

# **The Chinese Premium Wine Market after Bordeaux: Opportunities for Port Wine**

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## ***Abstract:***

*Purpose:* This paper develops a market entry framework to evaluate performance of entrants in China's luxury wine market. The market entry framework contains seven propositions related to the areas of relationship management, price, product, distribution, promotion and marketing mix strategies according to entry order.

*Design/methodology/approach:* The methodology involved a synthesis of existing work about the Chinese wine market to develop the framework and the seven propositions together with an application of the framework to two luxury wines: Bordeaux, an already established luxury wine, and Port, a late mover into the Chinese market. The application to Bordeaux and Port was based on secondary data using diverse sources to triangulate the information.

*Findings:* We found the framework helped to organise scattered secondary data about the performance of Bordeaux in the Chinese market and identify potential opportunities for Port from the lessons learned from Bordeaux as well as understand current activities taken by Port. Port may position as a dessert and gift wine given its sweetness and packaging characteristics. Port can also benefit from its connection with colonial Hong Kong and Macau since the 17<sup>th</sup> century. Current activities by the Port producers seem to be on the right direction.

*Practical implications:* The framework can be very useful for new wines intending to enter into the Chinese market or existing wine that have not achieved the expected success.

**Keywords:** Market Entry Strategies; China; Port Wine; Luxury Wines

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## 1. INTRODUCTION

Asian markets are increasing their wine consumption and production rapidly (Anderson and Nelgen, 2011), but wine is still considered a luxury good (Hwang and Kunc, 2015). For example, seven of the top fifteen luxury wine importers in terms of value were Asian (Anderson and Nelgen, 2011). French wines are the global leaders in premium still-wine exports, supplying 40% of the world value, followed by Italy (17%), New Zealand (9%), and Portugal (6%) (Anderson and Nelgen, 2011). Bordeaux wine has seen huge demand in China, particularly in value terms. While fortified wine consumption in China is only 4% (Euromonitor, 2014), there may be an opportunity for Port wine to become successful in China since Port is a red wine with a luxury image. The apparent success of Bordeaux in the Chinese premium wine market may indicate a comparable opportunity for Port. However, Port may face different strategic hurdles since it is not the first product in the market. Consequently, our research question is: Can Port follow Bordeaux's success pattern into this largely unexplored market? And a subsequent question derived from the first question is: Can Bordeaux have paved the way for Port or may Port expect strong barriers to entry into the Chinese luxury wine market? To address the research questions, we propose a two-stage research process. First, we develop a framework to evaluate market entry strategies from a marketing perspective. Second, using the framework and secondary data sources, we evaluate the lessons from Bordeaux and their applicability to the case of Port.

## 2. LITERATURE REVIEW

In this section, we define a framework to explore the potential opportunities for Port wine as follower in the Chinese wine market. Before entering a new market, a company needs to evaluate whether it is a first mover (an innovative product in an incipient market) or a follower (a competitive product in an existing market) (Doole, 2012). Arguably, degrees of cost and risk differ depending on the situation, but it is debatable whether it is more desirable to be a first mover or a follower (Gaba et al, 2002). Depending on a pioneer's ability to read and exploit market developments, followers may surpass initial leaders by developing superior market knowledge and by observing the first entrant's behaviour and success levels (Aaker and Day, 1986). Followers may "free ride" on pioneers' investments in areas such as R&D, customer education and infrastructure development (Luo and Peng, 1998). In later stages of market maturity, followers can benefit when technology and consumer preferences change (Conner, 1988), for example by highlighting attributes in the new product that distinguish it from the pioneering product (Carpenter and Nakamoto, 1989). On the other hand, followers may face competitive disadvantages (Bowman and Gatignon, 1996). For example, price sensitivity reduces so it is difficult to gain share from first movers through pricing; quality differential needs to be large with respect to the existing product; promotional response decreases and late entrants tend to spend more money on it; and finally obtaining distributors becomes more difficult (Bowman and Gatignon, 1996). Based on this, our empirical contribution will be the evaluation of opportunities or hurdles that Port, as follower, may face from Bordeaux's first moves in the Chinese market using a marketing entry frame.

## **2.1. Marketing Strategies for Chinese wine market**

Merely analysing the existing competition (Bordeaux) in a target market is not enough preparation before designing an entry strategy (Port). Market-specific issues are also considered. Before creating a more detailed market entry strategy (our theoretical contribution), this section of the literature review will cover suggestions made by past researchers for marketing wine in China. Breherton and Carswell (2001), analysing the entry of Western wine in China, followed the traditional "4P" structure when outlining marketing strategies for wines in China. Supporting findings related to the use of "4P" have also been provided by other authors: Beverland (2000), (2002); Liu and Murphy (2007); Lee (2009); Camillo (2012). More importantly, underpinning Breherton and Carswell's (2001) suggestions for the Chinese market is the importance of relationship management. The importance of forming relationships in China has long been recognized by other authors e.g. Tsang (1998) and Beverland (2008). Consequently, our framework will be based on these two areas of research in marketing.

### **2.1.1. Relationship Management**

Cultural differences in business practices are one of the main difficulties for foreigners entering the Chinese market. Within a collectivistic culture, doing business in China relies on personal contacts, relationships and business networks (Hofstede, 1983). Central to this is the emphasis on *Guanxi* which is the informal interpersonal connections to gain approval for or access to anything in China (Tsang, 1998). *Guanxi* concentrates on long-term committed relationships (Chee and West, 2007) and the concept of reciprocity is important: if a wine marketer offered, for example, wine training courses to Chinese retailers, they are likely to reciprocate by providing extra help to the foreign marketers (Beverland, 2002). Thus, relationship marketing, while requiring patience and investment in trust, seems to be one of the keys to enter China's wine market (Breherton and Caswell, 2001; Beverland, 2000, 2002).

*Proposition 1: Develop relationships with customers and the distribution network*

### **2.1.2. Price**

Chinese cultural values related to reputation, or "face"<sup>6</sup>, suggest that imported wine should be priced in the premium category (Breherton and Carswell, 2001; Liu and Murphy, 2007). "Face" has been employed to explain consumer behaviour related to luxury products because showing wealth can help buyers achieve social status among social connections (Ho, 1976). This leads the buyer to prefer well-known and immediately recognizable luxury brands (Wong and Ahuvia, 1998). Wine represents luxury and decadence in China (Camillo, 2012). Therefore, being able to afford an expensive wine is symbol of economic success (Anderson and He, 1998; Wang et al, 2010).

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<sup>6</sup> There are two types of "face": "lian" or "mianzi". "Lian" is related to the society's belief about a person's moral character and integrity. "Mianzi" conveys the idea that reputation or status in the society is achieved through success and ostentation (Hu, 1944).

*Proposition 2: Position in the premium range using famous brands*

### **2.1.3. Product**

The food and dining habits of a consumer are deeply associated with culture so it is challenging to change individual eating and drinking habits (Lee, 2009). Traditional Chinese dining habits involve eating all dishes simultaneously, chilled drinks are rarely drunk due to the belief that they are unhealthy and Chinese don't linger over dinner with a bottle of wine (Cho Lee, 2007). However, there is an increased interest in wine, especially red wine, due to lower content of alcohol than spirits and the acceptance of popular Western cultural elements (Lee, 2009). Wine is perceived by the majority of Chinese customers as "masculine" (Milner and Fondness, 1996). Consequently, it is essential that the marketing strategy involves understanding how Chinese perceive wine within the context of luxury consumption.

*Proposition 3: Identify customer needs related to wine consumption*

### **2.1.4. Promotion**

Word-of-mouth is important in a collectivistic society like China (Anderson and He, 1998) and it can be increased by brand awareness, for example by developing relationships with customers through wine tasting classes or events (Breherton and Carswell, 2001). In terms of advertising, Breherton and Carswell (2001) suggest promoting wine by using clever translations into Chinese names associated with luck and fortune.

*Proposition 4: Reach, educate and retain the customer by creating relationships*

*Proposition 5: Use cultural symbols and beliefs.*

### **2.1.5. Distribution or Place**

While coastal cities, e.g. Shanghai, were the initial targets when the Chinese market opened, nowadays cities outside the coastal area are growing in size and both Chinese and foreign wine distributors now have access to hotels, restaurants, bars, supermarkets and specialty stores across provinces (Noppé, 2012). Breherton and Carswell (2001) propose to focus on single regional markets at each time starting with China's major cities which have developed infrastructure and more affluent customers

*Proposition 6: Start in China's large cities*

Relationship management is important for managing distribution. Joint ventures with local partners can help diffuse the risks of exploring an unfamiliar market (Cui and Liu, 2000). Joint ventures are also seen as important from the government perspective (Breherton and Carswell, 2001). Thus, a local partner's involvement and a long-term attitude to business relationship (Guanxi) can become key for success.

*Proposition 7: Invest in developing relationships, especially with distribution*

## 2.2. Seven-propositions Marketing Entry framework

Most of the literature on Chinese wine market precedes Bordeaux's recent success in China so it begs the question whether the marketing strategies can be employed by late entrants such as Port, or if the market has changed to present new possibilities for Port.

<i>Marketing Strategies</i>	<i>Bordeaux Performance as early entrant</i>	<i>Implications for Port as a follower</i>
<b>Proposition 1:</b> Develop relationships with customers and the distribution network	How did Bordeaux perform in each strategic proposition? Did Bordeaux affect the possibilities for late entrants?	Based on Bordeaux performance as an early entrant and the current market situation, how can Port benefit from being a follower?
<b>Proposition 2:</b> Position in the premium range using famous brands		
<b>Proposition 3:</b> Identify customer needs related to wine consumption		
<b>Proposition 4:</b> Reach, educate and retain the customer by creating relationships		
<b>Proposition 5:</b> Use cultural symbols and beliefs.		
<b>Proposition 6:</b> Start in China's large cities		
<b>Proposition 7:</b> Invest in developing relationships, especially with distribution		

*Table 1. Framework to analyse entry performance in China wine market.*

## 3. METHODOLOGY

The approach to this research is qualitative and exploratory. Qualitative research is an interpretative technique that seeks to describe the meaning rather than the frequency of phenomena (VanMaanen, 1983), and used in this way it suits the exploratory and phenomenological approach used here (Collis and Hussey, 2003). The qualitative data is collected from secondary sources. One of the sources employed was the documentary *Red Obsession* (2013) which explores the entry and performance of Bordeaux in China by interviewing wine journalists, representatives of the most known Bordelais Châteaux, as well as others involved in selling Bordeaux wine in China. However, solely using the documentary as a source presents problems relating to rigour and subjectivity (Collis and Hussey, 2003). To address this issue, we triangulate diverse sources of information, such as trade associations (Wines of Portugal), newspapers (e.g. Huffington Post), reports (Euromonitor, Marketline) and magazines (Decanter) (Collis and Hussey, 2003).

## 4. RESULTS

This analysis explores Bordeaux's performance in China and considers the implications for Port as a follower using the propositions in table 1. Due to size restrictions, we only present a summary of the results in table 2 using the format defined in table 1.

<i>Marketing Strategies</i>	<i>Bordeaux Performance as early entrant</i>	<i>Implications for Port as a follower</i>
<b>Proposition 1:</b> Develop relationships with customers and the distribution network	China became a key market for Bordeaux in a very short time, taking producers by surprise. Producers were worried that Chinese demand would disappear without a track record of relationships. So Bordeaux develops relationships with consumers leading to high loyalty.	While it will be difficult for Port wines to enter the Chinese market with the same brand strengths as Bordeaux, we should note Hong Kong and Macau have a history of importing Port due to their colonial past. Port producers are establishing through these two places to access China mainland but they need to help people to understand what Port is and how to drink it.
<b>Proposition 2:</b> Position in the premium range using famous brands	Bordeaux's success may be related to the concept of "face" in China. Additionally, buying famous brands is easier for a developing market. The 1855 official classification of Bordeaux producers has made it easy for the Chinese to identify the wines considered as most prestigious.	Personal gifts and holidays like Chinese New Year are currently the most important sources for Port sales. Additionally, there is a new generation of luxury consumers in China, the "sugar generation", who shift away from too recognisable or easily available brands, to avoid being part of a crowd. Port may be positioned as a niche product in contrast to the high visibility of Bordeaux brands.
<b>Proposition 3:</b> Identify customer needs related to wine consumption	Nearly 80% of the wine consumed in China is red, well above the global average at 54%, due to diverse beliefs among Chinese consumers. Thus, Bordeaux prominence in red and strong brands are two key factors explaining its success.	Port may benefit from increasing interest in cocktails in the Chinese market, which ties up with Port's recent strategy in European markets. Port classifies as a feminine drink in contrast to other dessert drinks such as whisky or cognac. Additionally, pairing Port with chocolate or tarts can be an opportunity to become an alternative to traditional food pairing for reds, e.g. cheese, the consumption of which is limited in China.
<b>Proposition 4:</b> Reach, educate and retain the customer by creating relationships	Bordeaux producers have taken every chance to reach to and educate Chinese consumers, e.g. Châteaux Margaux sponsored a beauty pageant where they taught contestants how to drink red wine, or the development of Vinexpo Asia Pacific since 1998, leading to long-term relationships. However, educating consumers may result in them exploring other wines	If we consider Port as part of the fortified wine maker, then Port will be at a disadvantage due to the small scale and the need to educate consumers. To face this, six Port houses launched "The Vintage Port Academy" in 2010 to organise wine master classes in Hong Kong, Shanghai, Beijing and Macau. However, Port may also be associated to the red wine market, where existing consumer education is expected to lead to a growth in interest in new types of wines.
<b>Proposition 5:</b>	Bordeaux used and benefited	Port can exploit its packaging in red

Use cultural symbols and beliefs.	from cultural symbols in its marketing strategy: red colour, numerology, labels.	and gold. Additionally, Portugal in Chinese language means “grape country”, which has not been extensively exploited.
<b>Proposition 6:</b> Start in China’s large cities	While China’s tier 1 cities have extensively been exploited in all Western aspects related to luxury consumption, there are opportunities in other cities that Bordeaux are taking, e.g. Bordeaux organises China Dalian International Wine and Dine Festival.	The regions/cities with colonial past, e.g. Hong Kong and Macau, together with the tier 1 cities offer the best opportunities to Port wine. This has been the focus of recent campaigns through ViniPortugal and Vintage Port Academy. One of the key challenges is to find distributors that run fine wine distribution lists across all mainland China to accelerate entry to other cities.
<b>Proposition 7:</b> Invest in developing relationships especially with distribution	Bordeaux Wine Council's president suggests the success is attributed to the work done in networking the distribution system. There is important investment in wine training for staff in retailers, restaurants and hotels. Additionally, there are important partnerships to develop Chinese wine producers.	Port producers' offices in Hong Kong manage the development of their Chinese market. As wine is consumed to reflect status, this is often done in visible places so Port may focus on the on-trade channel. However, Port may consider the benefits of positioning as a niche product, and communicating this strategy to distributors so they can see the advantages of enriching their portfolios.

*Table 2. Market entry framework applied to Bordeaux and Port wines.*

## 5. DISCUSSION

The previous analysis explains benefits that Bordeaux have experienced as a first mover into the Chinese market: loyalty and high price positioning. Simultaneously there are some potential opportunities for Port to gain market share despite its late follower entry. The main opportunity is to exploit a maturing Chinese premium wine market and the education received by Chinese consumers. As Chinese consumers become more educated, they expect to drink other wines than Bordeaux, thus pushing distributors to diversify their portfolios of wine with more niche and sophisticated offers. Port may use a niche position as a dessert wine based on its sweetness and lower alcohol content than whisky, thus avoiding direct competition with Bordeaux. Distinctive packaging can also be useful to position as a luxury gift rather than a common wine. However, the main benefit may come from being a category leader in the fortified wine category.

## 6. CONCLUSIONS

Our research question was: Can Port follow Bordeaux’s success pattern into this largely unexplored market? We answered this question developing a 7-propositions framework to evaluate strategic market entry into the Chinese wine market and applied it using a comparative case study of two well-known wines: Bordeaux and Port. A subsequent question

derived from the first question was: Can Bordeaux have paved the way for Port or may Port expect strong barriers to entry into the Chinese luxury wine market? Our conclusion is that there are important benefits for Port as a follower but some barriers were raised by Bordeaux.

In this way, we contributed empirically and theoretically to the market entry strategy literature by comparing an early entrant (Bordeaux) with a follower (Port) but further research may compare two simultaneous entries.

The main limitations of this paper are related to the use of secondary data and its quality to address the propositions suggested. For example, the data selected may be affected by potential biases from researchers, issues with legitimacy and reputation of the authors. Future research will involve a set of interviews and surveys with Port producers, Chinese consumers and distributors to confirm our initial findings.

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