchase their alcohol from supermarkets, hotels is from distributors.

High-quality and independent restaurants could be an option for the New Zealand wine industry, especially for wineries that are in category 3, whose annual outputs are relatively small. In contrast, large sized wine producers have a comparatively wide range of products with various prices to meet customers' demand, they can target public consumers.

5.3.3 National level supermarket

Conditions for New Zealand wine exporters are less favourable in supermarkets. Supermarket consumers are mostly local residents. Goods including wine sold at supermarkets are of middle level quality and are at attractive price. Chinese practices, companies need to pay a amount of deposit to supermarkets as an entrance fee, supermarket will share profits or charge commission from sales. In addition payment is normally made after sales. Taking national level supermarkets as an outlet, expensive nationwide advertisements are necessary. Exporters need have quantities for distribution. Moreover, the research finds that consumers at middle or high class don't buy wine from supermarkets.

The researcher doesn't believe that national level supermarkets are a suitable channel for the New Zealand wine. This market requires high resources commitment and is consequently very risky. Also this market is suitable more for low quality wine.

5.3.4 Corporate and private consumers

Targeting corporate and private consumers here means that wine is sold

directly end-users. In China, the purchasing power of corporate consumers is very strong. Corporate consumers can be governmental departments, state-owned companies, private companies, even non-profit organisations such as schools and universities. Their purchases often happen around Chinese traditional festivals, for example, Spring Festival, May Day, and Moon Festival. The organisations pay directly and then distribute the goods to staff or employees as festival gifts. The purchased goods are normally food, drinks, or some electronic appliance, such as digital clock, razor, or wrist watch, or leather belt, shoes. The entire value of such one-person corporate gifts normally equals a one-month salary depending on the financial situation of the firm. Because the number of employees or staff is relatively large, for example, the number can be more than one thousand in some companies; so the quantity of these purchases is very big. This market is targeted by many companies. Aside from suitable price and high quality, the relationship between selling companies and purchasing organisations plays vital role. Therefore, this market could be a future target for New Zealand wine. However, as a new entrant into the market, New Zealand wine companies are currently lack of relations with corporate consumers, the establishment of this relationship takes time and efforts.

The findings of the present research show that private consumers buy imported wine is for gifts exchange at traditional festivals. Wine brand, price, package and label have direct influence on their selection. If New Zealand wine targets this market, in-depth understanding of consumers' behaviours is the prerequisite.

Of the four options of distribution channel for the New Zealand wine industry, five/four-star hotels are believed the optimum; with independent restaurants being the second. Targeting corporate and private consumers is workable in the future providing that New Zealand producers can build close relationship and understanding with them. National level supermarkets are not suitable for

the New Zealand wine. Supermarkets in China are the outlet for ordinary mass products at attractive prices, but selling at supermarkets requires high resource commitment and these supermarket provide no support with brand establishment. What is worse, they may even cheapen luxury products' brands.

Distribution channel decisions have direct effects on wine transport logistics. Logistics as a part of a supply chain, in turn have significant influence on companies' cost (Wood, 1997). Different distribution channels have different impacts on logistic operation in terms of quantity of physical goods and real-time information flow. For example, volume distributed by a luxury hotel is most likely smaller than at a big high-quality and independent restaurants, so the unit cost of delivery could be higher. Orders from corporate consumers are large but they occur just several times in one year and are placed just before traditional festivals. In order to minimise cost but to meet demands of on-time delivery, wine producers need to be integrated with other partners in the supply chain (Kaufman, 1997).

5.4 Initial marketing activities

Kotler & Armstrong (1999) argue that market means determining the needs and wants of the target market and delivering the desired customer satisfaction more effectively and efficiently than the competitors. They also indicate that activities such as product development, research, communication, distribution, pricing, and service are core marketing activities. The findings of the present research and literature review offer insights into what criteria influence wine selection and how to meet in China. The two groups of factors that fundamentally form consumers' value judgement as to their quality perception and purchase decision are intrinsic and extrinsic attributes (Lockshin & Rhodus, 1993; Zeithaml, 1988). Intrinsic attributes refer factors that imbue the product

with its functionality and relate to its physical aspect, such as taste or smell, quality. Extrinsic attributes are aspects that are related to the product but are not physically a part of it, such as its name or the brand image. Consumers with little wine knowledge tend to rate wine quality based on available extrinsic information rather than on taste (Balestrini & Gamble, 2006). In addition, the findings of the research show that wine drinking for most of Chinese consumers is outside the home at restaurants and for social purposes. When Chinese consumers choose an alcoholic beverage for consumption in a social situation, they generally focus more on quality, taste and the image of the drink. The occasion and circumstances surrounding the consumption of the wine will influence the purchase decision (USDA, 1998; Yang, 1989). Spawton (1991) suggests that consumers use a variety of strategies to reduce the risk of making a bad purchase decision, such as selecting brand, utilising the peer recommendation, reliance on retail assistance, knowledge gained through wine appreciation education, as well as pricing and packaging and labelling.

With regards of characters to the characteristics of the New Zealand wine industry, the author identify brand, price, quality/taste, package/labelling and other promotion activities for success in marketing planning, implementation and control in China. Therefore, discussion and implementations are discussed in these categories.

5.4.1 Building strong New Zealand wine brands

A strong brand provides value by enhancing the customer's interpretation/processing of information, confidence in the purchase decision and use satisfaction. It provides value to firm by enhancing efficiency and effectiveness of marketing programs, brand loyalty, prices/margins, brand extension, trade leverage and finally competitive advantage (Aaker, 1991). The findings of the research show that in China brand ranked the most important factor in wine selection. Without a strong brand influence, it is hard for new wine entrants to penetrate into and maintain position in this market. The reality

is that the market is dominated by domestic brands, such as Changyu and Great Wall, as they have invested considerable resources and time in this market. However, imported wine brands are generally recognized as better quality and accordingly higher price, especially French wine.

There are many studies and research on how to build and manage strong brands (e.g. Aaker, 1991, 1996; Donthu, 1994; Scherer & Ross, 1990). Combined with the findings of the research, this paper examines the implications of brand establishment in terms of barriers, facilitators and suggestions. Barriers facing New Zealand wine to building strong brands are:

- No presence in China market, so Chinese consumers know very little about New Zealand wine, despite its high quality and unique taste;
- Brands from France enjoy a very high reputation amongst consumers. This is a disadvantage for New Zealand wine to compete with French producers and it forces New Zealand wine to give up extreme-top end market segment, at least at the beginning of its entry into the market;
- The New Zealand wine industry knows very little about Chinese wine market and consumers and with long cultural distance to China,

However, there are several factors which facilitate the building of New Zealand wine brands. First, the high quality, unique cool-climate taste and high reputation in main wine markets (for example, the UK market), enable New Zealand wine potentially to establish a strong brand. Second, New Zealand in the Chinese mind is a clean, well protected environment and agriculture-developed country. This image is compatible with and supportive of the image of premium wine brands, consumers often use perceptions of a country's image in product evaluation (Balestrini & Gamble, 2006). Third, rich experience in global market benefits New Zealand wine producers to explore Chinese market. Fourth, a rigorous focus on quality guarantees the quality of exported wine is fine and consistent (Winegrowers, 2005).

According to the findings, some valuable insights emerge for the brand establishment of New Zealand wine. Firstly, building brands in the China market should be an essential part of the long-term strategy of the New Zealand wine industry. Brand establishment requires time and resource. In addition, wine producers need to sell not just wine but also the image of New Zealand, life style of the Kiwi and an enjoyable experience, so that Chinese consumers perceive that drinking New Zealand wine is also a Western life style experience. Secondly, new entrants in the Chinese market need work together as a whole, a collective and cooperative 'NZ Inc' approach so the industry can gain critical mass (NZTE, 2006). If there is a bad event with just one New Zealand wine brand in Chinese market, then the reputation of the entire industry will inevitably be damaged, and consequently all are victims of the market loss. Thirdly, advertisement in mass media is not suitable for wine in this market. Respondents stated that targeted advertisements to senior managers, wealthy people and the middle-class could be more effective. For example, magazines in business or airline magazines detailed story of a brand including vineyards, history, ferment procedural and varieties of taste would have a positive impact. Finally, sponsorship or association governmental activities can be an effective and cost-saving way of brand building. Chinese governmental departments and officers have strong influence on consuming fashion, and they are also important consumers of premium wine. Their preference can direct the trends in the market.

5.4.2 Meeting Chinese wine consumers' taste preferences

Wine taste is closely and positively related to perceived wine quality. The satisfaction obtained from taste enhances the consumers' willingness to purchase. Perception of wine taste depends on individual experience; it comes out both subjectively and objectively (Balestrini & Gamble, 2006). Nowadays quality has become the rule rather than the exception, and wineries in almost every growing area around the world achieve objectively high qualities (Orth,

Wolf, & Dodd, 2005). Taste preferences of New Zealand wine drinkers are quite different from Chinese. Therefore, recognising, identifying these differences and then making needed adjustments in flavour are necessary when New Zealand wine plans to enter this market. The findings of the research indicate that dry red wine is the dominant in current Chinese market. Sparkling and fortified wine have no place there. More detailed information on Chinese taste preference can be obtained through tasting. For example, 50 drinkers are invited to attend a promotion activity, to try a range of dry red wine without offering any information about price, alcoholic content, and then ask them to vote their favourites. Owing to the lack of wine knowledge and experience of Chinese consumers, New Zealand wines can influence consumer's taste preference through wine appreciation education.

5.4.3 Setting right price level

Four product pricing strategies are offered and discussed by Kotler & Armstrong (1999): premium strategy (producing a high-quality product and charging the highest price), economy pricing strategy (producing a good quality product but charging a low price), good-value strategy (High quality but at a lower price) and overcharging strategy (over price the product in relation to its quality, in the long-run, customers will likely feel 'taken', and it is harmful to firm's reputation). What pricing strategy should be adopted depends on stage of product life cycle, demanding quantity of the market, firm's producing capability, product position, competitors' price and other factors associated with market situation and consumers (such as market geography, consumers' emotional and social realization).

This research suggests the New Zealand wine industry should employ a premium pricing strategy in Chinese market. Firstly, New Zealand is a niche player in global wine market, relative small production of the New Zealand industry (0.2% of total world wine production, (NZTE, 2006) does not allow it to adopt the economy and good-value strategy, which require large supplies to

meet increased demands brought by lower price. Secondly, high quality, unique taste and reputation permit New Zealand wine to target top end customers, who pursue social and symbolic value with less price sensitivity. Findings show that bills are mostly paid by governmental departments or business companies. Thirdly, premium pricing strategy benefits the establishment of strong brands. Price represents not only the monetary cost of an item but also a quality level for both brand and the product and, by reference, the satisfaction level to be expected (Erickson & Johansson, 1985). Finally, a high price may signal that the wine is of superior quality especially in developing markets such as China where consumers are less accustomed to the complexities of different wine. A recent study by Lockshin & Horowitz (2002) investigated price as a cue of predicting the quality of Australian wine. It found a positive relationship between the price of a wine and its perceived quality.

With regards to the real situation in the Chinese alcoholic beverage market, where the market is dominated by spirits (Baijiu), French wine has very strong brand influence, and the suggested price range for New Zealand wine would be RMB200-400/bottle (NZ\$40-80) at four/five-star hotels. Of course, quality of the exported wine must match this price. Super premium and premium wine should be exported to China. After strong brands are established, New Zealand wines can then consider extending products to increase market share.

5.4.4 Communicating New Zealand wine to Chinese consumers effectively

Factors such as quality (taste), brand, wine appreciation education, and price are discussed in above parts. The paper now outlines one key extrinsic and one situational factor needed to communicate New Zealand wine to Chinese consumers and then influence their wine selection behaviour.

- Packaging and labelling

Findings of the research illustrate some preferences of Chinese consumers for

wine packing and labelling. Exporting bulk wine and re-bottled in China is found not suitable for New Zealand wine. Consumers assume that re-bottling will lower the quality, and that some traders will make use of chance of rebottling to mix low quality wine. Using a cork to seal bottle is better than using than metal cap. Dark colour is preferred for bottle.

Characters in the labels should be printed in high quality and in embassing. The label should be traditional, classic and informative. Story, history, variety, style and producing year of the wine are preferred contents of label. Picture of vineyard are also welcomed.

- The wine stewards

Corresponding with research (e.g. Aspler, 1991b-a; Green, 2003; Hochstein, 1994), respondents of hotel managers strongly believe that stewards have signification influence on wine selection and amount of consumption.

Manske & Cordua (2005) offer us a guideline on how to training stewards to become successful salespersons: adaptive and persuasive selling. Both techniques require thorough knowledge of the product in order to execute the sale successfully. Steward training involves knowledge of wine, allowing them to see, sniff and taste the wine they are servicing to help them to accurately describe the wine to their customers, and finally to make them credible in answering consumers' questions. Adaptive selling technique refers through product knowledge, knowledge of customer, and knowledge of the wine use situation. Wine stewards can promote wine by tailoring their wine selling strategy to meet their customers' needs. Persuasive selling technique is a behaviour technique that is used to persuade the customer that a particular product is the right product for them.

With the progress of understanding customer and accumulating experience in servicing them, the New Zealand wine industry will find more effective and accurate ways to communicate New Zealand wine to Chinese consumers.

Packaging and labelling will be produced with close attention paid to wine variety, producing area and quality in order to enable consumers to make a choice in less time and with more confidence. Armed with knowledge of New Zealand wine and sales, stewards can be an influential team to promote New Zealand wine brands and actual sales.

5.5 Market entry strategies

No matter what entry mode(s) will be employed by the New Zealand industry, the chosen mode should most effectively facilitate the integration of marketing activities in terms of distribution channel partners, brand building, pricing strategy, understanding consumers and communicating New Zealand wine.

Neither primary data and nor the literature review would support that licensing, franchising, acquisition, greenfield operation and contract manufacturing are suitable for the New Zealand wine to enter Chinese market. New Zealand wines in Chinese market don't have the strong brand influence, know-how or corporate image required for licensing and franchising. Nor can the nature of the unique taste and high quality be produced by using local or imported grapes from any other country. Acquisition and greenfield operation normally involves production in host country and demand rich cash flow and relatively large amount of investment, as well as the capability of dealing with consequent risks. The majority of New Zealand wineries are short of these resources, because of their relatively small size and knowledge of Chinese market. In addition, unique taste of New Zealand wine resulted from its cool-climate grapes does not necessarily need high control (the key benefit brought by these modes) in business activities of its counterparts. However, a wholly owned subsidiary mode which does not involve production in host country is regarded as acceptable and is discussed separately in the following. Contract manufacturing has the advantages of little or no investment and cost saving,

but for wine industry, bulk wine and re-bottling in China is not accepted to Chinese consumers. Wine produced by using imported grape is regarded as domestic brands will lose the image and reputations of imported wine.

The remaining main entry modes that need to be discussed indirect/direct exporting and joint-venture. The following discusses implications of data for these three modes.

5.5.1 Indirect/direct exporting

Indirect exporting is the use of agencies in the home country to sell products into foreign market. It is often adopted by companies who are lack of experience in the international market. Despite the low commitment of resource and low risks, indirect exporting does not benefit New Zealand wine producers to accumulate understanding of Chinese market and Chinese consumers. Indirect exporting is also hard to meet the demands of brand building, setting right price, as well as rapid and adaptive responds, owing to low control of business activities in whole value chain.

Direct exporting is an effective mode which can be adopted by New Zealand wine producers. Firstly, most of them are experienced in the international market; the basic business activities are similar, despite their less presence in Chinese market. Secondly, direct exporting means that wine makers directly contact wine players (distributors and other intermediaries, such as hotels, restaurants) and end-users. It helps the accumulation of market environmental and cultural understanding. Thirdly, the relative higher control (compared with indirect exporting) of business activity permits wine producers to make the long-term investment, such as brand establishment, use of price strategy and new market segment exploring. However, considering features of Chinese market, direct exporting can be inefficient and time consuming. New Zealand wine exporters face a long cultural distance with China and lack knowledge of how to negotiate business with Chinese. Exporters don't have any "Guanxi" used to approach local players.

5.5.2 Joint- Venture (JV)

Considerable difference in ways of doing business between New Zealand and China identified by the primary data demands that New Zealand wine exporters should make use of advantages brought by local players in Chinese market. The advantages are environmental knowledge, cultural understanding, and established relations with influential people, understanding and prediction of consumers' behaviour. On the other hand, quality assurance and reasonable return market require that the New Zealand wine industry should have a high degree of control. JV is obviously a suitable model. However, the new venture shouldn't involve local production. So, the JV is a trading company. The Chinese counterpart could be a distributor or a hotel and restaurant. Distributors are suitable for medium or large sized New Zealand wineries, because large amounts of wine will be needed for a successful JV; hotels and restaurants are suitable for small wineries, both parts of a JV can focus their resources on a niche market. Negotiating a JV and monitoring it is hard work. Distributors are mostly likely reluctant to set up a JV with one brand or wines just from one country. In order to leverage their cost and ability, they prefer handing a few brands simultaneously. Hotels and restaurants might think a wide range of wine and varieties can service their customers better.

5.5.3 A unique wholly owned subsidiary

As mentioned above, a WOS which involves production is not suitable for the New Zealand wine industry. However, a wholly own subsidiary which employs local staff who are familiar with Western culture and business will have tremendous benefits in liaising and monitoring with local distributors or business partners. This subsidiary can also work as an overseas office. Experience of studying or working in overseas and working in Chinese market can be a requirement of staff recruitment. Firstly, the weakness for the New Zealand wine industry (cultural distance, lack of market and consumer knowledge) can be overcome by local experienced staff to a large extent.

Secondly, with the help the local staff, New Zealand wine can effectively approach influential people and establish relationships (Guanxi) with them. Third, transaction cost can be significantly reduced by the wholly owned subsidiary and the employment of local staff. Partially because the staff is working for New Zealand wine exporters, he/she should be responsible for the benefits of his/her employer. Fourthly, the subsidiary can be developed as a local wine distributor. It will be simultaneously responsible for wine distributions in quite a few big cities in China. These tasks can hardly be carried out without strong local support. Fifthly, one subsidiary can be owned by several New Zealand wineries (a JV owned by all New Zealand partners). Therefore, not only the cost can be shared, but also wider range of wine products and prices can meet customers' demands better. Finally, this kind of JV has huge benefits in coordinating business strategies and activities of various wine producers. It should and can work like a "New Zealand Inc".

5.6 Summary

Data from primary research and the literature review offer interesting answers to all the research questions. Economic growth and changes in Chinese consumers' drinking habits have led to considerable and sustainable increase of wine consumption in recent years. Targeting luxury hotels and high quality and independent restaurants is believed most suitable for the New Zealand industry to enter Chinese market. Brand, quality and price are most influential factors in wine selection. Packaging labelling and stewards also have important downstream benefits. Suggestions on how to make use of these factors to market wine and promote sales are also discussed.

By combining primary data and literature review on market entry modes, direct exporting, non-production involved joint venture and whole owned subsidiary are identified as effective and risk minimized market entry modes for the New Zealand industry.

6. Conclusions

Economic exchange across national boundaries has taken place for several centuries. All countries increasingly find themselves an intrinsic part of the global economy (Morgan & Katsikeas, 1997) . The growth of New Zealand prosperity increasingly depends on overseas market. Nowadays, 30% of New Zealand gross domestic product (GDP) comes from international trade. Indeed 90% of agricultural product goes to overseas.

Economic trade blocs such as ASEAN, NAFTA and EU are becoming complementary instruments of multilateral trade systems and are forcing companies towards a global marketing imperative. This research was based on the imminent FTA between New Zealand and China and aims to provide the New Zealand wine industry with strategic considerations on market entry into Chinese consumer market. The conclusions are multi-dimensional. They cover prospects, distribution channel, brand, price, packaging and labelling, as well as corresponding entry modes.

The Chinese wine market is not only lucrative but also necessary for the New Zealand wine industry. Falling consumption in traditional markets and increasing wine production force New Zealand wine to explore new markets. The expanding middle level class resulting from the fast growing economy has provided considerable wine demands in China. A free trade agreement between these two countries will be the first agreement of China with developed countries. It will inevitably facilitate New Zealand wine producers with enhanced opportunity to enter Chinese market.

Many factors influencing Chinese consumers' wine selections were identified. Brand was the most significant factor. Owing to little knowledge of wine in

terms of taste, quality, varieties and pairing with food, Chinese consumers select wine by brand to avoiding risks. The Chinese wine market is dominated by domestic brands. French wine enjoys highest reputation of imported wine. New Zealand wine's lack of presence in this market requires a long-term strategy necessary. The country image of New Zealand regarded by Chinese as clean, well-protected environment and of kind people will be a great benefit in brand building.

Luxury hotels and high quality and independent restaurants were identified as suitable distribution channels of New Zealand wines. Targeting top-end consumers is not only compatible with high quality and reputation of New Zealand wine in global market, but also matching the size and production of most New Zealand wineries.

Price range was also distinguished. Considering price of Chinese spirits, which dominating alcoholic beverage market, as well as influence of wine brand, retail prices of New Zealand wines were suggested at RMB300—500/bottle (NZ\$60-100). Premium and super-premium wine should be firstly introduced into Chinese market.

Packaging and labelling were also identified as having an impact on wine choice. Investigations on Chinese consumers' preference showed that high print quality of label, detailed introduction to varieties and history of wine brand, sealed by cork were welcome by them.

With regards to Chinese culture and characteristics of wine marketing activities, non-production subsidiaries and joint ventures were identified as most suitable modes for the New Zealand industry to enter Chinese market. By employing local people, who have the best understanding of Chinese culture and experience of living or studying in Western countries, New Zealand wine can

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smoothly coordinate its marketing activities, establish strong and useful relationships with influential people and consequently enter Chinese consuming market with enhanced effectiveness and minimized risk.

7. Limitations and future research directions

The primary data used in this research are collected from two samples: hotels managers and consumers. Discussions and implications are correspondently carried out by analysing findings obtained from these two categories. This research aims to provide strategic considerations for the New Zealand wine industry, which mainly consists of small-sized wineries, and identifies that luxury hotels and high quality restaurants are the target niche for New Zealand fine wine. In the Chinese market, wine distributors and supermarkets also play important roles in wine sales. Strategic decisions for large-sized wine producers are needed to consider these two players' impact. Therefore, future research is suggested to focus on analysing factors forming their influences.

Factors determining the selection of market entry modes selection are of two main groups: internal and external factors. Another limitation of this research is that primary data are collected only from external group. Internal factors, such as firm's level strategic intention, actual financial resources and human resources, especially personal preferences and mindset of the entrepreneur, which are founded determining entry mode decision in European firms (Perks, 2006), are not intensively discussed here. Thus, future research focusing on internal factors' influences on entry mode decision of New Zealand wine producers can be a valuable compliment to this research.

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9. Appendices

9.1 Appendix 2.1

New Zealand Wine Export by Market 1995-2005

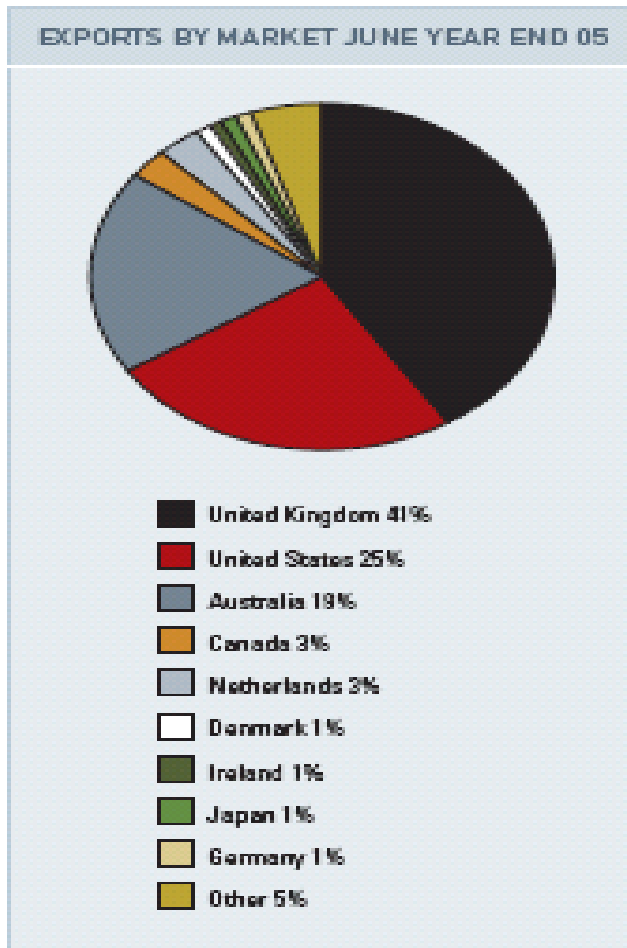
		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
UK	L	5.324	7.440	8.135	7.997	9.041	10.464	9.918	11.858	12.258	13.864	21.124
	\$	27.625	40.626	47.149	50.590	68.135	84.673	92.728	117.981	113.729	119.786	162.120
USA	L	0.145	0.188	0.508	0.979	1.494	2.510	3.132	3.776	5.758	7.266	12.975
	\$	1.055	1.545	4.256	8.974	14.357	26.53	40.815	48.225	67.390	80.026	113.237
Australia	L	0.584	1.163	1.635	2.414	2.291	2.402	2.373	3.589	4.661	5.654	9.762
	\$	3.671	6.055	9.211	14.412	16.186	23.857	26.059	38.132	51.621	56.285	88.033
Netherlands	L	0.083	0.153	0.205	0.474	0.331	0.683	0.903	0.801	0.525	0.487	1.716
	\$	0.591	1.189	1.755	3.530	2.622	5.281	7.656	7.119	5.058	4.404	12.688
Canada	L	0.297	0.334	0.275	0.415	0.386	0.648	0.612	0.713	0.988	0.700	1.477
	\$	1.525	1.617	1.506	3.001	3.014	5.641	6.312	7.687	10.351	6.934	13.907
Japan	L	0.316	0.264	0.373	0.625	0.767	0.365	0.391	0.268	0.326	0.426	0.491
	\$	1.057	0.874	1.077	3.857	4.761	3.980	5.038	4.486	4.423	5.967	5.903
Germany	L	0.041	0.104	0.820	0.414	0.283	0.226	0.377	0.155	0.220	0.175	0.307
	\$	0.402	0.863	3.148	2.473	2.450	2.423	3.324	1.965	2.900	2.446	3.289
Ireland	L	0.151	0.126	0.185	0.138	0.212	0.300	0.278	0.318	0.423	0.461	0.573
	\$	0.793	0.762	0.956	1.015	1.595	2.173	2.151	2.893	4.141	4.307	5.200
Others	L	0.848	1.241	0.936	1.697	1.813	1.572	1.261	1.513	1.490	2.067	2.948
	\$	4.130	6.738	6.828	9.781	12.221	14.076	14.021	17.925	17.700	22.443	30.479
Total	L	7.789	11.013	13.072	15.153	16.618	19.170	19.245	22.971	27.114	31.101	51.373
	\$	40.849	60.269	75.886	97.633	125.341	168.634	198.104	246.413	281.839	302.599	434.856

Note: All figures are in million

Source: Statistics New Zealand, adapted from Wingrowers Annual Report 2005.

9.2 Appendix 2.2

Exports by Market June Year End 2005



Source: Winegrower Annual Report 2005