

# *Frederick Vineyards & The Global Wine War*

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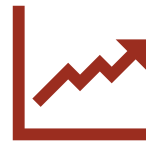
# Executive Summary

## KEY CHALLENGES

- 1 Wine culture in China
- 2 Competition with French wines
- 3 Government policies

## KEY QUESTION

Can Fredrick Family Vineyards successfully enter the Chinese wine market while remaining profitable?



## RECOMMENDATION



Distinguish brand image



Establish Marketing Strategy



Partner with an Importer and Distributor

## IMPACT

**Frederick Family Vineyards can mitigate the key challenges of entering the market however...**



**Costly Market Entry**



**Break-even in 4 years**

# Situational Analysis



China is the largest market for red wine in the world as of 2014



Predicted 7% compound annual growth 2015-2020



**Growth of the Chinese Wine Market**



**Top Wine Producers**



French producers



Australian producers



Domestic producers



Distributor based in Hong Kong SAR



Influencer(s) for marketing strategy



**Key Partners**



**Key Customers**



Upper middle class



White-collar workers



Beijing, Shanghai, Guangzhou, Hong Kong

# Marketing Challenges – The 3 C's

From a marketing perspective, there are 3 key challenges for Frederick Family Vineyards when entering China.

1

## Culture



*Chinese wine culture differs from Western wine culture. Wine is not an **everyday beverage**, but a beverage **for gifts and special occasions**.*

2

## Competition



*Chinese consumers prefer brand-name products, specifically **French famous wine brands** such as Bordeaux and Burgundy.*

3

## Constraints



*"In 2013, Xi created clearer rules ... **cracking down on ... luxury gifts** were critical to restoring faith in the Communist Party."*

# Recommendation for Culture

Chinese consumers actively search for “寓意” (yù yì) – a Chinese term for the metaphor behind an object.



## *Ferrero Roche*

Due to its gold packaging symbolizing luck and good fortune, Ferrero Roche became instantly successful upon its launch in Hong Kong and later Mainland China.



## OUR RECOMMENDATION



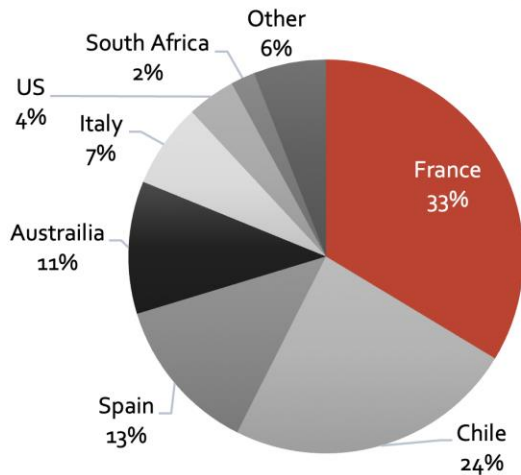
Increase consumption by incorporating auspicious meanings in Chinese culture into FFV's brand label (i.e. the color red and gold detailing)



# Recommendation for Competition

FFV should use the French's dominance in the wine market to their advantage.

Chinese Foreign Wine Imports by  
Percent Share in 2014

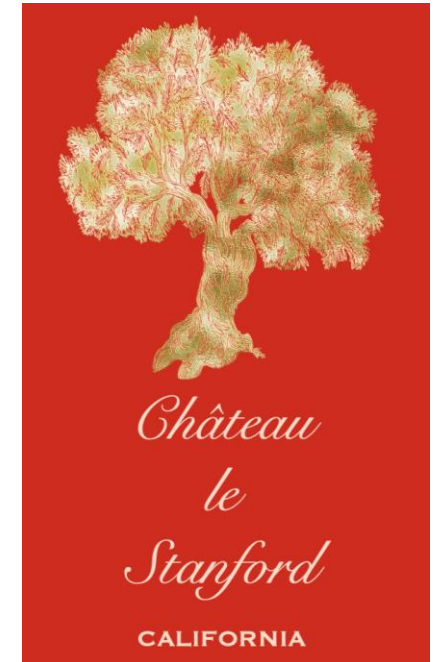
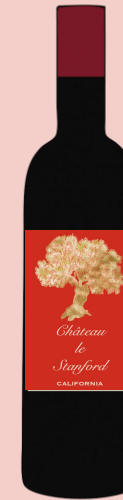


## Market Share

Fresh wine has captured a large percentage of the Chinese Market due to its history and fame.

Price per Bottle:  
\$975 RMB  
(\$140 USD)

Luxury Wine  
Market



## OUR RECOMMENDATION



Establish an image that is comparable to French luxury wines

# Recommendation for Constraints

Utilizing Key Opinion Leader (KOLs) to create a paradigm shift in consumer preference for the wine.



## OUR RECOMMENDATION



Market through KOLs targeting the emerging key customers to increase preference for regular consumption rather than gifts for *guanxi*.

# Supply Chain Model of FFV

FFV should ship to the importer in Hong Kong, who will re-export the wine to the distributor in China.

Napa Cellar



Hong Kong  
Importer



Distributor in  
China

Frederick Family Vineyard  
will arrange direct shipping  
to importer from Napa.

Need importer to navigate  
challenges at the border.

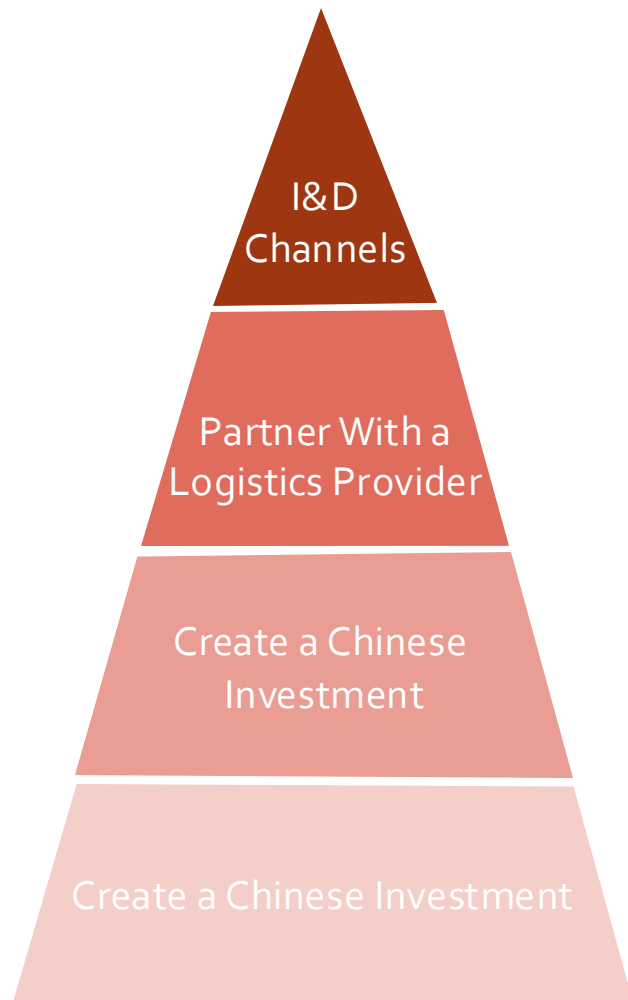
Distributor is necessary to  
manage distribution  
channels and cultural  
barriers in China.





# Why Import & Distribution Channels?

Entering the market through the import and distribution channels would be the optimal choice.



Criteria	Create a Chinese Investment	Online Sales	Partner With a Logistics Provider	Import and Distribution Channels
Short Time to Market		✓	✓	✓
Ease with Import Regulations	✓	✓	✓	✓
Knowledge of the Market	✓		✓	✓
Small Group of Competition				✓
Manageable Cost for Entering Market		✓		✓

# Importer & Distributors

FFV should consider going through importers and distributors like SummerGate and Royal Orchid.

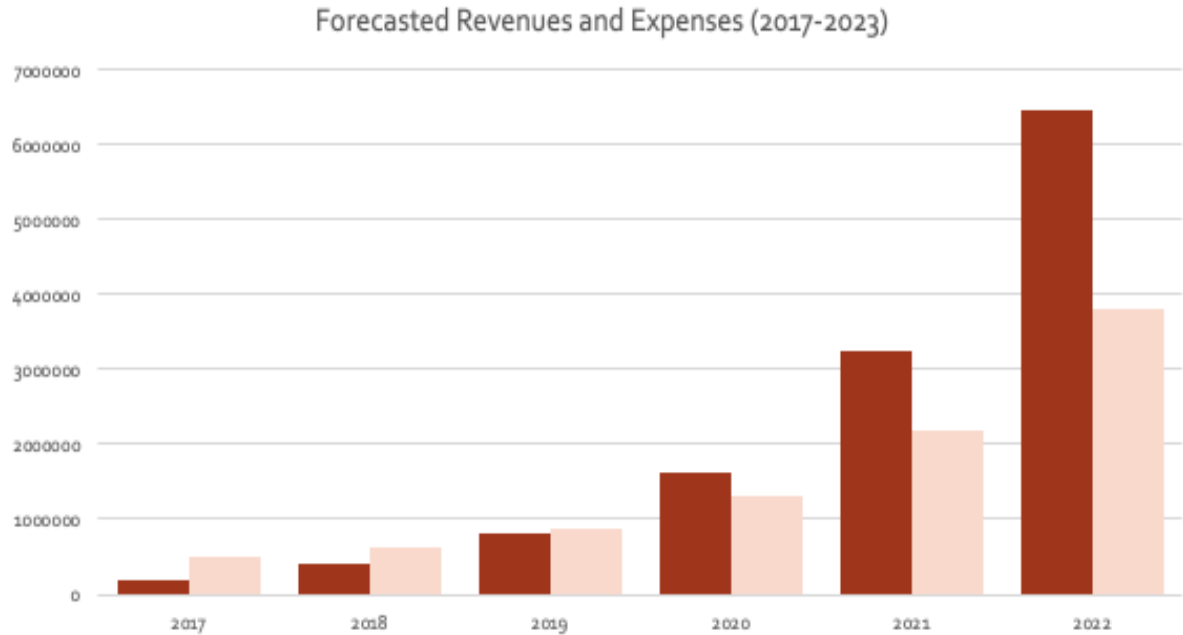


1. Registered exporter from Hong Kong to China
2. Extensive experience in successfully importing California wines
3. Knowledge of necessary documents and procedures

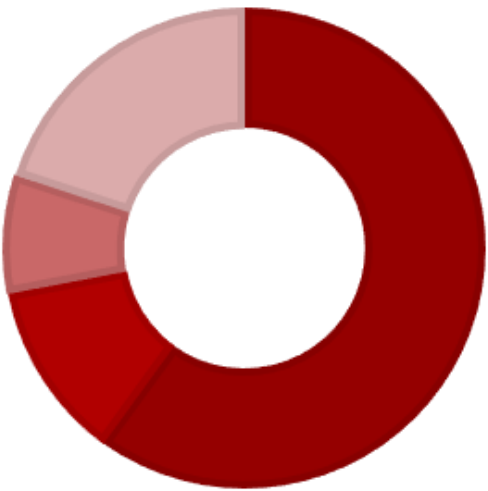


	IDEAL	Royal Orchid
Experience with fine international fine	✓	✓
Experience with California wines	✓	✓
Limited portfolio of wines similar to FFV	✓	✓

# Financials – Price Breakdown of Bottle



Year 1 Cost Projection  
(in USD)



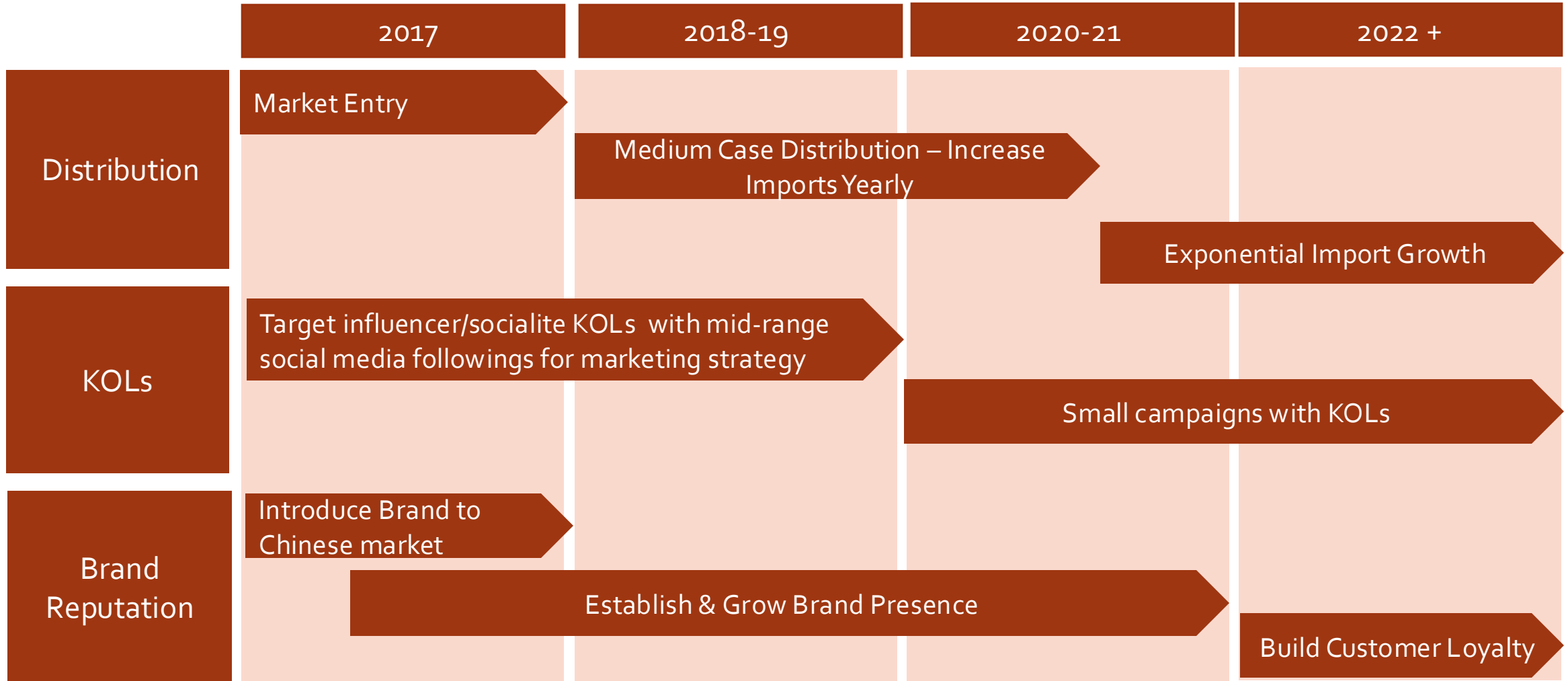
**4**Years  
to reach  
breakeven

**2,000**  
cases sold  
by 2020

**18%**  
profit  
margins

Administrative	20%	Division Head, Travel
COGS	12%	Cost of Goods Sold (Production)
Selling Expenses	8%	Transportation
Marketing	60%	Branding, KOL marketing

# Implementation Timeline

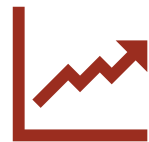




# Conclusion

## KEY QUESTION

Can Fredrick Family Vineyards successfully enter the Chinese wine market while remaining profitable?



## RECOMMENDATION



Distinguish brand image



Establish Marketing Strategy



Partner with small HK-based Distributor

## IMPACT

**Frederick Family Vineyards can mitigate the key challenges of entering the market however...**



**Costly Market Entry**



**Break-even in 4 years**

*Will you enter the complex Chinese market?  
It's up to you*

# Appendix

1. Appendix A: Chinese Foreign Wine Imports by Percent Share
2. Appendix B: Judgement of Paris
3. Appendix C: Royal Orchid Current Portfolio
4. Appendix D: Freight Costs
5. Appendix E: Procedure for Importer/Distributor
6. Appendix F: Influencer Marketing for Wine
7. Appendix G: Increasing Disposable Income of White Collared Workers in China
8. Appendix H: How much luxury wine is sold in Hong Kong, Shanghai Beijing annually?
9. Appendix I: Chinese Consumers Buy Expensive Wines
10. Appendix J: Cost Breakdown
11. Appendix K: Bottle Pricing

# Appendix A: Chinese Foreign Wine Imports by Percent Share

**Exhibit 2**  
**Chinese Foreign Wine Imports by Percent Share 2010 – 2014**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>France</b>	26%	35%	35%	36%	34%
<b>Chile</b>	19%	12%	15%	22%	24%
<b>Spain</b>	17%	20%	18%	11%	13%
<b>Australia</b>	20%	12%	11%	11%	11%
<b>Italy</b>	7%	9%	8%	6%	7%
<b>United States</b>	4%	4%	4%	4%	4%
<b>South Africa</b>	1%	2%	1%	2%	2%
<b>Other *</b>	5%	7%	7%	7%	6%
<b>Total</b>	100%	100%	100%	100%	100%

Source: © Euromonitor International, (2016), *Passport*, [www.portal.euromonitor.com](http://www.portal.euromonitor.com).

Note: \* “Other” includes Germany, Argentina, Portugal, New Zealand, Moldova, Canada, Hungary, Macedonia, Romania, Georgia, Austria, Greece, Ukraine, Bulgaria, Montenegro, Lithuania, and Slovenia.



## Appendix B: Judgement of Paris



### *Judgement of Paris*

*"On May 24, 1976, a British wine merchant set up a blind-tasting panel to rate top wines from France and California... American entries took top honors in both red and white competitions ... a new judging was held two years later. Again, Californian wines triumphed."*

### ADDITIONAL MITIGATION



Leverage the Judgement of Paris to present the fact: "Californian wine is better than French wine."

# Appendix C: Royal Orchid Current Portfolio

## France

Champagne Boizel  
Chateau de Montfaucon  
Chateau de Saint Cosme  
Chateau Pesquie  
Domaine Chevalier  
Domaine Morey-Coffinet  
Domaine J-M & Hugues Pavelot  
Domaine Pierre Vessigaud  
Domaine Remi Jobard  
Maison de la Cabotte  
Chateau des Graves  
Chateau de Riquewihr

## Italy

Angelo Negro  
Argiano  
Brigaldara  
Ciu Ciu  
Gianni Brunelli  
Gianna Gagliardo  
La Gerla  
Poggio Scalette  
Valdellövo

## Germany

Vereinigte Hospitien

## Portugal

Kopke

## Spain

CVNE

## Chile

Carmen

## Argentina

Dona Paula  
Finca Decero

## Australia

Mollydooker  
Turkey Flat Vineyards

## China

Mihope

## New Zealand

Sherwood Estate

## USA

Brick House  
Clos Du Val  
Forge Cellars  
Force Majeure  
Realm Cellars

## Current USA Wine Portfolio

Brick House	\$30-48
Clos Du Val	\$170-200
Forge Cellars	\$20-30
Force Majeure	\$150-400
Realm Cellars	\$200-400

## Appendix D: Shipping Cost

Number Of Bottles (750ML)

12

Country

Hong Kong

Estimate

Ship your wine to Hong Kong directly from your GSN account using the contracted services listed below, or work directly with another shipper choice.

### CONTRACTED SHIPPING RATES USING YOUR GSN ACCOUNT:

Shipping Method	GSN Cru	GSN Collector	GSN Pro
International Economy	\$187	\$169	\$141
International Priority	\$222	\$200	\$167

<https://www.winebid.com/Help/ShippingCalculator>

# Appendix E: Procedure for Importer/Distributor

## Documents Needed

- **Commercial Invoice**
- **Packing list**
- **Pro forma Invoice**
- **Copy of detention notice** (if any)
- **Bill of lading, airway bill** or other similar document
- **Other documents such as import license, removal permits**, etc (please consult with an importer for other documents that may be required for your specific product).

## Procedure

“When a shipment arrives and before its release, the products will be inspected and if necessary sampled. Once the product has been approved for release, a "release" letter will be issued to the importer. Please note that the importer is required to lodge an import declaration with the Customs and Excise Department within 14 days after the importation of the goods.”



# Appendix F: Influencer Marketing for Wine



**"The two twins now have over 1 million followers on social media and have become top wine influencers, especially for upper-middle-class women in Mainland China. In 2016, Wine Australia invited Chufei and Churan for a two-day whirlwind tour of Australia, just so that they would help promote Australian wines to Chinese consumers."**

## *Kardashians of China*

Chufei and Churan are famous influencers in China that known for endorsing a variety of products including wine. Chinese people are notorious for following trends and wanting to get their hands on what's popular. In 2018, Wine Australia created a successful influencer marketing campaign utilizing the sisters to promote their wine brand.

## *WeChat and Weibo*

For international wine brands another crucial step is to build a presence on both of China's leading social media platforms, WeChat and Weibo. With an estimated 95% of the online population using their phone to access the internet, understanding and using these platforms is key to entering and succeeding in the Chinese market.

Ashley Galina Dudarenok gave similar numbers, "In ballpark figures, an average yearly marketing budget for brands of different sizes would look something like this:

Very small: 25,000 USD – 100,000 USD

Small: 100,000 – 300,000 USD

Medium: 300,000 – 1,000,000 USD

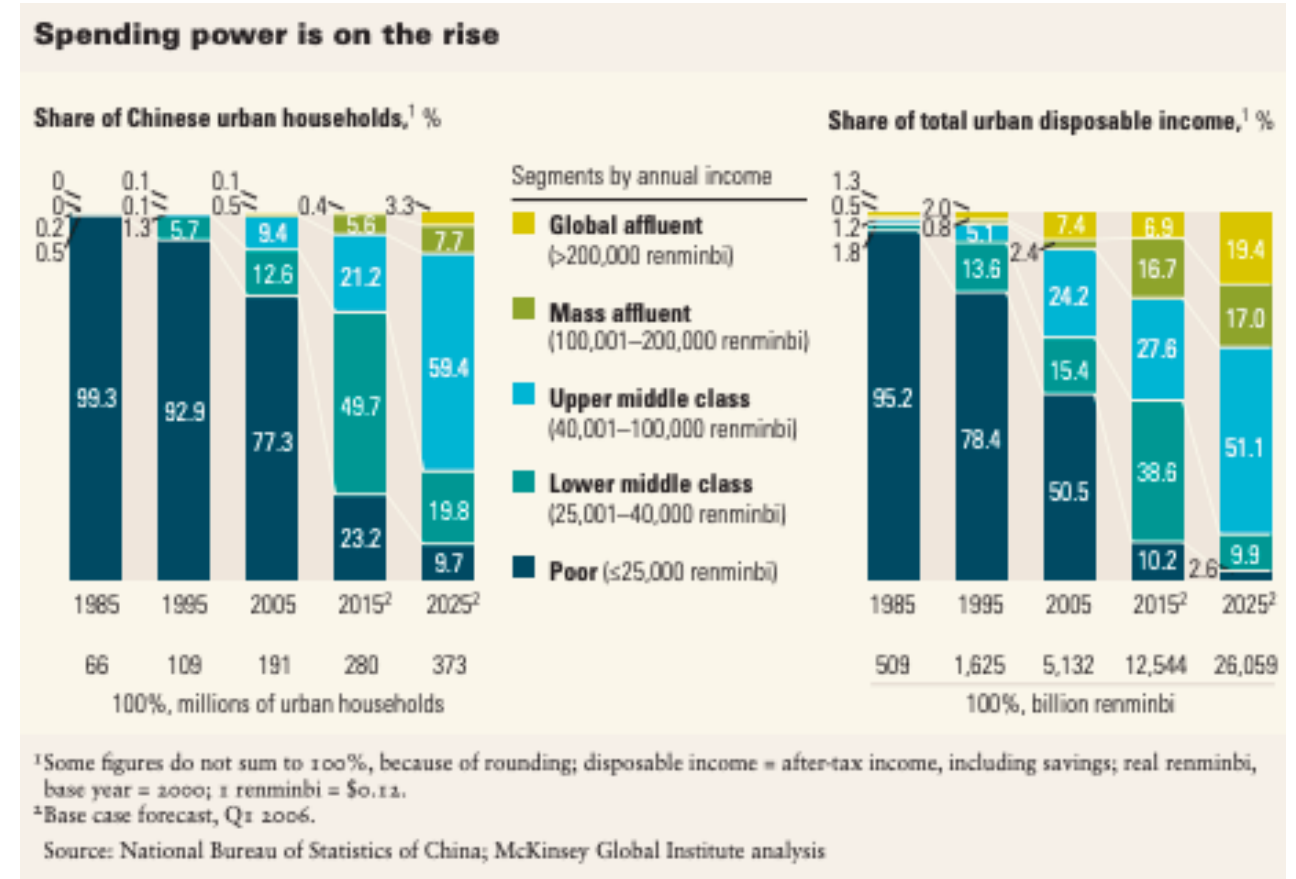
Large: 1,000,000 USD or above

In terms of launching a social media campaign, even a very small brand has to spend at least 15,000 USD. For a holiday promotion, it depends on the product category and the platform chosen, but the budget would be around 10,000 – 40,000 USD.

Source: <https://www.google.com/url?q=https://chinawinecompetition.com/en/blog/insights-1/a-brief-guide-to-the-most-influential-people-in-the-chinese-wine-industry-135.htm%23%3A%3Ftext%3DAlso%2520making%2520the%2520cut%2520were%2Cclass%2520women%2520in%2520Mainland%2520China&sa=D&source=docs&ust=1678375530977007&usg=AOvVawojtMsqnJdvWuDCiaXmXW2w>

# Appendix G: Increasing Disposable Income of White Collared Workers in China

“Regular consumers gradually replaced government employees as the driver of demand as wine transformed from a gift to give to a beverage to drink, particularly among white-collar workers and young people.”  
- Harvard Business Case



Source: <https://www.mckinsey.com/~/media/McKinsey/Featured%20Insights/China/The%20value%20of%20emerging%20middle%20class%20in%20China/The-value-of-Chinas-emerging-middle-class.pdf>

## Appendix H: How much luxury wine is sold in China annually?

"In 2016, a total of 482 million litres (642m bottles) of bottled wines were imported into China, with a value of 2 billion USD (3.42USD/bottle), according to fresh figures released by Chinese customs this week.

The number has increased by 22% in volume and 17% in value compared to 2015."

# Appendix I: Chinese Consumers Buy Expensive Wines

“In the UK, the average bottle of wine sells for just over £5; in China, consumers turn their nose up at anything less than £20.” – Sarah Heller MW

<https://cluboenologique.com/story/defining-wine-culture-sarah-heller-on-why-young-chinese-consumers-are-in-charge/>

“Hongkongers spend more on a bottle of Bordeaux wine than anyone else in the world, industry insiders reveal” – South China Morning Post

<https://www.scmp.com/news/hong-kong/hong-kong-economy/article/2117407/hongkongers-spend-more-bottle-bordeaux-wine-anyone>

“In China, wine is a metaphor for good fortune. Most wines are expensive to buy, and hence, associated with a western lifestyle. Wine is therefore perceived as an alcoholic beverage that reflects high class and status. Early demand for imported wine was as much about fashion as it was about the wine itself.”

<https://www.duhno.com/blog/china-wine>



# Appendix J: Cost Breakdown

## Forecast of Revenues and Expenses for Frederick Family Expansion into China

Low Case						
	2017	2018	2019	2020	2021	2022
Revenue	40500	81000	162000	324000	648000	1296000
Cost of Sales	12150	24300	48600	97200	194400	388800
<b>Gross Profit</b>	<b>28350</b>	<b>56700</b>	<b>113400</b>	<b>226800</b>	<b>453600</b>	<b>907200</b>
Selling expenses	7500	15000	30000	60000	120000	240000
Marketing expenses	300000	330000	379500	436425	501888,75	577172,063
Administration expenses	100000	100000	100000	100000	100000	100000
<b>Profit</b>	<b>-379150</b>	<b>-388300</b>	<b>-396100</b>	<b>-369625</b>	<b>-268288,75</b>	<b>-9972,0625</b>
Medium case						
	2017	2018	2019	2020	2021	2022
Revenue	202500	405000	810000	1620000	3240000	6480000
Cost of Sales	60750	121500	243000	486000	972000	1944000
<b>Gross Profit</b>	<b>141750</b>	<b>283500</b>	<b>567000</b>	<b>1134000</b>	<b>2268000</b>	<b>4536000</b>
Selling expenses	37500	75000	150000	300000	600000	1200000
Marketing expenses	300000	330000	379500	436425	501888,75	577172,063
Administration expenses	100000	100000	100000	100000	100000	100000
<b>Profit</b>	<b>-295750</b>	<b>-221500</b>	<b>-62500</b>	<b>297575</b>	<b>1066111,25</b>	<b>2658827,94</b>
High Case						
	2017	2018	2019	2020	2021	2022
Revenue	810000	1620000	3240000	6480000	12960000	25920000
Cost of Sales	243000	486000	972000	1944000	3888000	7776000
<b>Gross Profit</b>	<b>567000</b>	<b>1134000</b>	<b>2268000</b>	<b>4536000</b>	<b>9072000</b>	<b>18144000</b>
Selling expenses	150000	300000	600000	1200000	2400000	4800000
Marketing expenses	300000	330000	379500	436425	501888,75	577172,063
Administration expenses	100000	100000	100000	100000	100000	100000
<b>Profit</b>	<b>17000</b>	<b>404000</b>	<b>1188500</b>	<b>2799575</b>	<b>6070111,25</b>	<b>12666827,9</b>

## Revenues Breakdown

	2017	2018	2019	2020	2021	2022
Cases	250	500	1000	2000	4000	8000
Revenue/Case	810	810	810	810	810	810
<b>Total Sales</b>	<b>202500</b>	<b>405000</b>	<b>810000</b>	<b>1620000</b>	<b>3240000</b>	<b>6480000</b>

## Expenses Breakdown

	2017	2018	2019	2020	2021	2022
Cost of sales	60750	121500	243000	486000	972000	1944000
Freight	31500	63000	126000	252000	504000	1008000
Insurance	6000	12000	24000	48000	96000	192000
Selling expenses	37500	75000	150000	300000	600000	1200000
Marketing expenses	300000	330000	379500	436425	501888,75	577172,063
Division Head	70000	70000	70000	70000	70000	70000
Travel	30000	30000	30000	30000	30000	30000
Administration expenses	100000	100000	100000	100000	100000	100000
<b>Total Expenses</b>	<b>498250</b>	<b>626500</b>	<b>872500</b>	<b>1322425</b>	<b>2173888,75</b>	<b>3821172,06</b>

## Profit Forcasting (2017-2023)

	2017	2018	2019	2020	2021	2022
Revenues	202500	405000	810000	1620000	3240000	6480000
Expenses	498250	626500	872500	1322425	2173888,75	3821172,06
<b>Profit</b>	<b>-295750</b>	<b>-221500</b>	<b>-62500</b>	<b>297575</b>	<b>1066111,25</b>	<b>2658827,94</b>
<b>Profit %</b>	<b>-146%</b>	<b>-55%</b>	<b>-8%</b>	<b>18%</b>	<b>33%</b>	<b>41%</b>

## Notes

- (1) Revenues: estimated 100% annual growth
- (2) Freight: \$148/ case
- (3) Insurance: 2% of value of freight (\$810 per case) - <https://www.freightrun.com/freight-insurance>
- (4) Marketing expenses: allocated to KOLs compensation and labeling
- (5) Administration expenses: We propose a decrease in the proposed salary and travel budget expense

## Appendix K: Bottle Pricing

Price of a bottle of wine	\$140	
COGS	20,1	30%
Selling	12,73	19%
Marketing	18,09	27%
Administrative	4,02	6%
Winery's margin	12,06	18%
Manufacturer's price	67	
Custom duties	9,38	14%
Excise duties	6,7	10%
VAT	11,39	17%
Distributor's margin	10,05	15%
Distributor's price	104,52	
Retailer's margin	36,582	35%
Retailer's price	141,102	